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## A Triple in the Making

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America is talking about **Affiliated Managers Group!**

OK, not really. In fact, there's a good chance you've never even heard of this company. Yet its value more than *tripled* after Tom Gardner recommended it in [Motley Fool Stock Advisor](#) in September 2002. (He later issued a sell recommendation -- more on that later.) What made this stock a success? Three main reasons, a couple of which are surprising.

### 1. Obscure company

Obscure, and rather boring, AMG is a holding company of midsized money-management firms from around the country. These businesses, which invest money in stocks for other people, include Essex Investment Management, Friess Associates, and Tweedy, Browne.

Most great success stories were unknown in the beginning. Even **Wal-Mart** garnered no excitement in its early days. But these under-the-radar companies can offer individual investors some bargain prices.

### 2. Efficiently run

AMG has done a great job of assembling high-quality asset-management firms and leaving them largely autonomous. Yet all the affiliates benefit from lower administrative costs, access to better technology, new-product development, and diversified approaches across the company. In addition, incentives are tied to the performance of cash earnings per share. Haphazard or indifferent management doesn't cut it at AMG. The result is a lean, efficient, well-operated machine.

### 3. Bad industry

When Tom uncovered this solid business, it had been beaten down nearly 40% from its 52-week high. Of course, we were smack-dab in the middle of one of the worst bear markets in years, and the entire asset-management industry was hurting. Who cared about these companies, anyway?

But because of top-notch efficient management, AMG was not only able to weather whatever the market threw at it, but also poised to reap big benefits when the market eventually turned around. It was a quality company, available at a bargain price.

### The next AMG?

There are other factors to consider when sizing up a potential investment. But if you can identify a company that's obscure, efficient, and in an out-of-favor industry -- well, that's a beautiful thing. You may have found a stock that's beaten down well below its fair value -- and ready to break out when the industry recovers.

To illustrate, I selected a few industries that have hit the skids recently, and I screened for companies within those sectors that had net margins and return on assets significantly better than industry averages. Here's a short list of such companies that now trade well below their 52-week highs:

| Company  | Industry             | Recent Price | 52-Week High |
|--|----------------------|--------------|--------------|
| <b>Excel Maritime Carriers</b><br>(NYSE: <a href="#">EXM</a> )     | Water transportation | \$6.09       | \$11.70      |
| <b>CDC</b> (Nasdaq: <a href="#">CHINA</a> )                        | Software/programming | \$3.10       | \$3.92       |
| <b>Telestone Technologies</b><br>(Nasdaq: <a href="#">TSTC</a> )   | Communications       | \$14.91      | \$24.94      |
| <b>FiberTower</b> (Nasdaq: <a href="#">FTWR</a> )                  | Communications       | \$5.04       | \$18.20      |
| <b>ClickSoftware Technologies</b> (Nasdaq: <a href="#">CKSW</a> )  | Software/programming | \$6.71       | \$9.18       |
| <b>China Techfaith Wireless</b><br>(Nasdaq: <a href="#">CNTF</a> ) | Communications       | \$2.59       | \$3.93       |
| <b>Ebix</b> (Nasdaq: <a href="#">EBIX</a> )                        | Software/programming | \$16.69      | \$22.64      |

Data: Yahoo! Finance.

Some of these aren't exactly obscure, but I wanted to include some bigger names you might like to investigate. All these companies are presented for further research; this is not a "buy" list.

#### **Foolish bottom line**

After tripling in value, Affiliated Managers Group no longer carried a bargain price tag. Though he still believes in the management and its business model, Tom issued a "sell" recommendation because of AMG's valuation. But he continues to search for that winning trifecta every month for his *Stock Advisor* members.

The *Stock Advisor* service is now more than seven years old. Tom and his brother David's recommendations are beating the S&P 500 by an average of 60 percentage points each. If you'd like to check out all of the formal *Stock Advisor* recommendations, plus the top five Best Buys Now, we're offering a 30-day free trial. [Click here](#) to give it a whirl.

*This article was originally published April 21, 2006. It has been updated.*

*[Rex Moore](#) salutes another of his former schools, Anderson High School in Austin, Texas. Go Trojans! He does not own shares of any company mentioned. Wal-Mart Stores is a Motley Fool Inside Value choice. Ebix is a Motley Fool Rule Breakers recommendation. The Fool owns shares of Ebix. The Motley Fool is [investors helping investors](#).*

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