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you might properly rule these stocks out. But the earnings of top small companies may be more stable than those of big concerns.

Small companies lead in earnings

Michael DiCarlo, portfolio manager of the John Hancock Special Equities Fund in Boston, says earnings of larger firms with broad product lines and established brands lag those of his smaller-company holdings.

Earnings for his holdings varied 13 percent up or down, on average, over the last three to five years. But earnings of the companies in the Standard & Poor's 500 index varied up or down by 17 percent.

The market capitalization averages $350 million for the 43 stocks DiCarlo now holds in portfolio. Market cap is price times shares outstanding. The market cap for the S&P 500 index averages almost $6 billion.

"If you believe as we do that earnings drive stock prices, (the inevitable) short-term fluctuations should not matter to you (as a long-term holder)," according to DiCarlo. Patient holders of shares of top small firms may do better in the market over time.

Top management's 'paramount'

Speaking by telephone, DiCarlo outlined the strict criteria he uses in selecting portfolio holdings. The individual shareholder can emulate his method in all but one aspect: DiCarlo can meet in person with various managements and weed out all but the most creative and visionary. Individuals cannot do this. Bad luck. Finding top managements is "paramount" in picking small concerns, he says.

Investors can determine whether companies they like are able to finance their own growth. DiCarlo's companies are mostly self-financing. That is, their margins and profitability are so good they can raise all the money they need by plowing back profits. So these concerns are not hostage to the equity or fixed-income markets.

Perhaps the most formidable additional rule is growth of 25 percent a year on both "the top line and the bottom line" — both revenues and profits must grow that fast. DiCarlo explains: "This eliminates a whole lot of companies from my universe."

The company must also be a leader in its field — the No. 1 or No. 2 factor. If a company has a leadership role, Dicarlo says, "it can control its own destiny. It can be proactive as opposed to reactive. It can set prices and not be a price follower."

Marvel Entertainment Group, based in New York City, meets all the criteria. The comic book company has 1,500 proprietary fictional characters, including Spider Man, The Incredible Hulk and Captain America.

"Marvel has great price elasticity," says DiCarlo.

The company can change how it delivers the comic book — make it a little smaller, or larger. It can offer a different type of cover design. Recent laser covers are almost three dimensional, he adds.

With 55 to 60 percent of the market, Marvel recently raised prices. Its most significant competitor, DC Comics (of Superman fame), has 20 percent of the market. It is not a public company.

Sun TV and Appliance of Columbus, Ohio, is an electronic appliance chain "with a Wal-Mart-like mentality," according to DiCarlo. It is hard to say how managements'

The last Christmas

Houston Jewelry will close doors

By GREG HASSELL
Houston Chronicle

For nearly four decades, thousands of Houstonians who needed a watch or wedding ring took their business to Houston Jewelry & Distributing Co.

Offering discount prices to card-carrying members — a forerunner of Sam's Club and other discount warehouses — the company thrived. It built two Houston stores, including a huge showroom at Westheimer and Gessner.

Family members also operated three large Sterling Jewelry stores around Dallas. But it's been six years since Sterling Jewelry and Distributing, the parent company of the Houston and Dallas stores, turned a profit. So the company is throwing in the towel.

This will be the last Christmas for a Houston institution that started out in a little second-story storefront on Main Street in 1953.

"This genre of business is pretty much obsolete now," said Rex Solomon, grandson of the company's founder. "The catalog-showroom industry is dying."

In Houston, the number of catalog showrooms is dwindling rapidly. Houston Jewelry closed one showroom last year, and its remaining store will be shuttered after Christmas.

Best Products Inc. declared Chapter 11 bankruptcy last year and closed all five of its Houston stores. It marked the second round of cutbacks for Best — a Virginia-based chain that has no relation to the Best Buy chain of electronics stores. Early in 1991, Best Products closed 24 stores in the Midwest and South.

While Best struggled with the massive debt left from a 1988 leveraged buyout, critics say its problems run much deeper.

"That whole catalog-discount concept has lost its place in the market," said Dennis Telzrow, a retail analyst with Principal/Eppler Guerin & Turner.

The catalog-showroom industry's latest casualty is Brendle's, a North Carolina-based chain with 51 stores. The company declared Chapter 11 bankruptcy earlier this week, two years after its profits began tumbling. Brendle's hopes to emerge from bankruptcy without closing any of its stores, which are located in North Carolina, South Carolina, Georgia, Tennessee and Virginia.

Catalog showrooms, including industry leader Service Merchandise, are a decidedly different breed of retail store. For starters, they stock a broad array of merchandise that includes toasters and tiaras, stereos and sterling silver.

Customers visiting a showroom can buy jewelry right out of the case. Nearly everything else is stocked in an adjacent warehouse. If you want to buy something, you can see a sample on display or look at it in a catalog. But the item you actually buy is probably stored out back.

The concept has some advantages. Displaying one sample and stacking the rest in a warehouse is cheaper than displaying everything in a fancy atmosphe[re] cheaper scheme means lower p[rices]

But time-pressed shoppers ar[e] ingly unwilling to stand around while their orders are filled. Ar[e] showrooms are being outgunned slashing competitors — most not[ably] tronics and toy superstores.

Like other retailers, catalog s[how]rooms have been hit hard by the linger[ing reces]sion.

"During the oil boom, oil starched shirts would come in, pi[ck the] biggest diamond they could fi[nd] and leave," Houston Jewelry's said. "That doesn't happen much

See JEWELRY on

E. Joseph Deering /

Andy Solomon, senior vice president of Houston Jewelry and Distributing Co., talks with Lily Arias, a 10½-year employee. This will be the las[t] mas season for the compan[y] is closing its doors after 39

Jewelry

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We sell discretionary items like jewelry, and that doesn't sell as well in a recession."

Despite their difficulties, some catalog showrooms aren't ready to call it quits.

"Properly executed, a catalog showroom can be a good business," said Best spokesman Ross Richardson. "Our problem was we strayed off course. We de-emphasized our catalog too much and became too much of a self-serve retail store. That didn't work."

Best still operates 155 showrooms in other parts of the country. Company officials base part of their optimism on the continued success of Service Merchandise, which is enjoying good sales this year. Service Merchandise stock has hit a 52-week high. The Tennessee-based company has six Houston stores.

"The company is one of the few survivors of the catalog-showroom business," said Gary Dennis, a retail analyst with J.C. Bradford & Co. "Their sales trends are positive, and they are doing pretty well. This is a mature business, and it isn't growing that much, but there is room for a few survivors."