If You Could Love Only One...

The combined portfolio selections of our Favorites of the Famous stock pickers whipped the S&P 500 again. Wow, that is 15 of the last 18 times! That is the best print record of its kind on the planet. Since last December to this December the choices of EQUITIES' pros gained over 7% compared to only 5.6% for the S&P 500. Now nine new stocks for 2006.

BY GEORGE BROOKS

"2005 was a tough year for money managers if you didn't own the energy stocks," laments John Rogers, head of Ariel Capital. "Our absolute numbers were fine and we had a really good year 2004 in our Ariel fund, our flagship fund, and started off 2005 fine. Then, all of a sudden, the energy thing just took over. It hasn't been a lot of fun here, though it appears to be getting better lately."

Tom Putnam, manager of FAM Value and FAM Equity Income Funds, agrees. "The environment for stocks, November rally notwithstanding, has been challenging, what with rising interest rates, rising energy prices, huge twin deficits, slowness of the economy, Katrina, and the war in Iraq."

Of course, because of the years of double digit returns, most of us have been spoiled. But over the long term, equities produce a return of about 9% and that means we are due for some below average years if the long-term average is to return to that 9%.

Last year was one of them. However, our Famous group found enough niches to exploit so that their combined portfolio beat the S&P 500 for the 15th out of 18 times. Also, they beat the Dow and the Nasdaq composite for 2005. This is a seasoned, tested crew, whose participants have been featured on ten separate EQUITIES covers over the last 25 years. In good times and bad times, they find hidden relative value. Now here are their nine new stocks for 2006!

Bob Flaherty

For three consecutive Decembers EQUITIES Special Situations Editor Bob Flaherty, also editor of Equities Magazine, socked a grand slam home-run. His December 2004 pick of Medifast (AMEX:MED-5.31) reminded Bob of his boyhood days of watching baseball at Fenway Park. MED stock went up like a rocket, then swooned and just missed going into the net, simply bouncing off the green monster for an extra base hit only up 48%. Well, those are nice, too.

The time since 9/11 has been difficult for Bob. In the twin towers, he lost hundreds of friends including a past conference speaker. A few months earlier his wife Jean Flaherty also passed. Being ill from the side effects of recovering from two kinds of cancer has been draining too. So, Bob has been making fewer picks in his EQUITIES Special Situations newsletter, but hitting more homeruns. According to Hulbert Financial, the results have been very good. Bob has beaten the Wilshire Index for four consecutive years, including 2005 so far.

Now it is time to swing for another home run. Look at our society and how much more permissive America is since the 20s, when a glimpse of stocking was something shocking. Now socialite role model Paris Hilton in her car wash commercial barely has enough on to keep the water off.

At EQUITIES December 1st conference CEO Eric Langen, a young dynamic cop's son, revealed his long-term dream for **Rick's Cabaret International (Nasdaq:RICK-3.75)**: $300 million in profits, steady annual profit growth mainly from acquisitions, clubs in maybe 50 markets in 30 states. Today, Rick's annual revenues are only pushing $24 million with profitability still to be achieved because Rick's has been building rather than buying. (See page X.)

But why buy a strip club? Here is the hidden value. A decade ago, investors shunned gambling stocks and now they are mainstream and high multiple. Rick's CEO believes the same thing will take place with his upscale gentlemen's clubs. Nor are such activities new. Read the Bible and you will recall that after Salome did her dance of the Seven Veils, she was delivered the head of John the Baptist on a platter. Ever since Strippers have been highly paid, but had a bad reputation. Now, here is a public play to cash in on another human weakness. The worst the CEO imagines can happen, if the investing society does not embrace his operation, is that he will end up with a highly profitable private operation.

Hidden value in a stripper stock? As Rick's CEO left the stage of the conference and became lost in the crowd at the Yale Club, Flaherty sent him off with, "Here's looking at you, kid."

Mario Gabelli

Way back in l981, Mario Gabelli bought the first full page ad that brand new Editor Bob Flaherty sold for EQUITIES magazine. Since then, the Italian kid from the Bronx has continued to be a wonderful friend, providing our readers with an unbroken string of investment ideas.

In this issue, health and wellness and life improvement are on Gabelli's mind. More specifically, his 2006 choice is **Groupe Danone (NYSE:DA-21.62)**, a major French producer of dairy products (Actimel, Dannon), biscuits (LU), and bottled water (Evian, Wahaha). Dannon Yogurt is a big household name in the U.S. The package is cheap and a play on people shifting to a healthier lifestyle. In addition, Gabelli sees a currency play on the dollar potentially being a lot weaker. The stock rose on heavy volume recently in the face of rumors it was being targeted by Kraft Foods (NYSE:KFT).

In December 2004, Gabelli picked not one, but two stocks because he couldn't pick between them. This is something we discourage, but what the heck it was Christmas.

His first choice of **Sinclair Broadcast Group (Nasdaq:SBGI-9.86)**, up 11%, was a winner and began paying dividends. Hopefully, the worst is over at his second pick, **Lin TV Corp (NYSE: TVL-11.88)**, down 34%. Gabelli expected them to be a seller of properties, not a buyer.

On top of that Gabelli sees a currency play on the dollar's potentially being a lot weaker.

FAVORITES OF THE FAMOUS – NEW SELECTIONS

Company		Dec. 16, '05 Price	Money Manager
American Power Conversion	Nasdaq:APCC	$22.34	Putnam
Central European Distribution	Nasdaq:CEDC	42.21	Rader
Groupe Danone	NYSE:DA	21.62	Gabelli
Hewitt Associates	NYSE:HEW	26.88	Rogers
Hudson Technologies	Nasdaq:HDSN	1.87	Bowser*
InfoCrossing	Nasdaq:IFOX	8.20	Markowski*
Microtek Medical Holdings	Nasdaq:MTMD	3.66	Schliemann
Rick's Cabaret	Nasdaq:RICK	3.75	Flaherty*
21st Century Holdings	Nasdaq:TCHC	16.37	Dirks

December 16 , 2005 S&P 500 1267.32 *Financial writer

Peter Schliemann

"Viasys Healthcare (NYSE:VAS-27.23) has done well and pretty much for the reasons expected," explains Peter Schliemann, head of Boston-based, Rutabaga Capital about his 2004 pick, up a smart 41%. "It was a spin-off and an amalgamation of a lot of businesses which its former parent, Thermo-Electron, had acquired over the years." It is still attractive. Progress is just now starting to be visible, which is the kind of reassurance analysts require these days before undertaking coverage and buying. Revenues are still expanding and he conservatively estimates earnings of $0.95 a share in 2005 and close to $1.20 in 2006, though the Street's estimates run a bit higher.

For 2006, Schliemann likes **Microtek Medical (Nasdaq: MTMD-3.66)**, a producer of sterile drapes used in hospital settings to control the spread of infection. "These drapes are proprietary in nature and used to cover equipment and machines used in an operating room," Schliemann explains. The drapes preclude the need to disinfect the equipment after each use. They cover the entire machine except for the portion of the machine that is in contact with the patient, which is either disinfected or replaced.

The drapes go a long way in preventing the spread of infection in the hospital, which has become a huge problem. Unfortunately Microtek's strong position was not adequately exploited in recent years due to its prior management's focus on a new product concept that didn't take off. New management is now getting the company's marketing efforts back on track. Additionally, innovations to its products have enhanced the company's edge in the market. The company is only 36% owned by institutions, which is unusual for a medical niche company. While 2005 is a transition year, Schliemann sees 2006 as a breakout year. The company has no debt, $9 million in cash and a sizable tax loss carry forward.

Max Bowser

Old soldier Max Bowser features micro cap stocks of $3 or less in his unique *The Bowser Report* and *Bowser Directory of Small Stocks*. He took micro caps a step further with the *Bowser Microcap Stock Index*. Started in August 9, 2001, his index tells a surprising story. It is up 242% over the past four years compared with a paltry gain of 39% for the Russell 2000 Small Stock Index and an even more paltry gain of 1.4% for the Dow Jones Industrial Average.

Favorites of the Famous

With the lowest price stock in the nine 2006 selections, Bowser's new favorite is **Hudson Technologies, Co. (Nasdaq: HDSN-1.87)**. It is engaged in three businesses: 1) Refrigerant sales, 2) On-site decontamination of refrigerants, and 3) Reclamation of refrigerants. Projects have included the removal of hazardous chemicals from the collapsed World Trade Center following the 9/11 terrorist attack, and the removal of chemical coolants from air craft carriers and submarines. It has an agreement with DuPont to provide recovery, reclamation, separation, packaging and testing services for DuPont, as well as a marketing agreement for DuPont's SUVA refrigerant. In addition, Hudson has a long-term marketing alliance with BOC Group, a global industrial gases company, serving customers in 50 countries. Hudson recently introduced Zugibeast, a portable machine for on-site decontamination of refrigerants, and CHILLSMART, an analytical tool that enhances the efficiency of industrial and commercial chiller systems. Cost efficiencies have enabled Hudson's revenues to rebound sharply and earnings to swing into positive territory.

Bowser is still recommending his December 2004 selection, DRYCLEAN USA, Inc. (Amex: DCU-2.40), up 20%. While the company's earnings were negatively impacted by a rule change concerning the chemicals that are used in its business, it has successfully adjusted to the costs of the change and is now profitable again.

Tom Putnam

Tom Putnam, manager of FAM Value and FAM Equity Income funds, is a stickler for analyzing managements before making any decision to buy its stock. That is obviously what attracted him to "Liz Claiborne (NYSE: LIZ - 34.98), his December 2004 recommendation, down 17%. "Management has a great strategy," says Putman. "They aren't wedded to design and are very good at buying brands and building out their retail. They don't claim to have vision, but to enable vision. While Claiborne had a very difficult year as the price suggests, we feel very highly about the management team and the area they are in."

It has been a very tough retail environment, so much so that some are calling it the death of the department stores for soft goods. To an extent, that has been true, since the company sells in Filenes', Lord and Taylor, places like that and that has been a shrinking business. There has been a change in the soft goods business. It's very fickle. There always are new trends. Accessories have been good in department stores, however, with handbags, belts, jewelry selling well. What have done well are their niche brands, which he doesn't recognize but his daughter does, such as Lucky Jeans, Juicy Couture and some international brands like Mexx. LIZ has been expanding these brands and expanding niche store bases, they have 100 stores now and expect to grow it to 300 in worldwide retail which would be extraordinary. LIZ has a good return on capital and should earn close to $3.00 a share in 2006.

…some are calling it the death of the department stores for soft goods.

Putnam's new selection is **American Power Conversion (Nasdaq: APCC-22.34)**. "If you have a computer, you probably have one of their products," says Putnam. It is the leading producer of uninterruptible power supplies. These take over if you have an interruption in electric power, thus preventing the loss of valuable information. The company is the leader in the small systems that go into power supplies for PCs, work stations, and electronic devices. The business has matured, as gross margins have dropped from 48% to about 43%. While 43% is still very good, the business is becoming a little more commodity-like.

However, a prescient management entered the large system business several years ago with systems that protect large computer centers, thus adding balance and growth potential. Sales in its large systems business run about one-third of total sales. Putnam sees earnings per share of about $0.90 in 2006, and is an aggressive buyer below $20 a share.

Ray Dirks

If anyone can hit the long ball in small caps, it's Ray Dirks, who won fame for being fired for exposing the Equity Funding fraud. Now with BrookStreet Securities, Dirks' new pick for 2006 is **21st Century Holdings (TCHC–16.37)**, an underwriter of auto, property and casualty insurance, primarily in southern states. Dirks sees earnings coming in at $4.50 in 2006. That makes its current stock price cheap, especially for a company with a 15% annual rate of growth. On that basis, he thinks an earnings multiple of 15 is justified, suggesting a price that towers above current levels.

Why its low price now? Katrina and a dozen other hurricanes, as well as 25 named-storms causing 2,745 deaths and $130 billion in damage are to blame for investor's apathy for insurance stocks. However, contrarian Dirks notes that 21st Century actually benefits from the disaster in that it is a direct writer of auto and homeowners insurance, giving it more leeway on what it can do. The big companies want to get out of Florida or cut back, but the state of Florida restricts them. If these companies want to raise rates, they have to go before a hearing which could take six months to a year, whereas 21st Century doesn't have to raise rates more than 15% a year. Also, as a local company, 21st Century can pick and choose more carefully among its underwritings. The company will have the opportunity to write more business. The company is managed by its founders, and sells below its two year highs.

As for his December 2004 pick, PainCare Holdings (Amex: PRZ-3.63), up 23%, Dirks is disappointed that the chiropractor play didn't go a lot higher. What has been out of joint? The acquisitions the company has made take time to be absorbed into their system before showing results at the bottom line. This is a very powerful growth business, he believes, due to the aging of the population and the realization that there are now ways to treat pain. "It is a business model that makes sense," says Dirks. "I expect them to continue to grow rapidly, partly through acquisitions, partly internally."

John Rogers

"I have a lot of confidence in **Hewitt Associates (NYSE: HEW-26.88)**," says Ariel Capital's John Rogers of his choice for 2006. The consulting company has a strong focus on human resources consulting, is the premium brand in that marketplace and has built up a wonderful outsourcing practice. So many corporations today are outsourcing their human resources department. However, in spite of an excellent management team and strong leadership position, the stock hasn't really reflected its strong position and progress. Hewitt does all the benefit consulting, as well as overall "soup to nuts" consulting, thus offering clients the opportunity to select the specific services they need. It is now selling at only 16 times his projected 2006 earnings.

Over the past year, Rogers lightened up on his December 2004 selection Libbey, Inc (NYSE: LBY-11.45), down 46%. Lower than expected international and domestic sales to retail and industrial customers, higher natural gas, transportation and delivery, as well as manufacturing materials costs, negatively impacted results this year.

Michael Markowski

For 2006 Michael Markowski likes **InfoCrossing (IFOX -8.20)**, down from its February 2005 high of $20.15 and not far above its November low of $6.35. Co-founder and editor of research at StockDiagnostics.com and the OPS Newsletter, Markowski explains that IFOX sold off in face of a decline in earnings per share, while at the same time its cash flows were going to record highs. This contradiction point trumpets the merits of Markowski's focus on cash flow analysis. The Street responded to the bottom line results and dumped the stock. But, all the while, internally the numbers, on a cash flow basis, were improving. He believes these kind of special situations offer great opportunities while those who focus on the bottom line miss what is really going on.

Delays in its product cycles and the delivery of new products contributed to the divergence. It appears to him that with the cash flow coming in, IFOX is getting payments from its customers that do not yet show up at the bottom line. The company provides technology services to companies that want to outsource their servers, computers, etc. The company is in a great position to make acquisitions. Right now, based upon its free cash flow and its stock market cap, it has a yield of about 12.5%. To put that in perspective, Google has a yield of about 1%. "So, there's a lot of overlooked value in this company." says Markowski. "I also like this one technically, because it has traded in a sideways pattern for months now near its lows, suggesting it is under accumulation. When all these things line up at the same time, you have to own the stock."

His December 2004 recommendation, United Online Inc. (Nasdaq: UNTD –14.46), has done quite well, up 28% in a very selective market. Markowski is every bit as enthusiastic about its prospects in 2006, seeing its appreciation potential as great as in 2005, or more. Its cash flows continue to hit all-time highs.

Subject of a record three EQUITIES cover stories, Larry Rader's new favorite is **Central European Distribution Corporation (Nasdaq: CEDC-42.62)**. He expects it to be a 20% grower, 20% revenues, and 20% earnings per share. It is the major factor in production and distribution of alcoholic beverages in Poland which has a population of 38.5 million. Starting ten years ago, through acquisitions and internal growth, the company has gained 30% of the distribution business for alcoholic beverages, which is predominately vodka. Poland's decision to privatize production enabled CEDC to gain 19% of the production in Poland's two top brands. Rader sees CEDC's revenues reaching $760 million and earnings per share at $1.65 in 2005. In 2006, he expects revenues to grow in excess of 20% to $941 million with per share earnings reaching $2.03. He attributes good management to the fact revenues were only $100 million nine years ago. Rader thinks management is capable of more than doubling revenues over the next several years. If you think the governments of the world are driving us to drink, Rader has found a way to cash in on it.

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FAVORITES OF THE FAMOUS – DECEMBER 2004

Company	Exchange Symbol	Money Manager	Dec. 17, '04 Price	Dec. 16, '05 Price	PCT Change
Viasys Healthcare	NYSE:VAS	Peter Schlieman	$19.35	27.23	+41
Medifast	AMEX: MED	Bob Flaherty*	3.58	5.31	+48
PainCare Holdings	AMEX: PRZ	Ray Dirks	2.95	3.63	+23
DRYCLEAN USA	Amex:DCU	Max Bowser*	2.00	2.40	+20
United Online	Nasdaq:UNTD	Mike Markowski*	11.32	14.46	+28
Sinclair Broadcast	Nasdaq:SBGI	Mario Gabelli	8.90	9.86	+11
Integrity Mutual Funds	IMFD.OB	George Hebert	0.37	0.34	-8
Liz Claiborne	NYSE:LIZ	Tom Putnam	42.27	34.98	-17
Lin TV	NYSE:TVL	Mario Gabelli	19.10	11.88	-38
QEP Company	Nasdaq:QEPC	Larry Rader	16.09	10.56	-34
Libbey Inc.	NYSE:LBY	John Rogers	21.35	11.45	-46

S&P 500 December 17, 2004 (1203.21) to December 16, 2005 (1270.94) +5.6%. *Financial writer
Average of 11 selections Dec. 17, 2004 to December 16, 2005: 7%.