MOTLEY FOOL STOCK ADVISOR™

Volume 7, Issue 11, November 2008

stockadvisor.fool.com

With

David & Tom Gardner

Motley Fool
Co-Founders

Recommendations

Inside

Did You Know?

Tell Your Story, Win a Prize

We want to hear how you're coping with today's market, so head over to our **SA Buying Strategies** discussion board and share your strategy. The two Fools who post the most thoughtful, Foolish-minded, and rec-worthy submissions (in 400 words or less) between now and midnight on Friday, Nov. 7, will receive a copy of Warren Buffett's new biography, *The Snowball: Warren Buffett and the Business of Life*. For details, turn to page 9. Good luck!

Got subscription questions? Email ***membersupport@fool.com*** *or call 888-665-3665.*

Dear Fellow Fools,

After experiencing one of the bloodiest weeks in Wall Street history, it's easy to see that these are the times that try investors' souls. But these are also the times in which the market is offering us some great companies at some very good prices. And we believe you should be buying stocks right now, today, with money you don't need for at least five years.

To emphasize just how strongly we feel about today being a prime time to be in the market, my *SA* team is putting its money where its mouth is. Andy Cross and Rex Moore — my two super-stock-jock associate advisors with whom I collaborate about all my recommendations — are promising to buy several *SA* stocks they don't already own. And my dear brother David, who still holds a nice performance lead over me on the scorecard (for now!), has committed to buying several stocks from both his and my Best Buys Now lists. I have a personal policy to not buy stocks from the newsletters I pilot or I'd be loading up myself, because I see the same bargains.

Our challenge to you is simple: Look over this month's recommendations (pages 2 and 4) and Best Buys Now lists (page 7), and pick up a few companies yourself. If the craziness in Washington and on Wall Street has locked you up and interrupted you from your regular investing habits, this is a great way to break the paralysis. We'll be right there beside you, following our own advice by investing through good times and bad, and through periods of optimism, pessimism, and is-the-world-coming-to-an-end-ism.

We are the first to admit that we can't predict where the market will be next year or even next week. And we are *not* calling the bottom. Instead, we're doing what we always do — keeping our emotions in check, diligently seeking excellent businesses, and buying when the time is right. There may be more of a bear market ahead, but we're sticking to our long-term outlook.

For some perspective, I think back to March 2002, when we published the first issue of this newsletter. The market, not impressed with us at all, proceeded to fall 30% in six months. There was worry about the economy slipping into a recession and great gnashing of teeth. Of our first several recommendations, many went significantly into the red. Sound familiar?

If you glance at the scorecard now, of course, you'll see that most of those early red scores turned very green and have rolled into huge winners for us. *That* demonstrates the importance of mixing good companies selling at good prices with a healthy dose of patience.

The concerns expressed over the past few weeks are very real, but let's remember that the market tends to overreact in boom and bust times. The *SA* team is downright giddy at the bargains being offered today. So flip through these pages, find some interesting stocks, and buy them with us today! Once you've risen to the challenge, hop onto our discussion boards and tell us what you chose.

Fool on!

Tom Gardner

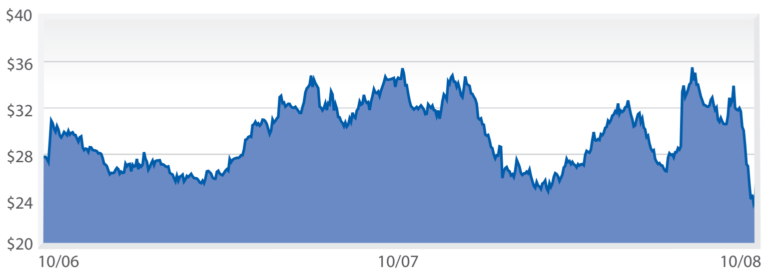
National Instruments (Nasdaq: NATI)

By Tom Gardner With Rex Moore

National Instruments provides researchers and engineers with time- and money-saving tools.

Why Buy:

- Ability to provide innovative and disruptive technology builds customer loyalty and raises average selling prices.
- Strong R&D keeps innovations flowing and market share growing.
- Sports high insider ownership and shareholder-friendly culture.



Headquarters:	Austin, Texas
Website:	ni.com
Recent Price:	$25.86
Risk Level:	Medium
Position in Industry:	Disruptor
Market Cap*:	$2,000
Cash/Debt*:	$248.3/$0
Revenue (TTM/07/06)*:	$792.6/$740.4/$660.4
Earnings (TTM/07/06)*:	$109.6/$107.0/$72.7
Insider Ownership:	27.4%
Biggest Threat:	Agilent becomes more agile
The Team Says:	**Natty laddies say NATI**

Data as of 10/14/08

**In millions.*

The fire sale in the stock market has me looking at companies I've had on my watch list for a long time, but never pulled the trigger on because of valuation concerns. Today, Rex and I are happy to recommend to you one of those fine firms that has finally fallen to fertile levels: **National Instruments** (Nasdaq: NATI).

This Austin, Texas-based company features strong insider ownership, a great culture, and a nimble management team with a long-term focus. It has produced a disruptive technology that offers higher performance at a lower cost. I believe it has the ability to grow through tough times, maybe even recessions. It draws rave reviews from customers and employees — it's been one of Fortune's "100 Best Companies to Work For" nine years in a row. To top it off, Rex tells me it's located just four miles from his childhood home. What more could you ask for?

But What Does It Do?

National makes the lives of scientists, engineers, and researchers easier with its software and hardware products. These items — like the flagship graphical programming software LabVIEW — are used to design and test products, control machines and robots, and more. If this market sounds limited, consider that National has more than 25,000 customers and serves dozens of industries. Geographically, a little more than half of sales are in the Americas, with most of the rest in Europe and Asia Pacific.

National stands out in this field because it has found ways to greatly reduce costs to the end customer. In the past, when companies like Intel or Toyota or your local university needed to design or test something, it could mean an expenditure of tens of thousands of dollars to buy a machine that was suited to only that one task. But National has changed all that with a "virtual instrumentation" approach that makes use of industry standard computers, workstations, or PDAs. This modularity allows users much greater flexibility to build virtual systems at a fraction of the expense of the traditional approach, and to react nimbly to changing needs.

The result: strong customer loyalty. Here's an example from Motley Fool CAPS all-star player **koch**, who posted:

"LabVIEW and a few of their hardware products make my research life so much easier. I'm basically a lifer for LabVIEW. Their support is off-scale."

That points out a strong competitive advantage for National: Because its products are heavily marketed to and extensively used in higher education, many practically sell themselves when graduates enter the workforce and make buying decisions based on what they know and love to use.

For the long-term vision that's put National in this enviable position, we give credit to an experienced management team. Founder, president, and CEO James Truchard owns 22% of the company, while co-founder and board member Jeffrey Kodosky owns about 4%. After the tech bubble popped in 2001, these guys made the decision to invest more heavily in research and development in order to bring better products to the market. The choice was made knowing that the extra investment would limit growth for a few years, but the payoff has been grand. Where it once had to compete primarily on price, National has turned things upside down and has seen margins and average order size rise dramatically as customers clamor for its customizable, user-friendly, reliable, and time- and money-saving products.

Bye-bye PMI

For years, the firm's sales growth roughly mirrored the global Purchasing Managers' Index (PMI), a good proxy for worldwide business and economic conditions. But as the index turned downward a year or so ago, dropping about 10%, National's sales growth increased. That was a watershed moment entirely attributable to a management team committed to building enduring value. It's what we expect from managers who are closely aligned with shareholders.

Now that the R&D efforts are providing more and more disruptive products, management is making another solid long-term choice, this time regarding the sales force. Truchard's goal through 2010 is to get operating margin back up to, but not exceeding, 18%; he'll funnel the extra money into doubling the field sales resources. It's yet another example of the type of long-term thinking that should help National continue to gain market share.

Moved to the Sale Rack

This $2 billion company is financially sound, with more than $240 million in cash and no debt. True to what I look for, it pays a small dividend, which is now about 1.6%. The free cash flow figures consistently come in higher than net income, another positive indicator of a healthy business.

This bear market is giving us an opportunity to invest in National at a valuation rarely seen for this quality business — and it's finally showing a healthy margin of safety. Analysts expect about 21% annual earnings growth over the next five years, though that seems like a stretch. Rex and I are using a more conservative 15% growth rate, and we see five-year annual returns of more than 20% from here.

Must Be Agile

Like any company making good money and taking market share, National is facing some well-financed competitors. Chief among them is **Agilent** (NYSE: A), which competes in the virtual instrumentation space. Truchard and team have proved to be quite capable, but they will need to continue their innovative thinking to remain a market leader.

Also, National may have successfully decoupled revenue performance from the PMI, but if the global "industrial recession," as Truchard calls it, deepens beyond expectations, the company's growth likely will slow significantly.

Buy When ...

Blood is running in the streets. We see plenty of strong buys out there, and National Instruments tops the list this month. Rex and I are confident in the long-term strength of this investment, even though we still expect some market volatility in the short term. We can't time the bottom, but we believe five years from now you'll be glad you bought at these prices.

Dueling Fools: Investing Instrument

David: Can you give us some more examples of National's product line?

Tom: For sure. A large part of it is software that aids in the design and measurement of hundreds of products. LabVIEW, which is a graphical programming package, is the biggie. There's also plenty of modular hardware to go along with the software — basically anything you can imagine that would test or measure things needed in industries as diverse as automotive, aerospace, and medical research. Speed, pressure, air flow, voltage — you name it and National's got it. I urge anyone wanting to understand more to visit the company's website at www.ni.com. There are some instructive videos there.

David: What is this about growing through a recession? I know this company is extremely diversified, but won't the current crisis ding its earnings?

Tom: As recently as early September, Dr. Truchard spoke about the ability to grow revenue even through the current industrial recession. The idea is that R&D fueled the new products that fueled the higher average selling prices that have decoupled National's revenue growth from the PMI. However, an industrial recession is different from a global meltdown, and I'm not saying the company will grow 15% — or at all — through the hardest of years. Accurate growth rates over a five-year period are very tough to nail, and 15% is a rough estimate taking into account everything we know to this point.

David: Wow, nine years in a row on the best places to work list — what kind of place is it?

Tom: You and I believe very strongly in providing a great culture in the workplace. When considering an investment, I always ask myself if I could be happy working there. National Instruments' "work hard, play hard" culture is very Foolish all the way around, and there's a great focus on helping employees develop and succeed. This is a huge factor for me, and I could definitely work there!

David: Do they have a bubble hockey machine or a pop-a-shot basketball station like we do?

Tom: I'm not sure about that, but what do you say we take a break so I can extend my winning streak against you in ping-pong?

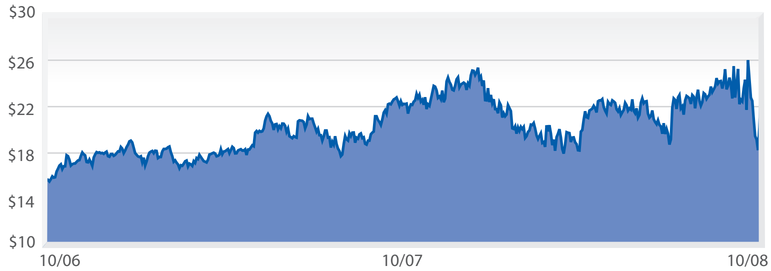
Charles Schwab (Nasdaq: SCHW)

By David Gardner With Karl Thiel

Charles Schwab provides a complete range of financial services for the individual investor.

Why Buy:

- Conservative approach and diversified lines of business are helping Schwab thrive in this financial crisis.
- The brand name exudes trust and differentiates Schwab from competitors.
- Stock price unfairly discounts Schwab's strength and bright future.



Headquarters:	San Francisco, Calif.
Website:	schwab.com
Recent Price:	$20.97
Risk Level:	Medium
Position in Industry:	Stalwart
Market Cap*:	$24,150
Cash/Debt*:	N/A
Revenue (TTM/07/06)*:	$5,211/$4,994/$4,309
Earnings (TTM/07/06)*:	$1,212/$1,120/$891
Insider Ownership:	19%
Biggest Threat:	Mattress mentality
The Team Says:	**Chuck talks to us!**

Data as of 10/14/08

**In millions.*

In times of crisis, it makes sense to think back on one's own foundations and take stock of what lies at the heart of a stable, enduring, and prosperous edifice. And so I return this month to a company already on our scorecard. And not just any stock: **Charles Schwab** (Nasdaq: SCHW), the first stock I recommended for this service, way back in 2002.

Why Schwab, and why now? I certainly want to talk about this excellent company, but I first want to make a few general points about the market conditions that bring it back to the top of the scorecard.

I understand the uncertainty that has panicked so many investors, and can't pretend to see clearly through a fog that others can't penetrate: I don't know how much worse this may get before it gets better, nor how long it will take for the inevitable recovery to take hold. But I am confident that the stock market is full of opportunities that investors will look back on in a few years and say, "If only I'd bought then."

Hard as it may sometimes be to do, you'll be rewarded for keeping your eyes fixed a few years down the road. We're long-term investors here. We're putting money to work that we don't need in the coming months — indeed, money that we want to work for us for many years to come — and that fact gives us the flexibility to ride this out.

With that in mind, how do we pick and choose among so many enticing long-term opportunities? In *Stock Advisor*, my brother and I have been choosing two stocks every month for six and a half years. That makes for a pretty big scorecard, and many of my favorite companies in the world are already on it. And many of them, sadly, are cheaper today than when I first recommended them.

Schwab is not one of those companies. Though it has dropped sharply in recent weeks, it's still up about 36% from my original recommendation. I recognize that 36% over six and a half years is nothing to brag about. Yet the S&P 500 is 14% lower now than it was in the spring of 2002 — a fact I'll admit is a bit appalling. Schwab has outpaced the S&P by about 50 percentage points.

Schwab's relative strength isn't the reason for my recommendation; rather, it's a symptom of the more fundamental reasons that make me want to put this company on the scorecard a second time. Schwab may be part of the troubled financial sector, but its stability, management, and excellent reputation set it apart.

Echo of the Not-So-Distant Past

It's no coincidence that I first picked Schwab in early 2002. As you may recall, those too were troubled times for the market. The major indexes had been going down since the peak of the dot-com bubble in 2000. The S&P 500 might have been 22% higher then than it is today, but it was about to drop to its 21st-century low of 768.63 — still about 70 points lower than we've yet seen this year.

Those were scary times. But as I said then, "buying Schwab is a bet on the stock market." It is a stock that has a business inexorably tied to the stock market, and when the bounce in the market came, so did a bounce in the stock. It was a double for us before the rest of the market dragged it down, yet it has continued to post excellent results. In the third quarter, despite rapidly accelerating problems at other financial institutions, Schwab's revenues and profits held steady.

I'm not suggesting we just roll back the clock and expect history to repeat itself. Things are different now: In 2002, Schwab was trading at 24 times forward earnings. Now it's at 16 times forward earnings. Then it had $3.94 billion in revenue; in the past 12 months, it had $5.11 billion. In 2002, free cash flow was negative $102 million; in the 12 months ending in June, Schwab has thrown off $715 million in free cash. And perhaps most significantly, Schwab had total client assets of $1.3 trillion at the end of the third quarter, versus little more than half that, $765 billion, at the end of 2002.

The company is stronger — and more streamlined — than it was when I first recommended it, yet it is valued more pessimistically. The uncertainty is understandable. But I think the current crisis in the financial markets can actually make Schwab a stronger company than it's ever been.

Better Than the Mattress

If people leave the market in droves and put their remaining cash under their pillows, that's going to hurt Schwab. But as long as they are maintaining accounts, the company will do well. The short-term picture is difficult: Schwab may see brokerage commissions decline as customers trade less and wait to see what comes next (although right now volumes are running high). I should point out, though, that brokerage commissions represented less than 19% of revenue in the past year. The largest chunk of revenue (47%) comes from asset management fees, which the company will continue to collect as long as accounts aren't closed. The alternative for customers is to flee to full-priced brokers, many of which are now in the arms of mega-banks that don't exactly inspire confidence. Alternatively, investors can turn to shakier discounters — or just go with their mattresses. Not a good idea.

Most of the rest of Schwab's revenue (33%) comes from interest and dividend income, which is certainly under some pressure in this market. But I think that's more than baked into the stock.

Foolish Bottom Line

As I said at the outset, the point here is to look ahead. Schwab is run by grown-ups, unlike so many financial institutions. The taint on large brokerage firms and the mega-banks that now own them isn't going to be forgotten any time soon, nor will people forget that Schwab ran its business conservatively while other institutions ran their businesses into the ground. I certainly don't know exactly what the short term will bring, but the future for Schwab looks better than ever.

David owns shares of Charles Schwab.

Dueling Fools: Our Favorite Charles

Tom: The man, Charles Schwab, recently stepped down from the CEO post. Is Schwab still in good hands?

David: I admit that "Talk to Walt" doesn't have quite the same ring as "Talk to Chuck," but I like what Walter Bettinger brings to the CEO position. He's been with the company for more than 13 years, and Schwab himself credits Bettinger for the company's strong operating results in recent years. I was happy to learn that Chuck — who still owns about 18% of the company — is going to stay on as chairman. I don't think we have anything to worry about.

Tom: It seems like every day we get word of yet another bank failure. Is Schwab going to make it through this credit crunch in decent shape?

David: Well, I'm not here to say it's going to be a smooth ride over the next year or so. I expect the growth in some of its business lines to slow down a bit, but Schwab should be just fine. Its capital ratios are more than four times the minimum required by the Feds. That's a serious financial cushion.

Tom: Good to hear, but what about Schwab's mortgage exposure? Is it just a matter of time before there's some kind of blow-up there?

David: I think the chances for a blow-up are slim. There's about $5 billion in outstanding mortgages and home equity lines of credit on the books, but Schwab has taken a conservative approach with its mortgage lending. It avoided making any subprime loans — loans to people with a credit rating below 620 — and steered clear of those risky negative amortization loans. Plus, Schwab's already low delinquency rate for these loans actually declined during the first six months of 2008. In this housing market, that's pretty darn good!

Tom: OK, let's get serious: Schwab or Norris? Who's your favorite Chuck?

David: Hey, you're forgetting Charlie Brown. He's the man.

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You Asked for It: We Really Can Learn From Our Mistakes

By Rich Greifner

To err is human. To forgive is divine. To review our investing mistakes and learn from them? Now that's Foolish.

You might think that David's September 2003 recommendation of **Krispy Kreme Doughnuts** (NYSE: KKD) would take the cake as his biggest investing mistake. After all, the stock fell 90% in the two years before David finally pulled the plug. But although big losers like Krispy Kreme may look and feel bad, according to David, "selling a winning stock that keeps on winning will hurt your bottom line far, far more."

It may have been a profitable trade, but David's July 2004 sale of **Martha Stewart Living Omnimedia** (NYSE: MSO) was definitely not "a good thing." The company boasted a debt-free balance sheet and a catalogue of popular home products and publications, but David elected to cash out after a 50% gain. Big mistake: The shares quadrupled within the next year!

Giving up early on a potential four-bagger is painful, but it pales in comparison to Tom's biggest investing gaffe. "I sold **Dell** (Nasdaq: DELL) in 1995 after making 25% on it and it then increased 45 times in value over the next 10 years," Tom confesses. "I sold **Microsoft** (Nasdaq: MSFT) in 1989, for the same reason, with a similarly dismal result."

Tom may have missed out on a 45-bagger, but at least he learned a valuable lesson from the experience: "One of the biggest mistakes we make as investors is trying to get out of a stock at a particular time due to valuation concerns rather than fundamental business analysis." Rather than constantly jumping in and out of stocks, Tom and David advocate that investors adopt a long-term ownership mentality. This helps keep the tax bill and trading costs low, and it prevents investors from selling their winners too early.

Hold on to This Advice

Of course, it only makes sense to hold on to your winners as long as you're confident they'll continue winning. Like Warren Buffett, Tom and David's favorite holding period is forever, but sometimes it makes sense to part ways with a winning position.

In sheer dollar terms, David's biggest investing mistake was holding on to his shares of America Online through the 2000 merger with **Time Warner** (NYSE: TWX). "When what you own no longer resembles what you bought, consider selling," David cautions. "I bought AOL for (split-adjusted) dimes in 1994, but I would be a significantly richer Fool today had I sold the day the relationship was consummated."

David's AOL experience also taught him the value of maintaining a diversified portfolio. "When a large holding becomes overweighted in your portfolio, systematically sell off at least small portions to redeploy elsewhere," he advises. "Especially if it's already a 100-bagger mega-mega-cap!"

Play to Your Strengths

We've already established that the brothers' greatest investing fear is missing out on greatness, not getting slammed by losers. However, it's still nice to avoid those losers whenever possible. For Tom and David, those clunkers have been more likely to appear when the brothers strayed from their areas of expertise.

"My biggest duds have come when I didn't understand the competence and motivations of leadership teams," Tom says. "Sure, you need to study products and competitive advantages and financial statements and valuations. But I've realized that truly superior long-term returns for me rely on a truly superior evaluation of the people leading the business."

Given Tom's focus on shareholder-friendly management, his **Shuffle Master** (Nasdaq: SHFL) flop stands out as a painful investing mistake. "I didn't believe in management, yet I stuck with the investment, believing that the strength of the business model would drive the stock higher." When CFO Richard Baldwin suddenly resigned in late 2007, Tom finally pulled his chips off the table.

Similarly, David's worst-performing *SA* selection came when he deviated from his successful investment strategy. He didn't sell Krispy Kreme due to its shoddy accounting or franchise mismanagement — he sold because management's decision to distribute cold doughnuts at gas stations and convenience stores was undermining the brand's mystique.

"When a brand is all that stands between a premium product and a mere commodity, it must be aggressively protected," David wrote back then. Management's failure to protect its most valuable asset — the Krispy Kreme brand — ultimately drove David to sell the stock, even at a 90% loss.

Happy Trails

Over the course of an investing career, even the most accomplished stock picker will suffer a few mistakes. But if you make an effort to learn from those mistakes, you'll be a better investor for it — and the ultimate value of those lessons will far outweigh any short-term losses.

You Asked for It takes a break for the next two months so we can bring you back-to-back review issues covering all of the stocks on our scorecard. We'll return with a new topic and new vote in January.

Best Buys Now Insights

By The Stock Advisor Team

David's List

Company	Recent Share Price
Marvel (MVL)	$30.33
Nintendo (NTDOY)	$48.70
Apple (AAPL)	$104.08
Canadian Nat'l (CNI)	$42.20
Netflix (NFLX)	$24.04

Data as of 10/14/08

Tom's List

Company	Recent Share Price
Linear Tech. (LLTC)	$25.89
Nat. Oilwell Varco (NOV)	$29.87
Berkshire Hath. (BRK-B)	$3,958
Prec. Castparts (PCP)	$62.94
Aflac (AFL)	$46.07

Data as of 10/14/08

We'd like to introduce you to our No Bailout All Stars. Unlike companies that will be lining up for the government's $850 billion rescue package, these *Stock Advisor* stalwarts can say thanks but no thanks to any government handouts. And while bailout recipients soak up taxpayer money and deleverage debt-choked balance sheets, our All Stars rely on their financial strength to withstand recessionary pressures and reinvest in their business.

Before we reveal the All Stars, let's look at a few of the corporate welfare recipients:

- **AIG:** $9 billion market cap, $186 billion in net debt (debt minus cash), hundreds of billions in non-insurance liabilities.
- **Citigroup:** $85 billion market cap and nearly $2 trillion in non-depository liabilities.
- **General Motors:** $4 billion market cap, $23 billion in net debt, and negative $7.5 billion in free cash flow.

Now let's see how our No Bailout All Stars stack up:

- **Marvel:** $2.3 billion market cap, $150 million in net debt, $36 million in annual free cash flow. But just wait until the *Iron Man* and *Hulk* receipts pour in!
- **Nintendo:** $50 billion market cap, $11 billion in net cash, and $3.4 billion in free cash flow. Wii!
- **Apple:** $80 billion market cap, $20.9 billion in net cash, and $6.1 billion in free cash flow.
- **Canadian National:** $19 billion market cap, $6.3 billion in net debt, and $600 million in free cash flow.
- **Netflix:** $1.5 billion market cap, $274 million in net cash, and $74 million in free cash flow.
- **Linear Technology:** $5.8 billion market cap and $733 million in net debt (share buy back). Almost $500 million in free cash flow.
- **National Oilwell:** $14.2 billion market cap, $61 million in net debt, and $1.9 billion in free cash flow.
- **Berkshire Hathaway:** Warren Buffett!
- **Precision Castparts:** $9 billion market cap, $89 million in net cash, and $800 million in free cash flow.
- **Aflac:** $22.8 billion market cap and $152 million in net debt outside of insurance operations.

When debt gets out of control, it can hinder new investment, eat into profits, and lead to insolvency. Fortunately, the net debt (if any) on our All Stars' balance sheets is substantially less than each company's total market value. Five of our All Stars have more cash than debt! Plus, our All Stars produce gobs of free cash flow, which we like to see.

Companies looking for financial relief from the bailout aren't companies worth investing in. Our Best Buys this month have the balance sheets and the cash-minting business models to survive and prosper in this market.

The Fool owns shares of Berkshire Hathaway.

Sidelined Stocks: HWAY, CCRT, VALU, BIIB, GRMN

By The Stock Advisor Team

These stocks from our scorecard offer the least compelling opportunities for new money this month. We are not selling our positions, but we do not recommend starting or adding to these companies today.

Although the market is punishing all stocks, good and bad, these five receive a scolding of sorts from us.

On David's side, our patience is wearing thin for **Value Line**'s (Nasdaq: VALU) inept management team to get the business moving in a positive direction. Meanwhile, we still don't think we've heard the end of **Biogen Idec**'s (Nasdaq: BIIB) Tysabri concerns, and **Garmin** (Nasdaq: GRMN) continues to fumble the launch of its new nuvi phone, while its other products face severe competitive pressures heading into the all-important holiday shopping season.

On Tom's side, we're still unsure about the future — if there is one — of **CompuCredit**'s (Nasdaq: CCRT) subprime lending business. And until **Healthways** (Nasdaq: HWAY) shows it can create consistent value for its customers, it's stuck on the sidelines as well.

Company Updates: With Volatility Comes Opportunity

By The Stock Advisor Team

So far in 2008, there have been a total of 39 days when the market closed up or down by more than 2% — and that doesn't count intraday moves of that magnitude. For some perspective, in all of 2007 there were 17 such days. In 2006, only two.

Many of our *Stock Advisor* recommendations have been on a ride of their own. Fortunately, the upside to all this volatility is the opportunity to buy good companies on the cheap. A bunch of our stocks now trade at earnings multiples that are significantly lower than the rate at which analysts expect those earnings to grow. Usually, that's the sign of a bargain. So let's take a look at a few *SA* companies we feel are trading on the cheap.

Atwood Oceanics (NYSE: ATW)

2008 Performance	P/E Ratio	5-Year Growth Estimate
(40%)	14	31%

The story: Oil prices have plummeted, but Atwood made plenty of money when oil was at $40 per barrel, let alone $80.

Coach (NYSE: COH)

2008 Performance	P/E Ratio	5-Year Growth Estimate
(37%)	10	16%

The story: Consumers are cutting back, especially on luxury items, but that won't keep Coach down for long. Its international momentum and expanding product lines will keep growth in the bag.

Netgear (Nasdaq: NTGR)

2008 Performance	P/E Ratio	5-Year Growth Estimate
(68%)	8	16%

The story: A string of recent earnings disappointments have punished Netgear's stock, but more than $5 per share in cash and a renewed focus on small-business products should help this one rebound strongly in an economic turnaround.

optionsXpress (Nasdaq: OXPS)

2008 Performance	P/E Ratio	5-Year Growth Estimate
(57%)	10	17%

The story: Growth in new customer accounts may be slowing, but options trading should thrive in volatility, keeping optionsXpress more than afloat.

Precision Castparts (NYSE: PCP)

2008 Performance	P/E Ratio	5-Year Growth Estimate
(55%)	9	17%

The story: The aerospace and auto industries are hurting right now, but the secular growth trend in airplane demand is intact, and Precision should benefit from a strong engine replacement cycle in coming years.

Titanium Metals (NYSE: TIE)

2008 Performance	P/E Ratio	5-Year Growth Estimate
(65%)	10	15%

The story: The Boeing machinist strike and delays in the 787 Dreamliner have crippled metal suppliers like Titanium, but these events are temporary and shouldn't obscure the long-term growth story.

UnitedHealth (NYSE: UNH)

2008 Performance	P/E Ratio	5-Year Growth Estimate
(61%)	5	12%

The story: The uncertainty over the presidential election and potential changes to the U.S. health-care system loom large. But UnitedHealth should be part of, not a victim of, any long-term solution.

Vasco Data Security (Nasdaq: VDSI)

2008 Performance	P/E Ratio	5-Year Growth Estimate
(73%)	14	20%

The story: Financial companies make up the bulk of Vasco's customer base, and they're hurting. But the company remains a major player satisfying an increasingly crucial demand for network security.

There's little doubt that we're being offered some quality growth on the cheap right now. We caution investors not to place too much value on analysts' consensus growth estimates — not only do they tend to be optimistic but they're likely to shift downward as analysts update their forecasts. Still, we find each one of these companies extremely compelling right now and offer them as investment ideas outside of our new recommendations (National Instruments on page 2 and Charles Schwab on page 4) and our Best Buys Now (page 7).

The Fool owns shares of UnitedHealth.

Special Team Commentary: No Fear Here

By The Stock Advisor Team

Warren Buffett called today's financial crisis an "economic Pearl Harbor" — strong words from the Oracle of Omaha. Unfortunately, the market seems to agree. Earlier this month, stocks hit their lowest point in nearly five years. In one single day, both the Dow Jones and the S&P 500 experienced their largest percentage declines since the Crash of 1987.

So this month we've chosen to get personal with an inside look at how members of the *Stock Advisor* team are coping with — and taking advantage of — today's market.

What We're Doing Today

"On a personal level, I'm continuing to indulge my passion for strategy board games — and in particular growing out my group of friends and acquaintances who play them. On an investing level, I remain almost fully invested except for a few stocks sold last year and regular compensation, both of which give me some cash to inject into this market." *–David Gardner, Advisor*

"Great companies that I've had my eye on for years are trading at some pretty compelling prices, and I've been taking advantage. There's plenty to like on the *SA* scorecard, but my favorite spot for new money is **Morningstar** (Nasdaq: MORN). Any company tied to the financial markets is likely in for some short-term turbulence, but this is a great price to pay for a wide-moat business with strong growth prospects and a stud CEO." *–Rich Greifner, Research Analyst*

"Back in the olden days, before fear gripped the markets like a Homer Simpson choke-hold on Bart, we had a saying: 'Buy when blood is running in the streets.' There's plenty running now, and though it's tougher when we're caught up in the moment to see the bargains, they're there. That's why I'm trimming some of the less-attractive stocks from my portfolio in order to buy some bargains (see page 1 for more). And, as everyone should, I'm continuing to invest regularly into the market via my 401(k)." *–Rex Moore, Associate Advisor*

"I'm running really, really far. Literally! I'm going to run in the 33rd Annual Marine Corps Marathon. Regular runs have kept my mind fresh, focused, and distracted from the day-to-day upheavals in the market. Right now, 26.2 just has a whole lot more meaning to me than Dow 10,000. I'm still keeping an eye out for bargains and have loaded up on **Whole Foods** (Nasdaq: WFMI), while keeping an eye on **Canadian National Railway** (NYSE: CNI) and **Marvel** (NYSE: MVL)." *–Matthew Argersinger, Research Analyst*

"Banks are disappearing, gas is $4 a gallon. This is enough to make even the most Foolish among us consider a mattress savings plan. So I turn to my favorite tool during times like this: a chart of the S&P over the past 50 years. It's more than just a clear picture of a market climbing ever upward; it's a snapshot of U.S. history. We've been in periods of uncertainty before, many of which were far more challenging than where we are now, and yet the line moves upward. So I will stay the course — not because I have some insight into the future, but just a nice chart of the past." *–Carl Hendley, Product Manager*

Putting It in Perspective

"Any money I need in the next year is in a stable, FDIC-insured account. I also try to invest each month in a handful of great companies at great prices. With this volatility, we're seeing some great buying opportunities in some of our favorite companies on both our Best Buys Now lists and our entire scorecard. As Warren Buffett likes to say, if you're a net buyer of hamburgers over your life, you love when the price of hamburgers drops." *–Andy Cross, Associate Advisor*

"I actually get uneasy when things are running high because I feel I have to pay closer attention. With rock-bottom prices I can wait for a turnaround and feel confident that things won't get overvalued anytime soon. I'm looking seriously at **Netflix** (Nasdaq: NFLX), which is a great company that has taken a beating for what I think will prove to be transient problems. I also have an eye on **Starbucks** (Nasdaq: SBUX), **Titanium Metals** (NYSE: TIE), and a few smaller growth companies that I think could come roaring back. And that's just the start of my shopping list." *–Karl Thiel, Senior Analyst*

Tell Your Story, Win a Prize!

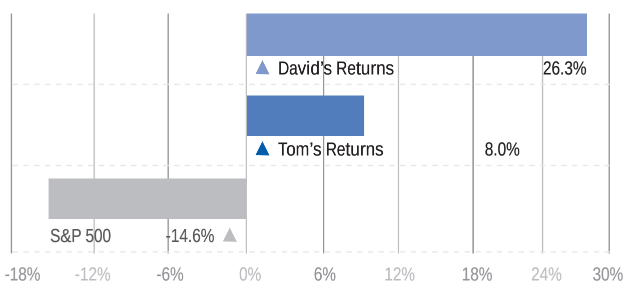
We want to hear how you're being Foolish in today's market, so head over to our **SA Buying Strategies** discussion board for your chance to win. The two Fools who post the most thoughtful, Foolish-minded, and rec-worthy submissions (in 400 words or less) between now and midnight on Friday, Nov. 7, will receive a free copy of Warren Buffett's *The Snowball: Warren Buffett and the Business of Life*. Winners will be chosen by the team and announced in next month's issue. So log on and tell us how you're coping in today's market. May the best Fools win!

The Fool owns shares of Morningstar and Starbucks.

SCORECARD

Details on all recommendations available at stockadvisor.fool.com

AVERAGE RETURNS



Since inception, includes sold positions.

MOST RECENT RECOMMENDATIONS

	DAVID'S			TOM'S	
Issue	Company	Ticker		Company	Ticker
11/08	**Charles Schwab**	SCHW	&	**Nat'l Instruments**	NATI
10/08	**Activision Blizzard**	ATVI	&	**Nat'l Oilwell Varco**	NOV
9/08	**Titanium Metals**	TIE	&	**Precision Castparts**	PCP
8/08	**Illumina**	ILMN	&	**Linear Technology**	LLTC
7/08	**Apple**	AAPL	&	**SEI Investments**	SEIC
6/08	**Medco**	MHS	&	**Morningstar**	MORN

BAGGERS & LAGGERS

TOP 5 PERFORMERS

▲ **773.2%**
Marvel (MVL)*
Issue 7/02 — David

▲ **628.3%**
Quality Systems (QSII)*
Issue 4/03 — Tom

▲ **684.9%**
Activision Blizzard (ATVI)*
Issue 3/03 — David

▲ **272.3%**
GameStop (GME)*
Issue 10/04 — David

▲ **264.9%**
Amazon.com (AMZN)
Issue 10/02 — David

BOTTOM 5 PERFORMERS

▼ **(92.2%)**
CompuCredit (CCRT)
Issue 2/07 — Tom

▼ **(85.0%)**
Pacific Sunwear (PSUN)
Issue 1/06 — Tom

▼ **(75.8%)**
Whole Foods (WFMI)*
Issue 9/05 — David

▼ **(70.9%)**
Healthways (HWAY)*
Issue 9/05 — Tom

▼ **(69.9%)**
Vasco Data (VDSI)
Issue 1/08 — Tom

*Excluding sold positions. ***QSII** was also recommended in the 3/03 and the 12/05 issues; **GME** was also recommended in the 1/06 issue; **MVL** was also recommended in the 12/02 and 9/04 issues; **ATVI** was also recommended in the 9/02 and 10/08 issues; **WFMI** was also recommended in the 3/08 issue; **HWAY** was also recommended in the 4/05 issue. This is not an endorsement to buy any of these stocks. It is simply a snapshot of our companies' performance to date.*

BEST BUYS NOW

DAVID'S

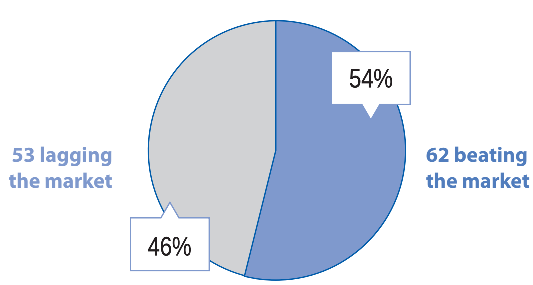
Company	Ticker	Recent Share Price
1. **Marvel***	MVL	**$30.33**
2. **Nintendo**	NTDOY.PK	**$48.70**
3. **Apple***	AAPL	**$104.08**
4. **Canadian National**	CNI	**$42.20**
5. **Netflix***	NFLX	**$24.04**

TOM'S

Company	Ticker	Recent Share Price
1. **Linear Technology**	LLTC	**$25.89**
2. **National Oilwell**	NOV	**$29.87**
3. **Berkshire Hathaway****	BRK-B	**$3,958.00**
4. **Precision Castparts**	PCP	**$62.94**
5. **Aflac**	AFL	**$46.07**

*The recommendations in our current issue represent our two best investment ideas this month. But to give you a broader range of options, we've also ranked the best opportunities for new money from among all our past selections. * David owns shares. ** The Motley Fool owns shares.*

RECOMMENDATION REPORT CARD



Excludes sold positions.

STOCK IDEAS, NEWS, AND REVIEWS

The market sell-off has punished even the best stocks, giving Foolish investors some great buying opportunities. So, this month we bring you two new recommendations (pages 2 and 4), 10 Best Buys Now (page 7), and eight *Stock Advisor* companies that we feel have been unfairly beaten down (page 8). In your next issue (Friday, Nov. 21), Tom and the team deliver their comprehensive review of every stock on the right side of the scorecard — and provide guidance on whether the time is right to buy, hold, or sell.

All scorecard data as of market close 10/14/08