

Invest Like the Best

How You Can Use the Strategies of Buffett, Lynch, Graham, Zweig & Other Market Gurus

From fears of a second Great Depression, to an unprecedented \$787 billion government stimulus plan for the struggling economy, to one of the steepest and swiftest rallies on record, 2009 was a wild year for investors. When the final tally was taken, stocks ended up well in the black, with the S&P 500 gaining 23.5% -- its best year since 2003.

Those returns were very good. But what if someone told you that you could've doubled them by using an easy-to-follow, equities-only approach that didn't require you to take on too much additional risk? And what if that same approach was no flash-in-the-pan, but instead a proven winner that had generated 12 times the gains of the broader market over the long term?

That's just what John Reese's **Validea Hot List** portfolio has done. The 10-stock Hot List combines all 12 of Reese's individual "Guru Strategy" computer models -- each of which is based on the published approach of a different investing great -- into one market-beating system. **The portfolio gained 47.0% in 2009**, pushing its total returns since its July 2003 inception to 141.0%; over the same period, the S&P gained a total of just 11.5%. **That's 14.6% gains per year for the Hot List during a period in which the S&P returned just 1.7% annually!**

You, too, can take advantage of this proven market-beating system, by signing up for the [Validea Hot List newsletter](#). In each bi-weekly issue of the Hot List, you'll receive:

- Easy to follow buy/sell recommendations for the 10-stock guru-based Hot List portfolio.
- Detailed point-by-point Pass/Fail analysis of all of the Hot List holdings.
- "Guru Ratings" of each stock in the portfolio, based on how well the stock measures up against each guru's strategy.
- John Reese's latest take on the market and details about his quantitative strategies.
- Analysis of various guru methodologies, portfolio and market stats, and much, much more.

In addition, sign up today and receive a **free copy of Reese's 2009 Validea.com annual report**, which takes a deeper look at several of his best-performing individual Guru Strategies.

A Disciplined, Proven System

How has the Hot List produced such outstanding returns during such a bad period for the broader market? Well, it has *not* done so by taking risky bets, or hunch-playing, or trying to outsmart the market by switching to cash when times got tough. No, it's produced

those gains while being *fully invested in stocks* since its inception more than six years ago.

The Hot List has instead worked so well because it takes proven strategies used by some of history's most successful investors -- people like Benjamin Graham, Warren Buffett, Peter Lynch, and Martin Zweig -- and combines them into a disciplined, fundamental-based stock-picking system. Each of Reese's individual Guru Strategies use rigorous fundamental and balance sheet tests to identify the stocks of strong companies selling on the cheap. The Hot List employs all of them to pick its 10 holdings, giving the most weight to the strategies with the best risk-adjusted historical performance. The portfolio gets rebalanced every four weeks, without fail, to ensure that only the most attractive stocks of the best companies are among its holdings.

By using this highly disciplined, quantitative approach, the Hot List eliminates a number of the behavioral biases that dog investors -- hindsight bias, myopic loss aversion, and anchoring are just a few such biases that have been highlighted by behavioral finance experts in recent years.

The Hot List's multi-strategy approach also limits strategy-specific risk. Any strategy -- even the best of all-time -- go through short-term periods of underperformance. By using multiple strategies in a consensus-type approach, the Hot List limits the downside exposure when a particular strategy goes through a down period.

In 2009, this consensus approach found a number of big winners, including:

- **The Dress Barn**, a 70.1% gainer over three months
- **Schnitzer Steel**, which jumped 65.9% over a five-month span
- Chinese jeweler **Fuqi International**, up 64.1% in a three-month span
- **Deckers Outdoor Corporation**, a 46.2% gainer in a one-month stint in the portfolio.
- **Oil States International**, up almost 60% in just two months

A number of Reese's individual guru-based strategies played a big role in finding these and other 2009 Hot List winners. Here's a quick look at some of them:

The Joel Greenblatt-based Strategy: The Greenblatt-based approach was Reese's best individual performer in 2009, with a 10-stock portfolio picked using the strategy gaining 63.1%. Based on the remarkably simple, two-variable "magic formula" that Greenblatt -- a highly successful hedge fund manager -- laid out in *The Little Book that Beats the Market*, this approach also has an impressive longer-term track record -- through 2009, it was up 53.9% (11.0% annualized) since its December 2005 inception while the S&P 500 was in the red, down 11.7% (-3.0% annualized).

The Benjamin Graham-based Strategy: Based on the "defensive investor" approach that Graham laid out more than 60 years ago, this strategy is the oldest of all those that the Hot List uses. But far from being outdated, the Graham approach has actually been Reese's best performer over the long haul, and it put up very good numbers again in

2009. It was up 31.4% for the year, pushing its long-term returns to 154.2% (since its July 2003 inception). That's 15.5% *annualized returns* during a period in which the S&P gained a *total* of just 11.5%. The conservative approach uses a variety of rigorous balance sheet and valuation tests to find rock-solid companies whose stocks are selling at bargain prices.

The Peter Lynch-based Strategy: Based on the approach that Lynch -- one of the greatest mutual fund managers of all-time -- detailed in his book *One Up on Wall Street*, this strategy enjoyed a big 2009. Reese's 10-stock Lynch-based portfolio returned 45.7% for the year, building on its strong long-term track record. Centering on the P/E/Growth ratio that Lynch famously pioneered, it targets conservatively financed growth stocks selling on the cheap. Through 2009, the 10-stock Lynch portfolio was up 79.3% (9.4% annualized) since its July 2003 inception, compared to just 11.5% (1.7% annualized) for the S&P 500.

Take Control of Your Portfolio

Like Lynch, Graham, Greenblatt and the other renowned investors who inspired them, the strategies that contribute to the Hot List have outstanding track records through a variety of market climates, and the Hot List melds them together in one proven, successful system. While many of the pundits you'll hear from on television, online, or in print are more style than substance, the Hot List is a rarity -- a proven winner that is based on cold, hard data and discipline, not guesswork or hunches. Don't miss out on a chance to benefit from this market-beating system -- [sign up today for the Validea Hot List!](#)