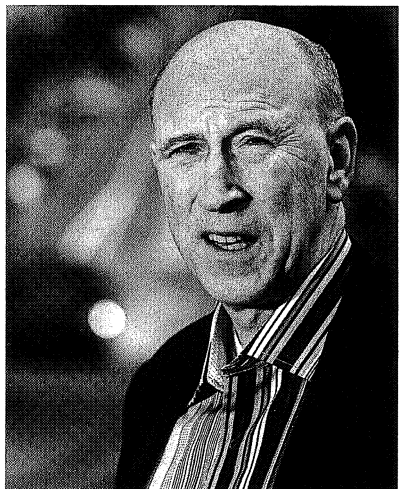


After many scary moments, bargain hunters in stocks and bonds finally prevailed this year. Here's how they did it—and what they like.

2009's Big Winners See Slimmer Pickings Ahead

by Suzanne McGee



Great performances: Richard Barone of Ancora Capital (above), and Malcolm Gissen of Encompass Fund.

Roger Mastroianni for Barron's (top); Martin Kimek for Barron's

DISCRIMINATING BUYERS HAVE TRIUMPHED OVER INDISCRIMINATE SELLERS this year.

"No one was thinking clearly when they tossed things out of their portfolios—in late 2008 and early 2009, they sold what they could as fast as they could to raise cash," says Scott Barbee, manager of the strong-performing **Aegis Value Fund** (ticker: AVALX). Barbee was able to snap up bargains among many of the deep-value micro-cap stocks in which he's been investing for more than a decade.

"It was a once-in-a-lifetime experience," he says today, sitting atop a return of 77.7% for the first nine months of 2009, a year after the worst of the financial panic.

Barbee and other successful managers this year bought securities offering the biggest discrepancy between price and value in recent memory. That applied to stocks and bonds. When equities bottomed in the spring of 2009, major indexes touched levels not seen since 1996. In November of 2008, when the dislocation in the corporate-debt market was most acute, junk bonds in the JP-Morgan Domestic High-Yield Index offered 18 percentage points in extra yield over comparable Treasuries. In that environment, the quest for value took money managers to some unusual places, such as a Mongolian coal-mining company, satellite-company bonds, and a manufacturer of chemicals used to make rocket fuel.

The problem with once-in-a-lifetime opportunities is that, well, they don't come around very often. And all four of the leading fund managers profiled here and on page 14 expect that 2010 will be more of a challenge.

With the Standard & Poor's 500 index up 57.5% from its lows and corporate-bond-yield spreads returning to more normal levels, the upside potential just isn't what it was only months ago. The economy may appear to be improving—according to economists' forecasts, gross domestic product increased in the third quarter for the first time in more than a year—but the high unemployment rate raises concerns about consumer spending. "Our 2009 returns are an anomaly," says Richard Barone, founder of **Ancora Capital Special Opportunities Fund**. He adds with a sigh, "The tailwind has vanished."

Malcolm Gissen Encompass Fund

Gissen will go anywhere in search of an intriguing investment, even to the Mongolian steppes. One of the three-year-old fund's (ENCPX) top holdings: **South Gobi Energy Resources** (SGQ.Canada), a Mongolian coal-mining company that trucks all of its output to the Chinese border to fuel its neighbor's insatiable appetite for electrical power. South Gobi is just one of the stocks in which Gissen and his co-manager, Marshall Berol, were able to boost their holdings in the worst of the market storm. "They had proven their concept, and we felt there was

less risk, even though the market was unfairly penalizing less-liquid stocks in areas like this," Gissen says.

Despite the fund's eye-popping 100.5% return in the first nine months of 2009 and Gissen's penchant for small, illiquid and obscure commodity producers, the managers of \$5 million insist they are cautious investors. "We have had nearly 30% of the fund's assets in cash for the last three or four months," Gissen notes. The duo are waiting for the right time to boost holdings in existing positions, such as Israeli pharmaceutical company **Teva Industries** (TEVA), or make a move into the real-estate market, where they believe chaos has created opportunities.

Gissen and Berol plan to stick to the kinds of stocks that have rewarded them this year. One of those is **Delcath** (DCTH), a drug company that pioneered a way to deliver higher chemotherapy doses to cancerous organs; the stock is up about 300% this year. Other top holdings include numerous resource companies, such as **Exeter Resources** (XRA), which is exploring for gold, copper and silver in Chile and Argentina, as well as **Uranium Energy** (UEC), which, when it begins production, hopes to transform Texas into the uranium capital of the United States. "Yes, some of these unappreciated, beaten-down companies may be volatile, they are also the ones that offer the most extraordinary upside potential—in any market environment," says Gissen.