The Motley Fool Fool.com

Previous Page

5 Hero Stocks Ready to Defend Your Portfolio

http://www.fool.com/investing/general/2010/07/14/5-hero-stocks-ready-to-defend-your-portfolio.aspx

Dan Dzombak
July 14, 2010

It's no secret that this has been a tough market. From professionals to amateurs, everyone has felt the pain. With the market down about 10% over the past three months, and concerns over Europe's debt crisis, China's slowing economy, and the **BP** spill still in the forefront of the news, investors have every right to be concerned. When will it end? No one knows, and opinions differ. But all investors can agree that it's more important than ever to find solid companies to protect your portfolio against the forces of evil.

To separate the champs from the chumps, I ran a simple screen looking for some of the best companies the market has to offer:

- First, I only wanted to consider stocks classified by our CAPS community as the best of the best. These businesses needed to have five-star ratings.
- Next, I wanted to make sure that the balance sheet was solid. One of the best ways to do that is to look for businesses with debt-to-equity ratios of less than 1.
- Insiders' alignment with shareholders is also a critical consideration. Management should definitely have financial ties to the performance of their company. So I looked for insider ownership higher than 5%.
- Finally, a return on equity of more than 20% is a must if you want to uncover potential market-beaters. Warren Buffett believes that returns on capital (for which a proxy is equity) is key when he evaluates a company.

Here's what the CAPS screen turned up:

Company	CAPS Rating (out of 5)	Debt-To-Equity	Insider Ownership	ROE
Ebix (Nasdaq: EBIX)	*****	26%	14.5%	32.3%
Ambassadors Group (Nasdaq: EPAX)	*****	0	6.5%	25.2%
Health Grades (Nasdaq: HGRD)	*****	0	12.1%	42.1%
Quality Systems (Nasdaq: QSII)	*****	0	33.6%	28.1%
ClickSoftware Technologies (Nasdaq: CKSW)	*****	0	20.8%	34.1%

Ebix
Insurance industry software and services provider Ebix recorded a 53% increase in first-quarter revenue, generating a 49% jump in profit to $12.4 million, as demand for its products picked up. Ebix enjoys fat margins and has a stock with a *very* reasonable valuation, at less than 15 times trailing earnings.

Ebix also recently announced that it had signed several big financial giants, including **Ameriprise**

Financial (NYSE: AMP) and **MetLife** (NYSE: MET). These deals suggest that Ebix's strategy of growth by acquisition is successfully attracting big-name players.

Quality Systems
Doctors and dentists use Quality Systems' proprietary software and services to upgrade and manage their record-keeping, essentially moving from paper scribblings into the 21st century. Regulations for electronic health records should be nailed down this summer, which will speed adoption of software products by doctors, and the company should be able to use its position to foster more sales.

Ambassadors Group
Ambassadors Group organizes international travel programs for students and professionals through the People-To-People program, which traces its heritage back to President Eisenhower.

In a pitch from last October, CAPS All-Star TSIF explained why he likes Ambassadors Group. Here's an excerpt:

> The recession has clearly affected [Ambassadors Group] as its bookings for student travel have dropped significantly. Ambassadors has a niche market moving around students, athletes and professionals domestically and worldwide. ... With profit margins of 20% and operating margins of 29% even in a period of no growth the revenue and cash flow stream are impressive ... If the economy continues to lag, swine flu becomes an issue, or airline travel becomes undesirable then there might be a better entry point down the line, but at this time, the buy low and sell high model points to taking a chance.

Health Grades
Consumers checking out hospitals or physician referrals often lean on Health Grades, the company behind its namesake independent health-care ratings guide. Revenue climbed by 20% in its latest quarter, and its bottom line is also playing along. Analysts see a profit of $0.27 a share this year, and $0.36 a share in 2011

ClickSoftware
Management aims for full-year growth of as much as 22%, based on the strength of its growing sales pipeline and backlog. At less than 15 times trailing-12-month earnings, ClickSoftware is priced lower than much-larger rival **Oracle**. But with better growth prospects than its larger rival, it looks like a more attractive investment candidate.

Are these financial heroes poised to leap tall buildings in a single bound? Or are they villains who want revenge on your portfolio? Our totally free CAPS community (made up of some of the brightest minds around) would like to know what ***you*** think.

Previous Page