10 Stocks for the Future

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The end is nigh! The end of 2006, that is. Time for gurus from Wall Street to Mumbai to pick their 10 best stocks for 2007. Now it's time for my anti-end-of-the-year piece. Call it "10 stock picks for investors who don't care about the calendar."

The year-end stock-pick piece is a time-honored way to sell papers. Or, these days, to generate Internet clicks. But the project isn't totally self-interested. An investor who can get the trends right before the year starts and then pick the right stocks to ride stands to make a handsome profit in the 12 months ahead.

Of course, doing that isn't especially easy, which is why the reward for getting it right is so high. Not only do you have to call the trends correctly, you have to get the timing right. Warren Buffett, no investing slouch, bet heavily on a falling U.S. dollar in 2005. Right trend. Terrible timing. The result? A $955 million loss for his company **Berkshire Hathaway** that year.

The Great Weighing Machine

No wonder so many fundamental investors don't bother with trends and timing. In the short run, they say, the stock market is a popularity contest with investors voting -- on superficial grounds -- for the stock most likely to succeed. In the long run, they maintain, the stock market is a weighing machine that will accurately reflect the long-term pluses and minuses of every stock. Buy the best fundamental stocks you can find, don't worry about the market's temporary emotions, and wait for investors to eventually recognize those fundamentals in the stock's price.

Eventually" can be a long, long time. That's one of the reasons I personally don't advocate throwing all attempts at spotting and timing trends out the window. Looking at top-down and often emotional trends can be a very good way to shorten the length of the "eventually" I have to hold a stock before the market recognizes its fundamental quality.

But I do get the fundamentalists' point. Top-down trend-timing can easily overlook great stocks that don't fit into a clearly defined trend. And top-down trend-timing can easily keep an investor overly focused on the short term. A year is, after all, just four quarters long. Top-down in this context is starting with your predictions for the big macro trends and then moving to find stocks you think will do well under those economic circumstances. Contrast that with bottom-up, where you look at the details of a company's business as a way to decide to buy or not.

So in this list of 10, I've thrown to the wind any attempt to time the trends of 2007 and gone after stocks with great fundamental stories that might or might not earn market recognition in 2007. These companies have such great fundamental stories behind them that I'm willing to hang on for an "eventually" or two. My "10 picks for investors who don't care about the calendar" are (in descending alphabetical order):

- **Tejon Ranch** (TRC)
- **Praxair** (PX)
- **Nokia** (NOK)
- **Navteq** (NVT)
- **Itron** (ITRI)
- **Ito En**
- **Iberdrola**
- **Gol Linhas Aereas Inteligentes** (GOL)
- **Archer Daniels Midland** (ADM)
- **American International Group** (AIG)

Tejon Ranch owns land -- 250,000 acres of it. Buy Tejon Ranch. I like stocks that can move up even when investor sentiment is negative on their sector. That's been the case for shares of **Tejon Ranch** (TRC, news, msgs), which have moved up strongly even as everybody seems to be waiting for the California real-estate market to drop into the Pacific.

The key here is that the company owns 250,000 acres of land just 60 miles north of Los Angeles and 15 east of Bakersfield and smack dab on Interstate 5. Even discounting the acreage that will be put into natural areas, the shares price the developable land owned by the company at approximately $7,000 an acre.

Think the land will go for that low of a price in the 1,500 acre industrial park that the company is developing near Interstate 5 or in the two residential communities of Centennial (12,000 acres in Los Angeles County) and Tejon Mountain Village (28,000 acres in Kern County)? Permitting on those two residential projects, what's called an entitlement, is 18 to 24 months out. I'm adding the shares of Jubak's Picks with a July target of $65 a share. (Full disclosure: I own shares of Tejon Ranch in my personal portfolio.)

Praxair is overvalued as a cyclical chemical company. But if you peek just a little bit over the typical analyst's horizon and into 2008, you'll see a specialized player in two high-growth gas markets emerging. First step: hydrogen. Praxair estimates that hydrogen demand will grow by 20% annually through 2010. Refiners need to buy more of the gas to lower sulfur content in fuels to meet new environmental standards. (It doesn't hurt that more and more of the oil coming into refineries is sour, high-sulfur oil).

Second step: CO2. Utilities and other big producers of this greenhouse gas are taking steps to reduce their CO2 production or to sequester it in underground reservoirs. For example, Praxair has just signed a deal with utility **AES** (AES - news - Cramer's Take - Rating) to research improvements in technologies to capture CO2. Status: Wait to add.

Nokia has changed the strategy of the wireless-phone game, and I don't think Wall Street analysts yet understand that there is a new game afoot. While the analyst reports I've seen are still lamenting that Nokia's models don't stack up on style or design with those from **Motorola** (MOT - news - Cramer's Take - Rating) or **Samsung Electronics**, which I think is true, Nokia has been gobbling up global market share. Its share climbed to 35.1% in the third quarter, from 32.5%. The company has been using its best-in-class manufacturing system to produce inexpensive "starter" phones for emerging markets. Nokia knows that first-time users tend to stick with a brand as they upgrade to more expensive phones with more features. Status: Wait to add.

Navteq just added further leverage to its high-fixed-cost business model, and I like that. The company just spent $179 million to acquire Traffic.com, a provider of dynamic traffic-flow information collected through a sensor network in 50 U.S. cities (with another five coming on line in the next few years).

Wall Street hated this deal, since it involves spending $2 million-plus per city to install the sensors, with revenue to follow only when Navteq can sell its new mapping data to companies ranging from **XM Satellite Radio** (XMSR - news - Cramer's Take - Rating) to **Garmin** (GRMN - news - Cramer's Take - Rating) to wireless phone operators. I like the deal because it gives Navteq a unique selling proposition to offset falling prices in the map data business that it dominates along with **Tele Atlas**. Status: Add with this column.

Itron is that water play investors are always looking for. It's no secret that the world is running short on easily accessible, reasonably priced drinking water -- and every investor I know wants to get a piece of the water action in coming years. The company makes utility meters. By itself that's a pretty exciting market, since Itron is a key supplier to the utility industry's effort to cut costs -- jobs, in this case -- by using self-reading meters.

But it's the water play that will drive Itron sales overseas. Most water customers in the world aren't metered -- they pay a flat rate no matter how much they use. For example, only 26% of households in England and Wales are metered. Any effort to use water more wisely -- or to raise water-utility revenues -- requires metering. That's good news for Itron. Status: Wait to add.

Ito En is coming to the U.S. Japan's No. 1 maker of green tea drinks acquired Mason Distributors in July to enter the North American market, where tea, especially green tea with its reputation for increasing good health and battling cancer, has been on a roll. The company is looking for sales of its green tea drinks to quadruple in the U.S. in 2007, to $50 million.

Back in Japan, the company has just bought a majority stake in the Japanese operator of Seattle's Tully's Coffee, the No. 3 coffee chain in Japan. After winning a bruising fight in the domestic green tea drink market last year, Ito En has been gaining market share. JPMorgan Chase projects that the company will take 33% of the Japanese market in the fiscal year that ends in March 2007, up from 29% last year. Status: Wait to add.

Iberdrola is taking big heat from investors right now who think the company is overpaying to acquire **Scottish Power** (SPI - news - Cramer's Take - Rating), the fifth-largest energy company in Britain. But I see this as a shrewd bet on the direction of energy regulation in the European Union.

Spain's second-largest utility is already the biggest producer of electricity from wind power in Europe. With regulators pushing to increase the European Union's production of energy from renewable sources to 12% by 2010 from 6% now, Iberdrola would be in a position to reap the returns from any subsidies and emissions-trading schemes the European Union puts in place in order to reach those goals. Scotland also has huge wind-power resources. It is, along with Spain, among the windiest countries in Europe. Status: Wait to add.

Gol Linhas Aereas Inteligentes is building a low-cost airline in Brazil (and to international destinations in Argentina, Bolivia, Paraguay and Uruguay) on the model of **Southwest Airlines** (LUV - news - Cramer's Take). As of the end of 2005, Gol Linhas Aereas Inteligentes was operating 420 daily flights to 45 destinations using a fleet that included a core of 42 single-class Boeing 737s.

The company also owns 25% of the voting stock in a joint venture to create a low-cost airline in Mexico. Like all airline stocks, this one goes up when fuel prices go down and down when fuel prices increase. But the long-term fundamental story is the growth of cheap air travel with the rise of incomes in developing economies such as Brazil. Status: wait to add.

Archer Daniels Midland is uniquely positioned as a trader, processor and producer of the grain, seed and oil-feed stocks needed in increasingly volumes by the developing biofuels industry. On the energy production end, the company, already the largest ethanol producer in the U.S., is branching out both in geography and in feed stocks. If there's a potential biofuel somewhere in the world, Archer Daniels Midland wants to be there to trade it, process it and turn it into energy. That competitive advantage should enable the company to gradually increase the historically low margins of its commodity businesses. Status: Wait to add.

American International Group is still working its way back into investor favor after a series of scandals that led to the ouster of longtime CEO Hank Greenberg and the restructuring of a system of affiliated companies, designed to reward company executives outside normal channels of compensation. But no life insurance company in the world has American International's reach in the world's developing markets.

The company has dominant positions -- for example, it is the only insurer to own 100% of its subsidiary in China -- in developing markets that generate 10% of global premiums. But insurance accounts for only 1% to 2% of GDP in these markets compared with the 4% to 8% common in developed economies. The growing middle class of China, India and the rest of the developing world has just started to consume life insurance. Status: Already own it.

At the time of publication, Jim Jubak owned or controlled shares in the following equities mentioned in this column: American International Group, Navteq and Tejon Ranch. He does not own short positions in any stock mentioned in this column.