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Deciphering A Decade:

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Author: David Roeder; The Chicago Sun-Times

One man's lost decade is another man's years of opportunity. It's often mentioned that in the 10 years ending in 2010, stocks in aggregate went nowhere. Despite some excellent years, the main indexes couldn't hold gains through the tech bubble and the Great Recession.

But the "lost decade" applies only for those tracking the S&P 500 or similar broad index. What if you invested to be a long-term owner, had a clear strategy and stayed with it through market turmoil?

Chicago's **Kovitz Investment Group**, known for patience and an uncanny knack for tuning out the daily noise, has its own perspective on the decade. Its core equity fund returned 43 percent for the 10 years ending Sept. 30, 2010 vs. a decline of 4 percent in the S&P 500. Kovitz limits its holdings to a few large-cap stocks with excellent balance sheets and dominant shares in their markets. It sets the quality bar high.

But aside from picking stocks, Kovitz insists on getting them when they're cheap. In the firm's fall newsletter, it looked at stocks it owns, such as Lowe's (LOW), Automatic Data Processing (ADP) and Procter & Gamble (PG), and compared their price-earnings multiples now with 10 years ago.

Today, its favorites mostly trade at less than 20 times earnings. Ten years ago, these stocks were mostly over 40 times earnings, and Kovitz didn't own most of them.

The Kovitz team wrote, "Entering at a low price doesn't assure good returns, but entering at a high valuation likely ensures lousy returns."

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