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## 4 Stocks With Big Potential

<http://www.fool.com/investing/small-cap/2011/04/15/4-stocks-with-big-potential.aspx>

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*This article is part of our [Rising Star Portfolio 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 five 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:

- Raised the revenue cap to \$900 million or less.
- Took the \$25 million limit off the daily dollar volume requirement, making it simply \$1 million or greater.
- Loosened the relative strength requirement to 50 or greater.
- Required not only positive cash flow, but also positive free cash flow.
- Required a price-to-free-cash-flow-to-cash-flow growth (PFCF-to-FCF growth) multiple of 1.00 or less. I have tweaked the screen to use actual FCF growth over the past year.
- Required better than 15% return on equity 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 gained more than 1,000% from January 1998 through February 2011, for an outstanding 22.1% average annual growth rate. The S&P 500 averaged 2.4% over that period. (Disclaimer: The AAI methodology involves buying a stock the month it appears on a screen and selling when it's off -- something we'd never do. Still, this performance points to the screen's strong potential.)

Only four companies pass the screen this month.

Company	Market Cap (millions)	Business	Add to Your Watchlist
<b>NetEase.com</b> (Nasdaq: <a href="#">NTES</a> )	\$6,868	Internet software/services	<a href="#">Add</a>
<b>lululemon athletica</b> (Nasdaq: <a href="#">LULU</a> )	\$6,565	Athletic apparel	<a href="#">Add</a>
<b>Ebix</b> (Nasdaq: <a href="#">EBIX</a> )	\$887	Application software	<a href="#">Add</a>
<b>iGATE</b> (Nasdaq: <a href="#">IGTE</a> )	\$998	IT consulting	<a href="#">Add</a>

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

New stocks to the list this month: lululemon and iGATE (both of which we've seen in past months). Dropping off the screen from last month is **Lihua International** (Nasdaq: [LIWA](#) ) . That leaves Ebix and NetEase as the veteran holdovers. Digging deeper:

Company	Insider Ownership	Forward P/E	EV/FCF (TTM)	ROE	Net Margin
NetEase.com	46%	21.3	20.1	26%	41%

lululemon athletica	32%	61.2	52.7	39% 17%
Ebix	13%	16.1	24.0	29% 45%
iGATE	45%	19.4	31.9	24% 18%

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 report 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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