Dear [Investor Name],

What would be better than having billionaire financial guru Warren Buffett or mutual fund legend Peter Lynch manage your investment portfolio?

Having both Buffett *and* Lynch manage your money, of course.

Unless you run in some pretty exclusive circles, however, you probably don't have access to personalized advice from Buffett and Lynch. But the Validea Hot List portfolio gives you the next best thing. The Hot List uses the publicly disclosed strategies of a number of investment greats -- Lynch, Buffett, Benjamin Graham, Joel Greenblatt, Kenneth Fisher, and others -- in one 10-stock portfolio, combining the approaches of these highly successful investors to select the most attractive stocks in the market.

By looking for consensus among these individual Guru Strategies (and giving the best performers greater weight in selecting the portfolio), the Hot List is able to identify stocks that are financially sound, fundamentally strong, and trading at great prices -- in short, the kind of stocks that the gurus built their reputations and fortunes on. It's like having history's most successful investors looking over your shoulder, helping you fill your portfolio with the best stocks money can buy.

How Does It Work?

Unbeknownst to most investors, several of history's most successful strategists -- including gurus like Lynch and Graham and Greenblatt -- have published books or papers disclosing specific elements of their strategies. They have laid out what qualities they look for in a stock, and what metrics they use to measure those qualities.

Using my background in computer science and artificial intelligence (I was a member of the artificial intelligence lab while getting my degree from M.I.T.), I was able to develop computer models that closely mimic the published strategies of Buffett, Lynch, Greenblatt, and several other investing gurus.

The Validea Hot List takes the top investment ideas from these various guru-based quantitative strategies and combines them in an easy-to-follow model portfolio. The theory is that, by using multiple successful strategies within the same portfolio, a stock must be very sound on a number of levels to make it into the Hot List. Each individual Guru Strategy uses as many as 17 different variables in analyzing a stock; the 12 models that go into the Hot List thus run a stock through dozens of financial and fundamental tests, ranging from valuation metrics like the price/book and price/earnings ratios, to profitability measures like return on equity and return on assets, to earnings and revenue growth, and beyond.

The Results

Of course, theory is wonderful -- but results are what matters. What kind of results has the Hot List actually produced?

Well, from the time I started tracking the portfolio through the end of 2012, it produced annualized returns of 11.1%, *nearly tripling the 3.8% annualized gain of the S&P 500.* And while it was a bit more volatile than the broader market, it wasn't overly risky -- the portfolio's beta was 1.19. It also had a stellar base rate of 70%, meaning it beat the S&P in seven out of the 10 years of its existence.

The Dream Team

So just who are the investment gurus who inspired the strategies employed by the Hot List? Here's a look at them:

Warren Buffett: The Berkshire Hathaway chairman has generated 24% annualized returns for more than three decades with his value-focused, patient, long-term approach.

Peter Lynch: Lynch's Magellan fund gained an average of 29.2% over more than 13 years -- just about doubling the broader market's gain -- by using a "growth at a reasonable price" strategy.

Benjamin Graham: Known as the "Father of Value Investing" -- and Buffett's mentor -- Graham posted per annum returns of about 20% from 1936 to 1956, far outpacing the 12.2% market average.

Martin Zweig: During the 15 years that it was monitored, Zweig's stock recommendation newsletter returned an average of 15.9% per year by finding strong growth stocks, during which time it was ranked number one based on risk-adjusted returns by Hulbert Financial Digest.

John Neff: Over a remarkable three-decade run that began in 1964, Neff guided the Windsor fund to a 13.7% average annual return, easily outpacing the S&P 500's 10.6% return during that time with his value-based approach.

Kenneth Fisher: The author, *Forbes* columnist, and money manager pioneered the use of the price/sales ratio, and his *Forbes* picks have nearly doubled the S&P 500's gain since 1996.

James O'Shaughnessy: O'Shaughnessy's examination of historical stock market returns ranks among the most in-depth ever. His back-testing identified a growth/value hybrid approach that beat the S&P 500 by more than 5.5 percentage points per year over a period of more than four decades.

David Dreman: This contrarian guru (and Forbes columnist) managed one of the best-performing mutual funds ever, ranking as the best of 255 funds in its peer groups from 1988 to 1998, according to Lipper Analytical Services.

Joel Greenblatt: In his *Little Book That Beats The Market*, hedge fund manager Greenblatt laid out a stunningly simple way to beat the market using two -- and only two -- fundamental variables. It produced back-tested returns of 30.8% per year from 1988 through 2004, more than doubling the S&P 500's 12.4% return during that time.

Joseph Piotroski: This little-known accounting professor wrote a highly influential paper that laid out an accounting-based value investing method that produced 23% average annual back-tested returns over a two-decade period -- more than doubling the S&P 500's gain.

No Tricks -- Just Solid Investing

While the gurus who inspired the strategies behind the Hot List produced seemingly otherworldly long-term returns, they didn't possess any sort of mystical investment powers or sixth sense. Their approaches, and the portfolio's success, are rooted in good old-fashioned basic investing principles: Buy stock in good companies when shares are cheap -- *and stay disciplined*.

That last part can't be understated. Just about all of the gurus who inspired these strategies preached the importance of staying disciplined and sticking with a strategy over the long-term. Most investors can't do that. They get swayed by their emotions, and end up buying high and selling low.

The Hot List, in contrast, is managed using a disciplined, unbending monthly rebalancing system. Every 28 days the stocks that are no longer ranked among the top 10 in the market according to the portfolio's underlying strategies are sold, and the stocks that have surpassed them are bought. We buy and sell only at those intervals, never deviating from that buying and selling strategy (save for a couple special circumstances, like if a firm is suspected of accounting fraud that makes its fundamentals unreliable).

By sticking to the cold, hard data in a company's fundamentals and on its balance sheet -- and staying disciplined over the long haul -- we thus allow the gurus' strategies to work without being short-circuited by our own gut feelings or emotions. Over time, that has led to exceptional results. I believe it will continue to do so going forward, and I hope you'll take advantage of it.

Start Your Free Trial Today!

Best regards,

John Reese
CEO, Validea.com