



MOTLEY FOOL STOCK ADVISOR™

★ SIX-MONTH REVIEW ★

Volume 8, Issue 6, June 2009

stockadvisor.fool.com



With
David & Tom Gardner
Motley Fool
Co-Founders

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Did You Know?

SA Welcomes a "New" Fool

We're delighted to welcome Alex Scherer (**TMFEnochRoot**) to *Stock Advisor*, where he's an associate advisor working closely with Team Tom.

A familiar face from the Fool.com message boards, Alex has been active in our community since 1998 and brings a decade of analytical experience with him. A little trivia: He's lived in 10 places in the past 10 years — but he's driven the same car the whole time. Three cheers for commitment!

Let's Get Right to the Heart of It

Dear Fellow Fools,

It's no secret that to get to the good stuff, you have to find your way to the core. Whether it's a mind-blowing metallic ball the size of the moon — which you'd find at the center of the earth — or the gooey insides of the perfect piece of chocolate lava cake, the core represents the very heart of the matter.

That's the thinking behind our new **Stock Advisor Core**, which I (David here) am delighted to introduce this month (see page 4 for more). The idea grew from a successful test pilot over at *Motley Fool Rule Breakers*, my growth-stock service, where we created a short list of core stocks that we believed — looking up and down our scorecard — were ripe for long-term picking, particularly as foundational stocks for newcomers.

In bringing this concept to *Stock Advisor*, we're guiding you toward the eight stocks we believe in the most — four from my side of the scorecard, four from Tom's — and they're all stocks that get to the heart of this service: **Amazon.com**, **Activision Blizzard**, **Berkshire Hathaway**, **Costco**, **Dolby**, **Marvel**, and **Netflix** (which earned a spot on both sides of the Core). Every SA member should own at least three of these seven stocks as you build a portfolio of 15 stocks or more. We can't stand to think you'd be a member of SA and not have purchased any of our essential stocks! We believe these easier-to-understand businesses also have a higher-than-average probability of beating the market.

Now, if you've been with us a while, some Core stocks may already be in your portfolio — and that's exactly what we're hoping. Our Best Buys Now have a striking record of outperformance, and we encourage you to continue to fill out your portfolio with whichever of those stocks strike your fancy.

The Core isn't the only new feature at *Stock Advisor* these days — we continue to improve existing elements of our service while adding new ones. We've made our online scorecard, accessible via the Recommendations tab, more user-friendly. In conjunction with that, we're fulfilling a long-time member request to show our scorecard without rolling sold picks into the S&P 500. We're also unveiling a new My Scorecard feature, where you can keep track of the performance of your SA scorecard, rather than just view ours — this is the beginning of a major addition to *Stock Advisor* that we'll have more to say about later. Finally, we'll soon launch our redesigned home page for the service — it'll be even more informative, interactive, dynamic, and relevant to your daily or weekly click.

Questions about the SA Core? Comments on how we're doing? Drop us a note on our **SA Ask the Stock Advisor Team** discussion board — I read that every day — so we can continue listening and responding to you, the SA community. Fool on!

For disclosure information, please see page 8.



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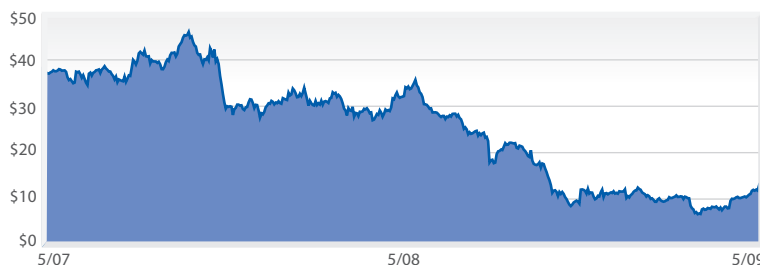
inVentiv Health (Nasdaq: VTIV)

By DAVID GARDNER WITH KARL THIEL

This global player provides sales, staffing, clinical, and communications services to more than 350 clients, including the world's top 20 drug companies.

Why Buy:

- » It generates substantial cash flow, funding a successful acquisition strategy.
- » CEO Blane Walter has purchased more than \$4 million in stock since March.
- » This stock is dirt cheap — even if you expect 0% long-term growth.



Headquarters:	Somerset, N.J.
Website:	www.inventivhealth.com
Recent Price:	\$12.27
Risk Level:	High
Position in Industry:	Innovator
Market Cap:	\$410
Cash/Debt:	\$94/\$360
Revenue (08/07/06):	\$1,120/\$977/\$766
Earnings (08/07/06):	(\$128)/\$48/\$51
Insider Ownership:	6.0%
Biggest Threat:	Acquisition overdose

The Team Says: One inventive business

Data as of 5/12/09

Except share price, all dollar figures in millions.

Americans spend well over \$200 billion a year on prescription drugs — that's more than the GDP of Israel. Those straightforward sales represent a seriously big industry, but it gets a lot larger when you look at what goes on behind the scenes to support it. We've made selective forays into parts of that infrastructure — for example, clinical research support (**Pharmaceutical Product Development** (Nasdaq: PPD)), wholesaling (**McKesson** (NYSE: MCK)), and pharmacy management (**Medco Health** (NYSE: MHS)). This month, we add another important puzzle piece to our pharmaceutical *keiretsu*: the profitable industry that has grown around drug company recruiting, staffing, consulting, support, advertising, sales, and marketing.

My newest recommendation, **inVentiv Health** (Nasdaq: VTIV), is a collection of 35 business units with one common goal: to help pharmaceutical and biotech companies, large and small, maximize profits by managing just about every aspect of a drug's lifecycle. Karl and I believe an investment in inVentiv could maximize your portfolio's profits, too.

Dosing Out the Business

Coordinating such a spectrum of businesses is no small feat, and inVentiv relies on four main divisions to lead the charge. Its commercial group (40% of revenue in 2008) helps customers by sending inVentiv's experienced drug sales reps out to sell the clients' products.

Then there's the clinical division (19%), which provides data management and statistical analysis for clinical trials and also helps companies recruit personnel for studies conducted in-house. The communications group (30%) offers advertising and communication support (think promotional campaigns for drug companies) as well as patient and physi-

cian education. And the company's newest division, patient outcomes (11%), handles what is broadly called disease management by creating programs that encourage people to take their medications on schedule and offer patient support.

At the helm of all this is CEO Blane Walter, who has acquired about \$4 million worth of stock since March. This brought Walter's stake in the company to 5.5%, worth nearly \$24 million, and displays a confidence we love to see in management.

Time-Tested Success

This isn't new territory for The Motley Fool; my brother Tom recommended inVentiv in *Hidden Gems* in January 2007. Karl and I still admire many of the things that first attracted the *HG* team to this company, and by buying today, we're getting the same potential at a much lower cost — and with many of the risks more exposed. After running up to more than \$45 a share, inVentiv's stock is back to where it was in early 2004, when it went on the *HG* watch list. Revenue and free cash flow have roughly quintupled since then (though, to be fair, debt has gone from next to nothing to \$365 million, giving the company a debt-to-equity ratio of 99%).

These days, inVentiv looks seriously cheap. Its enterprise value, which takes all that debt into account, is about 12 times trailing free cash flow, even after adjusting for expenses related to employee stock options. Even in a zero long-term growth scenario, my fair value for the stock is 50% higher than where it trades today.

We like that the company works on contracts that give management a fair degree of visibility into future revenue,

which means we shouldn't have many major surprises. Even better, its best-in-class business units are constantly bidding for new contracts with a win rate that's consistently north of 50%. A slew of new drugs making their way through late-stage trials and FDA approval will need support, branding, marketing, and other services, so as the economy recovers and new drugs are approved, inVentiv's growth will rebound.

Rewards Have Their Risks

Many of inVentiv's 35 business units were once independent companies — in fact, inVentiv has made 18 acquisitions since 2004. Management expects to absorb fewer companies from now on, but inVentiv's balance sheet, not surprisingly, has a lot of goodwill — the amount it paid in excess of the book value (assets less liabilities) of its acquisitions. Companies are often forced to write down goodwill and book a loss against earnings if the estimated market value of an acquisition has dropped, and this is exactly what inVentiv did in the fourth quarter of 2008 — to the tune of \$268 million. The company still had \$442 million in goodwill and other intangibles on its balance sheet at the end of 2008 and could be forced to book further losses.

I think inVentiv's depressed stock price has more to do with investors' reticence to tangle with indebted companies — and in this case, that concern is way overblown. The company does have considerable debt, but most of it isn't due until after 2012, and inVentiv should easily be able to meet its obligations from ongoing cash flow. Management intends to pay down the "vast majority" of company debt over the next several years, and I believe it will do it.

There's also the reform risk that just about every health-care company must grapple with. Most potential legislative reforms that worry investors — price controls on drugs, for instance — would have only an indirect impact on inVentiv, but its communications division faces a real challenge: Many congressional Democrats are cracking down on drug ads deemed inappropriate or misleading, which could have a significant impact on inVentiv. The risk of that is minimal — drug companies have a pretty air-tight First Amendment case against an outright ban — but a more regulated process is a contingency management says it has planned for.

The Foolish Bottom Line

With more than 350 clients, including all of the top 20 drug companies, inVentiv is at the top of its class. Despite its great business visibility and a diverse array of clients, with none representing more than 10% of revenue, inVentiv's stock has been hammered by worries over debt and industry upheaval. Karl and I think the pessimism is overdone, and management shares that opinion. CEO Walter may be a better manager than he is an investor — he's made significant market purchases of inVentiv stock at much higher prices — but we'll take that kind of confidence any day. 🐼

Dueling Fools: Inventive Inquiries

Tom: Nice use of the word *keiretsu*. Why so much *jounetsu* for the drug companies lately on your side of the scorecard?

David: Touché, good brother. Here's why I'm "enthusiastic" about the prescription drug business: \$516 billion. That's the amount Americans will be spending each and every year on prescription drugs by the year 2017 — and that's 11% growth per year from today. So yes, I've got plenty of *jounetsu* for companies that can grab any part of that growth.

Tom: Back to inVentiv, aren't all these goodwill writedowns a blatant admission that it overpaid for many of its acquisitions in recent years?

David: Well, to a certain extent, yes. But the recession has had a lot to do with it. Many acquired companies just aren't pulling in the kind of business that they were a few years back, which brings down their market value. This is happening all over the corporate landscape right now. And while inVentiv did originally pay up in real dollars for those businesses, it's important to keep in mind that asset writedowns are non-cash charges, so they have no impact on inVentiv's cash flow *today*.

Tom: So how is the recession treating inVentiv, and how is 2009 shaping up so far?

David: Management expects a difficult 2009, but even in this exceptional environment inVentiv's projecting flat to modestly higher revenue and operating cash flow of more than \$80 million, which would be only slightly lower than last year's \$87 million. Besides, a number of inVentiv's services actually could get a boost during this slowdown. Its patient outcomes segment consults with health-care plans on cost-containment strategies — kind of important these days. And its clinical division actually tries to help downsizing companies meet their staffing needs without additional hiring.

Tom: First Whole Foods (Nasdaq: WFMI), now inVentiv. Are you just going to start stealing all of your kid brother's picks?

David: I don't think two makes a trend. And how's that Netflix (Nasdaq: NFLX) recommendation working out for you? 🐼

For disclosure information, please see page 8.

Welcome to the Stock Advisor Core, a list of stocks that we believe in most. We encourage you to own at least three stocks from this group, which won't change often. Read on for details about our inaugural selections for this elite collection.

David's Core

Company	Ticker
Amazon.com	(AMZN)
Activision Blizzard	(ATVI)
Marvel	(MVL)
Netflix	(NFLX)

Amazon.com's (Nasdaq: AMZN) value proposition is unbeatable: a virtually limitless selection, cheap prices, and a peerless online shopping experience. Founder and CEO Jeff Bezos is equal parts businessman and entrepreneur — a first-rate mix behind such innovations as

the Kindle e-book reader. This Core inductee is revolutionizing the way we buy and use products and digital content.

Meanwhile, the market for video games is enjoying a vigorous secular growth phase, and there's no better way to hinge your investment dollars to that growth than **Activision Blizzard** (Nasdaq: ATVI). Its deep portfolio and pipeline of games include blockbusters like *Guitar Hero*, *Call of Duty*, *Diablo*, and *Starcraft*, and its merger with Vivendi Games added *World of Warcraft* and nearly 12 million monthly subscribers to the mix — making Activision the virtual juggernaut of the online gaming world and our Core list.

Then you have the old-school champs, like Spider-Man, Iron Man, Hulk, and the X-Men. Americans know and love these iconic superheroes and are willing to shell out plenty of dough for the books, toys, and movies that feature them. That's great news for **Marvel Entertainment** (NYSE: MVL), which has been on our scorecard since Year One and was destined for our Core list. Through publishing, licensing, and now film production, Marvel has turned its decades-old, 5,000-character library into a marvelous cash machine that is just getting revved up.

Netflix (Nasdaq: NFLX) has established a dominant position in the in-home video entertainment market, and it's dominating our Core concept, too, with a slot on both David's and Tom's lists. Netflix is run by its intelligent and innovative founder, Reed Hastings, who is constantly expanding the company's entertainment conduit to new platforms. Moreover, the company features a rapidly growing and loyal membership base, a recommendation engine that is unparalleled in the industry, and a cash-rich balance sheet.

Tom's Core

Company	Ticker
Berkshire Hathaway	(BRK-B)
Costco	(COST)
Dolby	(DLB)
Netflix	(NFLX)

In many ways, **Berkshire Hathaway** (NYSE: BRK-B) defines the concept of a Core stock: Management is of the highest quality, and incentives are almost perfectly aligned with shareholder's interests. Chairman and CEO Warren Buffett has built a spectacular competitive

advantage, never making short-term moves at the expense of the long-term focus — and that's serious Core value.

Fellow leaders and **Costco** (Nasdaq: COST) co-founders Jim Sinegal and Jeff Brotman knew they were onto something big when Costco became the first company to grow its sales from zero to \$3 billion in five years. Today, it's a multidecade retail success story based on a unique, steadfast concern for all the company's constituents, from shareholders to customers to employees to suppliers. This exceptional business approach makes Costco a Core holding for us.

No matter how great a company is, we typically don't recommend it three out of four months in a row unless we're *huge* fans of its products, people, and business model. Sound pioneer **Dolby** (NYSE: DLB) has all that and more. Ray Dolby founded the company in the 1960s and still sits on the board, owns 53% of the company, and inspires its quest to deliver amazing audio and video entertainment quality around the globe. High margins, lots of growth, and a sterling balance sheet buff up this multiplatinum Core superstar.

Rounding out our well-managed foursome is **Netflix** (Nasdaq: NFLX), whose founder, Reed Hastings, has led the revolution in watching movies without leaving the comfort of the living room sofa. Millions of members love its online platform, superior recommendation engine, and efficient distribution system that offers hours of monthly DVD entertainment at a fraction of the cost of one family night out at the theater. The cash flow, solid balance sheet, and off-the-charts customer loyalty are Foolish icing on the Core cake. 🐼

For disclosure information, please see page 8.

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The SA Takeaway Report Card

Enjoy some stocks to go! This special removable section summarizes our thoughts on every one of Tom's active recommendations. It's suitable for framing or hanging on the refrigerator — just don't lose it!

Six standouts top Tom's list of stocks in this six-month review — his re-recommendation of **Berkshire Hathaway** (NYSE: BRK-B) and his five Best Buys Now. They're linked by great management, aggressive survival tactics, and attractive share prices — a powerful trifecta that sets them apart from the crowd.

As you add new money, we suggest you start with these six. Our Core stocks are a good place to turn next, especially if you're just starting out building your portfolio. Once you own at least three positions in the Core, definitely have a

look at the other Buys. We're comfortable with you adding new money to any of them, subject to your risk tolerance.

Finally, avoid adding new money to the stocks rated Hold. These companies have issues to work through, so we recommend you continue to hold them if you own them, and we'll keep you updated if our thinking changes. 

We recently revamped Stock Advisor's scorecard to include clearer guidance and different views to suit your tastes. Find it under the Recommendations tab at stockadvisor.fool.com.

Tom's Report Card

	Company	Recent Price	52-Week Range	Comments from the Team
BEST BUYS NOW	Berkshire Hathaway CORE	\$2,939.00	\$2,241.00-\$4,700.00	Seeking a showy high-flier? Look elsewhere. Warren Buffett's BRK-B is your grandfather's kind of company — a consistently reliable, upstanding outfit that will steadily deliver market-beating returns. It's the epitome of a Core portfolio holding, which is why we think it should be one of yours.
	Western Union	\$17.06	\$10.05-\$28.62	Thumbing its nose at the bears, WU's recent results proved that it's surviving the global slowdown quite well, thank you very much. Though no longer sporting the drop-dead compelling valuations we saw only a few months ago, the stock still remains an excellent value for your investment dollars.
	Teradata	\$20.99	\$11.11-\$27.32	Data warehouse TDC is on the move, sealing a strategic partnership with German software giant SAP. Whether it flies solo or takes part in any software/hardware consolidation, now's the time to build out your position.
	Costco CORE	\$46.91	\$38.17-\$75.23	Even COST's cult of bargain shoppers is cutting back. To offset sluggish sales, the warehouse retailer has smartly improved profits by pushing higher-margin store brands and unbeatably cheap luxury goods.
	National Oilwell Varco	\$35.27	\$17.60-\$92.70	The downturn in oil drilling activity has left NOV bruised but not broken. Its industry-leading breadth and diversity, coupled with a large (if diminishing) backlog of new orders, will produce substantial free cash flow.
	MSC Industrial Direct	\$37.69	\$26.72-\$54.58	With loyal clients, profitable repeat customers, and a cash-flow generating business model (even in disastrous times), parts manufacturer MSM is the real deal. Add shares on weakness, because it's just warming up.
BUY	Moody's	\$29.95	\$15.41-\$46.36	Ratings agency MCO took an epic beating in the credit-market implosion — and it survived, thanks to a deep moat and smart management. More battles are likely, keeping share prices depressed — and attractive to us.
	Lab Corp.	\$64.53	\$52.93-\$78.29	LH's specialized testing services boost its immunity in the face of looming health-care reform, as do its growing cash flows, acquisitions, reinvestments, and continued stock buybacks.
	Coach	\$23.95	\$11.41-\$37.64	Fashion victims are filling the graveyard, but COH has skirted the retail reaper, delivering better-than-expected results. With shares at multiyear lows and prospects growing overseas, these markdown prices won't last forever.
	Precision Castparts	\$78.76	\$47.08-\$127.30	The Boeing strike and a slowdown in aircraft building have hurt PCP's revenue — but gas turbine spending is helping, and management has margins near record levels. Brighter skies are ahead.
	UnitedHealth Group	\$27.32	\$14.51-\$35.77	The massive health insurer finds itself in a pickle as health-care reform looms. But we believe UNH's massive scale, technology advantage, and deep database of client results will soften any blow from upcoming legislation.
	Cintas	\$25.45	\$18.09-\$33.73	Whether you work at a casino, a grocery store, or Starbucks, CTAS probably provides your uniform. Factor in its distribution network, international opportunities, and free cash flow, and this company is dressed for success.
	Morningstar	\$41.92	\$25.78-\$74.87	Even in bad markets, MORN remains a critical research tool for fund and stock investors. The stock's run-up pushed this one out of the top 10, but we're still long-term fans of what founder Joe Mansueto is doing.
	Leucadia	\$22.64	\$10.26-\$56.90	In LUK, we're investing with two wily veterans who have delivered market-beating returns for years. Well, except during 2008. This year is looking better, though, so just nibble on shares here.
	Safety Insurance Group	\$32.02	\$28.16-\$49.39	Increased competition from that feisty green gecko is a concern, but we're not too worried about sleepy New England car insurer SAFT. It's a safe bet to expect more steady gains in book value and dividend payments.

Tom's Report Card (continued)

	Company	Recent Price	52-Week Range	Comments from the Team
BUY	Vasco Data Security	\$6.71	\$3.85- \$14.34	The recession has yet to hit security systems provider VDSI where it counts — operating margins or profitability. This small-cap stock will be volatile, but we like its owner-management team and its debt-free balance sheet.
	Copart	\$31.34	\$22.54- \$49.34	This auto remarketer (translation: salvager) has used technology and the Web to make inefficient markets (like buying junk cars) better. It may not be as resistant to an economic downturn, but CPRT still trashes the competition.
	Silicon Labs	\$29.85	\$17.05- \$39.24	SLAB's high-performance integrated chips and diversified portfolio have the company gaining market share even in a deep semiconductor cyclical downturn. The stock is up almost 40% versus the S&P year to date — and growing.
	Dolby CORE	\$39.20	\$24.50- \$48.01	DLB is the leading provider of audio entertainment technology to consumers, filmmakers, theaters, and just about anyone who enjoys sound. Its moat is wide, its margins are high, its capital expenditure needs are low, and its balance sheet is stronger than Christina Aguilera's voice. With the stock around \$40, DLB sounds sweet.
	Bed Bath & Beyond	\$28.29	\$16.23- \$34.61	COST is our pure-play retailer of choice, but BBBY's robust balance sheet and healthy cash flows (even in tough times) make it a very comfortable second. If you're buying in thirds, add a position at these prices.
	Borg Warner	\$28.96	\$14.62- \$55.99	The near-demise of Chrysler and GM shouldn't slow auto parts innovator BWA for too long. Management's focus on cost and inventory efficiencies are driving free cash flow, while growing business abroad and likely higher fuel standards should strengthen long-term demand.
	Paccar	\$31.12	\$20.38- \$53.81	Our favorite diesel truck manufacturer has put the pedal to the metal of late — the stock is up 65% since early March. And with industry-leading brands like Kenworth and Peterbilt, PCAR is poised to keep on truckin'.
	SEI Investments	\$15.27	\$9.19- \$26.41	Investment firms of all sizes went through the ringer during the past year, and SEIC was no exception. The new Wells Fargo-Wachovia deal is encouraging, and we think founder AI West will right this ship as markets improve.
	Aflac	\$34.26	\$10.83- \$68.22	Just months ago, investors expected AFL to get fleeced from its exposure to European debt securities. International support for banks has alleviated most of that concern, so we're buyers today.
	Linear Technology	\$21.18	\$17.69- \$37.77	Though still suffering from depressed end markets, LLTC is fighting the good fight through the downturn. A strong balance sheet, sharp focus on maintaining margins, and attractive valuation make it a good investment.
	Coventry Health Care	\$18.68	\$7.97- \$46.66	Even as premium increases begin to catch up with rising medical costs, CVH faces attrition and reimbursement cuts in its Medicare Advantage business. UNH is still a better bet, but we're moving this off our Hold list.
	Netflix CORE	\$40.33	\$17.90- \$50.24	With plans starting at under \$5 a month, NFLX is one of the cheapest forms of entertainment around — a good thing when consumers are tightening their belts. The stock has grown right alongside the subscriber base.
	Quality Systems	\$56.38	\$25.70- \$57.68	Electronic health records are at the heart of Obama's health-care reform efforts, and QSII is a leader in the field. Great business, great opportunity — but the rich stock price makes us look at our other top buys first.
	National Instruments	\$21.52	\$15.99- \$35.56	NATI's growth may have trailed off during this recession, but its well-diversified customer base, wise management team, and intense focus on R&D and customer relationships will make it a long-term winner.
	Sherwin-Williams	\$55.32	\$42.19- \$65.00	SHW produces plenty of cash flow, has high returns on capital, and is backed by a solid brand. Management has been around long enough to know that this business needs to keep up with competition. Dabble in this one.
	TTM Technologies	\$7.90	\$3.76- \$15.76	Profits are down sharply for printed-circuit board manufacturer TTMI, but cash is up as management has moved aggressively to cut costs. Its exposure to aerospace and defense should keep this business humming.
	Unit Corp.	\$33.38	\$17.75- \$88.24	Oil prices have rallied recently, and so have the shares of oil and natural gas player UNT. If you're looking for some energy exposure and already own NOV, give UNT a quick drill-down.
Umpqua	\$10.38	\$6.68- \$23.10	With UMPQ, we get conservative management, exposure to faster-growing Western states, and a balance sheet that can assume the assets of failed banks. The loan market is still rocky, so we suggest just inching into UMPQ.	
Cemex	\$9.11	\$3.94- \$32.61	Our favorite cement maker continues to be dumped on by its massive debt load and weak demand from all of its major markets except Mexico. If CX can push out its debt obligations, the pressure should ease up.	
HOLD	Amerigroup	\$29.73	\$16.02- \$32.40	The small Medicaid insurer should benefit from increasing coverage for the uninsured population, but AGP faces funding cuts as state governments slash reimbursements and the Feds are left to pick up the slack. Hold for now.
	Staples	\$20.06	\$13.57- \$26.57	SPLS, the dominant office retailer, continues to post industry-leading margins, but current valuations leave us looking elsewhere for more compelling opportunities to invest. We're labeling it a Hold.
	Integra LifeSciences	\$23.87	\$18.97- \$49.89	Solid margins haven't kept a slowing organic growth profile from disappointing investors in IART. We need to see a return to value-added M&A activity or a growth swell before we recommend buying more shares.
	Resources Global	\$18.88	\$12.70- \$25.28	Companies aren't readily spending on consulting services, but RECN's solid balance sheet and potential for new regulatory business keep us hanging in there. Still, it's a Hold for now.
	Meritage Homes	\$20.05	\$5.10- \$29.49	MTH has been on fire along with the market the past few months, and while there are signs of life in homebuilding, we're happy to hold here with the stock approaching 52-week highs.
Healthways	\$11.20	\$5.35- \$34.60	Disease management and prevention is an attractive business over the long run, but rising unemployment and pricing pressure place a ton of uncertainty around the sustainability of HWAY's narrow-moat business.	
SELL	Corporate Executive Board	\$16.78	\$12.35- \$47.50	Our taste for this research firm soured after its latest quarterly earnings. So, after seven patient years, we're tossing EXBD and suggest you use your cash for the riper fruit on our Best Buys Now list.

For disclosure information, please see page 8.

Berkshire Hathaway (NYSE: BRK-B) and Team Tom's Six-Month Review

By TOM GARDNER AND THE STOCK ADVISOR TEAM

Warren Buffett's baby, Berkshire is an investment vehicle, a conglomerate of diverse businesses, and an insurance behemoth.

Why Buy:

- » Buffett is perhaps the greatest investor and businessman on the planet, plain and simple.
- » Despite its size, Berkshire should still produce market-beating returns from here, with low risk.

Recent Price: \$2,939.00
Risk Level: Low
Industry Position: One of a kind
Market Cap: \$139,900
Cash/Debt: n/a
Revenue (08/07/06): \$107,786/\$118,245/\$98,539
Earnings (08/07/06): \$4,994/\$13,213/\$11,015
Insider Ownership: 29.5%
Biggest Threat: Nationalized insurance

The Team Says: Buffett. 'Nuff said.

Data as of 5/12/09
Except share price,
all dollar figures in millions..

In addition to the official re-recommendation of **Berkshire Hathaway** we have expanded coverage of Tom's top stocks and a sell. For a ranking of all of Tom's stocks — including guidance on whether to buy or hold — see the Report Card in this issue.

With the unveiling of our Core stock list this month, my team and I have spent a good deal of time thinking about our investing principles and why they're so important in today's world. We're slugging through a period of great uncertainty that's now in its second year, but one thing is more certain than ever: Companies with the wherewithal to determine their own destiny will be the ones that thrive. In a world with stricter bank regulations, tighter credit, and a general lack of ability (or willingness) to finance risk, companies that are beholden to no one but themselves will have opportunities that the rest of the world won't — and they share a few important characteristics: They earn piles of cash. They have little need to reinvest that cash to maintain their business. They have astute capital allocators at the helm. They have an open mandate to seek the highest and best use of their capital, regardless of current business lines. Hmmm, is any of this sounding familiar?

In early May, more than 30,000 folks made their way to Omaha for the **Berkshire Hathaway** (NYSE: BRK-B) annual meeting, a rite of passage among value investors. (We, of course, had our own contingent of Foolish attendees, and you can find details of their trip in the Features section of stockadvisor.fool.com.) As always, the pilgrimage to see Warren Buffett and Charlie Munger in their element was a sight to behold. What's really interesting to me, however,

is not just the event's proceedings, but what a meeting like that — and what a company like Berkshire — represents. It's not just a cult of personality, as the cynics decry. It's more a state of mind, a way of thinking about investing, and a set of core beliefs embodied in corporate structure.

It's those core attributes that describe the kind of company that won't just survive, but will truly thrive over decades of economic ups and downs. Staying on top of Uncle Warren and his company also offers the best financial education we can think of (short of your *Stock Advisor* membership, of course). To that end, I can't think of a better way to spend the next hour of your time — after you've finished this review — than reading Berkshire's most recent annual letter to shareholders, available at www.berkshirehathaway.com.

I love Berkshire at today's prices, and I think buying shares now will produce market-beating returns for years to come. That said, an investment here likely won't be the biggest winner in your portfolio over the next five years. Clearly, at Berkshire's size, there simply aren't enough opportunities to produce multibagger returns on such a large base of assets. Rather, our conviction in Berkshire as our best investment for new money at today's prices is based on our high confidence that in the lean years to come, quality will outperform mediocrity, cash cows will have the edge over those who need to borrow, and steadfast management will undoubtedly beat out the unreliable. Berkshire really is in a league of its own, and you should pick up your shares today.

Western Union

Recent Price	52-Week Range	Action
\$17.06	\$10.05-\$28.62	BUY

What a difference two months can make. With better-than-expected sales results and surprisingly strong cost-control efforts, money-transfer specialist **Western Union** (NYSE: WU) has served notice that it can, and will, survive the global slowdown with its profitability intact. The resulting stock price rise has been a sight to behold, too, up more than 50% from its March lows.

Great companies with strong moats, trading at low multiples of depressed earnings, are the value investor's dream, and this April 2009 recommendation may turn out to be just such a jackpot pick. That said, let's be careful not to anchor on the past. We should recognize and take advantage of attractive prices even when they're not as drop-dead compelling as they were last week or last month. At today's valuations, Western Union still represents a fantastic opportunity to own a great company at a very good price. The money-transfer business is alive and well, so transfer some cash into Western Union shares today.

Tom's Six-Month Review (continued)

Teradata

Recent Price	52-Week Range	Action
\$20.99	\$11.11-\$27.32	BUY

About the only thing that's changed in the month since we recommended **Teradata** (NYSE: TDC) is its new strategic partnership with German giant **SAP** (NYSE: SAP) to link together SAP's analytics software with Teradata's superior data warehouse solutions. The deal has been in the works for about a year and further proves the value that companies place on collecting, storing, and analyzing massive amounts of data — Teradata's specialty. This, along with a cheap stock and sterling balance sheet, makes us plenty enthusiastic about adding shares at these prices.

Now, 2009 could be a year of consolidation among the high-tech hardware and software vendors, starting recently with **Oracle** (Nasdaq: ORCL) swooping in to pick up **Sun Microsystems** (Nasdaq: JAVA) for more than \$7 billion. We don't claim to know if Teradata sits in the crosshairs of SAP or a hardware maker like **IBM** (NYSE: IBM) or **Hewlett-Packard** (NYSE: HP). What we *do* know is that Teradata provides a service that will be in higher demand over the next decade than it has been in the past. That bodes well for shareholders, whether Teradata flies solo or gets gobbled up. Either way, we think enterprising investors should continue building out their positions.

Costco **CORE**

Recent Price	52-Week Range	Action
\$46.91	\$38.17-\$75.23	BUY

Recommending a retailer during a consumer spending slowdown is a tricky business. Discretionary spending is down, luxury spending is even more depressed, and everyone is hunting for bargains. Of course, when you're a low-priced leader with a loyal customer base, opportunities spring up from your competitors' miseries. In **Costco** (Nasdaq: COST), we spy just such an opportunity.

Costco's most significant response to the environment has been what we dub the "barbell approach" to merchandising. First, put heavy emphasis on pushing store-brand Kirkland Signature items, which carry higher margins and allow profits to expand even when sales don't. Second, introduce significantly more luxury brands in the stores, from Polo shirts to True Religion jeans to Toro lawn mowers, all supplied by stressed-out luxury-goods manufacturers — at significant savings to the customer. Both techniques play well to the cost-conscious consumer and, coupled with the company's highly desirable recurring membership revenue, provide Costco with ample opportunity to profit. If bargain hunting is the new national pastime, think of us on your next stock-shopping trip as we hunt down this bargain for you.

National Oilwell Varco

Recent Price	52-Week Range	Action
\$35.27	\$17.60-\$92.70	BUY

Maybe someday, when humanity has perfected cold fusion or converting French fry grease into 97 octane, we'll look back and wonder what the big fuss over oil was all about. Until then, the world's oil producers will keep digging, and **National Oilwell Varco** (NYSE: NOV) will be there to supply them with all their drilling needs. The latest quarter's results are a good example: Despite dramatically plunging oil prices and a slowdown in drilling activity, National beat expectations and maintained its forward guidance. Questions about the company's order backlog drilled the stock, but we look at the poor state of the industry's rig fleet and see demand for new equipment no matter the state of the economy (though economic recovery will certainly produce more orders at a quicker pace).

Fits and starts will always play a part in this business — after all, the oil services industry is a notoriously volatile and cyclical place. National's massive breadth and scale help it take advantage of this industry dynamic, using cash flow from one business line to acquire cheap businesses in another and produce reliable cash flow even through the downturn. At today's prices, it remains a top pick for us.

MSC Industrial Direct

Recent Price	52-Week Range	Action
\$37.69	\$26.72-\$54.58	BUY

Our re-recommendation from the December 2008 review is up almost 30%, absolutely trouncing the market's 14% gain, yet we think the story is just warming up for parts supplier **MSC Industrial Direct** (NYSE: MSM). The company has just about all the qualities we search for far and wide: ownership culture, profitable repeat business, loyal customers, and an efficient business model that spits out gobs of cash flow. It was a close contender to be a Core stock — and don't be surprised if it makes the list one day.

MSC's goal is to help its customers save as much money as possible while still pocketing some coin for itself. Its Internet ordering and next-day delivery allow parts buyers to order just what they need, when they need it, which saves cash and makes client CFOs giddy in good times and bad.

Recent news, however, hasn't been all smiles. MSC has seen its revenue fall nearly 20% in the latest quarter, and operating earnings collapsed 45%. But smart working capital management kept operating cash flows robust, allowing MSC to pay its dividend and pay down debt. Stockpile some shares and add to them on weakness.

Tom's Six-Month Review (continued)

Moody's

Recent Price	52-Week Range	Action
\$29.95	\$15.41-\$46.36	BUY

Moody's (NYSE: MCO) business model has thrived for decades: As one of a handful of key players in the credit ratings industry, it's protected by a government mandate and enjoys extraordinarily high returns on invested capital — with very little need to reinvest. The result: It's gushing cash. Smart management, led by CEO Ray McDaniel, has used that excess cash for shareholder dividends and large share buybacks. If ever there was a company that exemplifies a strong moat, Moody's is it.

Still, a true competitive edge has to stay sharp even in the most stressful times. Any business that relies on a thriving credit market has seen a real battle over the past year or two, and Moody's is no exception. The near destruction of the structured finance market (think CDOs, CMBSs, and all the other nasty acronyms causing such trouble in the banking system) was the most recent major test of Moody's moat, and the ensuing backlash and worldwide regulatory reviews to come will be the final battleground. Having seen this company come through the worst of the credit dislocation with its business bruised but well intact, we're happy to take advantage of today's valuations and pick up some shares.

Lab Corp.

Recent Price	52-Week Range	Action
\$64.53	\$52.93-\$78.29	BUY

Americans love a one-hit wonder, a walk-off home run, and a long-shot Kentucky Derby winner (here's to you, Mine That Bird). But in business, there's something to be said for a consistent performer that delivers year in and year out — and that's **Lab Corp.** (NYSE: LH). The country's second-largest independent clinical laboratory uses its steady, and growing, cash flows for acquisitions to widen its moat, reinvest in its facilities, and buy back stock — more than \$2.5 billion in stock over the past five years. Its business doesn't grab headlines, but its results sure should.

Lab Corp.'s 37 primary laboratories and 1,600 patient centers process more than 440,000 patient specimens *each day* for individuals, hospitals, and physicians around the country. But that makes up less than 10% of the overall testing market, so it has room to expand as hospitals and physicians look to save money by outsourcing their testing needs. There's a lot of uncertainty these days over health-care reform and reimbursement from Medicare, Medicaid, and other insurance companies, but Lab Corp.'s specialized services are likely less at risk. Five years from today, we expect Lab Corp. will be doing the same thing it does today — and we expect investors to reward it with a higher share price.

Coach

Recent Price	52-Week Range	Action
\$23.95	\$11.41-\$37.64	BUY

Six months ago, retail stocks were as attractive as a plane ticket to Mexico today — nobody wanted to touch them. But we were looking past the near-term economic malaise by suggesting you pick up shares of luxury goods player **Coach** (NYSE: COH) at multiyear lows. They went even lower from there (hey, we've never claimed to be great market-timers), yet they've been as hot as a limited-edition vintage handbag since the company announced better-than-expected results and instituted a small dividend. Today, our recommendation is down about 5% against a 30% drop in the market.

Much of what we liked about Coach when we recommended shares in early 2008 still holds today. CEO Lew Frankfort is a visionary with a fierce focus on delivering what his customers want. The balance sheet is solid. And while growth has slowed during the recession, opportunities exist in certain pockets — namely Japan and China, where Coach now owns all of its retail outlets and plans to open 10 more over the next year. Frankfort thinks China, Hong Kong, and Macau will be a \$2.5 billion market by 2013 — 50% higher than today. That's a lot of handbags, Fools. If you're looking to add a little luxury to your portfolio, add a few Coach shares to your bag.

Sell Recommendation: Corporate Executive Board

Recent Price	52-Week Range	Action
\$16.78	\$12.35-\$47.50	SELL

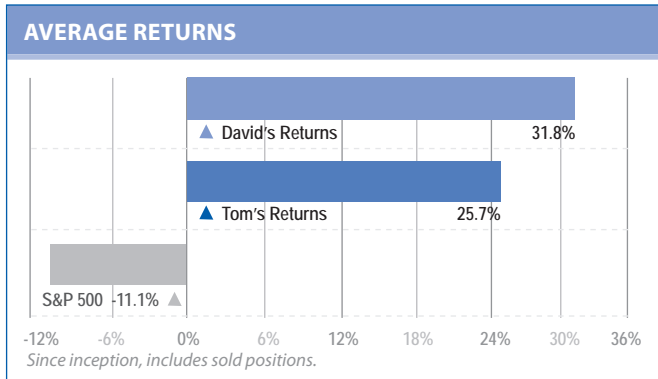
Even Jean-Jacques Rousseau, the 18th-century philosopher who said “patience is bitter, but its fruit is sweet,” would have conceded that waiting for a turnaround at **Corporate Executive Board** (Nasdaq: EXBD) is more like eating a lemon than savoring an apple. Our taste for the research firm has soured along with its latest quarterly earnings, so we're pitching CEB into the bad-apple bucket and reaching for the riper fruit of our Best Buys Now.

We don't make this decision lightly. CEB has been on our scorecard for nearly seven years now, yet shares are down more than 40% compared to a flat market. When times are good, CEB's large clients pay plenty of cash for its insightful consulting services. When times are tough (like now), these clients zip up their pocketbooks, causing CEB's contract values and cross-sell ratios to plummet. And there's no indication that it will get better any time soon. It takes more than a cheap stock to earn the *Stock Advisor* moniker, and at this point we see better opportunities for your cash among our Best Buys Now and Core stocks. 🐼

For disclosure information, please see page 8.

SCORECARD

Details on all recommendations available at stockadvisor.fool.com



MOST RECENT RECOMMENDATIONS

Issue	DAVID'S Company	Ticker	TOM'S Company	Ticker
▶ 6/09	inVentiv Health	VTIV	& Berkshire Hathaway	BRK-B
▶ 5/09	John Wiley & Sons	JW-A	& Teradata	TDC
▶ 4/09	Pharma. Product	PPDI	& Western Union	WU
▶ 3/09	McKesson	MCK	& Leucadia	LUK
▶ 2/09	Fortune Brands	FO	& National Instruments	NATI
▶ 1/09	Marvel	MVL	& Cintas	CTAS

BEST BUYS NOW

DAVID'S Company	Ticker	Recent Share Price
1. Activision Blizzard	ATVI	\$11.40
2. NVIDIA	NVDA	\$8.98
3. Omniture	OMTR	\$10.86
4. Starbucks	SBUX	\$13.18
5. Titanium Metals	TIE	\$8.24

TOM'S Company	Ticker	Recent Share Price
1. Costco	COST	\$46.91
2. MSC Industrial Direct	MSM	\$37.69
3. National Oilwell Varco	NOV	\$35.27
4. Teradata	TDC	\$20.99
5. Western Union	WU	\$17.06

We recommend you start with our Best Buys Now — our ranking of the best opportunities for new money from among all our past selections — when looking for additional investment options. (They are listed here alphabetically by ticker.) We also encourage all Stock Advisor members to own at least three Core stocks, and the recommendations in our current issue represent even more options for your investment dollars.

STOCK ADVISOR CORE

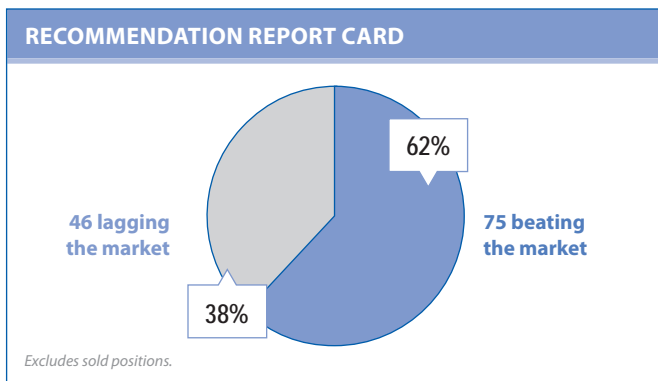
DAVID'S Company	Ticker	TOM'S Company	Ticker
▶ Amazon.com	AMZN	Berkshire Hathaway	BRK-B
▶ Activision Blizzard	ATVI	Costco	COST
▶ Marvel	MVL	Dolby	DLB
▶ Netflix	NFLX	Netflix	NFLX

THE CAPS RAP ON OUR NEWEST RECOMMENDATIONS

Trimalerus likes 5-star **inVentiv's** prospects: "The future of this stock looks promising, especially if Obama's plan to fix health care in the US is successful. The old cliché, 'Be greedy when others are fearful and fearful when others are greedy,' applies even more so in this case."

jstegma is bullish on 5-star **Berkshire Hathaway**: "Warren Buffett has a long track record through many different economic twists and turns. People seem ready to write him off as a has-been, but I think in times like these his experience is worth a premium. The high-fliers tend to crash when the trends change but Berkshire remains steady."

What do you think of our latest recommendations? Make your pitch at caps.fool.com.



DISCLOSURES: The Motley Fool owns shares of BRK-B, COST, CPRT, CX, MORN, UNH; David: AFL, AMZN, ATVI, BRK-B, LLTC, MVL, NFLX, NOV, PCP, SLAB, WFMI; Andy: BRK-B, CPRT, MHS; Alex: BRK-B, MCO; Karl: CX; Matt: CX, LUK, WFMI; Bryan: CX, MORN.

SA SPOTLIGHT: HEALTH-CARE AND VIDEO GAMES

Stock Advisor is taking the pulse of America's health-care industry — and in particular, how potential reforms could affect your portfolio. From the pressure to automate medical records to the drug makers, distributors, pharmacies, and insurance companies driving the business, our exclusive online series turns this industry inside out from a stockholder's perspective.

Also, gaming fans take note: A very Foolish contingent is headed to the E3 Expo in Los Angeles in early June. Keep an eye on stockadvisor.fool.com for exclusive insights into the video game industry and its many stocks on the SA scorecard!

All scorecard data as of market close 5/12/09

