Motley Fool Stock Advisor™

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With
David & Tom Gardner
Motley Fool
Co-Founders

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Winning Strategies for Foolish Investors

Dear Fellow Fools,

In a "me-first" era of corporate corruption and excessive greed, Dan Rooney may be the humblest millionaire around. The 76-year-old chairman of the Super Bowl champ Pittsburgh Steelers still lives in the modest house his father once owned and walks to Steelers games. New players in Pittsburgh are amazed that he travels with the team instead of taking a private jet — and he sits in coach. By contrast, Dan Snyder, who owns our hometown Washington Redskins, frequently helicopters in for practices and takes a chauffeur-driven limo to home games.

Rooney's father, Art, started the Pittsburgh franchise in 1933, and by the mid-1960s Dan Rooney was running much of the day-to-day operations. Today, his own son, Art II, runs the team as president, keeping the Rooney family legacy — and best business practices — very much alive.

As you know, David and I (Tom here) love investing in businesses that feature founding families with large ownership stakes. Such companies tend to have a built-to-last culture that inspires loyalty and longevity among their employees, customers, and vendors. It also leads to winning results: The Steelers just won their sixth Super Bowl title, and here at *Stock Advisor*, multiple-time recommendation **Dolby** (NYSE: DLB) is at the top of my own Best Buys Now list this month thanks in no small part to the family leadership of Ray Dolby.

Dolby and Rooney share the trademarks of great leadership, from making tough decisions to considering compensation and training issues. Rooney, for instance, is more than willing to pay his players a fair price, but unlike Dan Snyder, he won't overpay. And his track record speaks for itself — consider the head coaching position, which has been held by only three men since 1969. The first two are Hall of Famers who Rooney stuck with through some lean years, and the third just finished up his second season with that Super Bowl win. History tells us he'll be around for a long time, all thanks to the Rooneys' devotion to running their business the family way — and treating players and fans right.

Make March Count With a *Stock Advisor* Exclusive

We like to treat our members right, too, so get ready for ***Stock Advisor*'s 30-Day Retirement Makeover**, kicking off at stockadvisor.fool.com on March 2. Check in every day for Foolish tips and features to help you get your retirement portfolio in working order. First up: Running Your Numbers Week (March 2-6), complete with calculators and other tools you need to get started. We'll follow that up with coverage of taxes (March 9-13), IRAs and 401(k)s (March 16-20), Social Security (March 23-27), and more. We'll wrap up the month with *Rule Your Retirement* advisor Robert Brokamp and his team of retirement experts, who will be on the **SA Becoming an Investing Master** discussion board March 25-31 to answer your questions and set you on the path to retirement riches. We have 30 days to turn your retirement around, so log on March 2 to launch your retirement makeover!

Tom Gardner

Leucadia National (NYSE: LUK)

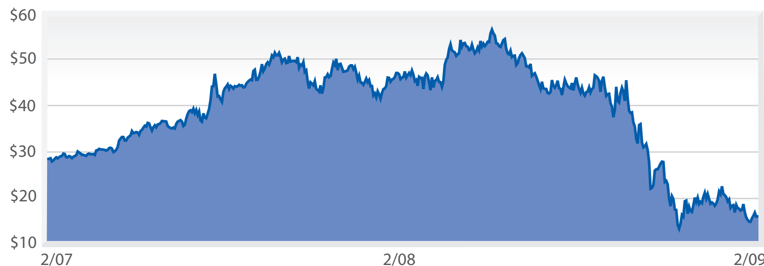
By Tom Gardner With Andy Cross

Leucadia invests in undervalued businesses that span mining, energy, medical products, real estate, telecommunications, and more.

Why Buy:

» Its tenured and experienced management team has been compounding book value at nearly 22% annualized since 1979.

» Lots of brain power and a historic low valuation will carry us through any rough patches.



Headquarters:	New York, N.Y.
Website:	www.leucadia.com
Recent Price:	$14.32
Risk Level:	Medium
Position in Industry:	Innovator
Market Cap*:	$3,360
Cash/Debt*:	$497/$2,221
Revenue (TTM/07/06)*:	$1,181/$1,155/$863
Earnings (TTM/07/06)*:	$626/$484/$189
Insider Ownership:	22.0%
Biggest Threat:	Bad streak continues
The Team Says:	**Brains at a bargain**

Data as of 2/17/09

**In millions..*

As owners of the six-time NFL champion Pittsburgh Steelers, the Rooney family epitomizes what I love to see in business owners: Big financial stakes, longevity, patience, and consistency are qualities long-term winners bring to — and out of — organizations. One person in the corporate world who embodies these traits is Warren Buffett of **Berkshire Hathaway** (NYSE: BRK-B). As we've written many times on these pages, Buffett has it all — exactly what you want to see from a person handling your money.

There is only one Buffett, and there may never be another like him. But we can look for those who sit a row behind him in the pantheon of great capital allocators. Ian Cummings and Joseph Steinberg, who took over **Leucadia National** (NYSE: LUK) in the late 1970s, deserve a box seat. Leucadia is a collection of investments and operating units pieced together in the same light as the much larger Berkshire Hathaway, and its track record is nearly as impressive. For years Cummings and Steinberg — who own a combined 22% of the company — have generated market-smashing returns, and while they are more press-shy than Buffett, they nearly match him for their must-read annual letters. An atypically bad year has knocked the stock down 65%, but Andy and I doubt the duo has lost its smarts. Top-flight IQs like this don't come cheap that often, so it's time we made an investment of our own.

Learning From the Master

Leucadia isn't a mirror image of Berkshire, but it's close. Cummings, as chairman and CEO, and Steinberg, as president, have amassed various businesses (through partial ownership or 100% control) and other deeply undervalued investments and turned a company that once financed socks for the Union Army into a motley group of assets.

How motley? Here's a partial list of Leucadia's investments: Idaho Timber, Conwed Plastics, STi Prepaid, the Hard Rock Hotel & Casino Biloxi, Pine Ridge Winery, ResortQuest, Goober Drilling, Fortescue Metals, Cobre Las Cruces, Inmet Mining, **Jeffries Group** (NYSE: JEF), **AmeriCredit** (NYSE: ACF), and **Cresud** (Nasdaq: CRESY).

We're obviously not talking big blue-chip investments like you'll see Buffett buying at Berkshire. These guys come from the deep, distressed world of Wall Street value hounds who scout out businesses that no one cares about or understands. And they do it well. Since 1979, shareholders' equity (aka book value) has grown around 22% per year versus less than 10% for the S&P 500, while Leucadia's share price has compounded at 21%. For companies like Berkshire and Leucadia that invest in other businesses, book value is the standard way to track their performance. And over time, the company's growth in book value should roughly correspond with the growth in its share price. This means a $1,000 Leucadia investment in 1979, unsold, is worth about $230,000 today versus around $16,000 for the same investment in your index fund. Not too shabby.

New investments are likely to pop up this year if Cummings and Steinberg sniff out other struggling industries. That's one thing about Leucadia: We have to be comfortable that these two guys know what they're doing — buying solid assets on the cheap. Their annual letter and company website have the touch of Buffett (visit www.leucadia.com to see just how much), but we won't have much of an opportunity to ask them questions each quarter. Like Buffett, they don't host conference calls and their earnings announcements are bare-bones, but their annual report provides loads of insights.

Investing in the Future

Many of Leucadia's businesses (metals, energy, land, financing) suffered mightily in 2008, leading to unrealized losses of at least $432 million this year. I say at least because I expect we'll see some more hits to book value when Leucadia announces its 2008 results. Yet the company's financial health remains fairly robust, with about $500 million in cash and short-term securities against $2 billion in reasonably priced debt that's not due for at least three years. On top of this, we have $2.1 billion of noncurrent investments that help counterbalance the debt load.

Here comes some accounting mumbo jumbo, but it's important — I'll try to make it painless. Because Leucadia often invests in companies that lose money in the short term, it builds up operating losses it can use to offset future taxable income (just like you can when you sell a stock for a loss). It's done this so often, in fact, that it now carries a $1.6 billion tax asset on its books (about 25% of its book value). Andy and I expect it will apply this asset to future tax gains, allowing it to continue to pay zero — or at least very minimal — taxes.

Leucadia's businesses may be complex, but our investment thesis is simple: We're buying smart guys at a bargain-basement price — 0.7 times book value, around historical lows. Even if we account for some writedowns in its investment portfolio, we're still paying around book value for a management team that's highly skilled at turning lemons into lemon meringue pie. At some point, whether it's this year, next year, or further down the road, the investments that Cummings and Steinberg have made will start to pay off. I figure these assets are worth at least 1.5 times book value, giving us a stock that should roughly double over the next five years.

Why We Might Sell

Cummings and Steinberg, both in their mid-60s, are locked into contracts through 2015, so I expect we'll have them around long enough to see our thesis play out. They haven't talked much about a succession plan, but any unwelcomed changes at the top could affect our viewpoint. Also, I certainly don't think they've lost their investing acumen — far from it — but they aren't immune to the lollapalooza mistake either. And the way they invest, they may hit one of those. If they stretch too far from their circle of competence, then I wouldn't hesitate to move my money elsewhere.

The Foolish Bottom Line

Buffett has said that his whole job is to allocate capital among his various investments and operating units. The same goes for Ian Cummings and Joseph Steinberg at Leucadia, and they've built up quite the track record. I can't say for sure that we'll follow in the Rooneys' footsteps this year and strike gold, but I do believe that in the long term, Leucadia will deliver a championship investment for our portfolio.

For disclosure information, please see page 10.

Dueling Fools: Insuring Results

David: The success of this investment depends a lot, if not totally, on the brains of two men. At least with Berkshire we're buying into some wonderful properties (Geico) and consumer brands (Coca-Cola, American Express, Gillette). Is Leucadia one mistake away from disaster?

Tom: Management matters in all organizations, whether it's Leucadia, McKesson, or pro football (as we've seen with the Steelers). There's no hiding it — we're tied to how well Cummings and Steinberg invest the cash we're handing over. They missed on some investments last year, and I can't say they'll always hit home runs. But over time, they'll hit far more doubles and triples to cover those big strikeouts. Their annual letter comes out soon, so I'm eager to see what they say.

David: That makes two of us — and enough already with the baseball analogies, Tom. With its debt load, is the company positioned to jump on opportunities if they come up this year? How will it fund them?

Tom: Leucadia can sell some of its investments to drum up any needed cash. For example, through the first nine months of last year it sold $3.7 billion worth of investments and bought $3.7 billion worth. These guys know how to shuffle around investments to strike when they want to.

David: Management, the topic of this month's You Asked for It (see page 6), is important to you. By my count, Leucadia passes the sniff test on only three out of four of our criteria for evaluating management. That's a C in the classroom, Tom.

Tom: Not exactly. I consider Cummings and Steinberg to be honest, ethical, trustworthy, and even transparent (at least in their annual letters and public filings). But they do pay themselves a nice annual bonus (based on pretax operating income), and they have personal access to the company plane (a perk I hate). Compare that to the gold standard, Berkshire, where Buffett even pays back the company for personal postage and phone calls. So I won't completely fail the Leucadia lads in our stewardship category, but they don't get an A+ either. Hey, is there a baseball analogy for that?

For disclosure information, please see page 10.

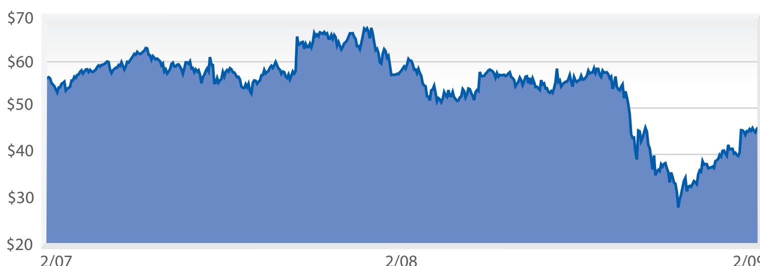
McKesson (NYSE: MCK)

By David Gardner With Karl Thiel

McKesson is a leading distributor of pharmaceuticals, medical supplies, and information technology to pharmacies and health-care providers.

Why Buy:

- Tremendous economies of scale ensure profits and limit competition.
- Drug wholesaling is a strong, stable business that will keep growing steadily despite the recession.
- Information technology is a real growth opportunity for McKesson.



Headquarters:	San Francisco, Calif.
Website:	www.mckesson.com
Recent Price:	$44.50
Risk Level:	Medium
Position in Industry:	Stalwart
Market Cap*:	$12,150
Cash/Debt*:	$1,175/$1,795
Revenue (TTM/07/06)*:	$106,639/$101,703/$92,977
Earnings (TTM/07/06)*:	$849/$990/$913
Insider Ownership:	2.8%
Biggest Threat:	Health-care reform curveball
The Team Says:	**Take MCK for what ails ya**

Data as of 2/17/09

*In millions.

I'm recommending you invest in one of the Big Three. No, not *that* Big Three. I'm talking about the nation's major drug wholesalers. In fact, there's a gulf of difference between this Big Three and the Detroit variety. Drug wholesalers are profitable and growing, have manageable debt and plenty of cash, and are facing a bright future that promises more business and bigger profits.

McKesson (NYSE: MCK) is the nation's largest drug wholesaler by revenue. Together with two other companies, **Cardinal Health** (NYSE: CAH) and **AmerisourceBergen** (NYSE: ABC), it controls an estimated 90% to 95% of the drug wholesale market and will bring in well over a quarter-trillion dollars in sales this year.

At its core, McKesson is responsible for getting a large share of the medicines we take from manufacturers to pharmacies and hospitals, and it takes a small markup on every pill. It's a reliable business in an unpredictable economy, and with this recommendation, we're feeling better already.

There's a Pill for That

McKesson's business is, on the surface, relatively easy to understand: It buys drugs directly from manufacturers — the **Pfizer**s (NYSE: PFE) and **Merck**s (NYSE: MRK) of the world — and distributes them to the nation's hospitals, health systems, and long-term care facilities, as well as to retail, independent, chain, and mail-order pharmacies, marking them up along the way. As the industry has evolved and cost-containment pressures have mounted, wholesalers have offered more and more value-added services to their customers. Among other things, McKesson helps its clients manage inventory, track and process refills, and minimize errors. It repackages drugs, repurchases overage, helps customers secure reimbursement and rebates, and more.

We see a lot to like about McKesson, especially in an economy that has tugged down its share price even as its business thrives. It operates in the economically resilient pharmaceutical industry, so thanks in part to our aging population and its growing demand for health care, revenue and profits have grown in the past year and should continue to do so through this recession. When the company reported fiscal 2009 third-quarter results in late January, it not only handily beat analyst profit forecasts but also raised its outlook for the year by $0.15 a share — a refreshing change in this market.

Management's confidence stems in part from its incredibly dependable business. An estimated four out of every five prescriptions written in the United States pass through the Big Three, and the scale of our health-care system favors the large players. Drug companies prefer to work with fewer, bigger wholesalers because it simplifies their business. Indeed, recent regulations requiring that the "pedigree" of a drug be documented along the chain of custody further argue for use of the major wholesalers. And McKesson isn't affected by the patent problems plaguing drug companies — it makes money whether patients are using new brand-name products or generics. This business is about as stable as they get.

While this is by its nature a very low-margin business as well — the company buys drugs and sells them for a modest markup — its huge scale means large profits. McKesson is trading at less than 11 times the low end of its guidance for the current fiscal year, which ends March 31. Over the past five years, its average trailing P/E has been at least 15, which would imply a stock price of $62 a share or higher — nearly 40% north of where it is today.

Cash flow looks better than earnings: McKesson has

generated $1.4 billion in free cash flow over the past 12 months. The entire enterprise is valued at about 9 times this figure, which looks attractive against the moderate but steady growth we're expecting down the line.

Benefits and Health Risks

While there is little risk to McKesson's top line, its low operating margins mean that even small changes in the premiums it can charge will have a big impact on profits. Thus, impending health-care reform could be significant to this industry. CEO John Hammergren has stressed that reform is a positive for this business, and in the biggest picture, he's right. If more Americans have health-care coverage or reform involves more information technology and automation, as promised, that means more business for McKesson, particularly for its provider technologies division.

But the details could shape up a little differently. One very likely area of reform — something President Obama talked about during his campaign — is in Medicare Part D, the prescription drug plan for senior citizens. He has said he wants Medicare to have more power to "negotiate" prices, although Karl and I don't know exactly what that would mean. But since wholesalers are a cost point on the path of drugs from manufacturer to patient, this could put pressure on them. We're not too concerned, because drug cost control has traditionally focused on manufacturers and because likely mechanisms for Part D reform — demanding manufacturer rebates or having the government act as its own prescription drug plan — would have negligible or, at worst, a mildly negative impact on the wholesale industry.

Likewise, we view the prospect of reimportation — authorizing drug vendors to bring lower-priced drugs in from Canada and elsewhere — as unlikely. Nevertheless, we can't see all the paths reform might take, and while the next few years could be a boom time for wholesalers, it's always possible that the cost-containment axe will fall on them.

The Foolish Bottom Line

There are no guarantees in business, but ongoing — and growing — demand for prescription drugs comes pretty darn close. McKesson is essentially a simple middle-man business, but one that is absolutely entrenched in our health-care delivery system. Its profits should grow even in lean times, especially as our population ages, and the bear market has discounted this business despite the fact that it hasn't missed a beat. Our prescription for a strong portfolio? Buy some shares of McKesson today.

For disclosure information, please see page 10.

Dueling Fools: Taking Your Medicine

Tom: Hold on. CEO John Hammergren took home $40 million in compensation last year! That seems outrageous, especially in a recession and with all of the scrutiny right now about excessive executive pay. Is he — or anyone — worth that kind of money?

David: I'm not going to make excuses. I'm not thrilled with his lavish pay, which was actually called out in a recent *Wall Street Journal* article. But I don't think it will prevent McKesson from being a market beater. Hammergren has delivered for shareholders since taking the helm in April 2000. McKesson's sales have nearly tripled, and its stock price is up more than 100% while the market is down more than 40%. Hammergren also owns about $12 million worth of McKesson stock — that's no small stake.

Tom: The Federal Trade Commission has been poking around a bit in McKesson's business. What's that about?

David: You're right — McKesson recently responded to the FTC's request looking for documents that might indicate that McKesson was engaging in anticompetitive behavior with other pharmaceutical distributors. It's probably just a fishing trip. The FTC has been nervous about this industry for a long while; it denied McKesson the right to acquire AmeriSource Health back in the 1990s. It then allowed AmeriSource and competitor Bergen Brunswick to merge, because that meant the resulting Big Three would control less than 80% of the industry, but now we're past 90%. So the industry scrutiny is there, and that's something I'll be keeping an eye on.

Tom: McKesson's largest customer, Caremark (14% of revenue), was recently bought by CVS, which uses Cardinal for its drug deliveries. Any chance CVS could drop McKesson altogether?

David: I think the chances are slim. CVS actually benefits from having access to more than just one distributor. Cut one off and it risks price and supply chain pressures and negotiating power — not a healthy strategy.

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You Asked for It: How to Evaluate Management

By Rex Moore

The votes are in, and this month our loyal *Stock Advisor* members are keenly interested in the folks who run the businesses in which we invest. Here at *SA*, we consider four major areas when seeking out top-quality managers. These are pretty simple steps, really — and you can be the first investor on your block to master them!

1. Insider ownership. Let's start with one that's familiar to long-time *Stock Advisor* members and newbies alike. The concept is commonsensical: As a shareholder of a business, you want someone at the helm who makes decisions that maximize the value of your shares. Who better to do that than a management team whose members own a lot of shares themselves? Invest with a CEO who has tens of millions of his own dollars tied up in company stock, and you know he's going to work awfully hard every day to maximize the value of his shares — and yours.

Managers with little or no ownership in a company may not care very much about shareholders. They may be more interested in promoting friends or giving vendor contracts to golfing buddies than doing right by the company.

2. Tenure. The longer top-level executives have run a company, the better. This one's obvious, and we have two bits of research to make it even obviouser. (That's right, I said it.) The first comes from Frederick Reichheld in his book *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*. He estimates that, on average, U.S. companies lose half their employees every four years. Reichheld says that "disloyalty" contributes to a 25% to 50% performance drag on the business.

The second is from the *Fortune* book *Secrets of Greatness*, which studies the greatest masters in a variety of vocations. Almost without exception, true masters in any field — music, sports, business, or tiddlywinks — have been at it for at least 10 years and practice their craft nearly every day.

3. Capital allocation. When you boil it all down, the main purpose of any business is to turn money into more money in the most efficient way possible. Let's say you inherited Spacely Space Sprockets from your dad, Cosmo. You have to spend money on the plant and equipment that manufacture the sprockets, of course, which you then sell for a profit (hopefully). There are many ways to increase your efficiency and squeeze out even more profit for each dollar you invest in the business. You could decrease your raw-material costs by making your own sprocket molds instead of buying them from a vendor. Perhaps you buy a piece of equipment that does the work of 10 employees, allowing you to get rid of George Jetson. Or your top-notch marketing team comes up with a slogan ("The *one* sprocket you should own for the 31st century!") that allows you to raise the price and still outsell Cogswell Cogs. So many possibilities.

But how do we know which managers are the best capital allocators, you ask? The most reliable clues come from metrics that measure profitability (net profit margin, for example) and return on investment. The most common of the latter are return on assets, known as ROA, and return on equity, or ROE. Unfortunately, what's considered a "good" number for any of these metrics varies. Software makers can obtain much higher margins than automakers, for example. An ROE of 15% is about average for grocers, whereas 10% is normal for the paper/forest products industry. Ideally, these metrics would be stable or rising, and they should compare favorably to other companies in the industry.

You can find all these metrics when you quote a stock on Fool.com. When you compare similar companies, the best allocators are usually the ones with higher margins and returns on investment.

4. Stewardship. As shareholders, we're part owners of a company, and we want management to treat us accordingly. Our ideal management team is honest, ethical, trustworthy, and transparent. They do not pay themselves exorbitant salaries and bonuses. They don't issue so many stock options that the value of our existing shares is constantly diluted. And they don't set up lavish golden parachutes or adopt "poison pill" provisions that discourage outside buyers who may be interested in acquiring the business. We like to think of this as the golden rule: We want management to treat us as they'd want to be treated if they were in our shoes.

Ownership, tenure, allocation, and stewardship — these are the four cornerstones of solid management. How well do the companies you own measure up? Stop by their discussion boards at stockadvisor.fool.com and let us know!

Looking Ahead

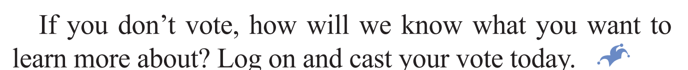
It's time for you to choose next month's topic! Cast your vote in our April 2009 poll on the **SA Community Page** discussion board by 5 p.m. ET on March 6. This month's choices:

Candidate No. 1: Which company would the Gardner brothers short from the other's side of the scorecard?

Candidate No. 2: The *Stock Advisor* team grills Foolish retirement expert Robert Brokamp.

Candidate No. 3: What are the Gardner brothers' favorite investing books?

If you don't vote, how will we know what you want to learn more about? Log on and cast your vote today.



Best Buys Now Insights

By the *Stock Advisor* Team

David's List

Company	Recent Share Price
Fortune Brands (FO)	$29.63
Omniture (OMTR)	$9.86
Apple (AAPL)	$94.53
Starbucks (SBUX)	$9.65
FedEx (FDX)	$49.20

Data as of 2/17/09

Three newcomers join my Best Buys this month, starting with last month's recommendation, **Fortune Brands** (NYSE: FO). Fortune didn't exactly wow us with its fourth-quarter results and 2009 outlook, but we're confident the luxury brand conglomerate can withstand the sharp slowdown in its home and hardware division and the temporary disruptions in its spirits business. Management expects to deliver between $100 million and $200 million in free cash flow in 2009, more than securing Fortune's hefty 5% dividend yield. Our spirits are high for this company over the long term.

Starbucks (Nasdaq: SBUX) has been a kettle of bitter news over the past few years, but we think richer times are ahead. CEO Howard Schultz and his team are leading an aggressive strategy to close underperforming stores and restore the coffee chain's squandered brand appeal. And as dismal as the company's fiscal first-quarter results were, Starbucks still brewed up more than $500 million in free cash flow. That suits our tastes just fine.

For the final spot on this month's list, I'm going with shipping giant **FedEx** (NYSE: FDX). Thanks to the worsening economy, FedEx's shares now hover just above a six-year low. Yet lower fuel prices and the idling of competitor DHL's U.S. business should clear the airspace for fatter margins and bigger market share over the long term. Expect FedEx's shares to take off long before the economy starts to turn.

Tom's List

Company	Recent Share Price
Dolby (DLB)	$32.14
Berk. Hway. (BRK-B)	$2,769.99
Costco (COST)	$42.12
Morningstar (MORN)	$33.46
Lab Corp. (LH)	$62.15

Data as of 2/17/09

I've had a hard time separating and ranking my top dozen or so companies this month, so you shouldn't consider it ominous if one you own has dropped off the list. This month, I'm calling attention to three in particular.

Dolby (NYSE: DLB) continues to show why it's one of my faves. Its stock price has dropped about a third over the past year as investors worry about slowing demand for consumer products, but a strong earnings report and only slightly lowered 2009 guidance is telling. Specifically, it tells us that with its technology so deeply ingrained into so many products, its moat is as strong as ever. Consider adding shares at this price.

Costco (Nasdaq: COST) is the cream of the crop in discount retailing. As the economy suffers, I see more and more consumers turning to discount clubs where they can really stretch their dollar. Luckily for us investors, Costco's shares are selling at a tantalizing discount, too.

Lab Corp. (NYSE: LH) is a double on our scorecard and has held up relatively well during the meltdown. I see nothing but growing demand for the company's vital medical testing, especially because many of these tests are not optional for patients. Aging baby boomers help place this dominant player right in a demographic sweet spot, and the price tests out as "cheap."

For disclosure information, please see page 10.

Sidelined Stocks: VALU, CCRT, and HWAY

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.

We still can't find a solid reason to get excited about **Value Line** (Nasdaq: VALU). CEO Jean Buttner and her team appear content to keep a lid on any growth, leaving little for shareholders other than a decent dividend. Without a major change in strategy (or management), we're setting our sights elsewhere.

Up next, companies whose places on our bench are so well-worn that perhaps they deserve their own nameplates. **CompuCredit** (Nasdaq: CCRT) and **Healthways** (Nasdaq: HWAY) still have too much uncertainty surrounding them to let them back into the game. CompuCredit is so small (just a tad over $114 million as of this writing) that it frequently bumps up or down 15% or more on no news. Healthways, on the other hand, is still working on contract retention and pricing issues. As always, any new money you have should go toward our Best Buys Now list and newest recommendations.

Earnings Hits & Misses

By the *Stock Advisor* Team

Hits

E-tailing giant **Amazon.com** (Nasdaq: AMZN) bucked the miserable holiday trend afflicting most retailers, with sales surging 18% in the fourth quarter and nearly 30% for all of 2008. Don't CEO Jeff Bezos and gang know we're in an ugly recession? Amazon's popular Kindle e-book reader sold out for the second consecutive season, and the company continues to make waves in its digital content and music delivery capabilities. This is all very impressive — so much so that Amazon's shares are up more than 20% so far in 2009 and not exactly a bargain at 40 times trailing earnings. For new money, stick to our Best Buys.

Despite what seems like daily bad news from the auto industry, **BorgWarner**'s (NYSE: BWA) fourth-quarter results easily topped expectations. Revenue dropped 32% year over year, and adjusted earnings were breakeven, but in the context of an industry in turmoil those numbers will do just fine. What happens in the long term is much more important to us, and fuel economy is at the top of that list. Because investors have a tendency to take current conditions and project them too far into the future, Borg's stock price has stalled. This leader in fuel-efficient technology is priced attractively and only narrowly missed Tom's Best Buys Now list this month.

DNA screener **Illumina** (Nasdaq: ILMN) ended the year with a blowout quarter. Revenue leapt 43%, while earnings per share came in at $0.22 compared with a loss of $0.04 last year. The razor blade model is strong: Consumable sales (those purchases you have to make time and again, like, well, razors) grew 76% and now contribute more than 60% of Illumina's revenue. With more researchers retooling their labs with Illumina's products and services, we expect the company's impressive top-line growth to translate even more to the bottom line.

Netflix's (Nasdaq: NFLX) earnings crushed consensus estimates, while subscriber growth blew past the entertainment conduit's own expectations thanks in part to the increasing number of "Netflix-ready" devices available in the market. CEO Reed Hastings said the company expects to continue expanding the capacity of Watch Instantly while still growing the DVD-by-mail model. After climbing more than 25% so far this year, Netflix's shares still make for a solid long-term investment.

Paccar (Nasdaq: PCAR) is another company that did well by not doing too badly. Our favorite maker of 18-wheelers was certainly affected by the global slowdown, as fourth-quarter sales downshifted 22% and earnings slid 56%. But that was better than most investors were expecting, and shares popped upward as a result. This is a sterling business that has generated an amazing 70 straight years of net profit, and we're happy to be along for the ride.

Precision Castparts (NYSE: PCP) did fairly well in a quarter dominated by a strike from one of its largest customers. Sales decreased 3% from the same quarter last year, but operating income and margins ticked upward. The **Boeing** (NYSE: BA) strike cost Precision about $130 million in sales, so all in all, the business is holding up very well. Precision's impressive moat and compelling valuation combine for a strong buy on our scorecard.

Misses

By the time **Aflac** (NYSE: AFL) reported its fourth-quarter earnings, the damage was done. Shares dropped 40% on news that the supplemental health insurer had investment exposure to some European banks facing the possibility of nationalization. If some of the "hybrid securities" Aflac holds become worthless, its all-important capital ratios could suffer — we've got more details on our Aflac discussion board online. Management says ratios will be fine, and it doesn't anticipate the need to raise more capital, but we can't know for sure. This is still an operationally sound company, but until we get a better idea of how this will play out, the stock is a hold.

EBay's (Nasdaq: EBAY) shareholders didn't bid much for the online auctioneer's fourth-quarter results. Sales fell 7% and earnings plunged 31% thanks to a double-digit drop-off in the company's core marketplace business. Although eBay's active user base grew by 4%, merchandise volume declined by 12% — the second consecutive quarter of weakness there. One of the few bright spots was PayPal, which saw its business climb 11%. The world's largest online marketplace hasn't been immune to the consumer slowdown like Amazon has, and shares are now up for auction at a seven-year low.

Shares of graphics chip maker **Nvidia** (Nasdaq: NVDA) got short-circuited after yet another dismal quarter in an enormously challenging year. Fourth-quarter sales plunged 60%, and profits slipped into negative territory. The emergence of mini-notebooks should be a growth engine for Nvidia, and it's hard not to like the $1.3 billion in net cash on the books. But Nvidia's shares still promise to be in the doldrums until there's a meaningful upturn in the technology cycle.

For disclosure information, please see page 10.

Fool's Tools: Insider Information — the Legal Kind!

By Matthew Argersinger

"If you forced me to shield myself from all but one factor and invest my capital for the rest of my life, only able to have a single-factor model as an investor, I wouldn't look for growth. I wouldn't look for a great balance sheet. All these things would be somewhat changeable to me in the short term and the intermediate term. What I would do is focus only on insider ownership. Insider ownership tells you whether or not there is somebody operating that business who is going to have to take a long-term perspective."

It's easy to see why Tom's comment from a recent Foolish member event makes so much sense. Finding the world's best companies starts with finding the world's best owners. We want the executives and directors of our companies to act like owners with the right incentives to run the business in a way that creates value for us, the shareholders — starting with owning meaningful stakes in the companies they run.

Proof Is in the Pudding

To see just how effective this strategy can be, look no further than our 10 top-performing recommendations.

Company	Issue	Gain*	Insider Ownership
Quality Systems (Nasdaq: QSII)	4/03	683%	46%
Marvel (NYSE: MVL)	7/02	623%	64%
Activision Blizzard (Nasdaq: ATVI)	3/03	425%	9%
Amazon.com (Nasdaq: AMZN)	10/02	303%	31%
GameStop (NYSE: GME)	10/04	207%	3%
Priceline.com (Nasdaq: PCLN)	6/04	190%	37%
Netflix (Nasdaq: NFLX)	1/05	187%	32%
Affiliated Managers Group (NYSE: AMG)**	11/02	99%	7%
Lab Corp. (NYSE: LH)	8/03	97%	2%
UnitedHealth Group (NYSE: UNH)	1/03	95%	1%

*Performance data as of 2/17/09. Insider ownership data as of latest proxy filing at time of recommendation.
**Tom recommended selling AMG in the 3/06 issue.

In most cases, the executives and directors owned at least 5% of the company's stock — a nice rule of thumb — at the time we recommended it in *Stock Advisor*. Shareholders have made out extremely well because the managers' wealth was also tied to the market value of the company.

Sure, there are other incentives that encourage managers to run a tight ship. You can look at executive compensation, for example, but even a well-intentioned pay package may not do the trick. Cash bonuses and stock options are often linked to benchmarks, such as growth in sales or earnings per share, that don't necessarily create long-term value for shareholders. Plus, stock options are dilutive to existing shareholders and carry zero downside risk to the holder. If your stock goes down, you feel the pain, but your CEO doesn't — those stock options simply expire at no cost.

A Few Flies in the Ointment

Now, you shouldn't dismiss a company just because its insiders own less than 5%. For large companies such as **Costco** (Nasdaq: COST) and **Disney** (NYSE: DIS), which have long histories and market caps that run into the tens of billions, it's unrealistic to expect insiders to own huge percentages of stock. Yet these companies can still make for great investments. Make sure the CEOs and other top executives own a good amount of stock in relation to their compensation. Costco CEO Jim Sinegal earned nearly $5 million in total compensation in 2008, but his 2.3 million shares of Costco stock are worth more than $100 million. We'd say Sinegal is pretty well aligned with shareholders, even though he owns less than 1% of Costco's outstanding shares.

On the flip side, too much insider ownership can actually be a bad thing. When insiders own more than 50% of company stock and hold complete control over voting power, it can severely limit the influence of minority shareholders like us. For company founders with proven track records such as Ray Dolby and **Morningstar**'s (Nasdaq: MORN) Joe Mansueto, who each control the majority of their company's shares, this isn't a worry. But in some cases, such controlling stakes can entrench bad management and lead to long-term underperformance of both the company and its stock. We're seeing this play out with **Value Line** (Nasdaq: VALU), a stock we've put on the sidelines (see page 7).

Your Inside Job

The most complete source for information on insiders is the company's proxy statement, known as Form 14(a). It's filed annually with the SEC, just after the end of a company's fiscal year. You can access proxies and other important SEC filings at **caps.fool.com**. You can also find updated information about insider transactions, including shares bought or sold, and the latest accounts of an executive's holdings, on a company's Form 4 filings.

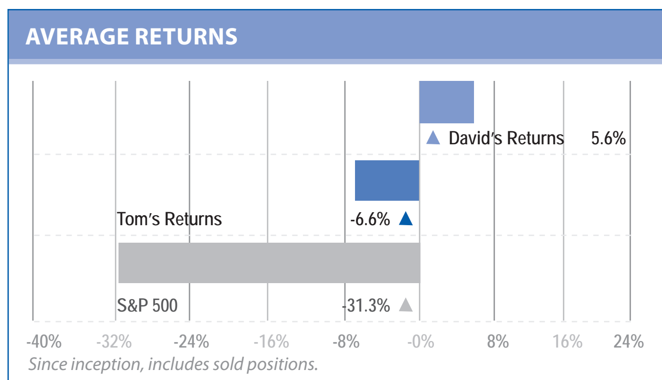
So take some time to get to know the ownership picture for each of your stocks. It's useful knowledge to store in your investing tool chest. And if Tom's right, it may just be the most important tool of them all.

For disclosure information, please see page 10.

SCORECARD

Details on all recommendations available at stockadvisor.fool.com

AVERAGE RETURNS



Since inception, includes sold positions.

MOST RECENT RECOMMENDATIONS

Issue	DAVID'S Company	Ticker		TOM'S Company	Ticker
3/09	Leucadia National	LUK	&	McKesson	MCK
2/09	Fortune Brands	FO	&	Nat'l Instruments	NATI
1/09	Marvel	MVL	&	Cintas	CTAS
12/08	Strayer Education*	STRA	&	MSC Industrial Direct	MSM
11/08	Charles Schwab	SCHW	&	Nat'l Instruments	NATI
10/08	Activision Blizzard	ATVI	&	Nat'l Oilwell Varco	NOV

** Sold in the 2/09 issue.*

BAGGERS & LAGGERS

TOP 5 PERFORMERS

▲ **682.7%**
Quality Systems (QSII)*
Issue 4/03 — Tom

▲ **622.7%**
Marvel (MVL)*
Issue 7/02 — David

▲ **462.2%**
Activision Blizzard (ATVI)*
Issue 3/03 — David

▲ **302.8%**
Amazon.com (AMZN)
Issue 10/02 — David

▲ **206.8%**
GameStop (GME)*
Issue 10/04 — David

BOTTOM 5 PERFORMERS

▼ **(93.3%)**
CompuCredit (CCRT)
Issue 2/07 — Tom

▼ **(85.4%)**
Whole Foods (WFMI)*
Issue 9/05 — David

▼ **(76.1%)**
Cemex (CX)
Issue 10/06 — Tom

▼ **(74.6%)**
Vasco Data Security (VDSI)*
Issue 1/08 — Tom

▼ **(72.9%)**
Starbucks (SBUX)
Issue 3/06 — David

*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, 9/04, and 1/09 issues; **ATVI** was also recommended in the 9/02 and 10/08 issues; **WFMI** was also recommended in the 3/08 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

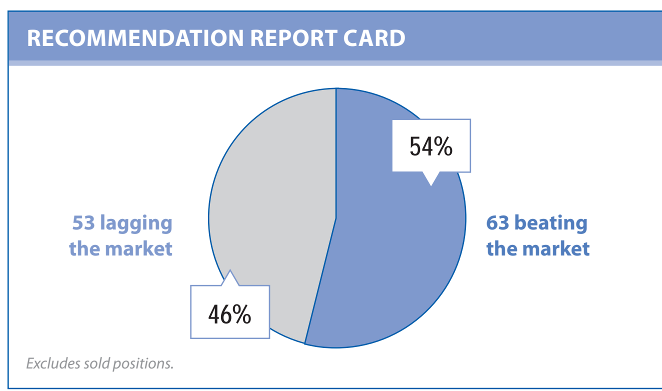
	Company	Ticker	Recent Share Price
1.	Fortune Brands	FO	$29.63
2.	Omniture	OMTR	$9.86
3.	Apple*	AAPL	$94.53
4.	Starbucks***	SBUX	$9.65
5.	FedEx*	FDX	$49.20

TOM'S

	Company	Ticker	Recent Share Price
1.	Dolby	DLB	$32.14
2.	Berkshire Hathaway***	BRK-B	$2,769.99
3.	Costco	COST	$42.12
4.	Morningstar**	MORN	$33.46
5.	Lab Corp.	LH	$62.15

*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. *** David and The Motley Fool own shares.*

RECOMMENDATION REPORT CARD



Excludes sold positions.

THE CAPS RAP ON OUR NEWEST RECOMMENDATIONS

SapphireSeas says 5-star **Leucadia National** offers "value investing for the little guy. Bargain pick with excellent management."

JCSmiley is a fan of 5-star **McKesson** because "without MCK, the healthcare IT system as we know it would collapse. This is a super-long hold for me. They have nice growth potential and a lock on a business that makes them very safe."

What do *you* think? Make your pitch at caps.fool.com.

DISCLOSURES: *The Motley Fool owns shares of AXP, BRK-B, MORN, PG, SBUX, and UNH; David: AFL, AMZN, BRK-B, FDX, and NFLX; Tom: AXP and KO; Andy: BRK-B; Rex: BRK-B, EBAY, and PCAR; Karl: PFE; Matt: LUK; Bryan: AXP.*

All scorecard data as of market close 2/17/09

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