only when a stock is selling at a discount to net asset value. "We buy growth—we just don't pay for it," Whitman likes to say.

"Safe and cheap" makes for a comforting mantra. Rather than timidity, though, Whitman's approach actually calls for remarkable fortitude. It requires the nerve to pick through distressed companies that others are ignoring and demands the conviction to see big gains come to fruition. Turnover at Whitman's flagship mutual fund, **Third Avenue Value (TAVFX),** runs at less than 10%, meaning that the average holding period for a stock is more than ten years. In the long run Whitman's patience has been handsomely rewarded. Over the past five years, for example, his fund has delivered annualized returns of 22.5%, topping the S&P 500 by more than seven percentage points. During the past decade Third Avenue Value has delivered about 12% a year, some five percentage points better than the S&P.

With a record like that, it's no wonder that even at age 83, Whitman says he intends to continue at the firm as long as he is "compos mentis." "If I could be a tennis pro, I would do that tomorrow," he quips. Instead, the avid tennis player recently signed a contract to stay on at Third Avenue for five more years. At the same time, the firm has strong successors in place, with Curtis Jensen, 45, as co–chief investment officer and Ian Lapey, 40, assisting Whitman on the Value fund.

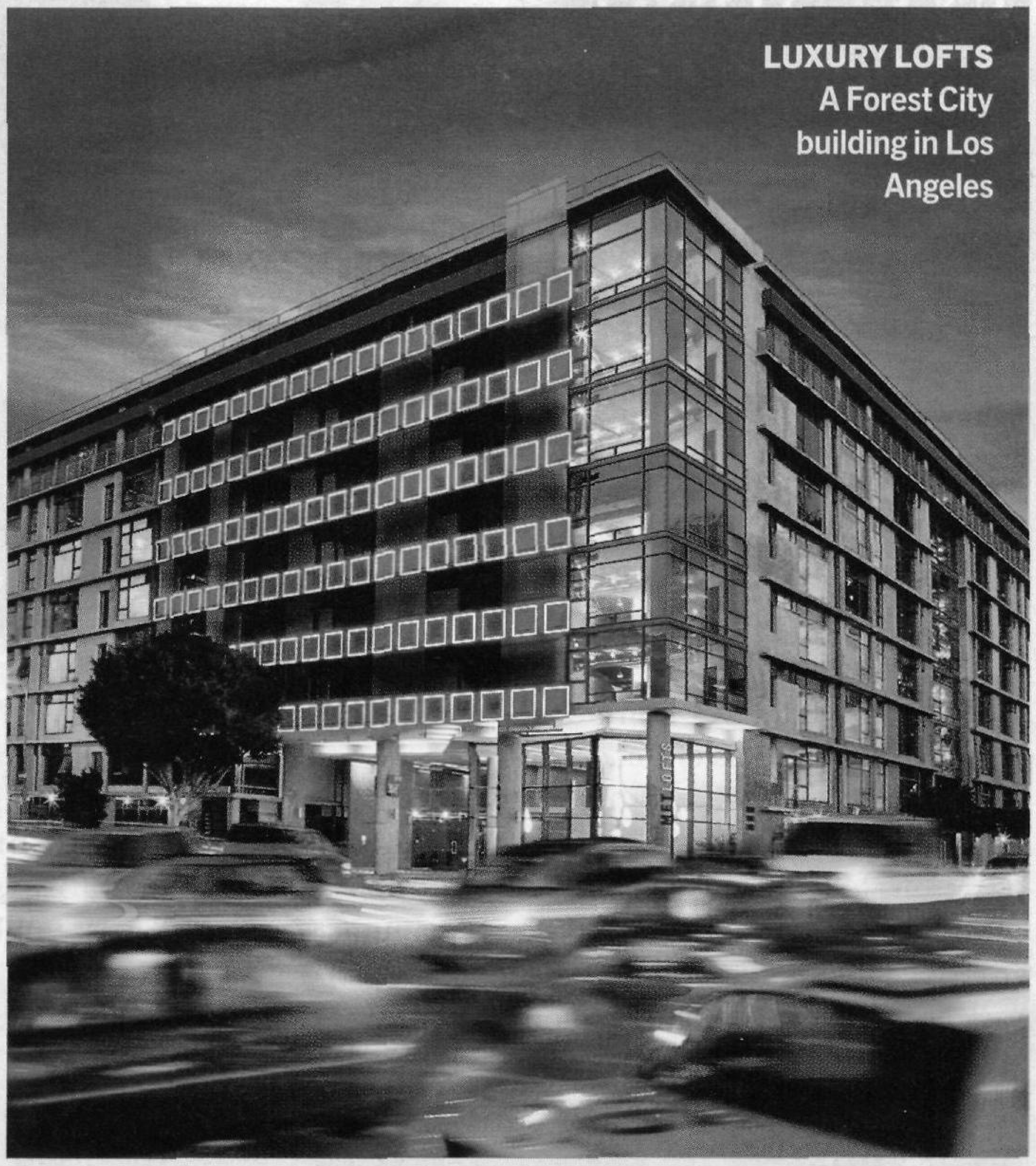
"WE WERE BUYING LIKE CRAZY" DURING THE SUMMER SWOON.

Whitman's willingness to go against the crowd was on display this summer. As investors were bailing out during Wall Street's wild ride, "We were buying like crazy," he says. To ensure he had a margin of comfort, he stuck to well-financed companies that would not need regular access to new funding from capital markets in the next few years. Here are three of his purchases.

Ever the contrarian, Whitman saw gold in the mortgage meltdown. "If you are willing to accept the fact that you're not going to buy the bottom and you're willing to ignore what might be a chaotic operating picture over the next two to four years," he says, "there are fantastic bargains." One of the best, Whitman believes, is Philadelphia-based mortgage insurer **Radian Group (RDN, $24).** The company has already announced heavy losses related to investments in the subprime mortgage market. And in early September rival MGIC Investment, the country's largest mortgage insurer, abandoned its bid to acquire Radian. The stock, which approached $70 early in the year, bottomed near $15 this summer. In a September SEC filing, Third Avenue Management disclosed that it had bought nearly 11% of Radian. Shares jumped 10% on the news, but Whitman is in for the long run, not a quick bounce. He figures that the company has a book value of about $50 a share. In early October, Deloitte & Touche said it would no longer be Radian's auditor, raising concerns that a new auditor might force Radian to write down its assets. Whitman, though, believes that even in the worst case Radian's book value isn't likely to fall below $40 a share.

Whitman also took advantage of the market turbulence to raise his bets on other real estate plays in his portfolio. He increased his long-held stake in urban developer **Forest City Enterprises (FCE.A, $58).** The Cleveland-based company has some $9.5 billion in assets and operates in more than 20 states, with key properties in New York, California, and Washington, D.C. Shares are well off their 52-week high of almost $74, and though not quite as cheap as Radian's, Whitman says, they still have plenty of long-term upside. The company, Whitman explained in a recent letter to his shareholders, "has so many promising projects in its pipeline that the odds seem pretty good that Forest City, over the next five years, has the potential to substantially increase NAV."

Whitman's focus on strong managers and great values has led him to invest alongside some other smart investors. He partnered profitably with Eddie Lampert to buy Kmart bonds before the retailer emerged from bankruptcy. Another pro Whitman admires is 42-year-old J. Bruce Flatt, who, Whitman says, has been described as Canada's Warren Buffett. Flatt runs **Brookfield Asset Management (BAM, $41),** a Toronto-based firm. Flatt has built an extraordinarily successful business by assembling a collection of alternative assets from real estate to power plants to timber. He uses a strict value discipline much like Whitman's, focusing on long-term growth. Brookfield shares have run up considerably in recent years, but they have pulled back from their recent highs and, Whitman says, still offer a modest discount to net asset value. ■



LUXURY LOFTS A Forest City building in Los Angeles

Marty's Picks

Three stocks Whitman says are "safe and cheap."

BROOKFIELD ASSET MANAGEMENT
BAM, $41

FOREST CITY ENTERPRISES
FCE.A, $58

RADIAN GROUP
RDN, $24

As of Oct. 5.

His Fund

Whitman has managed this portfolio since 1990.

THIRD AVENUE VALUE
TAVFX

Five-year annualized return: **22.5%**

Expense ratio: **1.06%**

As of Sept. 30.

FEEDBACK *fortuneletters@fortunemail.com*