validea | special report

10 Big-Name Stocks That Can Beat the Recession

Recession: It's an ugly word -- and one that's hard to escape these days. Every time we see another report on rising unemployment, slow economic growth, or skyrocketing mortgage defaults, we're reminded of just how tough a time the economy has been having. All of the negative economic news is enough to make an investor want to cash out and head for the hills.

If you're thinking of fleeing the market, however -- STOP RIGHT THERE! Doing so might just be the worst move you can make right now.

To understand why that's the case, it's important to consider a couple of key points. First, just because the economy's tanking doesn't mean your portfolio has to follow suit. Though we often think of it as some sort of monolithic entity, the "stock market" is more aptly described as a market of individual stocks. And on any given day, hundreds, if not thousands, of those stocks will be gaining ground -- regardless of what the economy or the major indices are doing. One recent afternoon, for example, the S&P 500 -- the index most commonly referred to when people discuss "the market" -- was down more than 2 percent, but about 20 percent of stocks listed on the New York Stock Exchange had gained ground. The message: Even if the economy drags the broader market down, there are always opportunities to make money in stocks.

Second -- and perhaps more importantly -- when the market turns back up, it tends to do so very quickly, a point that many Wall Street "gurus" I follow -- including Peter Lynch, Martin Zweig, and Kenneth Fisher -- have all stressed. If you wait on the sidelines until it becomes clear that the market has turned the corner, you may well miss out on a big chunk of the next bull market gain.

The question, then, is how to weather the storm until the bulls run again. One proven approach: Focus on the stocks of big, well-known companies, something mutual fund legend Lynch did. Such stocks tend to have the size, reputation, and stability to weather economic storms -- and, when the climate changes, they tend to lead the market's resurgence, in part because they've taken market share away from their smaller, lesser-known competitors during the rough patches.

Because of that, I'd like to share with you ten big-name stocks that my Guru Strategy computer models -- each of which is based on the approach of a different investing great -- are currently high on. Many of these stocks have actually gained ground this year despite the economy's and the stock market's struggles. A few others have taken far more of a hit than their fundamentals would dictate, making them great bargains right now. Let's take a look at these recession-beaters, and why they score so well on my models.

Microsoft Corporation (MSFT): Bill Gates' Redmond, Washington-based software giant has grown into one of the largest and most widely recognized companies in the world. Its market cap of about $240 billion is the fourth largest among U.S.-traded stocks, and over the past 12 months the firm has raked in more than $60 billion in sales, thanks to products like its Windows operating system, the Xbox video game system, and its MSN website.

Microsoft gets strong interest (generally defined as meeting 90 percent or more of a guru's criteria) from the strategy I base on the writings of the great Peter Lynch. This model considers Microsoft a fast-grower -- Lynch's favorite type of investment -- because of the firm's 22.1 percent long-term growth rate. The stock does, however, possess some of the qualities that Lynch looked for in "stalwarts" -- the large, well-known companies that he found to offer protection during downturns or recessions. It's $60 billion-plus in annual sales is a good example.

MSFT vs. the Software & Programming Industry

	MSFT	Industry
Market Cap. ($ Mil.)	$241405	$52569.5
Sales (TTM) ($ Mil.)	$60420	$12548.07
GROWTH DATA		
Rel Str.	68	65
Long Term EPS Growth	22%	21%
Long Term Revenue Growth	14%	16%
VALUE DATA		
P/E To Growth	0.64	0.9
P/E Ratio (TTM)	14.14	19.8
P/E Next 12mo.	12.31	17.9
P/S Ratio (TTM)	4	1.9
Yield	2%	2%
MANAGEMENT DATA		
Profit Margin (TTM)	29%	0%
ROE (TTM)	52%	1%

For both stalwarts and fast-growers, Lynch famously used the P/E/Growth ratio to identify undervalued stocks. P/E/Gs below 1.0 are considered good values to this model, with those under 0.5 the best case. With a price/earnings ratio of 14.0 and its 22.1 percent growth rate (based on the average of the three-, four-, and five-year earnings per share figures), Microsoft has a 0.63 P/E/G. That's an indication that the stock is selling on the cheap.

Lynch also liked stocks that were conservatively financed. The model I base on his writings calls for a stock's debt/equity ratio to be no greater than 80 percent. Microsoft passes this test with flying colors -- the firm has no long-term debt.

While it gets strong interest from my Lynch model, Microsoft also gets "some interest" (generally defined as meeting 80 percent or more of a guru's strategy) from the model I base on the approach of another mutual fund great, Martin Zweig. Two big reasons: The firm's earnings growth has been strong over the long term (22.1 percent) and is accelerating, rising to 48.39 percent in the current quarter (compared to the same quarter a year earlier).

Wal-Mart Stores, Inc. (WMT): You don't get much more well-known than this retail titan, which operates under the Wal-Mart, Sam's Club, and Neighborhood Markets names. It has 7,400 stores in the U.S., Latin America, Canada, China, Japan, the U.K., and, through a joint venture, India, selling everything from food to clothing to large appliances and auto products; some of its stores even include auto repair shops, vision centers, health clinics, and pharmacies. The company employs more than two million people, and last year took in more than $387 billion in sales.

While its $240 billion market cap makes it one of the largest firms in the world, Wal-Mart gets approval from the growth strategy I base on the writings of mutual fund manager and author James O'Shaughnessy. When looking for growth stocks, O'Shaughnessy first made sure that a company's market cap was greater than $150 million, to screen out stocks that were too illiquid for most investors. This is no problem for Wal-Mart.

While other growth investors look at magnitude of earnings gains, O'Shaughnessy was more concerned with persistence. His method called for a firm's earnings per share to have increased in each year of the most recent five-year period. With EPS over the past five years of $2.03, $2.46, $2.72, $2.92, and, most recently, $3.16, Wal-Mart makes the grade.

O'Shaughnessy wanted to see strong growth, but he didn't want to pay too much for it. To find growth stocks selling on the cheap, he thus used a key value component into his growth model: the price/sales ratio. Growth stocks with P/S ratios less than 1.5 were good deals, he found, so that's the standard my model uses. Wal-Mart and its 0.60 P/S ratio pass the test.

Finally, O'Shaughnessy took all of the stocks that passed the three aforementioned criteria and ranked them according to relative strength, the measure of how a stock has performed compared to all other stocks in over the past 12 months. The top 50 stocks based on relative strength got final approval. By using this criteria in conjunction with the P/S ratio, O'Shaughnessy found stocks that the market was embracing, but which were still good buys. Wal-Mart's relative strength is a very strong 95, which passes this final test.

Along with its high marks on the O'Shaughnessy strategy, Wal-Mart also gets "some interest" from two more of my models. My Warren Buffett-based model likes the firm's predictable earnings (EPS have increased in every year of the past decade), and its 20.2 percent average annual return on equity over the past 10 years, a sign of both strong management and the "durable competitive advantage" Buffett is known to look for in his buys. My Martin Zweig-based model also likes the firm, in part because of its strong 14.7 percent EPS growth rate and 10.4 percent sales growth rate for the current quarter.

General Electric Company (GE): GE may have focused on early electrical devices like the electric lamp when Thomas Edison founded it more than a century ago, but today it is a giant conglomerate, making everything from jet engines to household appliances to high-tech health care equipment. It also owns NBC Universal, one of the world's biggest television and entertainment companies, and it has divisions involved in commercial and personal finance. Want further proof of GE's magnitude? How about its $280 billion market cap, or the fact that it has customers in more than 100 countries across the world?

While Wal-Mart gets approval from the growth model I base on the writings of James O'Shaughnessy, GE gets high marks from the value model I base on O'Shaughnessy's approach. When looking for value picks, O'Shaughnessy found that large, well-known companies tend to exhibit solid and stable earnings, so this model requires firms to have market caps greater than $1 billion. That's no problem for GE.

O'Shaughnessy also compared value picks to the market average in a number of areas, one of which was cash flow per share. My model requires firms to have cash flows per share greater than the market mean, which is currently $1.36. At 3.26, GE's cash flow per share more than doubles that, a great sign.

O'Shaughnessy also wanted value plays to have more shares outstanding than the market average, and at least 1.5 times the mean of the market's sales, two more ways in which he focused on large, well-known firms. GE currently has almost 10 billion shares outstanding, far exceeding the market average of 619 million, and its $180.3 billion in trailing 12-month sales is far more than 1.5 times the market mean of $19.3 billion, so it passes both tests.

Finally, O'Shaughnessy took all the stocks that met the first four criteria and ranked them according to dividend yield, with the top 50 yielding stocks getting final approval. GE's yield is a strong 4.41 percent, which makes the grade.

Johnson & Johnson (JNJ): This New Jersey-based company does it all in the health care products/pharmaceuticals arena. Spanning 57 countries, its 250-plus operating companies make a myriad of drugs and other health care products, including shampoos, diapers, and bandages, with brands ranging from Tylenol to Band-Aid to Neutrogena, to name just a few. The 120-year-old company has posted 75 consecutive years of sales increases and 46 consecutive years of dividend increases, according to its web site, and employs more than 120,000 people across the world.

With its size (market cap is about $200 billion) and name recognition, JNJ certainly has some of the qualitative characteristics that the great Warren Buffett has been known to look for in his investments -- and, in fact, Buffett's Berkshire Hathaway owns more than 2 percent of the firm (as of the end of last year). In addition, JNJ also fits the quantitative profile of many past Buffett buys, getting strong interest from the Guru Strategy I base on Buffett's approach.

JNJ vs. the Major Drugs Industry

	JNJ	Industry
Market Cap. ($ Mil.)	$199052	$104223
Sales (TTM) ($ Mil.)	$63571	$38384.86
GROWTH DATA		
Rel Str.	88	66
Long Term EPS Growth	11%	12%
Long Term Revenue Growth	10%	3%
VALUE DATA		
P/E To Growth	1.63	0.5
P/E Ratio (TTM)	17.27	14.7
P/E Next 12mo.	15.8	12.9
P/S Ratio (TTM)	3.13	3.1
Yield	3%	3%
MANAGEMENT DATA		
Profit Margin (TTM)	19%	11%
ROE (TTM)	26%	7%

A conservative investor, Buffett likes companies that are conservatively financed and which have a consistent record of producing solid earnings, and JNJ appears to fit the bill. My Buffett model looks for firms that have enough earnings that they could pay off all their debts within five years; JNJ has about $11.7 billion in annual earnings and about $8.8 billion in debt, meaning that it could use those earnings to pay off its debts in less than a year, which this model considers exceptional.

In terms of consistency, JNJ has increased earnings in 9 of the last 10 years, growing EPS from $1.02 to $3.64 in that time. The only dip came last year, by just $0.09, and this model sees that as more of a buying opportunity than a problem.

One more reason my Buffett-based model is so high on JNJ: The firm's 10-year average return on equity is 25 percent, which comes in well over this strategy's 15 percent minimum. That's a sign of both strong management, and the "durable competitive advantage" that Buffett looks for.

Philip Morris International Inc. (PM): Vices are tough to shake -- and when times get tough, sometimes people turn to them even more. That's not the most pleasant thought, but what it means is that "vice stocks" like this tobacco giant tend to hold up well during recessions. The stock of Altria -- which was Philip Morris' parent before spinning it off earlier this year -- fell sharply as the economy boomed in the late 1990s, for example, before it surged back upward right around the time the tech bubble burst and the stock market tanked.

Philip Morris isn't appealing simply because it's a vice stock, though. It also has tremendous size and brand recognition. The firm owns 7 of the top 15 tobacco brands in the world, including cigarette brands like Marlboro, Parliament, and Chesterfield. Its share of the international cigarette market was more than 15 percent in 2007, when it took in more than $55 billion in net revenues.

Just as importantly, Morris has the kind of fundamentals and balance sheet that earn it strong interest from both my Peter Lynch- and James O'Shaughnessy-based Guru Strategies. My Lynch model considers Morris a "fast-grower" -- Lynch's favorite type of investment -- because of its 20.1 percent long-term growth rate (based on the average of the three-, four-, and five-year EPS figures). To find growth stocks selling on the cheap, Lynch famously used the P/E/Growth ratio; P/E/Gs lower than 1.0 are acceptable to this model. With a P/E ratio of 17.46 and that 20.1 percent growth rate, Philip Morris has a P/E/G of 0.87, indicating that it is indeed a good buy.

In addition, Morris' 60 percent debt/equity ratio is good enough to come in under this model's 80 percent upper limit, another good sign.

My O'Shaughnessy-based value model, meanwhile, looks for large stocks, because O'Shaughnessy found that large companies tend to produce solid and stable earnings. Morris has a $113 billion market cap; its $60.2 billion in trailing 12-month sales are more than 1.5 times the market mean of $19.3 billion; and the company has far more shares outstanding (2.1 billion) than the market average (619 million), passing this model's three size-based tests.

Philip Morris' cash flow of $3.84 per share is also well above the market mean of $1.36, passing another O'Shaughnessy-based value test. And its strong 3.9 percent dividend yield (the firm upped its quarterly payout by 17 percent in August) is among the top 50 stocks that pass the four other aforementioned tests, which means the stock gets final approval from this method.

3M Company (MMM): This diversified technology firm makes an array of items, including Scotch-Brite cleaning products, Post-It Notes, Scotch Tape, Filtrete air filters, and Nexcare first aid products, to name just a few. The Minnesota-based company has a market cap of more than $48 billion, and has raked in more than $25 billion in sales in the past year.

MMM vs. the Conglomerates Industry

	MMM	Industry
Market Cap. ($ Mil.)	$48007	$74120.2
Sales (TTM) ($ Mil.)	$25585	$56199.98
GROWTH DATA		
Rel Str.	51	57
Long Term EPS Growth	17%	20%
Long Term Revenue Growth	8%	6%
VALUE DATA		
P/E To Growth	0.79	0.6
P/E Ratio (TTM)	13.22	13.7
P/E Next 12mo.	12.54	12.5
P/S Ratio (TTM)	1.88	1
Yield	3%	2%
MANAGEMENT DATA		
Profit Margin (TTM)	15%	9%
ROE (TTM)	33%	15%

3M gets approval from both my Warren Buffett and Peter Lynch strategies. Like Johnson & Johnson, 3M certainly seems to have what Buffett calls a "durable competitive advantage" over its peers, and a big reason is its strong brand-name recognition. Its products aren't just well-known -- they're so ingrained in our minds that they've changed our vocabulary. We often call any sort of transparent tape "Scotch Tape", for example, and any kind of small sticky notes "Post-It Notes", even when they're made by other companies.

That name recognition is something competitors don't have, and the numbers prove it. Buffett has used return on equity as a way to identify firms with a "durable competitive advantage", and over the past decade, 3M has averaged an annual return on equity of 28.8 percent -- almost twice my Buffett-based model's 15 percent target.

A couple other reasons this model likes 3M: The firm's earnings have dipped just once in the past decade (and that was seven years ago), demonstrating the kind of steady, predictable growth Buffett likes to see. And it has annual earnings of about $3.7 billion, which, if need be, it could use to pay of its $4.1 billion in debt in less than two years, which this model considers exceptional.

My Lynch-based model, meanwhile, considers 3M to be a "stalwart" -- the kind of large, stable firm that offers protection during recessions -- because of its high annual sales (more than $25 billion) and moderate growth rate (16.77 percent). Lynch used the P/E/Growth ratio to identify stalwarts selling on the cheap, but he adjusted the "growth" part of the equation to include their dividend yield. 3M's yield-adjusted P/E/G is 0.68, which comes in well under my Lynch model's 1.0 upper limit, a sign that the stock is indeed a good buy at its current price.

In addition, with a debt/equity ratio of about 48 percent, 3M's financing is conservative enough to earn high marks from this model.

T. Rowe Price Group, Inc. (TROW): It's been a wild ride for a lot of brokerages since the subprime and credit crises came to light, but this Baltimore-based firm has weathered the storm well. Price, founded more than 70 years ago, offers a full slate of investment services, ranging from mutual funds to account management to retirement plans, serving both individual and institutional investors. It has offices on four continents, and at the end of the second quarter managed close to $400 billion in assets.

While financials have been a dangerous area in the past year, Price has caught my attention for a couple reasons.

First off, the stock gets approval from one of my more conservative strategies, my Warren Buffett-based model. In fact, it's the only large-cap financial (it has a $15 billion market cap) that currently gets Buffett-strategy-approval. One reason it does is that the firm has shown the kind of predictable long-term earnings growth that Buffett likes to see. In the past decade, its EPS have fallen only once -- and that was seven years ago.

Price also appears to have the kind of strong management Buffett has looked for in his purchases. Over the past ten years, the firm has retained $8.52 in earnings per share, while its EPS have grown by $1.73. That means management has proven it can earn shareholders an excellent 20.3 percent return on the earnings the company has kept.

The other big reason Price is so appealing right now: the high marks it's getting from my Peter Lynch-based model, which uses a couple of special criteria targeted specifically at financial firms.

Usually, Lynch used the debt/equity ratio to measure a firm's financial health, but because financials inherently take on a lot of debt due to the nature of their businesses, he instead judged them using the equity/assets ratio and the return on assets rate. The model I base on Lynch's writings considers firms with equity/assets ratios of at least 5 percent and ROAs of at least 1 percent to be financially healthy and profitable. Price doesn't just meet those targets -- it blows them away. The firm's E/A ratio is a staggering 87 percent, while its ROA is an equally impressive 22.17 percent.

Another big reason the Lynch model likes Price: the firm's 0.91 P/E/Growth ratio (derived by dividing its 23.6 P/E ratio by its 25.9 percent long-term growth rate). That's a sign the stock is a good buy at its current price.

Aflac Incorporated (AFL): The duck that stars in this insurer's commercials is a riot, but there's nothing funny about Aflac's performance. The Georgia-based firm, which is focused on health and life insurance, has increased EPS in all but one year of the past decade, and has raked in more than $16 billion in sales over the past 12 months. It has a presence in all 50 states and Japan, insuring more than 40 million people worldwide.

Aflac, which has a market cap of more than $26 billion, gets approval from my Peter Lynch- and Martin Zweig-based models. My Lynch strategy considers the firm a "stalwart" because of its high sales and moderate growth rate (16.44 percent, using the average of the three-, four-, and five-year

EPS figures). When we divide that growth rate by the firm's P/E ratio (about 15.5) and adjust for its 1.7 percent dividend yield, we get a P/E/Growth ratio of 0.86. Lynch found that P/E/Gs below 1.0 were signs of bargains, so it looks like Aflac is selling on the cheap.

Aflac also scores well on my Lynch-based model's two special financial stock tests. Its equity/assets ratio is 11 percent, indicating that the company is in good financial health, and its return on assets rate is 2.69 percent, indicating that the firm is profitable.

My Zweig approach, meanwhile, is very interested in Aflac, and a big reason is the firm's impressive earnings growth. Zweig analyzed companies' earnings from a variety of angles, looking for strong growth over both the long term and the short term. For example, the model I base on his writings calls for firms to have a long-term EPS growth rate of at least 15 percent, and a positive growth rate for the current quarter. With its 16.44 percent long-term EPS growth and its 19 percent growth rate this quarter, Aflac passes both tests.

AFL vs. the Insurance (Accident & Health) Industry

	AFL	Industry
Market Cap. ($ Mil.)	$27144	$15258.7
Sales (TTM) ($ Mil.)	$16482	$26529.26
GROWTH DATA		
Rel Str.	82	58
Long Term EPS Growth	16%	18%
Long Term Revenue Growth	7%	17%
VALUE DATA		
P/E To Growth	0.96	0.4
P/E Ratio (TTM)	15.78	10.6
P/E Next 12mo.	14.33	9.6
P/S Ratio (TTM)	1.65	0.6
Yield	2%	1%
MANAGEMENT DATA		
Profit Margin (TTM)	11%	5%
ROE (TTM)	22%	14%

A critical point for Zweig was that earnings not only be growing, but that the rate of their growth be increasing; in other words, he wanted to see that earnings growth was accelerating. And in that regard, Aflac fits the bill. The company's long-term growth rate of 16.44 percent is good, but its EPS growth rate over the past three quarters (compared to the same year-ago quarters) is a bit better (16.52 percent), and its growth rate for the current quarter jumped to 19 percent. So as you can see, earnings are growing faster and faster, which this model sees as a great sign.

Aflac also gets some interest from my Warren Buffett-based model, which likes that the firm's earnings have increased in all but one year of the past decade, and that its return on assets rate for the past ten years has averaged 1.9 percent, almost double this model's 1 percent target.

Northrop Grumman Corporation (NOC): This Los Angeles-based firm is a defensive stock in more ways than one. With a market cap of about $24 billion, Grumman is one of the largest aerospace and defense industry companies in the U.S. Its products can be found on land, on sea (it is the country's only manufacturer of nuclear-powered aircraft carriers), in the air (it makes manned and unmanned aircraft, as well as satellites), and even in cyberspace (it makes a variety of electronics equipment and information gathering tools).

Grumman gets approval from the Guru Strategies I base on the writings of both Kenneth Fisher and Peter Lynch -- two Wall Street greats who developed breakthrough ways to identify good stocks selling on the cheap.

Throughout most of stock market history, investors have used the price/earnings ratio as a means to find undervalued stocks. But in his 1984 book *Super Stocks*, Fisher noted that earnings -- even the earnings of good companies -- can fluctuate greatly from year to year. Factors such as one-time facilities upgrades, property sales, or legal fees, for example, can all obscure a company's true earnings picture. Sales, however, are far more stable and indicative of a firm's performance, Fisher found, leading him to develop the price/sales ratio (PSR).

To be considered a "Super Stock", a noncyclical company like Grumman had to have a PSR below 0.75, Fisher wrote. Grumman's PSR -- 0.72 -- comes in just under that target, passing the test.

The PSR wasn't the only factor Fisher examined, however. He also liked firms to have low debt and high profit margins, and the model I base on his writings calls for stocks to have debt/equity ratios lower than 40 percent and three-year net profit margins greater than 5 percent. Grumman's debt is equal to just 22 percent of its equity, passing the first test, and its average three-year net margins are 5.13 percent, passing the second test.

While Fisher used the PSR to find undervalued stocks, Lynch used the P/E/Growth ratio. With a P/E of 14.39 and a long-term growth rate of 23.2 percent (based on the average of the three-, four-, and five-year EPS figures), Grumman sports a strong 0.62 P/E/G.

Like Fisher, Lynch liked conservatively financed firms, and Grumman's 22 percent debt/equity ratio also passes muster with this model.

Royal Dutch Shell (RDS.A): Oil has been a volatile area of the market of late, to be sure. But as the price of oil has plummeted, a number of very strong oil firms have become excellent values, like this Netherlands-based company. Shell, which has a presence in more than 130 countries, is involved in both the oil and natural gas arenas, and also has units involved in alternative fuels like wind and hydrogen. One of the largest companies in the world, it has a market cap of about $190 billion.

How good a value is Shell right now? Well, it's the only U.S.-traded stock that currently gets approval from four of my Guru Strategies, earning strong interest from my James O'Shaughnessy-, Peter Lynch-, David Dreman-, and Kenneth Fisher-based models.

Let's start with the O'Shaughnessy approach. When looking for value plays, O'Shaughnessy targeted large firms because they tend to exhibit solid and stable earnings. The model I base on his writings thus looks for stocks with market caps greater than $1 billion, and whose sales are at least 1.5 times the market mean. Shell's huge $188.7 billion cap easily passes the first test, and its $443 billion in trailing 12-month sales is far more than 1.5 times the market mean ($19.3 billion), passing the second test.

In addition, the O'Shaughnessy model also likes Shell's excellent cash flow, which, at $15.95 per share, is more than 11 times the market average, and the stock's strong 5.31 percent dividend yield.

The Lynch-based model likes Shell's long-term growth rate of 27.4 percent (based on the average of the three-, four-, and five-year EPS figures) and its P/E ratio of just 5.21. Those two numbers make for a P/E/Growth ratio of just 0.19, which falls into the best-case category (below 0,5) on my Lynch model's most important test. That's a sign that this stock is selling on the cheap.

Shell also catches the attention of my Fisher model, in large part because of its excellent 0.43 price/sales ratio. That comes in well under the 0.75 upper limit this model uses for non-cyclical stocks, an indication that Shell is a tremendous value right now. This strategy also likes Shell's 11.75 percent debt/equity ratio, and its 8.35 percent three-year average net profit margins.

RDS.A vs. the Oil & Gas - Integrated Industry

	RDS.A	Industry
Market Cap. ($ Mil.)	$192516	$174350.1
Sales (TTM) ($ Mil.)	$443128	$243335
GROWTH DATA		
Rel Str.	49	59
Long Term EPS Growth	27%	27%
Long Term Revenue Growth	125%	22%
VALUE DATA		
P/E To Growth	0.19	0.3
P/E Ratio (TTM)	5.32	9.3
P/E Next 12mo.	5.95	8.1
P/S Ratio (TTM)	0.43	1.4
Yield	5%	5%
MANAGEMENT DATA		
Profit Margin (TTM)	8%	7%
ROE (TTM)	29%	17%

Finally, my Dreman model is also keen on Shell. Dreman was a contrarian investor; he focused on stocks that were beaten-down more than their fundamentals dictated they should be, usually because of investor fear or apathy. Shell would seem to be a contrarian pick, given the concerns surrounding the oil industry (including the recent tumble in oil prices), and the numbers bear out its contrarian status. The stock is in the bottom 20 percent of the market in terms of both its P/E ratio (5.21) and price/cash flow ratio (3.78), which meets my Dreman model's contrarian guidelines. It looks like the stock isn't getting much attention from Wall Street.

Just because a stock earned contrarian status didn't mean Dreman would invest in it, however. In some cases, stocks with low P/E or P/CF ratios (or low price/book or price/dividend ratios, two other contrarian indicators Dreman used) are overlooked for good reason -- they are simply dogs. Dreman thus used a variety of fundamental criteria to make sure a contrarian stock was on solid financial footing. Shell's return on equity of 28.54 percent and its 5.31 percent dividend yield pass two key fundamental tests my Dreman-based model uses, a great sign.

What's more, as though its four "strong interest" ratings weren't enough, Shell also gets some interest from both my Benjamin Graham- and Martin Zweig-based models. The Graham approach likes Shell's 14.2 P/E ratio (using the three-year earnings average), and the fact that the company's long-term debt is less than half its net current assets. The Zweig approach likes the oil giant's 27.42 percent long-term growth rate, and the fact that its earnings growth has accelerated to 35.51 percent in the current quarter.

Just the Facts, Please…

Recessions or economic downturns can no doubt be scary for investors. But when you look at the facts, they're by no means the death knells that many pundits make them out to be. In fact, even if this particular recession (or economic downturn, if you're not quite convinced we're at "recession" levels) continues for a while, that doesn't mean your portfolio -- or even the broader market -- will suffer. During the recessions of 1980, 1981-82, and 1990-91, the market actually *gained* ground, and then posted some runaway gains over the next year[1]. If you focus on strong, fundamentally-sound big-name stocks like the ones I've examined here, you should be able to weather the current down market, and then be at the head of the pack when the turnaround comes.

Best Regards,

John Reese

John Reese
Founder and CEO, Validea.com

[1] *The Wall Street Journal, January 14, 2008*.