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Bucking the trend

Small-cap stocks are likely to get hit this year, but some may prove winners

By MarketWatch

Last update: 6:18 p.m. EST Jan. 16, 2008

A previous version of this story misquoted David Trainer's description of a stock's market value. The story has been corrected.

BOSTON (MarketWatch) -- David Trainer, president of New Constructs, a Nashville, Tenn.-based independent research firm, says market watchers may expect small-cap stocks to suffer in 2008, but that doesn't mean investors should avoid looking for the names that will bust the trend.

"The big picture is the broker's excuse to convince the investor that they have a good argument ... but all stocks don't move in unison," Trainer said, in a radio interview focused on small-cap names.

Trainer told Chuck Jaffe, MarketWatch senior columnist, that a stock's market value "represents the present value of future cash flows," and noted that he's looking for stocks that are priced at a point where the market has low expectations for the stock. A stock priced for high expectations will have to deliver oversized gains or have years of quality growth to justify its valuation, whereas a stock for which the market has low expectations can generate a lot of upside simply by performing a little better than the market forecasts.

Putting that theory to work, Trainer suggested that investors buy Casual Male Retail Group ([CMRG](#)), Anthracite Capital ([AHR](#)), Ares Capital ([ARCC](#)) and Collective Brands ([PSS](#)), noting that all four small-cap stocks are priced to succeed, even at a time when small-cap stocks are expected to be out of favor with the market.

On the flip side, Trainer said that valuations - and not broad market expectations - are precisely why he'd sell Avanis Pharmaceuticals ([AVNR](#)), Generex Biotechnology ([GNBT](#)), Smith & Wesson ([SWHC](#)) and Simmons First National ([SFNC](#)).

In another interview from Jaffe's weekday radio program, Greg McBride, senior financial analyst for BankRate.com, said that mortgage rates have continued to fall, bringing down savings rates with them, and that the trend is likely to continue.

McBride said he believes the Federal Reserve will cut rates again - most likely by a half percentage point - at its next meeting, if not sooner. For savers, McBride said it's time to consider locking in longer-term notes even though they don't pay a premium to shorter-duration paper, because of the heightened reinvestment risk, the chance that rates will be lower in a few months if the consumer picks a shorter-term CD.

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Jaffe's radio show regularly features expert reviews of stocks and mutual funds suggested by MarketWatch readers; to request a stock or mutual fund for review, send your name, hometown and the ticker symbols that interest you to

Chuck Jaffe. ■

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CORRECTS: Some small-cap stocks may get hit in '08, but not all - MarketWatch

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