Motley Fool Stock Advisor

Volume 8, Issue 5, May 2009 stockadvisor.fool.com

With
David & Tom Gardner
Motley Fool
Co-Founders

Sells

CompuCredit (Nasdaq: CCRT) . . . p. 8

Recommendations

Teradata
(NYSE: TDC) . . . . p. 2

John Wiley & Sons
(NYSE: JW-A) . . . . p. 4

Inside

You Asked for It
- Learn how to size up different sectors with the right metrics. . p. 6

Best Buys Now Insights
- Get the latest thinking on David's and Tom's Best Buys . . . . p. 7

Sidelined Stocks
- A close look at a few stocks to avoid for new investment . . . . p. 7

Company Updates
- Retailers rebound in the first quarter . . . . p. 8

Fool's Tools
- Find out how talk of reform may already be influencing a number of health-care stocks . . . . p. 9

Scorecard . . . . p. 10

Did You Know?

SA's Health-Care Checkup

We're doing a head-to-toe examination of the health-care industry on our website through the month of May. From sweeping reform to technology developments to the factors driving up costs, we've got the vital stats you need to know if you're considering health-care stocks. Stop by stockadvisor.fool.com to learn more!

Got subscription questions? Email ***membersupport@fool.com*** *or call 888-665-3665.*

The Foolish Journey Continues

Dear Fellow Fools,

Blow up the balloons and blow out the candles — your *Stock Advisor* service is celebrating its seventh anniversary! Like proud parents, David and I (Tom here) are extremely pleased with how the service has shed its diapers and grown up, and you'll be happy to know that more exciting developments are on the way.

These changes, which will begin showing up in the next few weeks, are in direct response to suggestions from you and the rest of our community. We truly believe this is what sets us apart from any other service out there — you are a smart, friendly, and helpful group of Fools who push us to get better and better as the years go by. Since *Stock Advisor* first opened its doors in 2002, we've listened to you and rolled out a number of enhancements, including weekly email updates, greater coverage in our online community, and our world-famous Best Buys Now list. And all while continuing to devote extensive resources to bringing you compelling investment opportunities each month.

Along the way, we've had bad recommendations — even awful ones where our investing thesis utterly failed. We've also had some average picks. And we've had exceptional selections that have tripled their value — and more. It's all added up to a significant beating of the market over a turbulent seven-year period in which the S&P 500 has lost some 30% of its value. (And just for the record, while I'm confident our overall outperformance will continue, I'm also quite sure my brother's lead over me is only temporary — I'll be blowing past him shortly.)

As David pointed out in our April issue, the more of our recommendations you've bought, the better your chances to mirror (or beat) our success. Our upcoming changes will, we believe, give you an even *better* chance to top the market. With more guidance and more ideas, it will be easier than ever for you to get into the stocks we believe in the most on our scorecard.

Building the world's greatest investing service is a journey, not a destination. Our work will never be finished — the enhancements you'll see over the coming weeks are just a few more steps in that journey. We'll continue to make *Stock Advisor* much more than a list of stocks you receive in your mailbox each month. And we'll continue to make this a fun and stimulating place where you can sharpen your investing and financial skills as well as hang out and chat with a few thousand of your closest, most brilliant friends.

Paul L., who goes by **pllntooz** in our community, exemplifies what we're aiming for here. "One of the things I appreciate most about [The Motley Fool]," he told us, "is the people and the effort to make [us] feel comfortable and at home. When I find a good thing, I get fairly passionate about it." We want *you* to be as fired up as Paul. Keep the suggestions, requests, criticisms, and praise coming. Drop us an email anytime at **HeySA@fool.com**. We really are on this journey together, and we couldn't have come this far without you. Fool on!

Tom Gardner

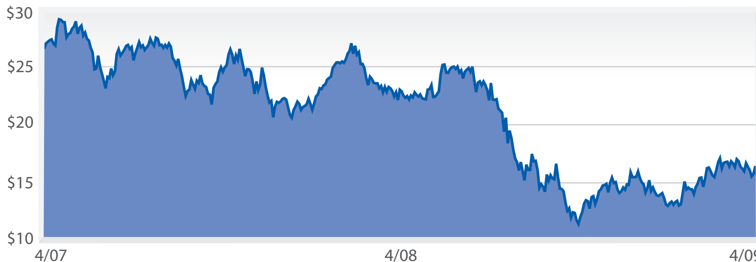
Teradata (NYSE: TDC)

By Tom Gardner With Andy Cross

This company is a leader in providing sophisticated data warehousing solutions and analytical tools to the world's 3,000 largest corporations.

Why Buy:

- It's riding the tailwind of companies' needs to store and analyze near-infinite amounts of data.
- The 30-year-old company is thriving in its second year as a standalone.
- Solid financials and great cash flow dynamics will help in a lean year.



Headquarters:	Miamisburg, Ohio
Website:	www.teradata.com
Recent Price:	$15.28
Risk Level:	High
Position in Industry:	Innovator
Market Cap*:	$2,785
Cash/Debt*:	$442/$0
Revenue (08/07/06)*:	$1,762/$1,702/$1,547
Earnings (08/07/06)*:	$250/$200/$192
Insider Ownership:	16%
Biggest Threat:	Oracle

The Team Says: Knowing is half the battle

Data as of 4/14/09

In millions

I get hundreds of emails each day. I send my share, too. I'm a big fan of Facebook, Tivo, and Netflix. I like trolling through CAPS and its 3 million stock picks. My Amazon Kindle is packed with more than 50 books. I may name my first child "ESPN."

Imagine what this means for a data miner who can capture and analyze the bread crumbs I leave behind as I hop from website to website, application to application. Now overlay my offline spending habits — credit card purchases, store visits, NFL-watching, whatever — and you have an accurate picture of who I am, what I do, and most important, what I'm likely to pay for.

We live in an informational age, and companies that can profit from gathering and understanding that information are going to thrive. That's why this month I'm recommending **Teradata** (NYSE: TDC), a specialist in data warehousing and analytics that helps global companies make heads and tails of the volumes of data they capture.

Drowning in Data

Data warehousing, business intelligence, and data mining (industry speak for organizing and making sense of gobs of data) is not easy for the smallest of firms, let alone large, global conglomerates like **Wal-Mart** (NYSE: WMT), **3M** (NYSE: MMM), or *Stock Advisor* recommendation **eBay** (Nasdaq: EBAY). These and other influential companies seek out Teradata, which pioneered data warehousing 30 years ago through research conducted at CalTech and today is the largest sole provider of these multimillion-dollar solutions.

Teradata specializes in enterprise data warehousing solutions targeting the world's 3,000 largest companies. Its award-winning technology gathers, aggregates, organizes, and processes data, then offers intelligence that clients use to make smarter and quicker decisions. Time is money, and these large customers are willing to pay for better insights — and easier access — to the data behind their companies. Of course, Teradata also charges the requisite service fees to go along with its products.

Just like its customer base, Teradata is multinational, operating 90 facilities in 40 countries. North and South America make up 56% of its revenue, with Europe, the Middle East, and Africa coming in a collective second at 26%, followed by Asia at 18%. (That said, Japan is Teradata's second-largest market after the U.S.)

Yep, It's Debt-Free

With "debt" considered a naughty four-letter word these days, Andy and I are happy to say we don't have to worry about it with Teradata, which has a fortress-like balance sheet of $442 million in short-term T-bills and zero debt (just some operating leases).

Operating margins are comfortably in the high teens, and while not as high as chief competitor **Oracle**'s (Nasdaq: ORCL), they're in line with **IBM**'s (NYSE: IBM) and much higher than those of a smaller pure play, **Netezza** (NYSE: NZ). Cash flows are robust, and capital expenditures, including capitalized software costs, are reasonable.

Typically, I prefer the Netflix or Costco business models: Sell lots of things to millions of people rather than sell big-ticket items to a few large clients. But Teradata's focus has one key advantage: stickiness. Between 80% and 90% of the company's revenue comes from its existing clients through service contracts and product upgrades. After all, it's not like a multinational, multibusiness company wants

to switch its data warehousing solution every year (or even every few years, for that matter).

What's It Worth?

The downside to this laser focus is that revenue growth is tepid. Management is targeting 5% to 7% annual "top-line" growth, in line with what it's managed to do the past few years. The strong U.S. dollar will nick operating margins this year, and customers may hold off on upgrades in a weak economy.

But looking out five years, Andy and I think margins will pick up and growth will kick in as clients return to investing in their data warehousing — they can't afford to fall behind. Teradata's warehousing prowess, even in the face of stiff competition, and its deep client relationships will keep free cash flows healthy — and management will deploy that cash back into the business at 25%-plus returns on capital. Off robust cash earnings of $225 million, we see a stock worth at least $25 in five years, giving us annualized returns of more than 10%.

When We Might Sell

The difficulty with investing in high-tech companies is that they constantly have to innovate just to tread water against fierce competition. Teradata is no exception. Oracle spends the equivalent of Teradata's market cap in R&D each year. IBM spends three times that. Tech gurus Forrester and Gartner call Teradata's technology tops in the field, and a rich history will help keep the wolves at bay — but we'll keep our eyes and ears open.

Also, Teradata can't sell to its existing clients forever, so it has to continue landing new customers. That's one reason it's starting to target smaller companies. I think this can help jump-start organic growth over the next couple of years, but because the margins are lower, I'll be watching the delicate balance.

Finally, because a chunk of Teradata's existing clients are tied to the financial sector, there's inherent high risk here — definitely something to watch.

The Foolish Bottom Line

I'm not a top-down investor trying to find the next hot trend, but I do pay attention to long-term, secular consumer shifts. How we gather, manage, and analyze data will continue to be mission-critical for companies all over the globe. I see it every day as CEO of The Motley Fool, where we strive to make timely decisions based on what? Data! And we're just a speck on the huge mountain of data warehousing. Teradata is an innovator — it's only in year two as a public company — and Andy and I are confident it will continue scaling new heights. Start your own climb today by picking up a few shares.

For disclosure information, please see page 10.

Dueling Fools: Tech-Savvy Sparring

David: Let's get right to the two big data monsters in the room — IBM and Oracle. How can little Teradata compete with these huge blue-chip tech companies?

Tom: This is my salute to the Rule Breaker in you. For 30-some years, Teradata has been a Rule Breaker in data warehousing for large, complex setups. In the high-end data warehousing field, it not only competes against IBM and Oracle, but also wins in head-to-head comparisons. Oracle's advantage is that its solutions work for less complex setups. So Teradata will have its hands full selling to smaller clients that want to be the next Wal-Mart. But I'm not banking on that for the stock to work out.

David: Speaking of clients, does any one client make up a large slice of Teradata's revenue?

Tom: No, but financial companies drove nearly 30% of the company's revenue last year — the most of any sector. But consolidation among banks or investment firms isn't automatically bad for Teradata. Even though we see fewer AIGs and Lehman Brothers out there, companies will always need massive data storage and warehousing options to link up buyers with their targets. That plays right into Teradata's hands.

David: An interesting — and countercyclical -— way to look at it. What about all the buzz surrounding cloud computing? Is that a disruptive technology that will hurt Teradata?

Tom: Potentially. There is some real excitement humming around hardware-light database applications that use cloud computing. That's a mouthful, I know. I think cloud computing provides a flexible and inexpensive solution for less complex data warehousing needs. But big companies will probably still rely on Teradata's robust solutions. There are some data integrity issues, too.

David: How about a little lesson in database architecture?

Tom: Nope. I save my teaching lessons for the basketball court when we go one-on-one. Score!

David: Three words: Carolina Tar Heels. I missed Brown University in the NCAA tournament, Tom.

Tom: That hurts, Dave. I'm just glad you didn't mention the Georgetown Hoyas.

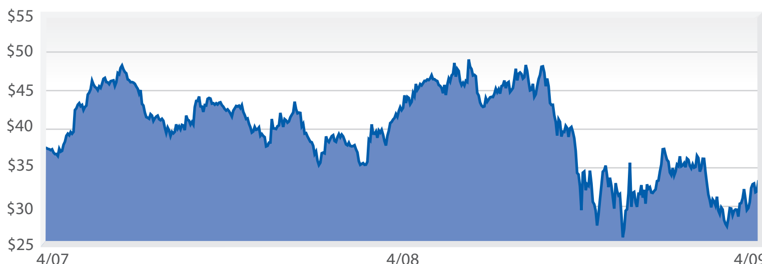
John Wiley & Sons (NYSE: JW-A)

By David Gardner With Matthew Argersinger

This centuries-old publishing house is a leading producer of scientific and technical content, popular nonfiction titles, and university textbooks.

Why Buy:

- Through its new online initiatives, Wiley is generating additional revenue streams and finding new avenues for growth.
- The company is still owned and managed by the extremely shareholder-friendly Wiley family.



Headquarters:	Hoboken, N.J.
Website:	www.wiley.com
Recent Price:	$32.53
Risk Level:	Medium
Position in Industry:	Leader
Market Cap*:	$1,900
Cash/Debt*:	$72/$888
Revenue (TTM/08/07)*:	$1,640/$1,674/$1,235
Earnings (TTM/08/07)*:	$133/$148/$100
Insider Ownership:	27.0%
Biggest Threat:	Thrifty readership
The Team Says:	**Profit from knowledge**

Data as of 4/14/09

**In millions*

John F. Kennedy called his 1962 get-together with 49 Nobel Prize winners the most extraordinary collection of talent and human knowledge ever assembled at the White House — "with the possible exception of when Thomas Jefferson dined alone." Our third president was no dummy.

Fortunately for the rest of us, who might not come fully equipped with Jeffersonian brainpower, we've got **John Wiley & Sons** (NYSE: JW-A), publisher of those popular and ever-useful For Dummies reference guides. In fact, I bet we could find out a whole lot about what made Jefferson tick just by reading Wiley's *U.S. Presidents for Dummies*.

Much more than just a haven for dummies like us, Wiley is a global publishing house responsible for the works of more than 350 Nobel Laureates, more than 1,500 scholarly and professional journals, and countless nonfiction titles, reference books, and academic textbooks. Talk about brainpower. But what really gets Matthew and me excited about Wiley, other than its brand-worthy titles and bargain-bin stock price, are its fast-growing online distribution services and media platforms, plus its digital-ready collection of books and journals spanning two centuries. It's an investment story with page-turning potential.

Cover to Cover

About the same time Jefferson may or may not have been eating solo at the White House, a scrappy young New Yorker named Charles Wiley was opening his first print shop in Manhattan. After publishing the literary works of writers like James Fenimore Cooper, Washington Irving, and Edgar Allen Poe, Charles' son John and *his* sons gradually shifted the company's focus toward scientific, technical, and engineering publications — just as the Industrial Revolution was taking hold in America. A prudent move.

After acquiring rival Blackwell Publishing in 2007, Wiley became the largest publisher of science, technical, medical, and scholarly (or STMS) content on the planet. We're talking books, journals, encyclopedias, databases, and lab manuals for students, professors, corporations, libraries, and research professionals. Wiley has accomplished this through a geographically diverse publishing base and tight-knit relationships with scholarly and professional organizations including the National Geographic Society, the RAND Corp., and the Culinary Institute of America.

Now, you and I may not park ourselves next to our mailbox every month eagerly anticipating the latest oncology journal from the American Cancer Society, but to thousands of medical professionals around the world, that's must-have content. To Wiley, STMS is a high-margin business that accounted for more than 58% of the company's $1.7 billion in sales in fiscal 2008.

Not to be outdone, of course, is Wiley's professional and trade division, which made up 28% of the company's sales last year. It's responsible for such iconic titles as the popular Frommer's travel guides, Betty Crocker cookbooks, CliffsNotes, For Dummies, Webster's New World dictionaries, and the best-selling and Foolish favorite Little Book investing series. The remaining sales belong to Wiley's higher education business, which publishes academic textbooks, handbooks, and manuals for universities around the globe.

Knowledge Is Lucrative

The famous British scientist and philosopher Sir Francis Bacon, another resident of the no-dummies club, coined the phrase "knowledge is power." While I wouldn't call it the most powerful company in the world, Wiley *is* in the

knowledge business — and it certainly makes some nice coin from it. Wiley's sales and operating profits have nearly doubled over the past five years. Annual free cash flow, a good chunk of which is earmarked for share buybacks and a nice 2% dividend, comes in at more than $200 million.

A multiple of 10 times free cash flow might befit a sleepy publishing house, but Wiley is anything but. Take the company's new Wiley InterScience initiative. Its aim is to provide subscription-based online access to Wiley's entire STMS library of more than 2,500 journals, books, and reference works. With 25 million users in 87 countries, InterScience experienced a 60% surge in visits last year, while more than 125 million publications were downloaded from its site.

Similarly, WileyPLUS is the company's online higher-education platform, providing a full range of course-related activities, study materials, and assignments. It includes the Wiley Faculty Network and Virtual Guest Lectures platforms that help students and teachers collaborate and share information online. As of last year, the number of WileyPLUS users exceeded 500,000, while its revenue leaped 35%.

Read Before Buying

Of course, not everything is completely storybook about Wiley's business. The company took on a big chunk of debt when it acquired fellow STMS publisher Blackwell Publishing in early 2007. Wiley has paid down more than $120 million of debt since, but it still had $888 million on the books as of last quarter. Currently, Wiley's operating profits cover its interest obligations more than four times over, but we'll need to keep an eye out and make sure that debt doesn't become too burdensome.

Also,Wiley's STMS business should hold up pretty well in this recession, but that won't be the case for its professional and trade and higher education divisions. Both are more consumer-facing, and some public universities have started to gripe about the escalating prices of college textbooks and materials. Wiley will continue to face some sales and margin pressure there in the near term.

The Foolish Bottom Line

John Wiley & Sons isn't resting on its literary laurels. Through advertising and subscription-based services, this profitable publishing house is finding innovative ways to monetize an incredibly deep, rich knowledge base. It will make Wiley's already robust earnings power that much stronger in years to come, and today's cheap stock price that much more confounding. Even a dummy can see that.

For disclosure information, please see page 10.

Dueling Fools: The Family Way

Tom: Is the Wiley family still involved in the company?

David: Is it ever. You've got sixth-generation brothers Peter Booth Wiley and Bradford Wiley on the company's board. Their sister Deborah is a senior VP, while seventh-generation member Jesse Wiley is an assistant editor. And through their majority ownership of the super-voting Class B shares, the family still calls all the shots at the top.

Tom: OK, you know I usually get the warm fuzzies about family-controlled businesses, but what are the chances that Wiley turns out like, ahem, Value Line (Nasdaq: VALU)?

David: You're cruel, brother, cruel. But I'm not worried. The CEO is William Pesce, who's been at the helm for nearly 11 years. He joins seven other non-Wiley directors on the company's board. Together, these independent executives work hand-in-hand with the Wiley family and really deliver the goods to shareholders. And though they come with only a tenth of the voting power, Wiley's A shares — which I'm recommending here — have the same claim on the company's assets as the B shares. Plus, they're cheaper and easier to buy and sell on the open market.

Tom: Wiley's shares certainly look like a bargain — join the crowd these days — but what's really going to make this a home-run investment? What's the catalyst?

David: You mean besides me buying every one of their gaming-related books? Come on, *Wii for Dummies* is such a classic! Seriously, though, it all hinges on Wiley's efforts to develop multiple pathways to its content. Remember, Wiley has a library of material that's more than two centuries old and getting bigger by the day. It can generate streams of incremental revenue by creating digital versions of this content and making it available through its various online distribution platforms. This is the wave of the future, and I think Wiley is just getting started.

Motley Fool Stock Advisor™ (ISSN: 1539-218X print version) is published monthly by The Motley Fool, LLC, 2000 Duke Street, Alexandria, VA 22314. Periodicals prices paid at Alexandria, VA and additional mailing offices. **POSTMASTER:** Send change of address to: ***Motley Fool Stock Advisor***™, 2000 Duke St., Alexandria, VA 22314. Phone (toll-free): 1-888-665-3665. Website: www.fool.com. Email: membersupport@fool.com. ***Please email or call if you have any subscription questions.*** Editor: Kate Herman, Publisher: Jill Ralph, Business Manager: Kate Ward, Designer: Sara Klieger, CEO: Tom Gardner. Subscription $199 per year. © Copyright 2009 by The Motley Fool, LLC. All rights reserved. Photocopying, reproduction, quotation, or redistribution of any kind is strictly prohibited without written permission from the publisher. ***Motley Fool Stock Advisor***™ bases recommendations and forecasts on techniques and sources believed to be reliable in the past but cannot guarantee future accuracy and results. The Motley Fool is a company of investors writing for investors and, as such, its analysts may own stocks mentioned in the ***Stock Advisor*** newsletter. For a complete list of stocks owned by any Motley Fool writer or analyst, please visit http://www.fool.com/help/disclosure.htm. The Motley Fool, Fool, and Foolish are registered trademarks of The Motley Fool Holdings, Inc. Unless otherwise indicated, the authors do not own shares of the companies discussed in this issue. An affiliate of The Motley Fool provides investment products that may hold securities mentioned in our publications. Editorial personnel have no nonpublic knowledge of the affiliate's holdings, and the affiliate's personnel have no knowledge of any editorial content before it is published.

You Asked for It: How to Measure Different Sectors

By Rex Moore

Thanks to an original suggestion from loyal *Stock Advisor* member **pllntooz**, you voted to learn more about evaluating different sectors this month. Specifically, we're looking at the key metrics for different industries.

As pllntooz noted, it's been said that Warren Buffett can zero in on the most important metric for almost any industry. Well, we have a world-class sector team right here at Fool HQ that reviews every article before it goes live on Fool.com, and in seeing hundreds of articles each week, they develop a pretty stellar sense of what's important. Here's what they recommend you — and we — focus on:

Retail: Same-store sales. Yeah, we'll start with an easy one. But what better way to measure a retailer's progress than comparables (also known as "comps" or "same-store sales")? This means comparing year-over-year sales from the exact same stores each month — and as you might guess, trends are important here. You want to own a company with steadily improving comps. A look back at **Starbucks**' (Nasdaq: SBUX) numbers highlights the troubles it's had over the past several quarters. The coffee king's same-store sales growth peaked at 10% in the second quarter of 2006 and hit a low of -9% last quarter — and the stock fell 70% in that period. Any recovery hinges on turning that negative growth positive again.

Banks: What day is it? Here, the rules are in flux — hence our flippant metric. In so-called normal times, you can learn a lot from net interest margin and writedowns (underperforming loans whose value has to be reduced on the balance sheet). Now everyone wants to know the extent of so-called toxic assets a financial institution has. (Think subprime loans, mortgage-backed securities, or any assets that have dragged down a bank's financials.) These will lead to future writedowns, but the big problem is that we just don't know how severe they'll be for many banks.

Subscription businesses: Subscriber acquisition costs, revenue per user, and churn. This is a rather broad "industry" that includes the likes of **Netflix** (Nasdaq: NFLX), telecoms, cable operators, publishers, and even the Fool. Here, you want to know how much it costs to gain a new subscriber, how much the subscriber will wind up paying over the course of the relationship, and how long that relationship will last. Increased efficiency in any of one of these areas leads to increased profits. Netflix, for example, kept churn fairly steady at 4.2% last quarter. Although revenue per subscriber fell somewhat from $14.22 to $13.58, acquisition costs fell from $34.58 per subscriber to $26.67. All that combined to boost net income by 45%.

Telecom: Market share and margins. Yes, I mentioned telecoms under the subscription category, but you didn't think it was that easy, did you? Carriers need both market share and margins sufficient enough to cover their heavy capital expenditures, so you're looking at the return on capital these carriers are generating. On the handset side, look at growth rates because the smartphone industry is still developing rather quickly — but that said, margins are of utmost importance. Investors want to see that handset makers aren't becoming commoditized like other consumer electronics, and high margins are usually proof that's not happening.

Software: Market share and overall user base. If a company can capture a critical mass so its software is accepted as the de facto productivity tool in an area, the switching costs are very high because users become acquainted with the product interface. **Microsoft** (Nasdaq: MSFT) is the obvious example here, but the principle also extends to a company like **Dolby** (NYSE: DLB). Its software technology is so embedded in the electronics and entertainment industries that it's almost impossible for its customers to switch brands — and that's a very good thing for investors.

Hardware: Margins. This is a hypercompetitive industry, so being able to squeeze an extra 1% to 2% out of the bottom line is huge. **Hewlett-Packard** (NYSE: HPQ) went from roughly 4% net margin to 7% and became a media darling. **Apple**'s (Nasdaq: AAPL) amazing five-year climb saw its margin move from the low single digits to more than 14%.

Pharmaceuticals: Pipeline depth. This can't be reduced to a ratio or percentage like same-store sales, but the number of drugs under development and in trials is very important in this industry. Successful development of new drugs, or expanding the use of current drugs, is what drives sales.

Scratching the Surface

There are a few more metrics you should pay attention to. Monthly sales data is good trend indicator for the auto industry. For defense firms, backlog carries greater importance than in other sectors. The combined ratio, which divides losses and expenses by premiums earned, shows how well insurance companies are performing — and in this case, the lower that number is, the better. Any combined ratio under 100% shows the insurer is turning an underwriting profit. For more help, be sure to drop by the company discussion boards to talk with your friends in the *Stock Advisor* community!

To make way for our comprehensive six-month reviews in the next two issues of Stock Advisor, *You Asked for It is going on hiatus. Keep an eye out for future polls on the* ***SA Community Page*** *discussion board.*

For disclosure information, please see page 10.

Best Buys Now Insights

By the *Stock Advisor* Team

David's List

Company	Recent Share Price
Marvel (MVL)	$27.51
Disney (DIS)	$19.02
DreamWorks (DWA)	$18.75
InterDigital (IDCC)	$25.82
Nintendo (NTDOY.PK)	$33.65

Data as of 4/14/09

Content is king, Fools, and David's first three picks for new money this month have some of the best trademarked and copy-protected content this side of the Milky Way. Sure, *Iron Man 2* is still a year away from hitting the big screen, but **Marvel**'s (NYSE: MVL) licensing machine is in full throttle. The latest *X-Men* movie is roaring into theaters now, and *Spider-Man 4* is already in preproduction. Now, **Disney** (NYSE: DIS) may be the slow-moving cruise ship to Marvel's 30-foot speedboat, but that doesn't mean its shares deserve to trade at just 9 times earnings. Its 86-year-old library of films and its popular networks like ESPN generate enormous cash flow for a company that still knows how to push our entertainment buttons. And relative newcomer **DreamWorks Animation** (NYSE: DWA) is fast building its own rich library of content. *Monsters vs. Aliens* has been a monstrous success at the box office, and we're counting the days until the next installment of the company's franchise hit *Shrek* rumbles in to theaters next year.

InterDigital (Nasdaq: IDCC) is also in the intellectual property business — just think wireless technology applications rather than superheroes and fairy tales. We still don't think InterDigital is getting enough credit for its settlement with Samsung, and a lucrative agreement with cell phone giant Nokia could be just around the corner. Finally, **Nintendo** (Other: NTDOY.PK) is back on our list. The Wii continues to sell like gangbusters, and a new version of the company's popular DS portable game console is on the way. Yet Nintendo's stock price is stuck near its 52-week low.

Tom's List

Company	Recent Share Price
Nat'l Oilwell (NOV)	$34.66
Western Union (WU)	$14.28
Vasco Data (VDSI)	$6.31
SEI Inv. (SEIC)	$13.94
Leucadia (LUK)	$18.08

Data as of 4/14/09

Unlike David's list this month, Tom's doesn't fit neatly into any one category — yet it's still loaded with good value. We're not fortune tellers when it comes to oil prices, but exploration and drilling isn't very profitable when oil is around $35 per barrel. A rebound in prices is bullish for **National Oilwell** (NYSE: NOV) — whose stock has moved up with the market — but it's not too late to add shares if you're looking for some energy to fire up your portfolio.

Newcomer **Western Union** (NYSE: WU) has trounced the market after just one month on our scorecard (see the April 2009 issue), but it still has room to run. Its deep network of money-transfer branches gives it just the moat we like to double down on, and it still sells at less than 10 times earnings.

Meanwhile, **Vasco Data Security** (Nasdaq: VDSI) and **SEI Investments** (Nasdaq: SEIC) have been beaten up since we recommended them last year, but the worst may be behind these owner-run businesses. The stocks can be volatile, so be prepared for the inevitable short-term ups and downs, and add only to a diversified portfolio.

Finally, **Leucadia** (NYSE: LUK) has done well for us even after announcing extremely pessimistic fourth-quarter results shortly after we recommended it in the March 2009 issue. Its talented management team has a long history of doing more with less, so we're eager to see what's next.

For disclosure information, please see page 10.

Sidelined Stocks: VALU and HWAY

By the *Stock Advisor* Team

These stocks from our scorecard offer the least compelling opportunities for new money this month. We are not selling our positions, but we do not recommend starting new ones or adding shares of these companies today.

Drum roll, please. Surprise! It's **Value Line** (Nasdaq: VALU) … again. Finding value in this one requires a serious long-term outlook — but for now, the only redeeming thing about investing in Value Line is its 5% dividend yield. Just keep in mind that almost 90% of that dividend goes straight into the coffers of CEO Jean Buttner and her fellow cronies.

And **Healthways** (Nasdaq: HWAY) continues to lounge in its sickbed while we wait for more clarity on the company's ongoing contract-retention troubles. With management predicting a 9% to 13% drop in revenue this year — and declining margins on top of that — we're in no rush to buy more shares of this one until we know its official diagnosis.

Company Updates: SELL CompuCredit; Retailers Rejoice

By the *Stock Advisor* Team

Sell Recommendation: CompuCredit

My litmus test for any stock I (Tom here) recommend is whether it will beat the S&P 500 over the next three to five years. Whether it's a multibagger like **Quality Systems** (Nasdaq: QSII) or a disappointment like **CompuCredit** (Nasdaq: CCRT), I ask the same question: Does this stock give us a market-beating chance? If the answer is no, then it doesn't belong on our scorecard. After looking at CompuCredit's latest results, I'm recommending you sell your shares and put that cash to work in stocks I'm more confident in — namely, our Best Buys Now.

When I tapped subprime credit giant CompuCredit two years ago, it had eight of the 13 attributes that make up what Peter Lynch called the mythical "perfect stock." The company sounds dull, it does something dull, it does something disagreeable, analysts don't follow it, there's something depressing about it, it's got a niche, the company was buying back shares, and a large shareholder was accumulating more stock. Run by an experienced management team that owned loads of shares (around 60%), CompuCredit looked like a good, cheap bet. It wasn't.

What did we miss? First, Andy and I underestimated the damaging effects a financial meltdown would have on CompuCredit's securitization business. Securitization is the oil that makes CompuCredit's subprime credit card engine run. Instead, that engine has been frozen stiff. We compounded our mistake by expecting the securitization market to turn around in a few months — but of course, we're still waiting. And with delinquencies increasing in the face of higher unemployment, I'm concerned that things will get worse for CompuCredit's core businesses before they get better. Add it all up, and I'm less confident today that we'll beat the market with this stock.

I hate tossing in the towel when we're down so much, but we can't anchor to what we paid, only to what we think we can earn. We've been waiting patiently for things to improve, and while there are some signs of life, CompuCredit no longer passes my litmus test. That signals one thing to me: It's time to move on. *—Tom Gardner*

Retailers Rejoice

Rest in peace, oh wretched American consumer. Your free-spending, mall-charting, credit-limit-busting ways are over. Those nasty retail sales figures, unemployment numbers, and record-low consumer confidence measures tell the whole story. You're toast. Done. Game over!

But before you cut up your credit cards, don't forget to pick up that new laptop and DVD player you've had your eye on. A few soft pillows and fresh-scented candles couldn't hurt, either. And while you're at it, might as well pick up a few Wii games and the latest version of *Guitar Hero* — for the kiddies, of course.

That's our not-quite-scientific explanation for why **Best Buy** (NYSE: BBY), **Bed Bath & Beyond** (Nasdaq: BBBY), and **GameStop** (NYSE: GME) have blown away expectations and seen their share prices rocket higher over the past few weeks.

Best Buy's shares are up 23% since surprising Wall Street's own "Geek Squad" with better-than-expected results in its fiscal 2009 fourth quarter. The company continues to fill the vacuum left by Circuit City's bankruptcy and gobble up serious market share in the notebook computer and mobile phone markets. And though previously hot electronics like digital cameras, MP3 players, and GPS devices are struggling to find new homes in this environment, the company managed to limit same-store sales declines to just 5% (earlier projections had that figure plunging as much as 15%). Just imagine what Best Buy's shares will do when those comps turn positive again.

Tom is jumping for joy after Bed Bath & Beyond's fourth-quarter earnings report initiated a 24% spike in the share price — and with good reason. Thanks to a pledge he made when he re-recommended this stock in 2006, his feet will have to carry him 374.4 miles across the state of Virginia if this home furnishings retailer hits February 2011 with a price below $35.76. He's not out of the woods yet, but better-than-expected sales and earnings indicate a new momentum. Management is calling for a slight dip in same-store sales for the rest of this year, as well as a slight gain in net sales. It will also continue its cost-control initiatives and expects to roll out 50 or more new stores in 2009. We still think the purveyor of pillows, Pyrex, and placemats will bail out Tom's feet by 2011.

Finally, GameStop reported another game-stopping quarter, with sales and earnings growth both clocking in at better than 20%. Comparable same-store sales were a stellar 9.6%. Even more impressive: the outlook and guidance for 2009, with management expecting record sales and profits. Just goes to show the recession-resistant power of video games. And at just 10 times projected earnings, the shares are still stuffed deep into the bargain bin.

Don't miss your additional stock coverage in weekly Stock Advisor *update emails on Fridays at 12 p.m. ET. For disclosure information, please see page 10.*

Fool's Tools: Reading the Tea Leaves of Health-Care Reform

By Bryan White

The rising tide of medical costs has put health-care reform at the top of the agenda for the Obama administration. According to Congressional Budget Office estimates, national health-care spending will make up 18% of GDP ($2.6 trillion) this year and reach 20% of GDP by 2017. Right now, the majority of lawmakers — Republicans and Democrats alike — agree that change is due, but they're split on the details of how any reform should be funded. Only one thing is sure: Changes to our health-care system are on the way.

Historically speaking, health-care stocks have been just what the doctor ordered in troubled financial times. It makes sense: People still get sick during recessions, and the insured have minimal out of-pocket expenses for many services, so they're not afraid to keep tabs on their well being — plus, they're even more motivated to avoid taking sick days.

This time, though, it's different. Sure, health-care stocks have proved reliable again: Since the beginning of 2008, the Healthcare S&P index is down about 30% — a healthy lead on the broader S&P index, which is down 42%. But before investors revert to the safe-haven strategies of the past, they should note that profit margins in some areas aren't safe yet.

Let's take a look at how reform efforts could affect three key industries within the health-care sector — and what they might mean for the *Stock Advisor* scorecard.

Private Insurers Flex Their Muscles

The most profitable years for managed-care organizations, or MCOs, may well be behind them. With increased regulations, funding cuts, and even direct competition from the U.S. government on the horizon, profit margins for the insurance industry may be on their way down.

Private insurance providers have always been wary of the 800-pound gorilla in the room: the U.S. government. The MCOs lack any real, lasting competitive advantage because of potential game-changing regulations. To help insulate themselves, MCOs have gone on an acquisition spree over the past decade — a strategy that has worked well for the few that have been able to build economies of scale, like *SA*-recommended **UnitedHealth Group** (NYSE: UNH) and **WellPoint** (NYSE: WLP).

Size isn't the only thing that matters for survival — insurers need to maintain a diversified product mix, too. The large MCOs have a healthy balance of fee-based, risk-based, and nongovernment-funded accounts. Smaller insurers like *SA*-recommended **Coventry Health** (NYSE: CVH) have seen their share prices devastated in part because they have too many government-funded accounts under the umbrella of Medicare Advantage.

Key takeaway: Expect more pain for the small MCOs, but the giants of the industry should have a healthy recovery.

Big Pharma Heads for a Turf War

A wave of upcoming patent expirations spells shrinking margins for pharmaceutical companies, and competition from generic manufacturers will pressure those with weak drug pipelines. According to health-care research firm IMS Health, $20 billion per year in branded drug sales will come off patent between 2010 and 2012. Not helping matters: the administration's talk of expanding the generic market, and Medicare negotiating directly with the drug companies.

So far, Big Pharma has responded to the smack talk by consolidating. **Pfizer** (NYSE: PFE) and **Wyeth** (NYSE: WYE) along with **Merck** (NYSE: MRK) and **Schering-Plough** (NYSE: SGP) have agreed to combine forces. Scale will be critical to maintaining their historic profit margins.

Key takeaway: Expect more mergers in the coming year as drug companies look to beef up their scale in an effort to combat patent expirations.

Medical Equipment Makers, Beware

Patent protection isn't much of a worry in the medical device industry thanks to the lack of generic alternatives. That said, patients are delaying nonessential surgeries and other elective procedures that require out-of-pocket expenses and time off work. As a result, companies that specialize in elective procedures have seen their stock prices get crushed.

Key takeaway: Medical device outfits that have a diversified portfolio of products and limited exposure to elective procedures should thrive over the long run.

A Few *SA* Picks Outside the Feds' Cross-Hairs

Fortunately, our scorecard offers plenty of opportunities to gain exposure to the fast-growing health-care sector without threat from those pesky G-men. Companies like **Pharmaceutical Product Development** (Nasdaq: PPDI) and **Lab Corp.** (NYSE: LH) make money by providing testing and analytical services to drug makers and hospitals. **McKesson** (NYSE: MCK) and **Medco Health** (NYSE: MHS) help drug companies distribute their products and provide health management services to patients and pharmacies. And of course, software outfits like **Quality Systems** (Nasdaq: QSII) could actually benefit from new government mandates that call for digital patient and hospital records.

Take a Deeper Dive Into the Health-Care Sector

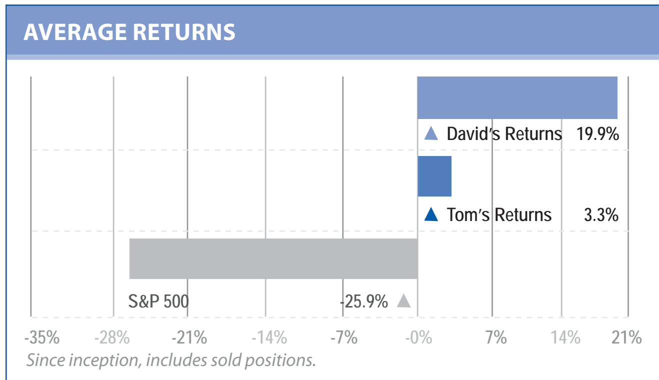
Our ***SA*** **Health-Care Checkup** series looks at how new government regulations may affect these industries and highlights a few of best investment opportunities in the health-care sector right now. Stay tuned to the *Stock Advisor* website for more.

For disclosure information, please see page 10.

SCORECARD

Details on all recommendations available at stockadvisor.fool.com

AVERAGE RETURNS



Since inception, includes sold positions.

MOST RECENT RECOMMENDATIONS

Issue	DAVID'S Company	Ticker		TOM'S Company	Ticker
5/09	John Wiley & Sons	JW-A	&	Teradata	TDC
4/09	Pharma. Product	PPDI	&	Western Union	WU
3/09	McKesson	MCK	&	Leucadia National	LUK
2/09	Fortune Brands	FO	&	Nat'l Instruments	NATI
1/09	Marvel	MVL	&	Cintas	CTAS
12/08	Strayer Education*	STRA	&	MSC Industrial Direct	MSM

** Sold in the 2/09 issue.*

BAGGERS & LAGGERS

TOP 5 PERFORMERS

▲ **848.8%** **Quality Systems (QSII)*** Issue 4/03 — Tom

▲ **692.0%** **Marvel (MVL)*** Issue 7/02 — David

▲ **463.8%** **Activision Blizzard (ATVI)*** Issue 3/03 — David

▲ **404.4%** **Amazon.com (AMZN)** Issue 10/02 — David

▲ **286.2%** **GameStop (GME)*** Issue 10/04 — David

BOTTOM 5 PERFORMERS

▼ **(89.5%)** **CompuCredit (CCRT)** Issue 2/07 — Tom

▼ **(78.8%)** **Healthways (HWAY)*** Issue 9/05 — Tom

▼ **(75.0%)** **Vasco Data Security (VDSI)** Issue 1/08 — Tom

▼ **(73.7%)** **Cemex (CX)**** Issue 10/06 — Tom

▼ **(71.9%)** **Whole Foods (WFMI)*** Issue 9/05 — David

*Excluding sold positions. *QSII was also recommended in the 3/03 and the 12/05 issues; GME was also recommended in the 1/06 issue; HWAY was also recommended in the 4/05 issue; MVL was also recommended in the 12/02, 9/04, and 1/09 issues; ATVI was also recommended in the 9/02 and 10/08 issues; WFMI was also recommended in the 6/02, 7/02, and 3/08 issues. **The Motley Fool owns shares. This is not an endorsement to buy any of these stocks. It is simply a snapshot of our companies' performance to date.*

BEST BUYS NOW

DAVID'S

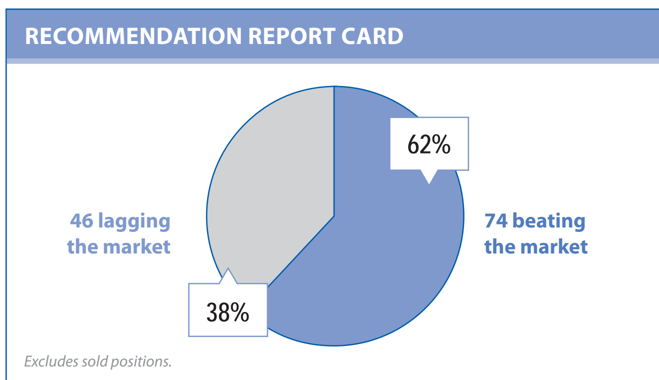
Company	Ticker	Recent Share Price
1. Marvel*	MVL	$27.51
2. Disney*	DIS	$19.02
3. DreamWorks Animation	DWA	$18.75
4. InterDigital	IDCC	$25.82
5. Nintendo*	NTDOY.PK	$33.65

TOM'S

Company	Ticker	Recent Share Price
1. National Oilwell Varco*	NOV	$34.66
2. Western Union	WU	$14.28
3. Vasco Data Security	VDSI	$6.31
4. SEI Investments	SEIC	$13.94
5. Leucadia	LUK	$18.08

*The recommendations in our current issue represent our two best investment ideas this month. But to give you a broader range of options, we've also ranked the best opportunities for new money from among all our past selections. * David owns shares.*

RECOMMENDATION REPORT CARD



Excludes sold positions.

THE CAPS RAP ON OUR NEWEST RECOMMENDATIONS

Garyestein likes what he sees in 3-star **Teradata**: "This stock has the technology that firms will need to climb out of this recession."

tspeyer says 5-star **John Wiley & Sons** makes the grade: "A superbly run company where family control provides the benefit of being able to take the long view. America's oldest independent publishing company."

What do *you* think? Make your pitch at caps.fool.com or post your comments on *Stock Advisor*'s discussion boards.

***DISCLOSURES:** The Motley Fool owns shares of BBY, COST, SBUX, UNH; David: AAPL, BBY, DIS, GME, MSFT, MVL, NFLX, NOV, NTDOY.PK, SBUX; Tom: MSFT, PFE; Andy: MHS, MRK, MSFT, PFE; Rex: EBAY, MSFT, MSM, NOV, VDSI; Matt: LUK.*

All scorecard data as of market close 4/14/09

Printed on Rolland Enviro100.