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5 Stocks With Big Potential

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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 nine 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 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 AII 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 five companies pass the screen this month.

Company	Market Cap (millions)	Business	Add to Your Watchlist
NetEase.com (Nasdaq: NTES)	\$5,581	Internet software/services	Add
lululemon athletica (Nasdaq: LULU)	\$5,944	Athletic apparel	Add
Ebix (Nasdaq: EBIX)	\$726	Application software	Add
iGATE (Nasdaq: IGTE)	\$964	Information technology consulting	Add
LSB Industries (NYSE: LXU)	\$967	HVAC and chemical products	Add

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

NetEase.com and iGATE were the only two companies passing the screen last time, so the other three are new this month. Digging deeper:

Company	Insider Ownership	Forward P/E	EV/FCF (TTM)	ROE	Net Margin
NetEase.com	46%	17.3	15.6	27%	43%

lululemon athletica	32%	55.2	47.4	39% 17%
Ebix	14%	13.3	15.7	24% 44%
iGATE	47%	18.9	33.9	17% 19%
LSB Industries	22%	52.0	23.1	26% 7%

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

Onward and upward

My port already has a full position in lululemon, and it's been my top-performing stock. In the coming days I'll take a close look at the other 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 the 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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