

Top three stock tips prove the point

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You've probably heard it a lot this past year; "it's a stock picker's market." I certainly have. And I must say - as head of a team of specialist "stock pickers" - I was particularly glad when people began realising it.

Though I've got a bit of a secret to let you in on. But before I do, let me tell you about our "Top 3 for 3" competition.

Every three years I unshackle our analysts and ask them to nominate their three hottest picks for the coming three years; they don't have to toe the "house line" on any given stock and they're free to nominate any stock, whether or not it's officially covered by our service.

I love this competition because it highlights the different styles between our analysts; each of whom I've hand-picked over the years for their proven stock-picking skills. We kicked off a new "Top 3 for 3" in December last year and the one-year check-up has produced some amazing results.

For a start, the return on the stocks selected by every one of our nine team members beat the market's rather imposing 38% return between 10 December 2008 and 7 December 2009. The three stocks selected by yours truly posted an average gain of 42% yet, incredibly, ranked me last among our team; perhaps proving I've successfully followed my father's business advice to "hire people smarter than you and then get out of their way".

Mr 149%

Our best performer, **Tony Scenna**, is showing a 149% average return on his three selections, which were Flight Centre (+74%), Reece (+50%) and Sirtex Medical (+322%). These selections might be thought of as "growth stocks".

Interestingly - and perhaps lending weight to the "it's a stock picker's market" view - the "value stocks" selected by our former Managing Director Steve Johnson (now running the Intelligent Investor Value Fund) also produced remarkable returns; an average of 88% from his picks of Infomedia (+37%), Southern Cross SKIES (+36%) and Babcock & Brown Infrastructure EPS (+191%).

Without reading too much into a single year's results, these returns go to show that good stock picking can serve you well no matter what your style.

Tony and his team at **Selecter Funds Management** love nothing better than uncovering a well-managed business with a clear growth path, while Steve typically hunts for those stocks that are statistically cheap and often misunderstood by other investors.

That point leads me back to the secret I mentioned to earlier. And that is, despite what you might read from time to time, it's always a stock picker's market. While momentous economic events unfold, good businesses get on with things and cheap stocks can rise, even in a falling market.

Buffett's view

"We will continue to ignore political and economic forecasts, which are an expensive distraction for many investors and businessmen," wrote Warren Buffett in his 1994 letter to shareholders.

"Thirty years ago, no one could have foreseen the huge expansion of the Vietnam War, wage and price controls, two oil shocks, the resignation of a president, the dissolution of the Soviet Union, a one-day drop in the Dow of 508 points, or treasury bill yields fluctuating between 2.8% and 17.4%," he continued.

"But, surprise - none of these blockbuster events made the slightest dent in Ben Graham's investment principles. Nor did they render unsound the negotiated purchases of fine businesses at sensible prices," Buffett explained, "indeed, we have usually made our best purchases when apprehensions about some macro event were at a peak."

He then set out his long-term game plan, explaining that "a different set of major shocks is sure to occur in the next 30 years. We will neither try to predict these nor to profit from them. If we can identify businesses similar to those we have purchased in the past, external surprises will have little effect on our long-term results."

Therein lies the secret, straight from the pen of the world's greatest investor. Every year belongs to the stock pickers.

So if you run your own portfolio and haven't honed your own stock-picking skills, then there's no better time to get started.

To get you moving in the right direction, I recommend a thorough reading of the book that changed my life some 13 years ago; *Buffett: The Making of an American Capitalist* by Roger Lowenstein.