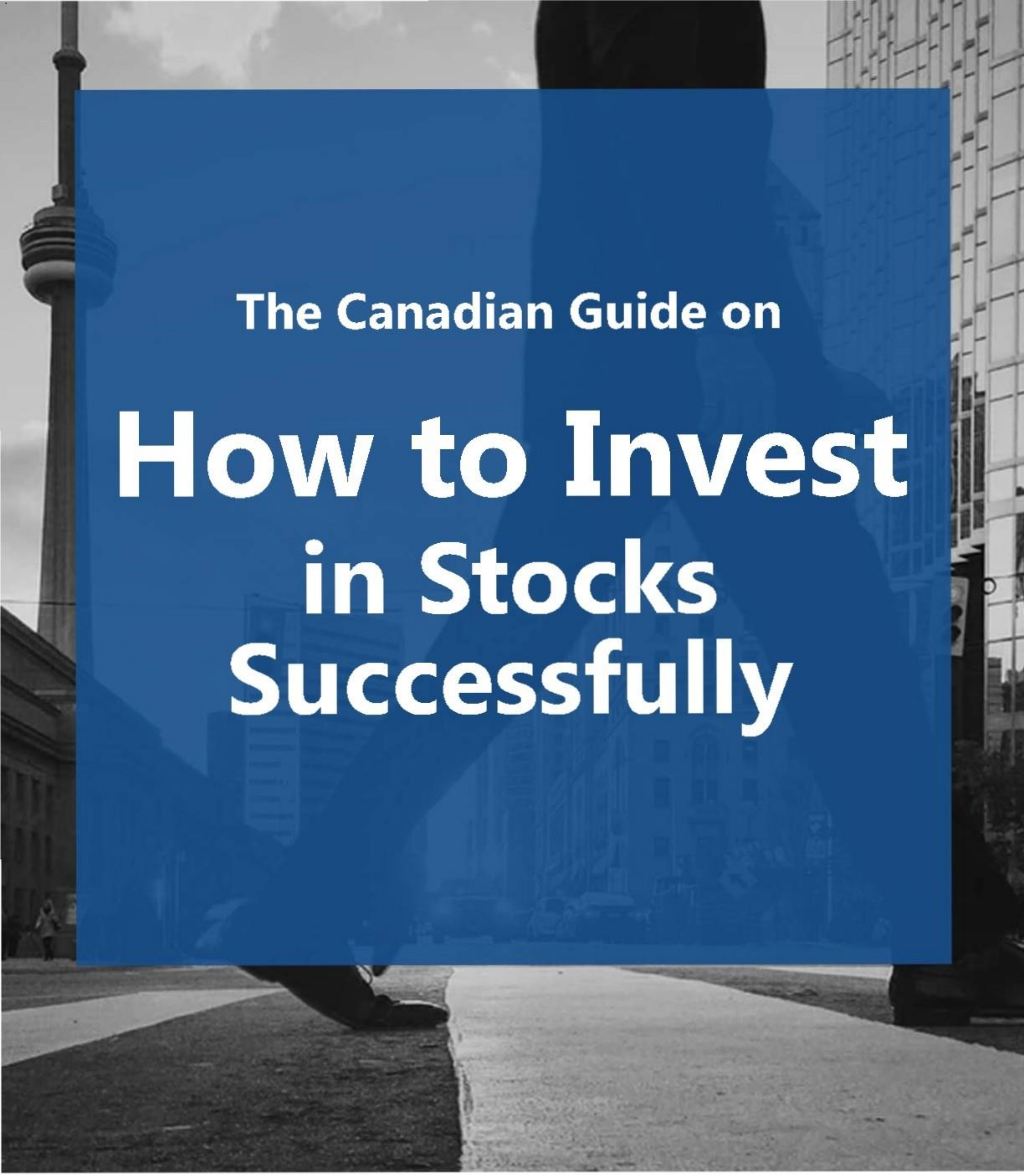

The Canadian Guide on

How to Invest in Stocks Successfully

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FREE REPORT

The Canadian Guide on How to Invest Successfully

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Introduction: How to Invest

The fundamentals of investing are the same for newcomers as they are for established, successful investors. The challenge for everybody is to stick to what works and not let investment fads, the media limelight or bad advice from a broker or advisor steer you off course.

The Successful Investor has distilled years of experience into this special report. It offers a step-by-step map. Follow it and you can achieve success. Yet keep in mind that successful investing also hinges on avoiding costly mistakes. The last thing any investor wants to do is spend long periods of time trying to make up for deep losses that could have been avoided.

Most investors are content to build wealth steadily without taking enormous risks. For the simple reason that this approach works far better than any other.

By seeking investment quality and following sound investment principles (like the 3-part strategy detailed in this report), you increase your chances of finding superstar stocks that move faster than the market average. These stocks are also more likely to emerge first from a down market as leaders in their economic sectors. In other words, there is no fundamental contradiction between making your investments safe and achieving substantial gains.

The practices we outline in this report are derived from Pat McKeough's decades of investment experience. They have consistently worked for those who have followed them over many years. They have the power to put you on the path to investment success.

10 Factors to Direct Your Economic Decisions

When they're just starting out, investors need to look for a wide range of information before deciding whether to buy or sell a stock. But too many do the opposite: they focus on a narrow band of information. This may work from time to time, due to the random element in stock price performance. But with investing, deeper research is rewarded. Here's a list of ten factors that can have an impact on a stock's long-term performance. Each must be considered before deciding whether to buy or sell a stock.

Financial factors:

1. A history of 5 to 10 year of profit. Companies that make money regularly are safer than chronic or even occasional money losers.

2. 5 to 10 years of dividends. Companies can fake earnings, but dividends are cash outlays. If you only buy dividend-paying stocks, you'll avoid most frauds.

3. Manageable debt. When bad times hit, debt-heavy companies go broke first.

Safety factors:

4. Industry prominence if not dominance. Major companies can influence legislation, industry trends and other business factors to suit themselves. Minor firms, on the other hand, don't have that power.

5. Geographical diversification. Canada-wide diversification is good; multinational, even better. There's extra risk in firms that operate in a limited geographical area.

6. Freedom to serve (all) shareholders. High-quality stock picks must be free of excess regulation, free of dependence on a single customer, and free from self-dealing insiders or parent companies. In our stock research, we always take account of these important factors.

7. Insider and manager integrity. If you have significant doubts about the honesty of the people who run the company, the best thing to do is to sell right away. There is no limit to the way in which unscrupulous insiders can cheat you.

Survival/growth factors:

8. Freedom from business cycles. Demand periodically dries up in “cyclical” businesses, such as resources and manufacturing. That’s why you need to diversify. Invest in utility, finance and consumer stocks, along with resources and manufacturers.

9. Ability to profit from secular trends: These trends outlast ordinary business booms and busts, because they reflect ongoing social change. Free trade and rising environmentalism are just two examples of secular trends.

10. Ownership of strong brand names and an impeccable reputation. Customers keep coming back to these businesses, and will try their new products.

Key Point: Relying on one or two “surefire” indicators, or metrics—even if they have worked for you a few times—will inevitably lead to bad investment habits and cost you money. While few investments will score perfectly on this list of ten factors, you can use the list to get an overall picture of a company’s strengths and weaknesses. The more you find when you do your research in stocks, the better.

Getting Started:
Choose the right person to invest your money

Even if you decide you want to go it alone in the stock market, you still must choose the person through whom you will invest your money. Should you use a discount broker, a full-service stock broker or a portfolio manager? The decision will play an important role in the way you approach your investments.

Here's how the three choices stack up:

Full-service investment advisor: You may also know this professional as a "stock broker" (although he or she also sells bonds, mutual funds and other investments). Most investment advisors are commissioned sales people who make investment recommendations that you can accept or reject.

There's nothing inherently wrong with this arrangement. However, it can introduce conflicts of interest that influence your brokers' recommendations. That might not always work to your benefit.

For instance, your broker's income is proportional to the frequency of your trading, but increased trading is likely to cost you money. Commission rates on mutual funds, for example, vary among investments. The variance gives brokers an incentive to sell the investments that pay the highest commissions. But a general rule is that the riskier an investment, the more commission a broker earns in selling it.

In addition, brokers have no "fiduciary relationship" with their clients. They are not legally required to do what's best for the client. They are, however, supposed to make sure that the securities they sell are "suitable" for their clients. But "suitable" can cover a wide range of desirable and not-quite-so-desirable securities.

A good stock broker is one who understands investing and who has the integrity to settle conflicts of interest in the client's favour. Good stock brokers can provide an effective and economical way to manage your investments. But if you are going to use a full-service broker, take the time to find a broker you can trust.

Discount stock broker: Unlike full-service stock brokers, discount brokers simply carry out buy and sell orders for their clients, and charge lower commission rates than full-service brokers. You pay even lower commissions if you trade stocks online, instead of placing orders over the phone.

The main drawback of using a discount broker is that it gives you unlimited opportunity to make costly mistakes on your own. The clerk who takes your order won't recognize, much less warn you, if they see you're about to do something you'll regret. In contrast, good full-service brokers will try to talk you out of bad ideas.

Discount brokers are your best choice if you make your own investment decisions. Why pay extra for full service you don't need or use? But if you use a discounter, you may want to secure outside sources of investment advice (such as our newsletters), if only to serve as a second opinion on your decisions.

Portfolio Manager: Portfolio managers take a more active role than brokers. Instead of simply presenting you with investment advice that you can accept or reject, they generally make and carry out investment decisions for you, for a fee. Consequently, portfolio managers are more stringently regulated than full-service or discount brokers. In particular, portfolio managers must maintain a fiduciary relationship with their clients. Rather than simply choosing suitable investments, they must always try to do what's best for the client.

The best portfolio managers take pains to eliminate conflicts of interest between themselves and their clients. However, some portfolio managers rely on brokers to find clients. This can reintroduce conflicts of interest that you hoped to avoid by dealing with a portfolio manager instead of a broker.

Our investment advice: Even if you intend to make most of your investment decisions yourself, your choice of a broker or advisor will make a big difference. Trust is obviously the key factor. If you also have a broker whose advice you can rely on to be fair and disinterested, you will have an advantage that, frankly, many investors don't enjoy with their financial advisors.

Building Your Portfolio

The right number of stocks for your portfolio really depends on where you are in your investing career.

When starting out, most investors have modest amounts of money to invest. Even so, it's a good portfolio management strategy to invest at least several thousand dollars at a time, even if this means you can only buy a handful of stocks. Otherwise, your broker's minimum commission will claim too high a percentage of your investment dollars.

As part of your initial portfolio management approach, you should aim to invest in a minimum of four or five stocks—one from each of most, if not all, of the five main economic sectors (Manufacturing & Industry; Resources; Consumer; Finance; and Utilities). But you can buy them one at a time, over a period of months or even years, rather than all at once. After that, you can gradually add new stocks to your portfolio as funds become available, taking care to spread your holdings out as we advise.

Our investment advice: Add new stocks as your portfolio's value increases. When your portfolio gets into the $100,000 to $200,000 range, you should aim for perhaps 15 to 20 stocks. If you're married, it's best to treat your family holdings as one big portfolio, even if you and your spouse keep your money separate.

That way, you can be sure you aren't operating at cross purposes, or investing too much of the family fortune in a single area.

When you get above $200,000 or so, you can gradually increase the number of stocks you hold. When your portfolio reaches the $500,000 to $1 million range, 25 to 30 stocks is a good number to hold.

Of course, you may fall a few stocks below that range, or go a few above it, particularly when you're making changes in your holdings. That won't matter if you follow our three-part investment advice:

1. Invest mainly in well-established companies;
2. Spread your money out across most if not all of the five main economic sectors
3. Downplay stocks that are in the broker/public relations limelight.

Key Point: We suggest that the upper limit for any portfolio is around 40 stocks. Anything above that number and even your best choices will have little impact on your personal wealth.

Knowing When to Sell a Stock

We often remind investors of the importance of a balanced portfolio and a strategy for long-term success. But investors must also know when to take profits. That time is when a stock makes up too much of your total portfolio, or if a company shows questionable management or business decisions. But investors still ask: “Why don’t we sell when stocks move up and there are profits to be had?”

The truth is that trying to spot those tops and bottoms as they occur is all but impossible. All sorts of market theories purport to tell you how to do it. Many seem to “work,” but only some of the time. None, unfortunately, work consistently.

The problem is that market tops and market bottoms can take place in response to anything that is going on in the market, the economy and the world. But buy and sell signals focus on a tiny smidgen of that vast amount of data. A market signal “works” as an investing strategy when the market is responding to the same slice of data that goes into calculating the signal. It quits working as soon as the market’s focus moves on to something else.

Profit from stock selection rather than stock-market predictions

Investors who succeed over decades—the Warren Buffett’s of the investment world—rarely, if ever, talk about spotting market tops and bottoms. They are far more likely to talk about successful investments than successful market predictions. Most have come to see, often after a series of costly stock-trading errors, that you make most of your stock-market profits through stock selection rather than stock-market predictions.

Still, most new investors look at it another way. They figure that if they sell when the market appears to be headed down, they can then buy back in a month or two when the market is lower.

But there are several reasons not to sell, even if you’re sure the market will go down for a couple of months. For one, the market may not go down. For another, when the market is headed for a rise, the best performers in that coming rise will often begin rising much earlier, and much quicker, than the market averages. A classic example of this occurred with Apple Inc. (symbol AAPL on Nasdaq).

Apple peaked around $7 a share (adjusted for splits) in late 2007. It got down to around $3 in December 2008. It never did go much lower, even though the stock-market averages kept on dropping for four months. By the time the market as a whole hit its low in March 2009, Apple stock had already risen by 30% or more.

By the end of 2009, Apple had gone on to an all-time high. Since then, the stock has soared to $200 in December 2023. Of course, stock performers like Apple are rare. But the pattern is well established.

Stocks that are going to be top performers in the next market rise often start going up early, long before the average stock starts to rise.

Key Point: Deciding when to sell is hard. That's why we spend so much effort on picking high-quality stocks to buy. A good general rule is that you should be slow to sell high-quality stocks (those with a history of sales, earnings and dividend growth), and faster to sell stocks that are still trying to establish a record of success.

Safeguards for Building Your Portfolio

We've long recommended these 4 safe investing strategies that can help you cut risk—and increase profits—in your stock portfolio.

1. Look beyond a company's share price: It's a mistake to base your decision to buy or sell a stock on past stock-price performance alone. A stock never gets so high that it can't keep rising, or so low that it can't keep falling. That's why you have to look beyond price changes and focus on investment quality when deciding whether to buy or sell.

2. Be skeptical of companies that mainly grow through acquisitions: Making acquisitions can speed up a company's growth, but it also adds risk that can undermine a conservative, safe investing approach. Great acquisitions are rare finds. Many acquisitions come with hidden problems or risks, or they turn out to have been over-priced.

   Despite the risks, some acquisitions turn out hugely profitable. So, your safe investing strategy shouldn't automatically discount companies that have grown through acquisitions. Just keep the risks in mind, and avoid companies that seem unaware of them.

3. Sell if you doubt the integrity of insiders: It's always a good safe investing strategy to sell your shares in a company if you have any doubts about the integrity of the people in charge. In other words, if you think a company is run by crooks, you should sell right away, no matter how attractive it seems as an investment. There are no limits to the ways in which unscrupulous operators can and will cheat you.

   Still, you need to distinguish between lack of integrity on the one hand, and poor judgment on the other. Many public companies eventually run afoul of tax rules or regulatory decisions, for instance. If you take that as a sign of low integrity, you can wind up selling solid investments at market lows.

4. Resist the temptation to copy prominent investors: Sometimes you'll hear that a stock is a good buy because some prominent investor (a company, family or individual) has a stake in it. However, it's important to remember that top investors don't expect to profit in every investment they make. For example, sometimes they invest for strategic or political reasons, rather than profit.

To profit by copying the decisions of prominent investors, you have to copy what they do with the bulk of their money, not just with token amounts of it. That's hard to do, since prominent investors often keep their best investments hidden until they want to sell. Our investment advice is to follow these safe investment strategies. Every investor will see a lot of misleading information and sensational headlines over time, but time and experience helps you spot the real positive and negative signals regarding your investments.

How to Stop Worrying and Be a Better Investor

Any company can run into unpleasant surprises. But well-established, safety-conscious companies have the asset size and the financial clout—including solid balance sheets and strong cash flow—to weather market downturns or changing industry conditions.

Investors still worry, of course. It goes against human nature to quit worrying altogether. But it pays to remember that most things we worry about never happen. As humans, we are bred to overreact to, dwell on or even brood over any hint of risk.

There are always investment-related worries to occupy our minds. Today, they range from Russia’s invasion of Ukraine and the Israel-Hamas war, to a possible U.S. federal government shutdown.

Why we’re patterned to overreact to unseen threats

For hundreds of thousands of years of prehistory, humans lived together in small tribes. As hunter-gatherers, we were steadily on the move. We were also under constant threat from predators and members of other tribes. At night, if you woke to every sound from the bushes, you lost some sleep, but you cut your risk of being eaten alive or killed by an enemy sneak attack.

If you possessed the ability to worry constantly about unseen threats, you were more likely to live till you reached puberty, so you could pass along your worrywart genes to the next generation.

Investors may be more sensitive to risk than others

Today we face much less risk from animal predators and human marauders. But many people still carry this hair-trigger fear response. We spend more time than we should worrying about things that have very little chance of actually happening—or will work themselves out much less dramatically than some of the more strident commentators would have us believe.

That's especially true of investors, who generally think more about the future than other people. It’s true all the more of tsinetwork.ca readers, as well as subscribers to our newsletters.

Many of you are the kind of people who seek out information from a variety of written sources, where it’s much more extensive and detailed than what you get from a glancing at a newspaper or Internet headline or watching the evening news or listening to one of a growing number of TV commentaries. However, some of that information is biased, overblown or incorrect.

This doesn’t mean you should ignore potential threats. You simply need to put them in perspective. You'll find that many of your worries concern things that are unlikely to happen;

that are already largely discounted in current stock prices; or that probably won't matter as much as you feared they would.

Spend more time reading, less time worrying

You get a much better return on time spent if you devote less of it to worrying. Instead, focus on the quality and diversification of your investments, and the structure and balance of your portfolio.

Too much worrying can hurt your judgment. A calm investor is less likely to react in haste and make sudden decisions that could prove particularly damaging in the long run.

Key Point: Near the end of his life, U.S. author Mark Twain (1835-1910) came up with these words of wisdom that all investors should commit to memory: “I’m a very old man, and I’ve spent much of my life worrying about a lot of different things, most of which never happened.”

Sell as little as possible—but know when to sell

Investors often ask, “When should I sell my stocks? If I sell now, I’ll nail down big profits. But I’ll have to pay heavy capital gains taxes.”

The answer is different for every stock. The general rule: you should be eager to sell speculative stock market picks, because their successes may not last. But you should be reluctant to sell high-quality stocks that have a well-established business with a history of profit and, better yet, dividends. That’s because these stocks should make up the bulk of your portfolio.

Here are sound reasons why you might consider selling a prosperous, well-established dividend-paying stock.

1. The company’s outlook has deteriorated. It has taken on major projects that appear headed for failure. Or, it shows signs of bad management or lasting external difficulties that will cut into earnings. Or it has borrowed heavily, perhaps to make itself unattractive to companies that might have wanted to bid for it.

2. The market outlook has deteriorated. You would, of course, sell if you knew the market was headed for a broad setback that could go on for a year or two, or possibly longer. However, market declines like these are rare and hard to predict. At any given time, somebody is predicting that a market decline like this or worse is just around the corner. Most of these predictions turn out wrong.

3. Your circumstances have changed. You need cash now more than you need future growth or dividends. Or you have retired or lost your job, and you need to cut your investment risk by selling some stocks. This is usually your soundest reason for selling a high-quality stock.

4. Remember, selling costs money. You have to pay brokerage commissions. You also lose money to the bid-ask spread. You may have to pay taxes on gains in investments you hold outside your RRSP. To avoid these costs, invest mainly in well-established stock market picks that you might want to hold on to more or less indefinitely.

Our investment advice: For aggressive stocks, we believe it pays to apply our “sell-half” rule. That is, sell half of a stock that has doubled in price. That way, you lock in your gains on a stock that is not likely to maintain the same momentum over time.

But to make serious profits, you need to hang on to your best performers for years. Sell these stocks only if they are subject to the deteriorating conditions we list above.

Use Stock Buybacks to Your Advantage

Dividends are in fashion with investors, and that's always a good thing. Creative accounting can produce false impressions of prosperity and hide embarrassing financial problems. But accounting can't create cash for this year's dividend, let alone conjure up a history of past dividends. If you restrict your stock market picks to dividend payers, you'll avoid most of the market's greatest disasters.

Stock buybacks let you defer taxes

At the same time, it's odd that while investors periodically crave cash dividends, they rarely get excited about stock buybacks. But in some ways, stock buybacks are better than dividends. In particular, they give you a tax-deferral option that you don't get with cash dividends.

Stock buybacks raise the value of a given stock holding in two ways:

First, stock buybacks raise a company's earnings per share. Buybacks reduce the number of shares outstanding. To get earnings per share, you divide total earnings by the number of shares outstanding. With fewer shares, the calculation naturally gives you a higher percentage of earnings per share. On the whole, buyers are willing to pay slightly more for a stock with slightly higher earnings per share.

Second, when the company buys back its own stock in the market, it bids up the price of the stock.

When you hold a stock in your personal, taxable account and it pays a cash dividend, you have to pay tax on the dividend in the year in which you receive it. If the company instead devotes the cash to a stock buyback, you have two options:

- If you need cash, you can sell part of your holding in the stock, presumably at a higher price than you'd get in the absence of a buyback. If you do that, you'll only pay taxes on the sale if the stock has moved up since you bought. If the stock has moved sideways or down, the proceeds of your sale are tax-free.

- Of course, you'll always have the option of holding on to your stock until it suits your purposes to sell.

Key Point: This added opportunity for tax deferral may not seem like much of an advantage in any single year. However, the magic of compound interest applies to that tax deferral. It can add up to a huge advantage over a decade or two. That's especially so if you defer taxes until you retire, when you are likely to be in a lower tax bracket.

Treat Economic Forecasts with a Large Dose of Skepticism

Economic forecasts attract far more investor attention than they deserve. They provide a meagre advantage, if any, to your investing results.

Here are three reasons why experienced, successful investors feel skeptical, if not downright cynical, about economic forecasts:

1. Accurate economic forecasts are rare—certainly rarer than profitable stock-market recommendations. There are simply too many economic factors, and they interact in too many ways. That's why nobody guesses right every time about next year's stock market direction, even if they have access to the world's top economists. Even the best economists can be right on in one year and dead wrong the next.

2. Fame as an economist has little to do with forecasting skill. After oil prices got up above $145 a barrel several years ago, many prominent Canadian and American economists predicted that fast growth in India, China and other emerging economies practically guaranteed that oil prices would keep rising indefinitely. Common predictions had oil rising to $200 a barrel and beyond. Instead, the price of oil plunged to $30 soon after. Oil alarmists like to say they weren't "wrong, just early." But if you let the supposed inevitability of $200 oil serve as your guide to investing, you lost a lot more money than the average investor.

3. Even when an economic forecast is right, it may still offer little advantage to investors. That's because the stock market foresees economic trends much better than any economist, and much sooner. It moves up and down in anticipation of changes.

Key Point: Economic statistics and reports can provide clues to investment risk and opportunity, and predictions and forecasts may make interesting reading. That doesn't make them a solid source of investing advice, however. The quality and diversification of your investments are much more important to success as an investor.

How to make ‘buy-and-hold’ work for you

From time to time, I read articles saying that growing numbers of financial advisors and stockbrokers are abandoning the traditional buy-and-hold strategy.

For instance, one article stated that some brokers were taking new approaches more in tune with the new “macro-economic climate.” That sounds suspiciously like just another way of trying to guess what will happen next.

Often, this abandoning of the buy-and-hold strategy seems to crop up when the market is down, or at least in a state of turmoil that leaves investors uncertain.

For decades—as long as I’ve been involved with the stock market—some brokers have claimed that they favour the “buy and hold” investing strategy in principle. But when the market is treacherous, unpredictable, etc., they tell their clients to alter their normal trading habits. Instead they direct clients to indulge in short-term trading, options or whatever to make money, at least till things go back to normal.

Buy-and-hold favours investors, hurts brokers

Brokers have powerful economic incentives to recommend this switch. These alternate investing methods involve much higher fees. The higher fees leave their clients far less likely to make significant profits. But they virtually guarantee that the broker’s income will go way up.

Investors generally resist this switch. They recognize that you can’t predict market swings. But you can profit from long-term growth in the economy, and from the wealth creation that takes place in well-established companies. However, investors become more receptive to the idea in the late stages of a market downturn, when the alternate strategies have beaten “buy and hold” for a year or two.

The funny thing is that “the traditional buy-and-hold strategy” is written about much more than it is practiced by most investors.

Buy-and-hold-till-I-get-bored and other misguided approaches

Most people describe themselves as buy-and-hold investors. But for many, their strategy is more like buy and hold till I get bored, or until I hear about something better.

Another common variant of the strategy is to buy and hold till the stock goes up, then take your profit and brag about it to anybody who will listen. When the stock goes down instead of up, these investors may switch to a strategy of buy-and-hold-while-the-stock-goes-down-then-sell-when-it-goes-back-up-to-what-I-paid-for-it.

Of course, there are a variety of ways to build an investment portfolio. Some work better than others. Ours has done well for our clients and readers over the past few decades. Rather than depending on predictions or on an impossibly keen degree of market timing, we focus on investment quality and diversification.

We advise selling particular stocks when we feel the situation has changed and they no longer qualify as high-quality investments. We also sell if we decide that a stock isn't as high-quality or well-established as it needs to be in order to cope with the challenges it faces.

Sometimes, we sell high-quality stocks because we believe the stock has moved up way too high because of its time in the broker/media limelight. It's unlikely to live up to the high investor expectations that spotlight breeds. Here when a stock fails to live up to those expectations, downturns can be brutal.

Of course, we make many of our sales because they have attracted takeover bids that are too good to turn down. These offers generally result in a major profit.

Key Point: We can sum up a key element of our Successful Investor strategy very simply: it's not just "buy and hold" but rather "buy and watch closely."

How much cash you should hold

The more volatile the stock market becomes, the more some investors wonder how much cash they should hold. I can think of three reasons why you might want to sell some stocks and hold cash in turbulent markets, or at any time.

1. You can’t sleep at night because you are nervous about the market outlook. In that case you should, as the saying goes, sell down to the sleeping point. This is less an issue of understanding the stock market and more about understanding your own risk tolerance.

2. You expect you will need to take cash out of your portfolio in the next year or two and you don’t want to risk having to raise cash by selling stocks at low prices.

3. You have some realistic reason to think stock prices will be substantially lower in, say, six months or a year. This is why most people take money out of their portfolio. Unfortunately, they often get that pessimistic feeling at or near a market low.

Numbers 1 and 2 are personal decisions. Number 3 is different.

One key risk: selling at the bottom

Here’s how understanding the stock market and its role in your portfolio is key. Of course, at times you will guess right about a coming market downturn. But this urge to “go into cash” (as brokers refer to it) rarely appears at times that will pay off for you. All too often, investors give in to the urge to raise cash just when the market is near bottom. If you do that, you may wind up getting back in the market at higher prices. That can happen even if a downturn appears after you sell. After all, you won’t plunge back in the market just when prices hit bottom. You may instead sell more of your stocks.

I know several investors who sold all their stocks within days of the March 9, 2009 market bottom. I tried talking them out of it and got nowhere.

Interest rates are a factor in this decision. When rates are low, it minimizes the return on T-bills and other cash-equivalent investments. If that is the case, it really doesn’t make sense to hold a lot of cash.

Key Point: We advise against switching “into cash” when the market hits a downturn. But if you have a large cash position, that doesn’t mean you need to rush or make snap judgments to get all your money into the market. Instead, take your time and weigh various investments to see which one is the best fit for the rest of your portfolio.

You can gradually add new stocks to your portfolio as funds become available, taking care to spread your holdings out as we advise.

Our investment advice: Add new stocks as your portfolio's value increases. When your portfolio gets into the $100,000 to $200,000 range, you should aim for perhaps 15 to 20 stocks. If you're married, it's best to treat your family holdings as one big portfolio, even if you and your spouse keep your money separate.

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Of course, you may fall a few stocks below that range, or go a few above it, particularly when you're making changes in your holdings. That won't matter if you follow our three-part investment advice: invest mainly in well-established companies; spread your money out across the five main economic sectors, and downplay stocks that are in the broker/media limelight.

Reduce the Risk of Aggressive Investing

Aggressive stock picks can give you bigger gains than conservative ones. But they can also give you bigger losses. Aggressive stocks are only suitable for investors who can accept substantial risk. You can be wrong on any of your stock picks, of course. But when you're wrong on a speculative stock, losses are likely to be larger than with a well-established company.

Here are five key ways to cut risk in your aggressive stock picks:

Aggressive investing tip #1

Limit aggressive investments to no more than, say, 30% of your portfolio. Ultimately of course, the percentage of your portfolio that should be held in either conservative or aggressive investments depends on your personal circumstances. An investor with a longer time horizon or without the need for current income from a portfolio can invest more money in aggressive investing stocks. But we think 30% is a good rule of thumb.

Aggressive investing tip #2

Cut your risk all the more by taking a conservative approach to your aggressive investing.

You should hold your aggressive investments within a portfolio that reflects our three-pronged Successful Investor wealth-building philosophy. That is, invest mainly in well-established companies; spread your money out across most if not all of the five main economic sectors (Manufacturing, Resources, Consumer, Finance, Utilities); downplay stocks that are in the broker/media limelight. That way, you protect yourself from an unforeseeable industry downturn. You also increase your chances of stumbling upon a market superstar—a stock that does much better than average.

You may stretch these rules a little in aggressive investing, while still sticking to the general principles. You may invest in more companies that are less well-established, compared to a conservative investor. But avoid loading up on penny stocks, recent new issues or any stocks that expose you to a serious risk of total loss.

Aggressive investing tip #3

Downplay stocks in the broker/media limelight—that limelight fosters bloated investor expectations. Stocks that are talked up like this may seem like ideal candidates for big gains, with lots of investors getting on board. But when stocks fail to live up to those expectations, brutal downturns follow. Applying that aspect of our conservative philosophy to an aggressive portfolio leads us to stay out of most new issues. That's because most new issues come to market when it's a good time for the company or insiders to sell. That's rarely a good time for you to buy. Skip the hype and don't buy shares for your aggressive investing portfolio that come with huge broker sales campaigns.

Aggressive investing tip #4

Look for aggressive stocks with hidden value—value that attracts far less investor attention than it deserves. That gives buyers a bargain. It may also attract takeover bids.

Hidden assets can consist of real estate or underused brand names. For example, companies often carried their real-estate assets on the corporate books at their purchase price, even though their value may have multiplied many times over the years. The purchase price goes on its balance sheet as the historical value of the asset. Over a period of years or decades, the market value of that real estate may climb substantially. But the historical purchase price remains unchanged on the balance sheet.

For example, a company's real estate can come to exceed the market value of its stock. These types of hidden assets may only become apparent to investors when the company upgrades the use of the real estate. For example, a merchandiser might repurpose a parking lot to build a shopping mall with a residential condo tower on higher floors, and a parking garage down below.

One of today's best-hidden assets in aggressive investing is research and development spending by technology stocks. High research and development budgets let tech stocks keep adding profitable new products to their lines and improving existing ones.

Looking for hidden value can produce huge profits—and when you lose, you generally don't lose that much.

Aggressive investing tip #5

Keep brand loyalty in mind. Balance sheets often fail to assign any value to brand names, even those household names that had built up multitudes of loyal customers over the years. One example of customer loyalty taking a company to new heights is Apple. Their customer base was fiercely loyal to its brand and carried it through the first two turbulent decades of its life. It was this customer base that quickly adopted the iPod and pushed Apple to dominate the personal music device market and later redefine personal computing forever.

Most of our aggressive investing buys are in our *Power Growth Investor* newsletter. We look at many stocks before singling out our aggressive favorites, and we try to choose those with as much underlying value and as many hidden assets as possible. This is the best way to cut risk in aggressive investing.

Conclusion

There are many opinions on the nature of investing. Some claim that it can be reduced to a science. Yet that ignores the fact that emotions play a large part in investing. Beginning investors can be gripped with fear and act in haste when the market is plunging, and their stocks with it. Or they may acquire the gambler's mindset that a quick run of luck with one stock can easily be repeated. Even experienced investors can fall into these traps.

The best way to approach investing is to build your investment portfolio gradually, but systematically, with a firm goal in mind. Be patient, be informed about the investments you are considering and keep everything in perspective. Take a conservative approach to risk and an optimistic approach to high quality stocks. That way you won't be pushed off course by turbulent markets. Keep in mind that stock prices generally reach successively higher levels over time.

Our approach is grounded in our three-part investing program, which we restate here. This approach forms the core of all the advice you get in our newsletters, and on TSI Network.

1. **Invest mainly in well-established, mainly dividend-paying companies.**
   When the market goes into a lengthy downturn, these stocks generally keep paying their dividends, and they are among the first to recover when conditions improve.

2. **Spread your money out across the five main economic sectors (Manufacturing & Industry; Resources & Commodities; Consumer; Finance; and Utilities).**
   This helps you avoid excess exposure to any one segment of the market that is headed for trouble. Diversifying across the five sectors will also dampen your portfolio's volatility in the long term, without the shrinking in its potential that you'd get if you invest significantly in bonds yielding little more than 4%.

3. **Avoid or downplay stocks in the broker/media limelight.**
   That limelight tends to raise investor expectations to excessive levels. When companies fail to live up to expectations, these stocks can plunge. Remember, when expectations are excessive, occasional failure to live up to them is virtually guaranteed, in the long term if not in the short.

These three investing philosophy principles guide us in every portfolio we manage. Using these three value-investing principles will help protect your money during periods of market turbulence, and help you profit when the market rises.

About TSI Network

With over four decades of experience as an advisor, commentator, editor and publisher, Pat McKeough has a long record of determining which stocks are bound to reward investors most.

Over the past two decades he has been the editor and publisher of a growing series of investment newsletters through *TSI Network.* Pat also offers two investment advice services, *Inner Circle* and the advanced *Inner Circle Pro*. Since 1999, he and his team have put his investment approach to work for private clients in his Successful Investor Wealth Management business.

His philosophy is anchored in safety and a balanced portfolio to generate accelerating gains for subscribers and clients. TSI Network now publishes seven newsletters for every kind of investor:

1. ***The Successful Investor***—Pat's flagship advisory continues to be a beacon for Canadian investors seeking growing gains and reduced risk with the best Canadian stocks.

2. ***Power Growth Investor***—If you like the idea of "a conservative approach to aggressive investing", this advisory has Canadian and U.S. stocks with escalating growth potential.

3. ***Wall Street Stock Forecaster***—Your portfolio is much stronger with at least 20% in U.S. stocks—and this special advisory covers the 70 best U.S. stocks for Canadians.

4. ***Canadian Wealth Advisor***—A 'safety-first' advisory offering you the best conservative strategies based on well-established Canadian dividend stocks, ETFs and REITs.

5. ***TSI Dividend Advisor***—In this advisory, our exclusive Dividend Sustainability Ratings® will change the way you look at dividend stocks—and the way you invest in them.

6. ***Spinoffs &Takeovers***—If you'd like "the closest thing to a sure thing in investing," this advisory on spinoffs and other special opportunities is utterly unique.

7. ***The Best ETFs for Canadian Investors***—This ground-breaking publication shows you how to get the best results with ETFs as these investments explode in popularity.

In 2002, Pat founded his ***Inner Circle***, offering investors more personal attention, plus access to his four original publications. Members can ask Pat personal investment questions. They also get his commentaries and answers to questions posed by other Inner Circle Members. In 2017 he launched ***Inner Circle Pro***, an advanced group that receives all seven of his newsletters.

Through ***Successful Investor Wealth Management***, Pat and his team manage over $900 million for individual Canadian investors. Free of comprising ties to brokerages, with no hidden costs or commissions, the team charts an independent course for clients. For the past 18 years the portfolios they manage for clients have enjoyed an uncommonly high annual average return.

You will find more information on all of these services at www.tsinetwork.ca.

Successful Investor Wealth Management

Pat McKeough offers personal portfolio management advice to a number of individual investors, his Successful Investor Wealth Management clients.

Before becoming our clients, many followed Pat's advice through our investment newsletters. Others were referred to us by satisfied portfolio management clients. All benefit from the fact that this service is free of the conflicts of interest that distort so many other sources of investment advice.

A strong team of experts contribute an enormous amount of time and research to the Successful Investor Wealth Management service. But Pat personally approves every transaction in every portfolio.

If you'd like to know more about this unique portfolio management service, please call **1-888-292-0296**