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2006 INVESTMENT OUTLOOK -- DRILLING INTO THE NUMBERS

Drilling Into The Numbers

Our eight stock screens suit any investment style

The stock market churned for most of 2005. But investors who bet on the picks in our 2005 Investment Outlook Scoreboard were rewarded nicely. Our eight screens, which searched for everything from fast-growing tech stocks to value plays, returned 11.1% on average from Dec. 31, 2004, through Nov. 30, 2005. That handily beat the Dow Jones industrial average's gain of 2.4%, the Standard & Poor's 500-stock index's 4.9%, and the NASDAQ Composite Index' 3.3%.

As always, we culled the 900 stocks on this year's Scoreboard from the entire universe of publicly held companies, singling out those with annual sales greater than $1.3 billion and share prices of at least $1. Our eight stock screens sift through a vast database of companies based on the main investing styles. For the adventurous, we offer two technology sector searches, one focusing on rising earnings in the coming year and the other based on expectations of long-term earnings growth. Investors seeking the thrill of the new should study our small- and midcap finds as well as our leaders-of-the-pack selections. For more conservative investors, there are two large-company searches, one focusing on above-average long-term growth prospects, the other on dividends and financial stability. And bargain hunters will be drawn to our underappreciated stocks and low price-to-book screens.

We're always looking for different and better ways to crunch the numbers. One value measurement we're experimenting with is based on earnings before interest, taxes, depreciation, and amortization, or EBITDA, which helps investors analyze companies in capital-intensive industries such as telecommunications and cable television. You can find that screen and others, along with the extended results from our eight main screens, online at businessweek.com.

Large-cap stocks, out of favor for several years, might be poised for a comeback. The S&P Midcap 600 and Small Cap 400 indexes have handily beaten the S&P 500 over the past five years. Patient, conservative investors appreciate the stability of big companies, especially when they pay rising dividends.

A company's dividend yield sometimes increases because the payout goes up. But on occasion, the yield rises because the share price falls. To try to dodge the latter, we tweaked our list by sticking to companies with S&P equity rankings of A- or better, signaling financial strength.

Of course, high yields can be a sign of investor anxiety about a company. Consider ConAgra Foods (), which heads our list with a yield of 5.1%. The foodmaker has a new president and chief executive in Gary Rodkin, who is trying to engineer a turnaround. Merrill Lynch & Co. () analyst Leonard Teitelbaum, who is neutral on the stock, says ConAgra needs to trim its brands, reduce the number of plants it operates, and perhaps cut its dividend.

FED FEARS

Also on our list are Bank of America (), First Horizon National (), and Washington Mutual (). Rising interest rates could be a double whammy for these stocks by hurting the mortgage market, a rich source of profits, while simultaneously increasing the companies' cost of capital. Many economists think the Federal Reserve will stop raising rates in early 2006, but there's a gnawing fear that incoming Chairman Ben Bernanke will push rates higher than necessary to establish his inflation-fighting credentials.

Our other large-cap screen turned up well-known companies expected to post strong earnings growth across a wide swath of industries. Seed and herbicide maker Monsanto () announced on Dec. 5 that profits in the coming quarter would be twice its original forecast, thanks to stronger-than-expected revenues. Monsanto is benefiting from the growing demand for foods low in trans fatty acids, which are formed when cooking oil is hydrogenated. Some American snackmakers are switching to Monsanto's Vistive soybean oil, which, when hydrogenated, contains less trans fat.

Hewlett-Packard () has been one of the best-performing big caps in 2005 after new CEO Mark Hurd cut costs and refocused the Silicon Valley giant. Bear Stearns & Co. () analyst Andrew Neff expects Hewlett's share price to hit $40 in the coming year, up from around $30 on Dec. 9, as investors, impressed by Hurd, assign the company a more generous price-earnings multiple.

Not surprisingly, HP also turned up on our list of technology companies expected to post strong earnings growth in 2006. It's joined by Symbol Technologies (), which makes bar code scanners and mobile radio-frequency identification equipment. Retailers are expected to adopt RFID tagging en masse as a way of tracking inventory. Symbol is a supplier of RFID systems to Wal-Mart Stores Inc. (), which has long favored the technology. Reik Reid, an analyst at Robert W. Baird, rates Symbol a strong buy.

BURNING COAL

Tech investors may get some good ideas from our long-term growth list. Biotech powerhouse Genentech (), one of the best-performers in '05, made the list again this year. The constant worry in all high-fliers is that furiously strong earnings prospects are already priced into their shares. But our search turned up other possibilities such as Corning, which keeps beating analysts' expectations thanks to brisk sales of liquid-crystal displays. Another company with promising growth prospects is Broadcom (), a chipmaker whose products are at the forefront of the Wi-Fi revolution and found in devices such as portable DVD players.

Small- and midcap stocks have been among the best-performing asset classes of the past five years. In fact, our selections returned 32.1% in 2005. Thanks to high energy prices, coal producers Arch Coal () and Massey Energy () are expected to mine even greater profits in 2006. Earnings at both companies are forecast to increase by 300%. Two other companies, Shaw Group () and Hanover Insurance Group () (formerly known as Allmerica Financial), have been affected by Hurricane Katrina in different ways. Property-casualty insurer Hanover faced claims, while Shaw Group, a heavy-construction and engineering company, was hired by the Federal Emergency Management Agency to pump out the water from flooded New Orleans under a contract that some analysts suggest could ultimately be worth $500 million.

Petroleum-services giants Schlumberger () and Amerada-Hess () survived our head-of-the-pack screen that searches for superior returns on equity and strong earnings growth. They're expected to extract profits from high-priced petrol for the foreseeable future.

Finally, bargain hunters will want to check our underappreciated stocks and low price-to-book value lists. While it's true that cheap stocks can get cheaper, not all the companies on our lists are damaged goods. Shares of U.S. Steel () have been rising in the wake of the bidding war between Germany's ThyssenKrupp and Luxembourg's Arcelor over Dofasco, the Canadian steelmaker. Some say U.S. Steel is worth $100 a share, twice its closing price of $48 on Dec. 9.

Of course, stock screens are only as good as the assumptions that go into them. Earnings growth might not pan out. Dividends could be cut. An unforeseen accounting blowup could derail years of seemingly solid performance. Use our lists merely as starting points for further research. We've done our best to keep you clear of any storm clouds -- the rest is up to you.

By Robert J. Rosenberg

Quality Yields

QUALITY YIELDS (EXTENDED)

Company	Symbol	Yield	S&P Equity Ranking
ConAgra Foods	CAG	5.1	A-
OGE Energy	OGE	5.0	A-
Ameren	AEE	4.8	A-
Washington Mutual	WM	4.8	A
First Horizon National	FHN	4.6	A+
Altria Group	MO	4.4	A+
Bank of America	BAC	4.4	A-
Southern	SO	4.3	A-
BellSouth	BLS	4.3	A-
AGL Resources	ATG	4.2	A-
Regions Financial	RF	4.0	A-
KeyCorp	KEY	3.9	A-
Piedmont Natural Gas	PNY	3.9	A-
AmSouth Bancorporation	ASO	3.9	A-
Wachovia	WB	3.8	A-