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GuruFocus Contributor

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Billion-Dollar Portfolio Strives for a Comeback

My billion-dollar portfolio won't make you a billionaire – much as we both might like that outcome.

Rather, it gets its name from its components, a group of stocks each of which has a market value of approximately \$1 billion. Using a range of \$900 million to \$1.1 billion, about 160 stocks are in that size range. About 2,000 publicly traded stocks are larger.

I like stocks near the \$1 billion line because they typically haven't yet been discovered by institutional investors but have the potential to be. I consider \$1 billion to be the line between small-capitalization stocks and mid-capitalization stocks and regard it as somewhat of a sweet spot.

That's why I have compiled a billion-dollar portfolio once a year from 2001 through 2006 and also from 2011 to the present. The one-year return on the 10 portfolios to date has averaged 17.7%, which compares favorably with the 11.5% figure for the Standard & Poor's 500 Index in the same periods.

Seven of my 10 billion-dollar portfolios have beaten the index, and eight of them have been profitable.

Lately, this portfolio has been in a slump. It has underperformed the index three years in a row and has been unprofitable the last two times out.

 
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Last year's version suffered a loss of 2.5%, even while the S&P 500 rose 6.6%. The collapse of **CTC Media Inc.** (CTCM), a Russian media stock that I described as my most speculative pick, was too much to overcome.

Bear in mind that my column picks are theoretical and don't involve actual trades, trading costs or taxes. Past performance doesn't predict the future, and the record of my column selections shouldn't be confused with my actual performance for clients.

Street sweepers

Seeking a comeback, I will offer six new selections in the billion-dollar portfolio.

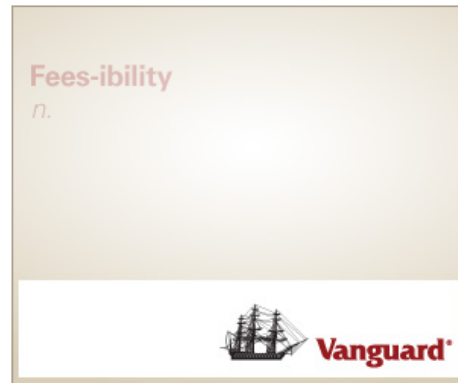
Federal Signal Corp. (FSS) is my first pick this year. It makes street sweepers, vacuum trucks and other vehicles and products used by municipalities. The company suffered during the financial crisis and its aftermath, as municipal budgets were pinched. Today, towns and cities are doing better, and so is Federal Signal. Last year it earned almost 19% of stockholders' equity. Investors don't seem convinced yet: The stock sells for only 1.0 times the company's revenue.

Greenbrier Companies Inc. (GBX), based in Lake Oswego, Ore., makes railroad cars. That's a feast-or-famine business, but I believe the next few years are likely to be good ones. An improving economy and restrained fuel costs should combine to help railroads and boost the demand for train cars. The stock seems attractively cheap to me, at seven times recent earnings and six times the earnings expected for fiscal 2016, which ends next August.

Cray Inc. (CRAY) of Seattle makes supercomputers. This is a fallen giant. It once dominated the supercomputer field but now is far from the center of the action. After a skein of losses, Cray has righted the ship enough so that it's strung together five annual profits. No analyst from a major [Wall Street](#) firm follows Cray anymore. Analysts from four smaller firms all rate it a "buy." One thing I like about the company is that it's debt free.

Profit streak

Ebix Inc. (EBIX), from Johns Creek, Ga., makes software for the insurance industry in the U.S.,



Australia, New Zealand and other countries. It has a 14-year profit streak going, but earnings growth has slowed in the past couple of years. Even so, its profit margin is still high and its return on stockholders' equity last year was good, near 17%.

New Link Genetics Corp. (NLNK) is an early stage biotech company based in Ames, Iowa. It just started posting meaningful revenue last year – \$172 million, up from a little over \$1 million the year before. Its leading drug candidate is a treatment for pancreatic cancer, widely considered incurable. I can't handicap the chances for the drug's approval, but it should be noted that the company is also working on several other cancer drugs.

From Bloomfield, Conn., comes **Kaman Corp.** (KAMN), a small conglomerate active mainly in aerospace components and industrial equipment such as power transmission lines and fluid flow controls. This is a bit more of a coherent business mix than the company had in founder Charles Kaman's day, when helicopters and guitars were the two leading products. I kind of miss the old offbeat mix, but the shares of the current Kaman look cheap to me at 0.6 times revenue.

This article originally appeared [HERE](#).

POST WRITTEN BY

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