enough that the stock may still shine.)

We think we've also earned an A with our advice to buy **VMWARE (VMW)** in the June 11 issue. The stock debuted in August at $52 and has been trading above $80. And the shares could still rise: No pure-play competitors have emerged to slow the company down.

If VMWare was an A, **BON-TON STORES (BONT)** qualifies as an F. When we recommended it at $43 in the March 5 issue, the regional department store chain had recently doubled in size by acquiring stores from Saks and was improving gross margins. But cautious consumers, weaker sales, and more markdowns have darkened the picture for retail. The stock has nose-dived to $14 and shows no sign of a quick rebound.

Some of our strategic advice deserved at least an A-. The oil boom helped boost our energy picks (May 28), though we cautioned last issue that only some of those stocks—such as **VALERO (VLO)** and **MARATHON (MRO)**—still have room to run. Our advice to invest globally (March 19) was also a good call—for example, India's **ICICI BANK (IBN)** has jumped from $38 to $64—and economists and money managers expect non-U.S. stocks to continue outpacing their domestic counterparts.

Some strategies stopped working in the face of this summer's credit crunch. When we wrote "Smart Ways to Play the M&A Boom" (May 14), there seemed to be no end in sight to the acquisition spree. Then subprime mortgages and the securities used to trade them began to unravel. It became nearly impossible to float mortgage-backed bonds and almost as hard to sell bonds made up of leveraged-buyout debt. That has thrown the deal machine into chaos. **UNITED RENTALS (URI)** has plummeted 32% since our story—that's a C- for us—largely because the private investment firm Cerberus abandoned an agreement to buy the equipment-rental company. Even if it renegotiates the deal, the terms are unlikely to be as sweet as the original offer to pay $34.50 a share.

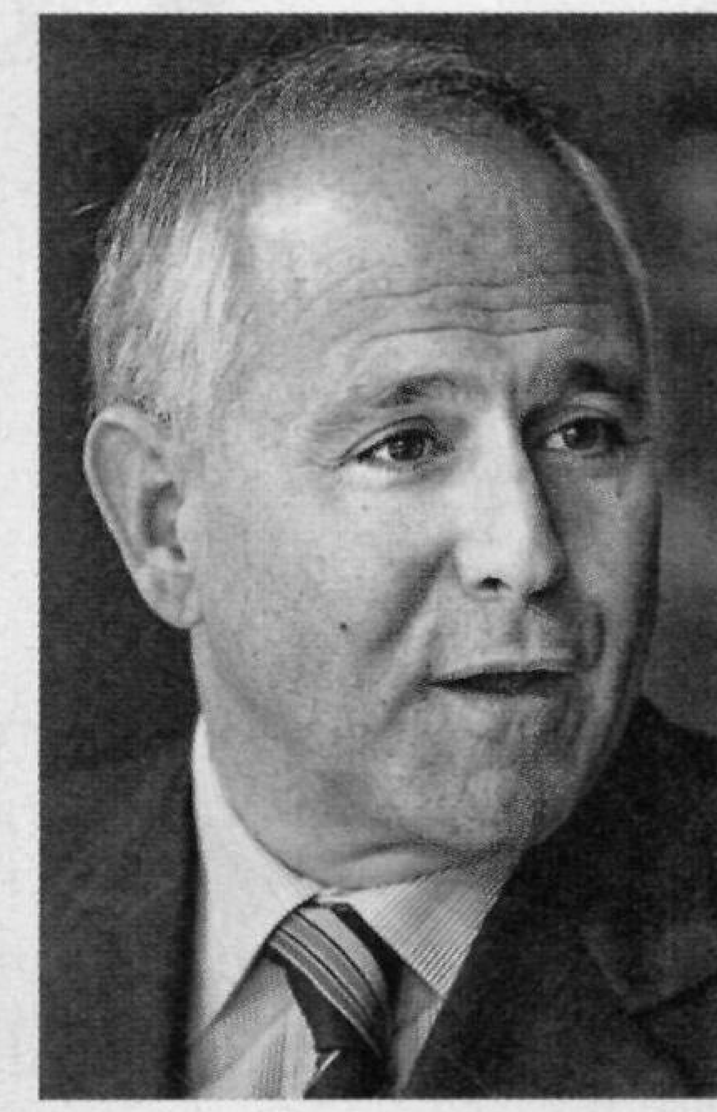
We went looking for undervalued shares in "Five Bargain Stocks" (Feb. 19), basing our evaluation on how much a buyer would pay for the company in the event of an acquisition. Two picks seem worthy of an A- and an A, respectively: **FEDERATED INVESTORS (FII)** and **PEPSI BOTTLING GROUP (PBG)** have returned 17% and 32%. Two have barely moved: **O'REILLY AUTOMOTIVE (ORLY)** and **ACTUANT (ATU)**. But mortgage insurer **MGIC INVESTMENT (MTG)** has tanked (yielding us another F). The company insures lenders against higher default rates on homes purchased with less than a 20% down payment. The stock has plummeted 64%, and we'd advise keeping your distance.

SOARING OIL PRICES HELPED OUR ENERGY PICKS DELIVER GUSHER-LIKE RETURNS. THE CREDIT CRUNCH PUT A CRIMP IN OUR CASE FOR BUYING BIG-BANK STOCKS.

We're giving ourselves a D+ for going to bat for bank stocks—based on their low price/earnings ratios and juicy yields (Aug. 6)—just ahead of the subprime credit crisis. **CITIGROUP (C)** has dropped 24% since we recommended it. Our other two picks have held up relatively well. Although **BANK OF AMERICA (BAC)** slipped 4%, and **WACHOVIA (WB)** sank 9%, both have increased their dividends this year. Given that they should emerge from the subprime debacle wounded but still strong, they could turn out to be true bargains at their recent depressed levels.

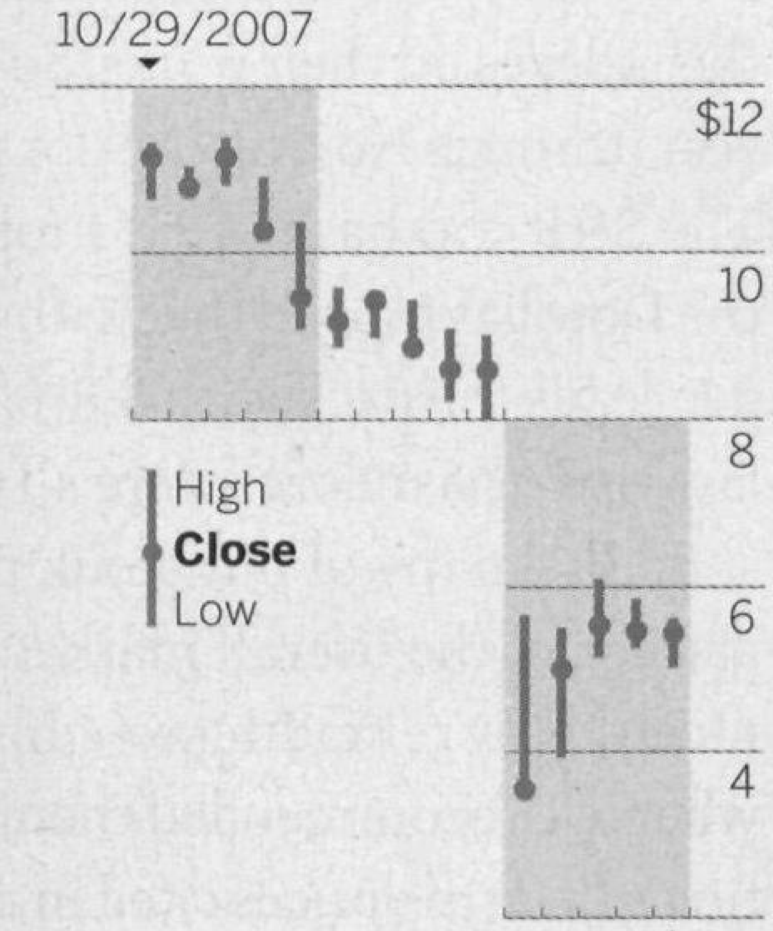
Finally, we're assigning ourselves a D- for forecasting (as we did in the July 9 issue) "A Sunny Second Half." None of our experts anticipated the speed with which credit problems would roil the stock markets. So even while the Canadian oil exploration company **ENCANA (ECA)** has returned 10% since we cited it, the large-caps in the story have been losers. **CATERPILLAR (CAT)** is down 11.5%, and **BOEING (BA)** has lost 6.5%. ■

*E*TRADE'S WILD RIDE*



IF YOU THOUGHT E*Trade (ETFC, $5) was just a discount broker, you got a shock in November. It turns out that E*Trade owns a bank, and it had wandered deep into the subprime swamp. On Nov. 12 the shares plunged nearly 60% after the company announced big write-downs related to subprime debt, and analysts raised the possibility of bankruptcy. Then the stock rebounded sharply as CEO Mitch Caplan (above) insisted that bankruptcy was not in the offing, and takeover speculation heated up. "The company is still stuck with its mortgage exposure, and the market for those assets is frozen," says Seth Dadds of GARP Research & Securities. "This is limiting its options and making it difficult to value the franchise." Verdict: too soon to buy.

E*Trade share price



ROBERT CAPLIN—BLOOMBERG; CHART SOURCE: BLOOMBERG