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THE STOCKPICKERS

Meaningful positions

New Market manager likes Berkshire, Altria, Tejon Ranch

By Dan Burrows, CBS MarketWatch.com
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NEW YORK (CBS.MW) -- If location is the single most important factor in real estate, then personal investing is all about diversification -- the idea being that a diversified portfolio offers a hedge against risk.

Stephen Goddard's investment strategy flies in the face of that conventional market wisdom. As lead manager of The New Market Fund (AVMIX: news, chart, profile), Goddard concentrates his bets, with the fund's top 10 investments usually accounting for close to half the portfolio.

It's not just a non-diversification strategy, but almost an anti-diversification strategy, and there's a rigorous method to that seeming madness.

"We really believe that in order to outperform you have to take meaningful positions somewhere," said Goddard. "You can't just buy a hundred different positions and mirror the market because then you're just averaging out all your positions without having any impact."

Goddard is quick to add that matching the market is great when it's up "18 percent a year for 20 years. But for the next decade we think returns are going to be very, very modest," he said. "In that case you need to take meaningful positions."

It is then somewhat of a surprise that despite New Market Fund's concentration strategy, it boasts Morningstar's lowest risk rating. It's also less volatile than the overall market, Goddard said.

New Market also has a strong track record going up against the market. For the year-to-date it generated returns of 10.3 percent, bettering the S&P 500 by 3 percent, according to Morningstar. And although New Market lagged the index by 1.7 percent over the last 12 months, over 3 years the fund is up 8.5 percent, beating the S&P 500 by 5.9 percent.

One of Goddard's favorite stocks, Berkshire Hathaway (BRKA: news, chart, profile), is also New Market's biggest position, but not just because it's run by the Oracle of Omaha.

"People tend to look at Berkshire as a Warren Buffett fund, but actually it's one of the largest reinsurance companies in the world, and it's no different than buying a GE or any other large insurance company," Goddard said.

He added that even at $86,000 a share, Berkshire has plenty of room to grow.

"For the last 20 years they've grown 20-something percent a year," said Goddard. "So if you can assume growth of maybe 10 percent a year, then the value is much higher than that."

Shares of Berkshire Hathaway closed up $400 at $84,200 on Wednesday.

Another favorite stock is Altria Group (MO: news, chart, profile), given the occupant of the Oval Office for the next four years.

"We think there's a very strong possibility we'll have some sort of tort reform over the next four years, which will help not only tobacco, but asbestos and everything else," Goddard said.

Once Altria puts all its legal headaches behind it, Goddard suspects -- though he admits there's no guarantee --

the company will be split up into three separate businesses.

"You'll have Philip Morris USA, Philip Morris International and Kraft," said Goddard, "and if you value all three of those components you can come up with a value that's much higher than what's the stocks trading at today."

Shares of Altria closed up 17 cents at $57.36 on Wednesday.

Lastly, Goddard likes an obscure company called Tejon Ranch Corp. (TRC: news, chart, profile) as a potential real estate windfall.

"They have 278,000 acres of land about 50 miles north of Los Angeles, and about a third of that is on a major highway," Goddard said. "If you conservatively assume they can get $2,000 to $2,500 an acre for it, you come up with values that are much, much higher than what the stock is trading at."

Shares of Tejon Ranch closed up 27 cents at $39.12 on Wednesday.

Dan Burrows is a reporter for CBS MarketWatch in New York.