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5 Rising Star Candidates

<http://www.fool.com/investing/small-cap/2011/02/19/5-rising-star-candidates.aspx>

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February 19, 2011

This article is part of our [Rising Star Portfolios series](#).

Today, my search continues for some great small- and mid-cap stocks to add to my real-money "multivitamin" portfolio. Yesterday, I revealed the results for [this month's Foolish 8 screen](#) and came up with eight candidates; today, we turn to the Modified Foolish 8.

Mod squad

For a refresher, here's a summary of the changes I made to turn the [Foolish 8](#) into the Mod-8:

1. Raised the revenue cap to \$900 million or less.
2. Took the \$25 million limit off the daily dollar volume requirement, making it simply \$1 million or greater.
3. Loosened the relative strength requirement to 50 or greater.
4. Required not only positive cash flow, but also positive free cash flow.
5. Required a price to free cash flow-to-cash flow growth (PFCF-to-FCF growth) multiple of 1.00 or less.
6. Required better than 15% return on equity (ROE) over the past four quarters, and for each of the past three fiscal years.

According to the independent American Association of Individual Investors, the Mod-8 recorded a 1,002% total gain from January 1998 to December 2010, for an outstanding 20% annual growth rate. (Disclaimer: The AAI methodology involves buying a stock the month it appears on a screen and selling when it's off, which is something we'd never do. Still, this performance points to the strong potential of the screen.)

Only five companies pass the screen this month.

Company	Market Cap (millions)	Business	Add to Your Watchlist
China Biologic Products (Nasdaq: CBPO)	\$421.5	Biotechnology	Add
Ebix (Nasdaq: EBIX)	\$982.3	Application software	Add
II-VI (Nasdaq: IIVI)	\$1,585.7	Electrical components	Add
lululemon athletica (Nasdaq: LULU)	\$5,788.6	Athletic apparel	Add
MercadoLibre (Nasdaq: MELI)	\$3,181.0	Online commerce	Add

Source: Capital IQ, a division of Standard & Poor's.

There are some familiar names here, including China Biologic, which is also on the Foolish 8 screen, and lululemon, which I bought for the portfolio last month. Digging deeper:

Company	Insider	Forward	EV/FCF	ROE	Net
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	Ownership	P/E	(TTM)	Margin	
China Biologic	43%	36.2	15.9	51%	24%
Ebix	13%	25.6	21.3	33%	43%
II-VI	13%	46.1	76.3	16%	14%
lululemon	33%	108.5	61.1	37%	15%
MercadoLibre	12%	97.2	91.5	37%	25%

Source: Capital IQ, a division of Standard & Poor's.

Onward and downward

In the coming days, I'll take a close look at these companies, as well as the small caps that passed yesterday's Foolish 8 screen. I'll soon be reporting back on whether any of them are a good fit for my portfolio.

If you're interested in keeping up with any of these companies, add them to your free watchlist by clicking the appropriate "add" button in the top table. To keep up with *me*, meanwhile, [follow me on Twitter](#) and check out the multivitamin [discussion board](#). Fool on!

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