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Stocks that are the best of both worlds

Commentary: Top performer has novel stock-picking strategy

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CHAPEL HILL, N.C. (MarketWatch) — Is it possible to follow the crowd while also being a contrarian?

That certainly would appear to be a tall order indeed. After all, while the crowd follower is trying to jump on bandwagons, the contrarian is trying to jump off. There doesn't appear to be much of a middle ground between those two extremes.

Yet try telling this to one of the most successful advisory services for recent performance: Ford Equity Research Investment Review, published by Ford Equity Research in San Diego. It currently is in 8th place for performance over the last 12 months among the services tracked by the Hulbert Financial Digest.

Ford's stock-picking model represents the marriage of value and momentum. The idea is to pick and choose among the myriad value stocks that exist at any given time, favoring those few that just recently have begun to outperform the market.

According to the Hulbert Financial Digest, Ford's service produced a 49.1% gain over the 12 months through the end of June, in contrast to 32.0% for the Wilshire 5000.

It has performed creditably over the longer term as well. Over the last decade, for example, according to the HFD, its model portfolio outperformed the Wilshire 5000 by a margin of 4.9% annualized to 3.7%.

Ford's approach enjoys a strong theoretical foundation as well.

Consider a 2009 study called "Value and Momentum Everywhere," conducted by Tobias Moskowitz of the University of Chicago, Lasse Pederson of NYU, and Cliff Asness, a managing principal at AQR Capital Management. The researchers compared the returns of three hypothetical portfolios: One that followed a pure contrarian, or value approach, a second which invested solely in stocks exhibiting the greatest momentum, and a third which combined the two approaches.

They found that their combination portfolio made significantly more money than both of the others over the 35-year period from 1973 through 2008, while nevertheless incurring less volatility (or risk). That's a winning combination.

It is interesting to note, furthermore, that the researchers found that this value-momentum approach added value in each of the countries they studied around the world, not just in the U.S. This is consistent with the impressive recent track record of another Ford-published service, which focuses exclusively on American Depository Receipts (ADRs).

Over the last 12 months, for example, Ford's portfolio of ADRs that scored high in their value-momentum model gained 51.5%, according to the HFD.

What stocks are favored currently by such an approach? Here are five U.S. stocks that Ford currently owns in its model portfolio that have the highest ranking in Ford's value/momentum model:

- CF Industries (NYSE:CF)
- Cliffs Natural (NYSE:CLF)
- Eastman Chemical (NYSE:EMN)
- Kindred Health (NYSE:KND)
- Stone Energy (NYSE:SGY)

In addition, in the model portfolio maintained by Ford's ADR-oriented service, there are two that also have the highest ranking from their value/momentum model. Both are French companies:

- Société Générale (OTN:SCGLY)
- Technip (OTN:TKPPY)

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