Channeling Ben Graham

By MIKE HOGAN | MORE ARTICLES BY AUTHOR

It's times like these when Wall Street analysts start talking about a "stock picker's market" -- a euphemism for "overpriced."

Five years into a bull market, so many tickers are crowding the high end of their earnings multiples and 52-week price ranges that it's hard to find the kind of discounts that excite value investors -- but not impossible. Websites Old School Value (oldschoolvalue.com), GuruFocus (gurufocus.com), and Investment Maxim (investmentmaxim.com) have screeners designed to find stocks that offer what investing patriarch Benjamin Graham called a "margin of safety."

These sites explore ways to find that cushion, starting with Graham's favorite: stocks whose shares are selling at a discount to the company's net current asset value. At its simplest, NCAV or net-net, is found by subtracting a company's total liabilities from its current assets-both listed on the balance sheet (investopedia.com/terms/n/ncavps.asp).

It's a very conservative filter that counts only the highest-quality, most liquid assets when determining intrinsic, or "fair," value. Moreover, Graham preferred large-caps trading at no more than two-thirds of net-net.

"It's tough enough finding a company whose share price is less than NCAV in this market, never mind two-thirds that value," says Old School Value Founder Jae Jun,

OSV has turned up a few small-caps that fill the bill, with the exception of the safety margin. They include two electronics distributors, ADDvantage Technologies Group (AEY) and Richardson Electronics (RELL); and recreational-vehicle parts supplier The Coast Distribution System (CRV).

For $299 a year, OSV subscribers can download a spreadsheet that uses NCAV and several other Graham-inspired calculation methodologies to assess fair value. Some may be a better fit for a particular ticker or market cycle. For example, discounted-cash flow (DCF) and earnings power value (EPV) emphasize growth, rather than assets.

Type in a ticker and the site's stock analyzer instantly lays out reams of values and ratios for these calculations in separate worksheets that otherwise would take hours to build. Although it plumbs 10 years of U.S. exchange data, stock analyzer cannot be customized by the user. But Jun does regularly screen using these methods and posts the results on the Website (oldschoolvalue.com/stock-screener.php) and in spreadsheets downloadable for free from its blog.

GuruFocus performs the same multiple-analysis hat trick on any ticker typed into its search engine. Its Ben Graham net-net screener (gurufocus.com/grahamncav.php) is the centerpiece of six popular intrinsic value calculations that also include tangible book value and median price-to-sales. Results are displayed at the top of each stock's main profile page along with current share price. They typically yield disparate results, underscoring just how dependent an assessment is on what's deemed "valuable" by the investor.

GuruFocus's screens can be configured the way the user wants. A $299-a-year subscription draws on U.S. data. For $1,384 a year, major exchanges in Europe and Asia are added. When last run, the net-net screener found about 400 stocks trading at least a 26% discount to NCAV, but no large caps and only about 90 U.S. issues. Among them was a penny stock, Aberdeen International (AABVF), which invests in early-stage companies in the resources sector.

For $120 a year, India-based Investment Maxim (investmentmaxim.com) also offers a dive into foreign issues using five Graham-inspired screens. They can be run on Canadian, U.K, and Indian issues as well as U.S. stocks. Its net-net bargains are quite scant lately, but include Petrobank Energy and Resources (PBG.Canada). The screen deliver candidates promptly.

Value prospects are certainly harder to find than at the market's March 2009 bottom, which June calls "a once-in-a-decade best opportunity for net-nets." He scooped up bargains that ended the year up 109%. But the NCAV discipline also warned him of the slow-motion approach of the October 2008 crash and led to a softer landing for his portfolio than the market overall. His fund fell 30% from October of 2008 until March of 2009, a far better performance than his benchmark's 43% collapse.

Although discounted shares may be scarce today, as sure as bust follows boom, the market will fall again. These tools can keep you poised to pounce.

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