The average investment company charges six times as much as Vanguard.*
*Source: Lipper Inc., as of 12/31/2008 based on 2008 industry average expense ratio of 1.19% and Vanguard average expense ratio of 0.20%.
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3 Faves for the Fearless

My picks are risky, but the opportunities are great.

By Andrew Feinberg

January 2010

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Of my three favorite stocks for 2010, one company is in bankruptcy, another recently saw revenues at one of its key businesses plummet 77%, and the third has never sold a product. Needless to say, my picks carry above-average risk. So if you buy any of these stocks, proceed with caution.

My first pick is **General Growth Properties** (symbol **GGWPQ.PK**), the second-largest shopping-mall operator in the U.S. and a profound victim of the credit crunch. Unable to refinance its debt, the real estate investment trust filed for bankruptcy in April. Its stock, which fetched as much as $67 a share in March 2007, fell to as low as 33 cents in March 2009, before recovering to $4 on November 6.

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In almost all bankruptcies, stockholders get wiped out. The outcome of this bankruptcy should be different, however, because General Growth remains profitable. So far, the bankruptcy judge, Allan Gropper, has been sympathetic to stockholders. The odds are high that the shares will be worth something when the dust settles. How much? A price of $20 doesn't seem out of the question, even after creditors seize some equity. But there are risks. The stock could fall if settlement talks drag on. If the economy implodes, General Growth's assets will lose value. I think the opportunity outweighs the risks.

Next on my list is **KVH Industries** (KVHI), a small company with big growth potential. At its November 6 price of $11, the stock's market capitalization was just $154 million.

KVH has three main businesses. First, it provides TV and Internet service to recreational vehicles and pleasure boats. In the first quarter of 2009, sales in its land mobile products segment plunged 77% from the year-earlier quarter. There are signs, though, that that business is bottoming.

More promising is KVH's role as a leading supplier of fiber-optic gyroscopes (FOGs) to the military. FOGs allow gunners in assault vehicles to stay beneath the turret while aiming their .50-caliber weapons with sniper-like accuracy. That helps cut down on casualties stemming

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from roadside bombings. KVH chief executive Martin Kits van Heyningen thinks his firm could win a contract to provide all of the FOGs for a program that authorizes construction of 19,500 new enhanced combat vehicles, a deal that would be worth $175 million.

Another important driver of growth is KVH's TracPhone V7 broadband systems for commercial ships. The company has sold more than 500 systems, but the potential market is 100,000 vessels. More important is that KVH also provides broadband service, which means recurring revenues. By the first quarter of 2010, KVH will offer ships global coverage. Aaron Edelheit, who runs a Los Angeles-based hedge fund, says that if KVH "gets 5,000 ships, this is a $40 to $60 stock."

My final pick, **Medivation** (MDVN), is the company that hasn't yet sold a product. It is the developer of Dimebon, one of the most promising drugs for treating Alzheimer's. But Medivation doesn't get enough respect, mainly because the initial trial of its drug was done in Russia. Pfizer, however, thought enough of Dimebon to pony up hundreds of millions of dollars in 2008 to partner with Medivation.

JPMorgan analyst Geoffrey Meacham recently issued a report that addresses the market's skepticism. It put the chances for success of Dimebon's first late-stage trial, results of which are due in the first half of 2010, at 60% to 70%. But, says Meacham, many on the Street think that they're closer to 25%. If the trial is a success, the stock, which closed at $28 on November 6, will soar and the drug could eventually generate annual sales of $3 billion to $4 billion. Meacham adds that Medivation recently formed a partnership with a Japanese drug company to co-market a prostate-cancer drug that Medivation is developing. That deal, he says, should limit the stock's downside to $20.

Columnist Andrew Feinberg writes about the choices and challenges facing individual investors. A hedge fund he runs owns shares in all three stocks he recommends.

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