

Taking Stock: Six that might have tech appeal

by Malcolm Berko

Dear Mr. Berko: You hardly ever recommend tech stocks. Why? Several of us who read your column at the office would like to have about six tech recommendations to invest for our investment club. We haven't done too well with stocks we own but some suggestions from you might improve our club portfolio. We began our club in 1999 and have invested about \$88,000 in the market. The club account is now worth \$101,000, which isn't very good. One of our members says that its time we start using your recommendations.

B.E.

Columbus, Ohio

Dear B.E.: I'm not tech-savvy, nor am I tech-stock-savvy, so I only recommend stocks whose products I can explain using simple nouns and adjectives prominent in Webster's English Language Dictionary. The tech/trash alphabet soup of acronyms like HEXFET, DKNY, GaAs, RISC, DUDit, MOSFETS, OSHA, BiCOMMS, USDA, AMRF, PMS, ACLU, DDR2, SRAMS, i/o, DDT, ACDC, NAND, L-DOPA, VOIP, etc., are as difficult to interpret as their underlying stocks are to recommend.

I don't recommend or own tech stocks because most trade at towering price-earnings ratios, most are highly volatile and lightening fast changes in technology make it too difficult to project revenues and earnings for a few years out. Tech stocks are best purchased by riverboat gamblers, traders who have no blood type, bookies and a large percentage of the investing public, most of whom have tax losses.

Since you and others are requesting a half-dozen tech issues with "good capital gains potential," I called a friend and an analyst at Merrill Lynch for his best, unpublished picks. I'm listing them for your perusal and recommend that you spend 10 Sundays in the amen corner of your church then sacrifice a lamb for luck.

Monolithic Power Systems Inc. (MPWR-\$13.10) with \$99 million in 2006 sales designs develops and sells advanced analog and mixed-signal semiconductors. MPWR has no debt, 30 million shares out, plenty of cash, trades at a 35 P/E, will earn 37 cents and earnings seem to be on a roll.

Sonic Solutions (SNIC-\$14.26) with \$148 million in 2006 revenues, makes computer based-tools that create digital audio and video titles in CD audio and DVD video formats. SNIC has no debt, a comfortable cash position, 26 million shares out plus good revenue and earnings growth and trades at 22 times earnings of 65 cents a share.

Websense Inc. (WBSN-\$22.16) has good revenue and earnings growth and expects to earn \$1.04 this year on \$200 million in revenues. WBSN sells employee Internet management products that help the employer to spy on the employees' use of the company's computer resources. The stock trades at 22 times earnings, has no debt and 45 million shares out.

MTC Technologies Inc. (MTCT-\$21.17) provides sophisticated systems engineering, information technology, intelligence and professional services to the U.S. intelligence, defense and other federal government agencies. Revenues have tripled in the past four years and this year's earnings of \$1.18 have doubled in the same time frame. Trading at 17 times earnings, MCTC has \$378 million in revenues, \$76 million in debt and 15 million shares out.

Color Kinetics Inc. (CLRK-\$17.64) designs, makes and sells lighting systems that use light-emitting diodes. Last year's revenues of \$52 million produced a profit of 24 cents a share (18.5 million shares out) with zero debt and a huge cash position. The shares trade at 74 times earnings and those earnings might double this year to 48 cents a share.

Online Resources Corp. (ORCC-\$10.22) provides outsourced Internet financial technology to 850 financial clients. The clients are able to access and view accounts online and perform Web-based, self-service functions. ORCC generated \$60 million in 2006 revenues, earned 24 cents a share, has 26 million shares out \$85 million in debt, plenty of cash and trades at 42 times earnings.

Good luck.

Please address your financial questions to malber@adelphia.net.

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