

# BUSINESS

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## PROVINCE PUTS GASPÉSIA PAPER MILL PROJECT INTO DOUBT, B

TSX 8449.36 -86.35 Dow 10,510.29 +41.92 Nasdaq 2068.23 -9.14 Dollar 75.19 -0.26 Oil \$32.68 -\$1.07 Gold \$397.80 -\$13.90 Prime

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### Psst – looking for some tips?



**DON MACDONALD**  
ON INVESTING

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DON MACDONALD  
THE GAZETTE

A lot of people are agonizing over investment decisions this time of year as the RRSP deadline approaches at the end of February.

Choosing where to put your savings is a personal matter that depends on such things as your risk tolerance, age, income level and portfolio size. But I'd like to help if I can by humbly offering a few observations about the markets and investing.

★ Keep your eye on your returns. You should have a clear idea how your investments have done last year and over time. You can't judge how you and your financial adviser are doing without knowing this information.

★ One fair benchmark to judge returns of a diversified portfolio of investments is 13.9 per cent. That's what the median Canadian pension plan returned in 2003.

If your returns were below 13.9 per cent make sure you understand why.

I'm certain your financial adviser is a great person, but you're paying her a lot of money for prudent advice and portfolio performance.

★ If you buy mutual funds, consider switching to index funds or, even better, exchange-traded funds that track major market indexes.

Most mutual funds don't beat their relevant benchmark index. Morningstar examined the performance of the 662 Canadian equity funds last year and found 92 funds, or just 14 per cent, beat the S&P/TSE composite index.

You can't know which fund will beat the index in any given year, so why not throw in the towel and take what the market gives you with a cheap index fund or ETF. You're savings on management fees alone will be over 2 per cent a year.

★ If you prefer to invest in individual stocks and bonds, focus your mind first and foremost on losing, not winning.

Remember Warren Buffett's first rule of investing: Never lose money; or Rule No. 2: Never forget Rule No. 1. In other words, be prudent and do as much as you can to reduce risk.

★ But how? For one thing, look for companies that have a strong and enduring competitive position in their industry.

Take a few minutes to calculate whether the company generates enough cash from operations to cover its capital requirements with lots to spare, advises Hewitt Heiserman, author of an excellent new book on investing, *It's Earnings That Count: Finding Stocks with Earnings Power for Long-Term Profits*.

"If you don't have the time to monitor a company's performance day to day ... you've got to focus on low-risk growth stocks," Heiserman says. "Those are the companies that can finance their expansion through internally generated free cash flow. ... That's just a safer, better company to own than a company that has to go into the capital market to borrow money or issue stock."

★ Then look for companies that have a long track record of spending that cash in investor-friendly ways. These include successful expansions or acquisitions, increasing dividends or buying back stock.

A company like **Molson Inc.** throws off a lot of cash, but the board and management have a long history of value-destroying missteps in spending that money.

★ Buy your great companies at a reasonable price. If you're paying over a price/earnings ratio of 15, make sure the company's long-term growth prospects support your decision.

★ Learn from the best investors. Watch and learn from the likes of Buffett.

Benjamin Horwood, manager of the Value Contrarian Canadian Equity Fund, watches investors with a long track record of excellence for stock-picking ideas. You should do the same and while you're at it, listen to their investing philosophies.

The list of Canada's best investors includes Peter Cundill, Sebastian Van Berkom

and Stephen Jarislowsky. And don't forget Horwood himself – he had a 17.5-per-cent annual rate of return between 1990 and 2003 vs. nine per cent for the TSE composite.

In the U.S., the giants, besides Buffett, include Bill Nygren of the Oakmark Fund, value investor John Neff and William Ruane of the Sequoia Fund.

★ Look for companies that consistently increase their dividend. This is a strong signal of financial health and confidence in the company's future. A rising dividend also pushes the stock price higher because an asset producing more income is increasingly valuable.

These are a few ideas. Hopefully they will make your investment decisions more profitable.

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