



Market analysts love their Greek letters. A favorite is beta, which denotes a stock's sensitivity to moves in the broad market. When the market rises, high-beta stocks are supposed to enjoy bigger percentage gains; when it falls, these stocks should fall harder.

Investors in high-beta stocks ought to be cruising smugly through the European bull market of the past three years, except that traditional high-beta sectors like telecommunications, media and financial services have been unable to keep up with the broad averages, while low-beta sectors like health care and food and drink have been outperforming. The discrepancy has become so pronounced that fund managers and analysts say they have no trouble spotting bargain-priced high-beta stocks that they believe are due for a turnaround.

High-beta stocks have had tepid returns for several reasons, Robert Buckland, an analyst in London for Citigroup, explained in a report to clients. These companies tend to have a lot of debt on their books, giving them leverage to economic upswings, but this time around their balance sheets are less encumbered.

Net flows into European equity funds have been practically nil, rally or no rally, so fund managers have had little cash to invest in the high-beta stocks that are just the sort that they buy to ride the market up.

Alan Brown, head of equities at Schroder Investment Management in London, has a simpler explanation for the poor returns: The mania that ended in 2000 left growth stocks so ridiculously overpriced relative to value stocks that the gap has yet to close fully after half a decade of trying.

"Value stocks have outrun growth for several years now, and value stocks tend to also be low beta," Brown said. But he expects growth to get back behind the wheel soon. "I think the value cycle is coming to an end," he predicted.

Buckland is unwilling to forecast a resurgence of high-beta issues - he declares himself agnostic on the subject - but in his report he offered a long list of companies that have low valuations, swiftly growing earnings and strong profit margins and returns on equity. Many happen to be in high-beta sectors.

Buckland named several Continental European companies in his report that have price-earnings ratios under 13 and returns on equity greater than 20 percent: the phone companies

Belgacom in Belgium, Swisscom in Switzerland and Cosmote Mobile Telecommunications in Greece; three banks, Bank of Ireland, Danske Bank in Denmark and Société Générale in France; the Italian energy concern ENI; the Finnish insurer Sampo; and another in Finland, Nokia, the world leader in mobile phones.

British stocks that meet these criteria, he said, include British American Tobacco, BT Group, and two mining companies, BHP Billiton and Rio Tinto.

Francis Claro, co-manager of the Evergreen Global Opportunities Fund in Boston, is also ignoring beta - but he is picking high-beta stocks that he finds cheap and possessing high reward potential. One of them, the French company Altran, is in a favorite sector of his, business services, which was hit hard in the post-2000 job cuts at technology companies. "Now they're benefiting from precisely the opposite," Claro said. Tech companies "pared down to the extent they could, and now there's greater demand" for staff.

Altran "is a company that allows its customers to outsource some of their less critical R&D functions and achieve more flexibility in their budgets," he said. "It had a tough time in the downturn, and now it's trading at 16 times next year's earnings and has 50 percent earnings-per-share growth."

Another selection is Carphone Warehouse. "The CEO has been building value in that company for years," Claro said. "It's the largest retailer of cellphones in the U.K., and by very successfully cross-selling other products to its client base, it has been competing successfully with BT."

A third pick is Auction International, a Belgian company that designs and develops wireless data cards for portable electronic devices. "This market is growing very strongly and will increase with the rollout of 3G networks," Claro said. Great things have been forecast for third-generation phone applications almost since Alexander Graham Bell wore short pants, but now, he said, "it's actually happening."

"The new growth driver will be that these wireless data cards are being imbedded in laptops," Claro said. "Auction is right at the crossroads of that trend."