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Stock picking gets tougher in 2000

Worried about the 82% gain in the Nasdaq Composite Index and inflated tech stocks?

Money manager Ken Winans is.

"The recent runup in technology stocks has brought the market to a point where you are looking at [expectations for] near-perfect business conditions for technology companies. Any misses and it will be ugly," says Winans, a Mills Valley, Calif.-based money manager who runs Winans International, a financial advisory firm that oversees $78 million in assets.

With a 32% year-to-date return, he has lagged the Nasdaq (up 82% for the year) but is handsomely beating the S&P 500, which is up 19% for the year.

"Unless the markets broaden out from here--that is, investors start moving to stocks other than the large-cap technology names--things could get tough in 2000," says Winans. "We really need to broaden this rally."

Winans, like many other professional money managers, is looking at very "selective market moves next year." He is worried that the current obsession with Internet stocks has left many small-cap and quality technology names untouched. "This is so much like the biotechnology rally in the 1980s when investors were chasing the biotech names to sky-high levels," he says. "Today only a handful of those have survived."

That's why Winans is sticking to quality technology names that have often been ignored by the momentum investors. One of his favorite names is Automatic Data Processing **aud** (nyse: aud), a Roseland, N.J.-based company that provides a range of payroll, human resource, benefits administration, time and attendance and tax filing and reporting services to employers.

Winans says that at a recent $52 a share ADP, with a price-to-earnings multiple of 41, is trading at a discount to its main rival, Paychex **pycy** (nasdaq: pycy), which is trading at $42.25, or 58 times its expected fiscal 2000 (ending May 2000) earnings. He is forecasting a 10% revenue growth and 16% expansion in earnings for the company--enough to power up the stock by at least 15%. ADP has sales of $5.5 billion in fiscal 1999 (ended June 1999) and earnings of $714 million, or $1.16 per share.

"This company has used the Internet to slash its costs and is becoming more efficient," says Winans.

He says a lot of conventional companies are trying to duplicate the Charles Schwab **sch** (nyse: sch) business model and are effectively leveraging the Internet. One such company, he thinks, is CitiGroup **c** (nyse: c), which is expanding into online banking and online brokerage segments.

Among technology stocks, Winans is betting on Solectron Corp. **slr** (nyse: slr), a Milpitas, Calif.-based contract manufacturer that makes equipment from computer makers to network equipment providers. Already the world's largest manufacturer, Solectron is likely to increase its market share, Winans is betting.

Winans started buying Solectron's stock following its slide in the wake of weaker-than-expected earnings in the fiscal first quarter. The company reported earnings of 36 cents per diluted share after a one-cent charge for a change in accounting principles. A year earlier the company earned 27 cents per share. The company's sales jumped to $2.5 billion from $1.9 billion a year earlier, but many analysts were looking for revenues above $2.7 billion.

"I think they will bounce back, and in 2000 I am expecting strong growth from them," says Winans. For fiscal 1999 (ended Aug. 31, 1999) Solectron had sales of $8.4 billion and a net income of $294 million, or $1.13 a share. Winans is forecasting a 20% growth in sales and 35% growth in earnings--enough to drive the stock up to $112 a share by the end of 2000, he predicts.