

This Week's Wizard: Jordan Kimmel

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Jordan Kimmel

Dow 15,000?

Q&A with Jordan Kimmel, Magnet Investing Report

Jordan, in your Magnet newsletter this month, you predict Dow 15,000 in 2007. Why?

What we're seeing here is that the bull market has been unleashed and it amazes me still that analysts along with individuals are just unwilling to be even a little optimistic. We're seeing such a strong advance-decline line, and such a strong new high/new low ratio. Clearly, this is what a huge bull market looks like. There's a huge wall of worry out there, no doubt, but this is exactly the perfect behavior for a bull market. As I've said in the past we just entered the very favorable presidential election cycle period, so I think you really have to take the horizon out a little further and ride this bull market, because this is a great market environment right now.

What else encourages you about this market?

One of the most important underlying factors is that the alternatives to this market are almost non-existent. The yields in the bond market are unacceptable. You certainly can't achieve any of your goals with those low yields. Secondly, the housing market, while it may be showing signs of some stabilization, which is actually very good for consumer confidence, also doesn't really offer any alternative to the stock market. There's a lot of discussion around about the global liquidity. You not only have tremendous liquidity, but the alternatives are really not there, and the money's going to begin to flow much, much more heavily into the equity market, I believe, all year long.

You note in your newsletter that the only sector to decline last month was transportation. So the rally is really across the board.

Yes, however, probably by the next month we're going to see the precious metals, the basic materials, and the whole energy complex taking more than a breather, maybe something significant in a pullback. But, as we've been saying for several months now the sectors that are leading this market are the traditional growth sectors -- healthcare, technology, consumer discretionary -- and when these sectors kick in frankly that's when the Magnet model gets even strongest.

Briefly remind us what the Magnet model is.

What we do with our quantitative unemotional process is simply rank each public company by several factors: We group them into value, growth and momentum characteristics. What we're primarily interested in on the growth side is increasing or accelerating topline revenue growth coupled with profit margin acceleration. On the value side, rather than focusing on P/E we're primarily interested in price to sales as a much better indicator for valuation. Lastly we're looking for some price momentum to back up what we see on the value and growth component.

What sectors have ranked highest in the Magnet screens lately?

We pounded the table all year long that technology had begun to rank up high, and as you'll see in the last couple editions of our newsletter we've been focused in that area and our model portfolio has reflected that. The other area that is tremendously bullish for the long-term on the

market is the financial sector. It looks super here. We caught a couple great runs already in the model portfolio. Now we're even seeing brokerage firms and asset management firms.

We see you added Interactive Intelligence (ININ) in technology and First Marblehead (FMD) in finance to your model portfolio this month.

Yes, two great examples. Let me even point out that Interactive entered the month overbought, but rather than worry about the wiggles here the newsletter is geared to identifying simply the best longer-term plays. So even though the stock may have entered the year a drop overbought, I think this is a great example of a new company showing up on the model. When you look at institutional ownership, you're really just finding it now.

What about gaming? We know you've liked that a lot in the past and have a model portfolio position in Gaming Partners (GPIC).

The gaming group to me represents one of the best long-term growth trends you can find. The growth in the casino industry is not only domestic, as we all know now, but it's quite international. What many people are focused on is the operators themselves, but the suppliers to the gaming industry are a very small niche. Gaming Partners stands out head and shoulders on our Magnet ranking above any others, and interestingly since we've added it into the newsletter, it hasn't quite run yet. I believe it presents a huge opportunity.

Receive Jordan Kimmel's 20 Top Ranked Stocks & Model Portfolio Each Month
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Four of the 20 companies in your model portfolio are triple-digit gainers, and 10 others are up in double-digits. What accounts for these gains?

We have a process which knows what money managers are looking for, and these companies are actually ranking out whether you're a value manager, a growth manager, or, in fact, a momentum manager. So these are names that aren't ultra large-cap -- they're in a position where when the public discovers them and the institutions discover them, spectacular things can happen. So while there's no assurance on any one idea, when they rank out very strongly on volume and growth and momentum, and there's not many shares outstanding, we're capturing these stocks on the initial run.

One company was eliminated from your portfolio this month because the management was unwilling to communicate with you. So over and above the quantitative screens, are you doing some qualitative analysis.

Yes. Our Magnet process is the initial list of what to buy. What we then want to do is ask ourselves: Why is this ranking up so high? Do they have a new product? What are the barriers to entry? What's actually causing these margins to grow so strongly? We have access to senior management because of our media exposure, and we make phone calls to virtually every stock you'll ever see on our list. This was a company we added because of its super ranking, but they actually refused to speak to us. At that stage it becomes murky enough and there are enough great Magnet ideas that if management is unwilling to speak to potential investors it certainly raises an eyebrow and our idea here was to just remove it from the portfolio.

There was another company you kept in, Encore Wire Corp. (WIRE), even though it was nearing your 20% stop. You said you were going to keep it as a candidate for a great January bounce.

There's a phenomenon in December where institutions will sell really excellent companies and individuals will just take tax losses. Those are often candidates for a great January bounce. The valuation on this company is superb. Interestingly enough, it hasn't bounced yet, and it may not be in the portfolio next edition.

Any parting shots?

We touched on this briefly and it's worth repeating: We're seeing the growth sectors really take the lead right now -- the financials, the healthcare, the technology. This is what a bull market looks like, and I would encourage our readers to not be trying to scalp eighths and quarters but to in fact identify niche companies, leaders in their business, top-ranked Magnet stocks. The real money is made when you allow your gains to compound and really stick with a great company.