

Three Top Picks From Our Ultimate Stock-Pickers' New Money Purchases

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Combining our managers' recent activity with our ratings uncovers some ideas.

We often like to take a look at which first-time buys our Ultimate Stock-Pickers are making within their portfolios. These are also known as new money purchases. Combing through the current holdings of our Ultimate Stock-Pickers gives only a limited indication of which stocks these managers believe are currently worth buying, as some of these holdings may have been bought a while back, when prices were at a different level. Looking at new money purchases give us some insight into what these stock pickers think are the most attractive buying opportunities right now. However, since these funds report their new positions with a lag, the prices they paid for these stocks could differ significantly from their prices today. Still, new money purchases are a better indication of potential opportunities than just looking a manager's overall holdings, in our opinion.

As we farmed through the list of the top 25 new money purchases for the most recent period, we paid particular attention to a few key factors. First, only two stocks were purchased by multiple fund managers. A new position purchased by multiple funds indicates that more than one manager views the stock as a great buying opportunity. The two stocks we found that met this criterion were **Bank of America** [BAC](#), which was purchased by **Fairholme** [FAIRX](#) and **Sound Shore** [SSHFX](#), and **Teva Pharmaceutical** [TEVA](#), which was purchased by **Markel Corporation** [MKL](#) and **Oak Value** [OAKVX](#).

Second, we looked at how many funds already owned the new money purchases. Out of the list of top 25 purchases, only four stocks were held by eight or more funds. Those stocks were Bank of America, **Comcast** [CMCSK](#), **Berkshire Hathaway** [BRK.B](#), and **Home Depot** [HD](#). While not all eight funds purchased shares of the aforementioned stocks during the most recently reported period, knowing that a significant number of Ultimate Stock Pickers managers owned these stocks gives us some confidence that these companies are widely viewed as fundamentally attractive businesses.

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Finally, we screened the new money purchases for stocks which are currently rated 4 or 5-stars by our Morningstar equity analysts. In our opinion, this gives the best indication as to which stocks still offer a substantial investment opportunity, since our ratings are current, and not reported with a lag. Three stocks from this list were rated as 5-stars: **Applied Materials** [AMAT](#), which was purchased by Sound Shore, and **Transocean** [RIG](#) and Home Depot, which were both purchased by Oakmark.

		Star Rating	Fair Value Uncertainty	Size of Moat	Current Price (\$)	Price/Fair Value	No. of Funds Holding
Applied Materials	AMAT	5	Medium	Wide	12.30	0.55	4
Transocean, Inc.	RIG	5	High	Narrow	51.83	0.42	5
Home Depot, Inc.	HD	5	Medium	Wide	28.26	0.66	8

Stock Price and Morningstar Rating data as of 07-09-10

Below are our analysts' thoughts on these names:

Applied Materials [AMAT](#) ★★★★★

Applied Materials is the behemoth of the semiconductor equipment industry, with unmatched scale and a broad product portfolio. The firm has steadily been establishing its solar equipment business in an effort to drive growth. While a cyclical downturn hampered Applied in 2009, the firm is now experiencing a rebound in business conditions.

Transocean [RIG](#) ★★★★★

In our opinion, Transocean is the best positioned driller to capitalize on numerous drilling technology breakthroughs, as well as higher oil and gas prices. These have led to strong secular trends supporting high levels of offshore exploration and development well into the next decade. Because Transocean owns the world's largest offshore drilling fleet, it will collect billions from customers eager to exploit large discoveries under the sea floor. Transocean's stock has been hammered due to its involvement in the Deepwater Horizon oil spill. Analyst Stephen Ellis doesn't dismiss the risk Transocean faces, but believe the risk/reward profile favors investors who are willing to stomach some uncertainty.

Home Depot [HD](#) ★★★★★

Home Depot, the world's largest home-improvement retailer with more than \$66 billion in revenue in 2009, spent the past three years battling economic headwinds and updating its distribution network. After a decade of aggressive expansion and store and concept growth, the company changed course. It sold its professional supply business in 2007, and closed its ancillary retail businesses in early 2009. Home Depot is now solely focused on its orange box stores, and is engaged in a strategic overhaul of its supply chain. We believe the ongoing upgrades will strengthen the firm's competitive position, particularly as macro pressures abate in the coming years. The firm earns a wide economic moat rating because of its substantial economies of scale.

Disclosure: Brett Horn owns no shares in the securities mentioned above.

Ultimate Stock-Pickers is a concept we've developed at Morningstar with a simple goal: to cross-check our stock research against the opinions of professional money managers.

While the equity analysts at Morningstar spend the majority of their time hunting for quality companies that are trading at attractive valuations, we would be remiss if we failed to acknowledge the fact that a whole host of individuals outside of Morningstar are engaged in the very same effort. So why not take advantage of the fruits of their labor and, in the process, highlight many of the gems that exist from time to time within our own universe of 5-Star stocks?

Contrary to popular opinion, there is more than one group doing research at Morningstar. It seems that along with the cadre of stock analysts that currently sift through a universe of some 2,000 publicly-traded companies, there is another full team of analysts at our firm that spends the majority of its time researching a collection of 2,000 different mutual funds. Backed by the efforts of these two distinct research groups, we believe that we are in a unique position to monitor both sides of the coin—from the fundamentals of the individual firms we might be interested in pursuing further to the actions and performance of the professional money managers that routinely sift through the same universe of stocks we cover looking for investment ideas.

We're not as interested in what all investment managers think so much as we are in what the best in the business are doing. As such, we maintain a list of 26 managers that we believe are worth monitoring on a regular basis. With most institutional investment managers required to file a Form 13-F each quarter with the Securities and Exchange Commission (SEC) disclosing their investment positions, and Morningstar receiving monthly updates on the holdings of many mutual fund managers, we are able to construct a consolidated list of holdings for the managers on our roster and track any meaningful changes in their equity positions.

Once that is completed, we assess the relative attractiveness of each individual security by how many funds actually hold it and whether or not they've been adding to (or subtracting from) the position. We also look at the percentage that each security makes up of the equity portfolios of each of the managers on our list, determining the level of conviction they have in a particular name by the amount they have committed to it.

All of this allows us to compile a list of top purchases and sales, which we can then cross-reference against our own stock ratings to determine if a particular security is still selling at an attractive enough valuation to warrant purchasing or, at the very least, further investigation.

Ultimate Stock-Pickers' Investment Manager Roster

		Morningstar Fund Rating	Manager(s)	Manager Tenure	YTD Total Return (%)
Alleghany	Y	NA	Weston Hicks	-	-
Amana Trust Growth	AMAGX	5	Nicholas Kaiser	16	-1.8
Amana Trust Income	AMANX	5	Nicholas Kaiser	20	-3.5
Aston/Montag & Caldwell Growth	MCGIX	5	Ronald Canakaris	16	-5.4
Berkshire Hathaway	BRK.B	NA	Warren Buffett, Charlie Munger, Lou Simpson	-	-
Columbia Dividend Income	LBSAX	4	Scott Davis, Richard Dahlberg	8	-2.0
Columbia Value & Restructuring	EVRAX	2	David Williams	17	-5.4
Davis NY Venture	NYVTX	3	Chris Davis, Kenneth Feinberg	14	-3.4
Dodge & Cox Stock	DODGX	3	John Gunn, Kenneth Olivier, Others	25	-3.8
Fairfax Financial Holdings	FRFHF	NA	Hamblin Watsa Investment Council	-	-
Faiholme	FAIRX	5	Bruce Berkowitz	10	4.4
FMI Large Cap	FMIHX	5	Pat English, Ted Kellner	8	-2.3
FPA Crescent	FPACX	5	Steven Romick	17	-0.1
Hartford Capital Appreciation	ITHAX	3	Saul Pannell, Frank Catrickes	16	-5.6
Jensen	JENSX	5	Robert Zagunis	17	-3.2
Markel	MKL	NA	Tom Gayner	-	-
Matrix Advisors Value	MAVFX	2	David Katz	14	-7.7
Mutual Shares	TESIX	3	Peter Langerman, David Segal	6	-1.3
Oak Value	OAKVX	4	David Carr, Larry Coats, Christy Phillips	17	-4.1
Oakmark Equity & Income	OAKBX	5	Clyde McGregor, Edward Studzinski	14	-1.6
Parnassus Equity Income	PRBLX	5	Todd Ahlsten	9	-3.9
Sound Shore	SSHFX	4	Harry Bum III, T. Gibbs Kane, John DeGulis	25	-4.4
Tweedy Browne Value	TWEBX	4	William Browne, John Spears, Others	16	-2.2
Vanguard PRIMECAP	VPMCX	4	Howard Schow, Theo Kolokotronis, Others	21	-6.3
Wintergreen	WGRNX	5	David Winters	5	3.5
Yacktman	YACKX	5	Donald Yacktman, Stephen Yacktman	17	-0.4

Total Return and Morningstar Rating data as of 07-09-10.