Forbes

Gene Marcial Contributor

I have an insider's take on Wall Street

3/07/2014 @ 10:51AM 80,511 views

After Bagging Tesla Shares At $180, Savvy Value Pro Picks Three Other Stocks As Potential Huge Winners

Investors who snapped up shares of Tesla Motors **TSLA** -1.77% (TSLA) last year are deliriously happy campers as the stock of the maker of fully electric vehicles has soared to $250 a share, way up from its incredible 52-week low of $34! Could such a feat be duplicated? Maybe not, but some seasoned investors are diligently searching for Tesla-like potentially prodigious gainers.

One savvy value investor who bought shares of Tesla last year at around $180 a share is Graham Tanaka, chairman of top-ranked TANAKA Growth Fund, who is confident he has found three other stocks he expects will be super-performers over the next two to five years. The TANAKA Growth Fund, which Lipper ranked as No. 1 in the Multi-Cap Core Growth Fund category for the 12 months through Sept. 30, 2013, was up a whopping 45.6% during that period. For all of 2013, the fund leaped 32%. And so far this year, TANAKA Growth is up 2.3%.

Tanaka remains bullish on U.S. equities as he sees stocks continuing to outperform bonds and cash this year and produce total returns in the range of 10% to 15%. One big positive for the market, he adds, is the Federal Reserve's policy that he believes will remain "very stimulative and continue to create an investor-friendly environment." Tanaka forecasts corporate profits to grow about 6% to 8% and for price-earnings ratio to expand moderately.

Tanaka says his three top stock picks representing his big bets on technology, pharmaceuticals, and energy, should double in price over the next two to four years. They are:

1. Synaptics **SYNA** -3.07% (SYNA), designer and maker of user interface products for PC and mobile phone manufacturers, including touch-sensitive pads and screens that enable people to interact with mobile computing, communications and other electronic devices. "It's a 20% earnings grower, aided by its market-leading touch-screen technology," says Tanaka. He sees its stock, currently at $63 a share, doubling in price in four years. He notes that Synaptics' touch-screen technology is applied in practically every mobile device, including the wide-selling Samsung products. A big upside for its products is the imminent use of touch-screen in PC laptops.

Analyst Kevin Downing at Value Line says shares of Synaptics "look good for the long haul," as the company's "long-term outlook appears solid." Although Value Lines has a "neutral" ranking on the stock, Downing says "we have confidence that the company will continue to develop and acquire new ways to interact with computing devices." Indeed, he adds, "we think this stock is a solid choice." Downing forecasts Synaptics will earn $3.90 a share in fiscal 2014 (ending June 30) on sales of $825 million, up from last fiscal year's $3.11 on $663.5 million.

2. Valeant Pharmaceuticals International **VRX** -0.55% (VRX), a specialty drug maker created from the 2010 merger of Valeant and Biovail Corp. The combined company acquired Bausch & Lomb in August 2013 for $8.7 billion. The company markets more than 1,100 branded and generic products worldwide, including dermatological products, which accounted for 33% of sales in 2012, and neurological drugs, which generated 22% of sales. Tanaka says Valeant has a history of making good-value, low-cost acquisitions that enhance its balance sheet and add to cash-flow generation.

Valeant's shares have been on a tear, rising to a high of $153.10 a share this year, way up from a 52-week low of $68.29. Tanaka believes the stock will continue to advance as sales and earnings continue to ratchet higher. He forecasts a doubling of the stock in four to five years, helped by more earnings-accretive acquisitions globally. It closed at $138.55 on Mar. 6, 2014.

Valeant has a "strong record of developing drugs that incorporated advanced oral controlled-release delivery technologies," says Jeffrey Loo, analyst at S&P Capital IQ. These drugs generally offer advantages over conventional products in terms of dosing convenience and cost, he adds. Its branded and generic drugs are manufactured and sold either directly by Valeant, or by others under licensing agreements. Loo rates the stock as a buy with a 12-month target of $150 a share.

3. Carrizo Oil & Gas **CRZO** -4.2% (CRZO), an independent oil-and-gas company that explores, develops and produces natural gas and crude oil primarily in the U.S. It's been one of the big winners this year, surging from a 52-week low of $22.90 a share to a high of $51.98. It closed on Mar. 6, 2014, at $50.05, as the company's oil production is growing by 50%, notes Tanaka. Trading at a multiple of 20 times next year's estimated earnings, the stock should continue to climb, says Tanaka, who predicts it will hit $75 a share in one year.

These three stocks, says Tanaka, are best for long-term investors with an investment horizon of five to 10 years. Despite the market's continuing surge amid persistent volatility, Synaptics, Valeant and Carrizo will continue to be huge winners over the long haul, asserts Tanaka.