Time Tested: File it away!

By Steven Mayo, June 2018

Recently I spoke to a group of university students that are investing in the stock market(s). As you can imagine, they wanted all the best ideas to guide them on stock selection and timing.

At their ages they are not concerned with family expenses, nor estate, tax or retirement planning. It's all about good old fashion investing. Below is the list that I provided. I have found through years of experience that these "principles" tend to prove themselves over and over again.

Stock selection should focus on the following criteria:

- Dividend growers
- Durability of earnings
- Dominance within a sector
- Growth rate of the sector and the company
- Management
- The company's ability to buy back stock
- Less debt is better
- Competitive environment
- The investment climate and geographical regions the company operates within (eg. North America vs. Europe, Asia, Emerging Markets)

A specific example we discussed was large US banks and how they have reformed themselves, cleaning up their balance sheets, raising their dividends and buying back their shares. All very shareholder friendly attributes. They are also doing this within an investment climate where the US government is reducing corporate taxes and reducing regulation. This is refreshing considering what we are seeing in Ontario and Canada!

I'm sure some of you are wondering if this also benefits workers? The answer is, of course it does! Cutting corporate taxes boosts profitability. It also encourages and attracts capital investment, which boosts the demand for labour to the benefit of workers and shareholders alike. Healthy investment climates have a virtuous cycle. In the example of US Banks, the investment climate and management discipline are providing the ability for an improved shareholder experience.

When talking to the students I also reminded them of the importance of patience. Stuff happens that results in short-term stock market/stock set-backs, but corporations are in it for the long run. When companies raise their dividends it speaks to the strength of the balance sheet and the confidence they have in their future.

The list provided above should hold up through all market cycles. Keep it in your back pocket for reference.

Quote: *The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage.* ~ Warren Buffett

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