

TMC 2007: 05/22



If its broken, You MUST fix it

As the market continues to reach new 5 year highs almost weekly, the search for undiscovered stocks becomes increasingly more difficult. Everyone wants to own the next buyout candidate, but it appears that mom and pop have no chance against the private equity behemoth firms. With limited time and resources, how in the world can the individual investor get an edge? In an environment where everyone concedes that it's impossible to find anything that's not trading at a premium, Stockdiagnostics.com is here to the rescue.

It's silly to think that something so obvious can be overlooked. Today most Americans are living paycheck to paycheck and their budgets consist of only the 5 things they need: shelter, food, autos, utilities and auto insurance. You may notice that we did not include health insurance (that is not a typo). Recent government statistics show a shattering rise in Americans who can't afford to insure themselves.

The US economy's strengths and weaknesses are factored into the prices of the market, which makes it very difficult to find an undervalued business. If we could only find something that people MUST do, and capitalize on it before the herd shows up, we could have a profitable edge.

As you scan the working class' annual expense reports, you will find a common denominator outside the usual 5. That's right, something more important than health insurance is car repairs and maintenance. You see, the American consumer is facing many obstacles today, from poor credit, high debt, high gas prices, higher taxes, higher auto and homeowner insurance all the way to rising water, sewerage, garbage and electric costs.

Last week the US Census Bureau reported that the minority population in the USA has topped 100 million. Now it doesn't necessarily mean that these minorities aren't gainfully employed, nor does it automatically infer that they are not part of the upper income households.

The auto manufacturing industry is suffering declining sales as our population increases. If Americans are buying less new cars, they must be fixing the cars they own.

We say must, because if you wake up in the morning and your car doesn't start you have no choice but to repair it immediately because you need to get to work.

The good news is that it's not too late to find value in the Auto Parts and Accessories Sector. The industry has experienced free cash flow growth of 564% for its trailing twelve months year over year. BorgWagner Inc (BWA) and Gentex Corporation (GNTX) are our two favorite Large Cap Stocks in this space. BorgWagner increased their free cash flow 209 % for the trailing three months ending March 2007 year over year and Gentex showed an increase of 49% in that same time frame.

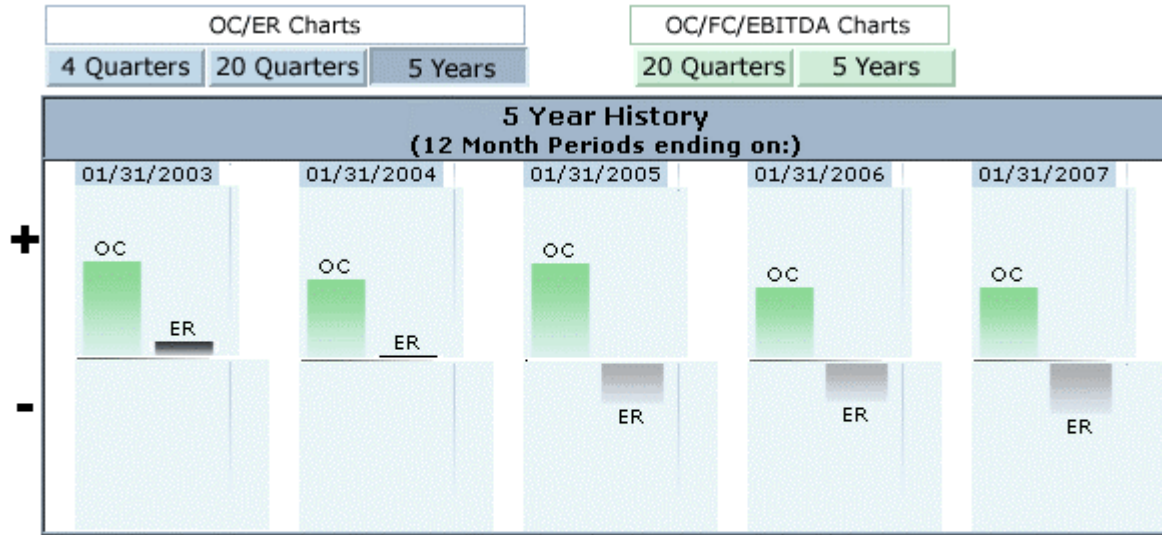
In the small cap arena, Stockdiagnostics.com has discovered three quiet companies that we believe should be accumulated aggressively. Dorman Products, Inc (DORM) was upgraded from a 2 to 1 ranking in August 2006 and the stock has gained 25% since.

We do not see Dorman Products slowing down, as they recently reported over a 600% increase in free cash flow for their 1st Quarter ending March 2007 vs. their 1st Quarter ending March 2006.

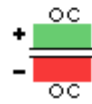
Two of Stockdiagnostics.com's latest upgrades are Accuride Corp. (ACW) and Aftermarket Technology Inc.(ATAC) Both companies were upgraded from a 2 to 1 (highest ranking) based on their 1st Quarter Sec Filings ending March 2007. Accuride increased their free cash flow per share from the trailing twelve months ending March 2006 to their trailing twelve months ending March 2007 from \$2.09 to \$3.60 per share, a 73% increase. With shares trading under \$16, the stock is trading slightly less than 5X free cash flow for its trailing twelve months. Meanwhile Aftermarket Tech experienced free cash flow growth in the same time period of \$ 1.80 per share to \$2.55 per share, a 41% increase and its shares currently trade at a free cash flow multiple of 11 for its trailing twelve months.

From our experience the above cash flow growth patterns have returned significant returns in the past and we will continue to sort through our data and share our favorites every week. Have a Happy Memorial Day Weekend.

Auto Parts and Accessories



Legend:



Operational Cashflow



Earnings