



Company Focus 2/23/2010 4:00 PM ET

5 attractive stocks under \$5

The lure of low-priced stocks is that they can rise quickly when the market discovers them. But you may need some patience.

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MSN Money

Are you watching price tags closely because of the tight economy? Then use the same budget tactic to consider a few stocks under \$5.

You might think of these as cheap stocks, though they aren't necessarily better values. That equation depends on how [stock price](#) compares to profit, sales or the value of company assets.

The real draw is that sub-\$5 stocks have a better chance of becoming outsized winners. The ones I favor, at least, are smaller companies neglected by analysts and operating under most investors' radar screens. When the market catches on, a low-priced stock can soar.

Hunting for these promising stocks has worked for me before. So with help from some key analysts, I've developed my latest list of five stocks under \$5 that could be set for takeoff.

First, a little warning

Let's be aware, however, that you may need some patience.

The stocks listed in my Feb. 4, 2009, column, "[5 promising stocks under \\$5](#)," were up an average of 120% through Feb. 16, 2010, compared with a 37% gain for the small-cap [Russell 2000 Index \(\\$RUT\)](#). (Among those who helped me with today's list are Rob Routh of Wedge Partners and Tom Winmill of [Midas Fund \(MIDSX\)](#), two of the investing stars who contributed to that winning 2009 column. Their picks have advanced 237% and 114%, respectively.)

But the stocks in my Nov. 2, 2009, column, "[5 great stocks still under \\$5](#)," are up just 5%, compared with a 10.6% gain for the [Russell 2000](#). Most of these stocks did have healthy gains until the recent market pullback, so I'm not giving up on them. I consider them long-term plays that could take a year to pay off.

Two other warnings:

Do not buy the stocks below in any rally this column may create in the days after it is published. It can happen, but the prices will likely pull back, and you'll have needlessly overpaid.

To help you avoid this mistake, I include strict buy limits for each stock. Don't ignore these limits. In what will likely be a sideways stock market for a while, these stocks will almost certainly trade below the limits.

1. A gold-bug special: Great Basin Gold

With worries about runaway inflation and government breakdown rampant, gold is a key piece of any survivalist's strategy -- along with guns and a year's supply of food and water.

But gold isn't a fringe investment idea. Veteran analyst Winmill thinks gold could rise 20% by the end of the year to hit \$1,400 an ounce, from about \$1,110 today.

One chief reason: dollar weakness, which usually pushes gold prices higher. He also expects rising inflation as the U.S. struggles with debt, leading investors to bid up gold as a hedge.

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Higher gold prices should boost the shares of mining companies rich in gold reserves that can be recovered cheaply. A favorite of Winmill's is [Great Basin Gold \(GBC, news, msgs\)](#). It holds the rights to huge reserves in South Africa and Nevada, yet it trades around \$1.65 a share, for a total capitalization, or value, of just \$550 million. Great Basin has more than 6 million ounces of reserve that can be mined for around \$320 an ounce.

One reason it's cheap is because its biggest gold holdings are in South Africa, which some investors fear will nationalize gold production. Another worry is that strikes or power price increases there could drive up costs. But even in a worst-case scenario, Great Basin is still a cheap producer, says Winmill, whose fund owns shares.

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The stock is also a holding of Soros Fund Management. [Wall Street analysts](#) have a median price target of \$3.10 per share.

Buy below \$1.75.

2. 'Hand grenades' against cancer: Genspera

Even in this age of economic uncertainty, smart people are still developing new weapons against cancer, the second-most-common cause of death in the U.S., after heart disease. I sat down with one of those people recently: Craig Dionne, who headed up discovery research in biology at [Cephalon \(CEPH, news, msgs\)](#) for several years.

Dionne now leads a tiny biotech startup called [Genspera \(GNSZ, news, msgs\)](#), which is developing what he likes to call a "hand grenade" against cancer.

Researchers at Johns Hopkins University have figured out a way to put a chemical "pin" on a powerful

anti-cancer drug called [thapsigargin](#), extracted from a readily available weed. The pin deactivates the drug, allowing it to circulate in the body without causing damage to good cells.

Enzymes from tumors "pull the pin," activating the drug only near the tumors. The drug destroys blood vessels feeding tumors, with limited damage elsewhere in the body. Genspera, which bought this approach from the Johns Hopkins professors who developed it, thinks it could be effective against a range of cancers.



[Why small-cap stocks can surge](#)

The drug also causes cancer cells to flood with calcium, killing them. This approach is crucial against slow-dividing cells such as those in prostate-cancer tumors. Many chemotherapies take out cancer cells only when those cells divide; Genspera's compound doesn't wait.

Genspera is a risky investment, of course, as is any biotech startup. Its "hand grenade" approach looks effective in animals but may not work in humans. And it is still in early "phase one" testing, which checks for safety. However, I'm betting Dionne's two-decades-plus experience in drug development offsets these risks.

Buy below \$2.30 a share.