

Trading Lessons

Get Clear and Concise Trading Tips Memphis Until August 25th
bettertradesworkshops.com

Ads by Google

InvestorIdeas.com

Big Ideas for the Small Cap Investor®

search subscribe advertise submit news

- research
- membership
- insiders corner
- investor alerts
- audio
- marketplace
- green investor
- stock directories
- trading center
- JOBS

Stocks Ready To Soar

Hot News Alert, Huge Profits 1000%+ Stock Near Explosive Breakout Point

120 Top Stocks For 2008

60 Leading Advisors Give Us Their Top Picks For The Coming Year

Ads by Google

+More From this author

[Insider Deluxe: Betting on New Directions for an Economy and Themselves](#)

[Insiders say There's Gold in Them Hills!](#)

[Time to Nibble on Housing-Related Stocks](#)

+Related topics

[New Exciting Homeland Security Industry Stock \(PSGY.OB\)](#)

[Clear Skies Holdings, Inc. Completes Merger Transaction, Begins Trading under Symbol 'CSKH.OB'](#)

[HY Markets: Offers online trading of NYMEX energy futures](#)

Bookmark

Insider Deluxe: Betting on New Directions for an Economy and Themselves

By Michael Brush
Exclusively for InvestorIdeas.com
August 07, 2008

One of the great resources out there for investors is a monthly list of "most attractive" and "most dangerous" stocks published by an outfit called [New Constructs](#).

I've [written about this research shop before](#), but here's a quick summary of what they do.

New Constructs digs up stock picks and pans that produce market beating returns -- basically by x-raying the reported financials of thousands of stocks to find those that look great, or risky.

A company is considered dangerous if it has poor quality earnings -- meaning rising reported earnings coupled with declining real earnings. It also gets dinged for having low return on invested capital. Another negative is expensive valuation based on measures like free cash flow as a percentage of the value of the company, or stock price compared to a modified book value.

Likewise, attractive stocks are those with high-quality earnings by New Constructs' accounting measures, decent and rising return on capital, and cheap valuations.

The research shop was co-founded by David Trainer a few years back -- a financial analysis sleuth with experience at one of the big accounting firms.

A direct hit

I've been watching New Constructs monthly list of most attractive stocks for a while now, looking for a pick confirmed by insider buying. We finally got one this week when insiders at Deluxe ([DLX](#)) went on a buying spree.

Deluxe is not exactly in an exciting business. It's not saving the world with green energy. It's not developing new microprocessors that will allow you to do even more with your handheld device.

It sells checks -- personal and business checks. It has a division that sells forms (in addition to checks), promotional products, and marketing material to small [businesses](#). There's also a [financial services](#) business that sells stored-value gift cards, and also offers services to promote customer loyalty and [prevent fraud](#). And yes, it also sells checks.

The insider buying

Of course, these lines of business are directly tied to one of the most vulnerable segments of the economy -- [small businesses](#). So as the economy slows down, results plummet -- and fast. When the company disappointed on earnings on July 31, it also slashed profits and revenue projections.

The response was predictable. The stock fell 26% or \$5 to around \$14. On the rebound from there, insiders have been hungry for stock. Three insiders -- including chief Lee Schram and finance chief Richard Greene -- picked up about \$500,000 worth for around \$14.50 to \$16.20 as the stock bounced back earlier this week.

They're not only confirming New Constructs' call on the stock which, truth be told, happened before the tank. They are also betting on the following trends and potential positives for this company.

The economy will bounce back sooner or later. Monetary policy is extremely loose. Government deficit spending is high, which also provides economic stimulus. Interest rates are low. The dollar is weak, which spurs exports. And sooner or later the housing market will bottom. I can't tell you exactly when the economy will turn around. But by now, we're well into this slowdown, and there are good reasons to think economic growth can come back soon.

Deluxe has a wide reach. Its small business services group, which accounts for about 56% of revenue, has sold checks, forms and marketing material to over six million small companies in the past five years -- and over four million in the past two years. The financial services division has about 7,000 clients nationwide. So when a rebound does occur, it's well positioned to take advantage of the growth.

Deluxe is becoming more web savvy. Though it has its roots in the boring old businesses of forms and checks, the company is taking several steps to build out its presence in the modern world of the Internet. For

advertisement

TODAY'S TOP STORY

Buffett Buys \$500 Million of This Stock

A few weeks ago, Warren Buffett loaded up on this promising retailer, purchasing a stake valued at nearly \$500 million. This little-known retail stock has already gained +2,469%, but we expect its market share to grow ten-fold in the coming years, leading to market-crushing gains.

[Click here](#) to continue this article and learn the name and ticker symbol of Warren Buffett's most recent stock purchase.

www.TopStockAnalysts.com Ads by Google

example, the company has recently made four acquisitions that help shift its business in that direction. It has purchased:

- Hostopia.com, which helps give small companies an Internet presence;
- PartnerUp, an online networking community for small businesses and entrepreneurs;
- Logo Mojo, which helps businesses with their logo designs;
- Johnson Group, a digital printing company.

Deluxe also recently launched an e-commerce platform called ShopDeluxe.

"We believe that building out our offerings in these new spaces...will lead to sustainable top and bottom line growth for Deluxe in the medium term," Deluxe chief Schram told investors in a recent conference call.

Deluxe pays a nice dividend. Down around these levels, the company's dividend offers a rich yield of around 6%.

The bottom line: Investing in this company brings at least two unknowns. No one really knows when the economy will get better. Nor is it easy to predict how well Deluxe will succeed with its new directions. Insiders are showing a lot of confidence. I'll take that as a good sign that things may work out, and the stock may continue moving up from here.

Disclaimer

At the time of publication, Michael Brush did not own or control shares in any of the companies listed in this column. Mr. Brush is an independent columnist for this web site. For more on Insiders Corner disclosure, see the disclosure section in About Insiders Corner: <http://www.investorideas.com/insiderscorner/>. Investorideas.com Disclaimer: www.investorideas.com/About/Disclaimer.asp. Investorideas is not affiliated or compensated by the companies mentioned in this article.

[TOP](#)



© 2000 - 2008 InvestorIdeas.com®, ECON
Last Update on 8/13/2008

[about us](#) | [partners / links](#) | [company showcase](#) | [contact](#) | [employment](#) | [disclaimer](#) | [privacy policy](#) | [sitemap](#)