

Back to Basics- It's Patience and Discipline that Wins- Finding Magnet Stocks Can't Hurt Either

While 2008 has started off with a bang- or should I say an implosion, don't fall victim to the doom and gloom media noise. The world economy is not only growing, but accelerating. Over the next several decades, there will be billions of new consumers entering the market; and just like you, they will need everything from refrigerators to digital cameras. While the media enjoys focusing on the negative, citing older, decaying companies, they are not representative of the entire economy. New industries continue to emerge, and the new leaders represent our future.

The stock market continues to be an excellent place to profit. Dozens of companies with "new names" will yield exceptional returns to their patient investors. The key is to find them early. The legendary investor, Peter Lynch, liked to tease people that they spent more time researching a refrigerator than their investments.

Yes, things look tough; the economy has started to slow; a recession lead by real estate feels imminent; and the media has done a wonderful job in scaring the public out of their wits. But let's quickly review some facts:

1. The fears of a real estate led recession, as well as the headlines regarding the 'sub-prime crisis' are grossly overstated. Ninety five percent of all residential mortgages are current.
2. Economic conditions are strong with near full employment.
3. Total wealth and investible assets are at a high.
4. Cash is abundant throughout the world and flowing into our markets.
5. U.S. and worldwide exports are also at an all time high.
6. The recent emergence of the BRICs (Brazil, Russia, India and China) is fueling a global expansion beyond what any of us would have thought possible just a decade ago.

Making real money in the stock market requires tremendous effort. As Gerard Loeb said, "It is truly A Battle for Investment Survival". Here are some quick tips for investors:

1. Develop a plan based on goals and objectives.
2. Do your research to find the best companies in which to invest.
3. Spend a few hours each week monitoring your holdings.
4. Take a few minutes to jot down the reason you are buying the stock, and how much you are willing to lose if the idea goes bad.
5. If a few investments don't work out, don't give up.
6. Keep honing your strategy.

We use a quantitative model that screens for value, growth and momentum investing. We call these "Magnet Stocks". Top line revenue growth leads our model, followed by profit margin acceleration. Our companies must be generating cash flow, while also trading at an acceptable valuation. These companies must have already started to appear on some "radar screen", thereby creating positive price momentum. Ideally, we also want to find

these Magnets early, when management is still receiving modest salaries, and owns a considerable amount of shares. This is the time in a company's growth phase that management is most focused on doing what is best for the company.

By quantitatively searching for companies that are experiencing pricing power, accelerating top line revenue growth, margin acceleration, and accelerating free cash flow, we are able to think long term and tune out the naysayers. Pessimistic times like these provide the best buying opportunities. If the market continues to take these companies higher, and they continue to score out properly on our model, we will own these companies indefinitely.

While media "hype" is leading many investors to become disillusioned and place their savings in low yielding money market accounts, it is times of uncertainty like these when educated investors can find some of the best bargain stocks. Tune out the negative media. Look at the positive trends that exist in the global economy, and in the stock markets around the world. Do not wait to buy great companies until the positive articles begin to appear. There is an old Wall Street expression that says, "You pay a dear price for a rosy scenario..." Times like these only come around once in a while. Now is the time to peek around the corner while the foolish do not dare.