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JOURNAL SENTINEL

Milwaukee Journal Sentinel
JSOnline.com/business

Sunday
February 9, 2014

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INVESTMENT TRENDS

Counting on firms with 'kinkless' earnings

By KATHLEEN GALLAGHER
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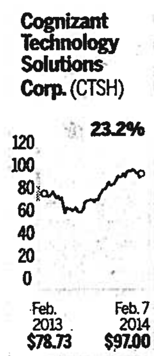
During nearly 40 years of investing, Menasha money manager Kenneth J. Brusda has sought one quality above all others: consistent growth.

Companies' stock prices move around, but their earnings histories stay the same — and are key to determining true value, said Brusda, president of North Star Asset Management.

Brusda

"What we're looking at is the consistency of the earnings with the idea that it would suggest there's something special about that company and its franchise, management and outlook for the future," Brusda said.

Brusda said he and his colleagues at North Star review thousands of companies seeking the 10% or so that qualify as consistent growers with "kinkless" earnings histories. Then they analyze which of those have unique franchises and strong balance sheets, and are trading at reasonable prices relative to those characteristics.



"That's what we build the foundation for client investment portfolios on," Brusda said. "These companies that have kinkless track records and are selling at reasonable prices."

He says this group of companies has attractive PEG ratios — price-to-earnings divided by growth rate — and are expected to consistently increase earnings by 10% to 18% over the next five years:

Fiserv Inc. (FISV, $55.23), Brookfield, is one of the leading providers of bank data technology and other services. Earnings per share have grown at a compounded annual rate of 17% since 1997, with no declines.

Google Inc. (GOOG, $1,177.44), Mountain View, Calif., has the leading Internet search engine and other services like YouTube. Earnings per share have grown at a compounded annual rate of 56% since the company went public in 2004, with no declines. "We think they can still grow at 18% a year, maybe more, very consistently," Brusda said.

Nike Inc. (NKE, $72.69), Beaverton, Ore., is the leading global maker of athletic shoes and apparel. Earnings per share have grown at a compounded annual rate of 13% since 2000, with no declines.

Stryker Corp. (SYK, $79.43), Kalamazoo, Mich., is a leading maker of orthotic implants and surgical instruments. Earnings per share have grown at a compounded annual rate of 17% since 2000, with no declines.

Visa Inc. (V, $221.78), San Francisco, operates a leading global electronic payments network. Earnings per share have grown at a compounded annual rate of 28% since the company went public in 2008, with no declines.

Cognizant Technology Solutions Corp. (CTSH, $97.00), Teaneck, N.J., provides information technology, consulting and business process outsourcing services worldwide.

Three quarters of Cognizant's employees are in India, but the company also brings software engineers into the U.S. from India, Brusda said.

"That's the unique thing about them relative to pure Indian companies," he said.

Earnings per share have grown at a compounded annual rate of 36% since 2000, with no declines. Revenue has grown about as fast, and Cognizant's profit margins are consistently above 20%, Brusda said. The company has reasonable valuation ratios, with a price-to-earnings ratio of 20 and a PEG ratio of 1.25, he said.

"It's a strong story with no debt and nearly $10 per share of cash on the balance sheet," he said. "We think they can grow by 16% a year for the next five years."

The biggest risk to buying the stock of any of these companies is the possibility of paying too much, Brusda said.

Cognizant shares have a 52-week trading range of $60.92 to $101.62. They could trade as high as $117 in the next 12 months.

ABOUT THIS

The Journal Sentinel focuses on one Wisconsin money manager or analyst in this weekly feature, looking at a trend that helps investment pros make their decisions.