

Jim Oberweis

SMALL STOCKS



SHAKE THE HEAVY HAND

MILTON FRIEDMAN (1912–2006), THE CHAMPION of free-market economics and the hero of my student years at the University of Chicago, would have been appalled at the recent intrusion of government into the marketplace. Whatever your views on economic freedom, you have to make the most of the situation. Herewith are some companies poised to benefit from the heavy hand of government regulation.

The congressionally mandated switch to digital broadcasting that went into effect on June 12 is a boon to **DG FastChannel (DGIT, 19)**, which distributes advertising spots to TV stations and other outlets. In the old days videotapes of ads were shipped to broadcasters. DG puts servers at broadcasters' sites that receive ads electronically, charging customers less than they'd pay for physical delivery.

Two-thirds of ads today are electronically distributed, and DG owns the lion's share of the market. As advertisers shoot more commercials in high definition, DG has the opportunity to boost revenue because it charges more for HD content. Juicy margins will invite competition, but DG's large network of stations creates a significant barrier to entry. Shares trade for 17 times my forward earnings estimate of \$1.10 per share, a 60% increase over earnings in the most recent 12 months.

American Superconductor (AMSC, 25) is benefiting from increasing spending on wind power by the Chinese government. AS sells wind turbine designs and associated power electronics. Two-thirds of its revenue comes from Sinovel, a state-owned Chinese company. That is both good and bad. The dependence on Sinovel was a big help during last year's downturn, but in the future it could be a significant risk. AS also makes high-temperature superconducting wire with carrying capacity 150 times that of copper wire, perfect for the global upgrade to a

more efficient electrical grid. The superconductor division is not yet profitable, but the rest of the business should earn \$1.35 a share over the next year. I expect 30% annual earnings gains over the next five years.

Fuel Tech (FTEK, 10) develops technology to reduce nitrogen oxide (NOx) emissions from power plants. Fuel Tech stumbled last summer when the U.S. District Court of Appeals vacated the Environmental Protection Agency's rule spelling out timetables for NOx reduction across the eastern half of the U.S. In a surprise move the same Court of Appeals reinstated the Clean Air Interstate Rule in December, and it went into effect on Jan. 1 as originally scheduled. Fuel Tech also sells chemicals that are tossed into a coal burner to fight slag and thereby boost power plant efficiency. The company generates most of its revenue in the U.S., but management is looking to expand in emerging markets like China and eastern Europe, where pollution-control technology is still quite new.

Fuel Tech shares look expensive at 78 times my earnings projection of 15 cents a share for the 12 months beginning in July, but I expect rapid growth. It is reasonable to expect earnings of 60 cents a share in 2010.

Some smaller companies stand to gain from tougher rules on power plant pollution and cybersecurity.

President Obama's proposed focus on cybersecurity will benefit **ArcSight (ARST, 17)**. ArcSight's software collects and correlates user activity and event data across an enterprise so that businesses can rapidly identify and respond to compliance violations, policy breaches, cyberattacks and insider threats. For example, if a user is logged in to the network from home and subsequently tries to enter the office by scanning his badge at the entrance, an alert is issued.

ArcSight's software was developed for the government, and its client list boasts 20 federal agencies. Corporations are adopting ArcSight to comply with data-security provisions of such laws as Sarbanes-Oxley and the health care privacy paperwork statute that goes by the acronym HIPAA. Shares trade for 31 times my earnings estimate of 55 cents for the 12 months ending April 2010.

Investing with the tides of legislative change has its perils. The rules of the game can change quickly, and budgets can be changed at the whim of the elected. The four companies I mention above have technologies that are effective on their own merits and are poised to benefit from the way the political winds are blowing now. **F**



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