

Episode 3

Basic Analysis

For Saturday December 29th

Episode 3 - Basic Analysis

On This Week's Episode - Saturday December 28

- We will discuss tools for conducting basic investing analysis.
- Trustworthy sources of information - CNBC, Globe and Mail, WSJ, Bloomberg.
- Be wary of the “talking heads” who drive emotional decisions.
- View our weekly stock example - pulled at random from our portfolio.
- Key headlines in the investing news.
- Closing thoughts for next week

Episode 3 - Basic Research

How to Sift Through Disparate Information for Investment Decisions

When investors are told to conduct their own research (often abbreviated as *DYOR*—Do Your Own Research), it can seem daunting due to the overwhelming amount of information available. The trick is to focus on a structured and efficient process that helps you make informed decisions without getting bogged down in excessive details. Here's how you can streamline your research process:

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How to Sift Through Disparate Information for Investment Decisions

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1. Establish Core Investment Criteria

Focus on a manageable set of factors that can guide your decision-making. For most investors, the following basic elements are sufficient for a high-level investment strategy:

- **Valuation Metrics:**
 - **P/E (Price-to-Earnings):** Helps determine if a stock is over or undervalued compared to its earnings.
 - **P/B (Price-to-Book):** Useful for understanding how a company's market value compares to its book value.
 - **EV/EBITDA:** This can give you insight into a company's valuation while factoring in its debt and operating income.
- **Cash Flow Trends:** A company's cash flow from operations is one of the most important metrics for understanding its financial health. Look for consistent positive free cash flow (FCF) as a sign of long-term sustainability.
- **Profitability and Growth Trends:** Evaluate profitability using metrics like **Net Profit Margin**, **ROE (Return on Equity)**, and
- **ROIC (Return on Invested Capital).** Consistent growth in revenues and earnings is typically a good sign.

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Restrict Ownership to a Manageable List of Equities

To avoid information overload, focus on a set of stocks that meet your specific criteria. A good approach could be to:

- **Narrow Down the Universe:** Start by filtering stocks that meet basic financial health standards. For example, exclude companies with poor cash flow or negative earnings.
- **Create a Watchlist:** Narrow down your list to a manageable number of stocks. This could be 10-30 companies, depending on your preference. As you monitor these, assess each company based on ongoing metrics and corporate developments.
- **Focus on Core Sectors:** If you're an investor with a specific area of interest (e.g., tech, healthcare, energy), concentrate your research on equities within that sector. This will allow you to go deeper into understanding the companies and trends affecting that space.
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Use Quality Research Sources

Instead of trying to read every single article, focus on a few trusted sources for your research. Here are some reliable tools for obtaining financial data and analysis:

- **Financial Reports and Filings (10-Qs, 10-Ks):** The U.S. Securities and Exchange Commission's (SEC) website provides access to public companies' filings, which offer detailed financial and operational information.
- **Stock Screeners:** Tools like **Yahoo Finance**, **Morningstar**, or **Finviz** can help you quickly filter stocks based on valuation, profitability, and growth metrics. These screeners allow you to quickly isolate stocks with specific characteristics.
- **Broker Research Reports:** Some brokerages and platforms provide their customers with access to comprehensive research reports on individual stocks, which often include price targets, analyst ratings, and insights into potential risks and rewards.
- **Industry Reports:** Firms like **McKinsey**, **Bain & Company**, and **Gartner** publish deep-dive reports that give you insights into broader trends within sectors that may impact your investments.

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Be Disciplined in Your Approach

- **Limit Emotional Reactions:** Don't react to every piece of news or market movement. Make decisions based on your research and long-term thesis, rather than short-term fluctuations or speculation.
- **Diversify, but Don't Over-Diversify:** Aim for diversification, but avoid spreading your capital too thinly. Keep your equity list to a manageable size that aligns with your ability to monitor and assess each position. This might mean restricting your holdings to no more than 15-20 stocks.
- **Set Entry and Exit Criteria:** Clearly define when you'll enter or exit a stock based on your research. For instance, you may decide to buy when a stock's P/E falls below a certain threshold or sell if cash flow declines for two consecutive quarters.

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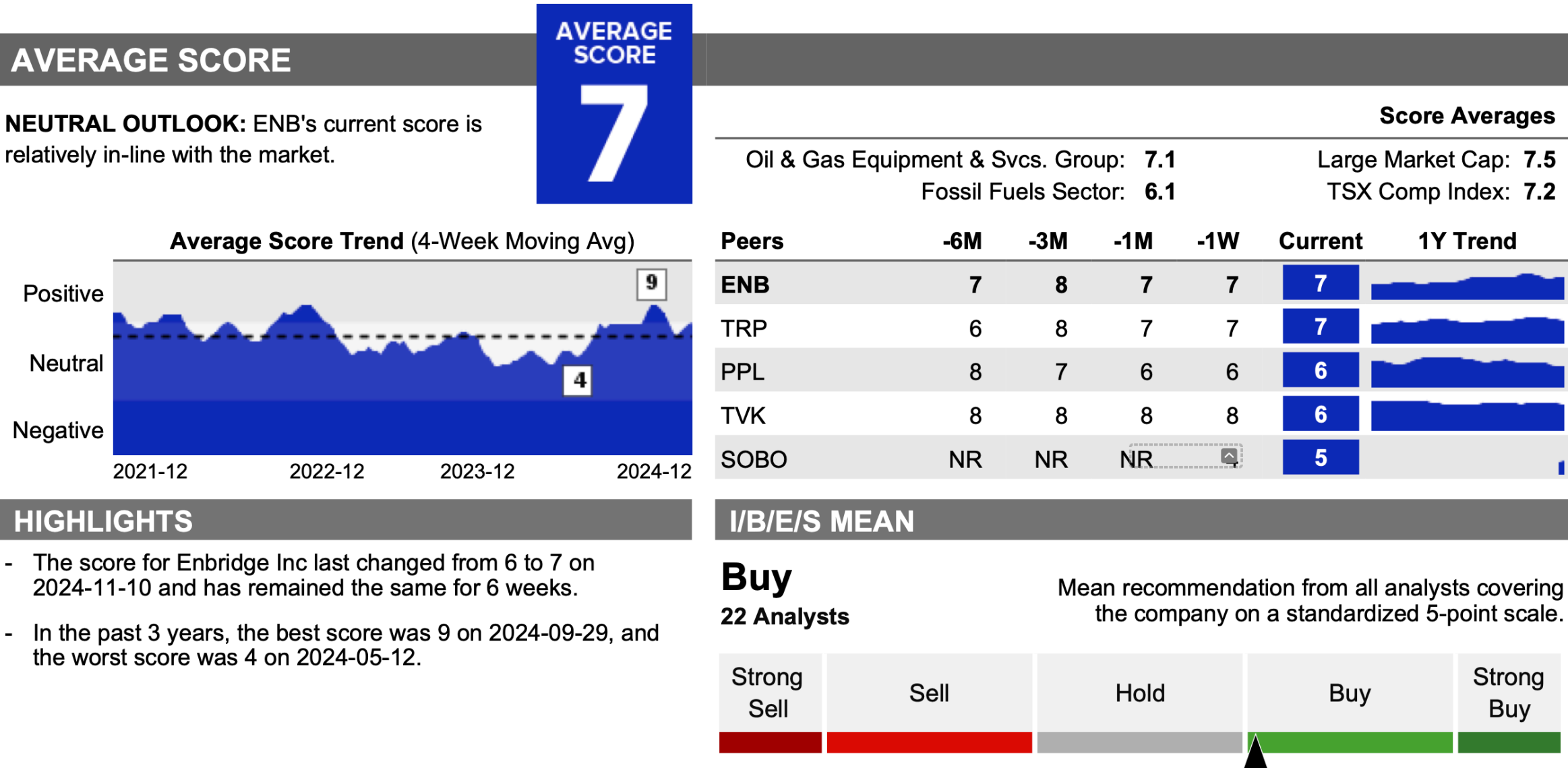
Maintain a Long-Term Perspective

Ultimately, focusing on the fundamentals—such as valuations, profitability, and corporate developments—helps you to avoid the noise of market volatility and focus on long-term opportunities. Investors often make the mistake of reacting to short-term market movements, but this can be detrimental in the long run.

In summary, the key to sifting through disparate information is simplifying the research process. Stick to essential metrics like valuation, cash flow, and growth trends, and build your portfolio around stocks that meet clear, well-defined criteria. By keeping your list of equities manageable and relying on trusted data sources, you'll be able to conduct your own research effectively and make sound investment decisions.

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Some examples of basic research tools



Financial Condition	GAAP Data					Growth Rates		
	2019	2020	2021	2022	2023	1-Year	3-Year	5-Year
Cash / Short Term Inv.	488.8M	355.4M	225.7M	644.4M	4.4B	580%	NM	NM
Current Assets (B)	6.7	5.8	7.1	9.1	10.7	18%	85%	66%
Current Liabilities (B)	12.1	11.0	14.4	15.2	12.9	-15%	18%	16%
Working Capital (B)	-5.4	-5.2	-7.3	-6.1	-2.3	NM	NM	NM
Short-Term Debt (B)	4.0	3.2	6.1	6.0	4.8	-20%	50%	49%
Long Term Debt (B)	45.0	49.4	53.6	54.6	55.5	2%	12%	22%
Total Debt (B)	49.0	52.6	59.7	60.6	60.3	-1%	15%	24%
Shareholders Equity (B)	49.8	48.2	48.0	44.8	45.6	2%	-5%	-13%

Ratio Analysis	Trend							
	2019	2020	2021	2022	2023	1-Year	3-Year	5-Year
Operating Margin	17%	20%	17%	15%	21%	Higher	Higher	Higher
Net Margin	11%	8%	12%	5%	13%	Higher	Higher	Higher
ROE	9%	5%	11%	5%	11%	Higher	Higher	Higher
ROA	3%	2%	4%	1%	3%	Higher	Higher	Higher
Current Ratio	.6	.5	.5	.6	.8	Higher	Higher	Higher
Interest Coverage	3.8	2.5	3.9	2.4	3.0	Higher	Higher	Higher
Dividend Payout Ratio	112%	219%	116%	269%	125%	Lower	Lower	Lower
L-T Debt/Equity	102%	117%	128%	137%	137%	Lower	Higher	Higher
Total Debt/Total Cap	47%	51%	53%	55%	55%	Lower	Higher	Higher

Media References/Tools:

- 1. Yahoo Finance:** A comprehensive resource for stock quotes, financial news, and analysis.
- 2. Morningstar:** For deeper research on stocks, mutual funds, and ETFs.
- 3. Bloomberg Terminal:** Advanced analytics for real-time market data.
- 4. SEC Filings Database:** For official filings, including quarterly and annual reports.
- 5. Seeking Alpha:** Provides a mix of user-generated and professional content, including stock analysis and earnings commentary.

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Review the Master Spreadsheet

Review YTD Results in the Sample Portfolio

Discuss a Headline in the Financial News

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Review the Master Spreadsheet

2021 Jan 1				
Non Registered - TFSA, Canadian Margin, US Margin	Total Value	Cash	Invested	% Cash
Cash Accounts	\$5,000	\$5,000	\$0	0
CDN Margin	\$15,000	\$1,000	\$24,000	7%
US Margin	\$15,000	\$1,000	\$24,000	7%
TFSA	\$80,000	\$0	\$100,000	0%
Totals	\$115,000	\$7,000	\$108,000	6%
Registered - RRSP/RESP	Total Value	Cash	Invested	% Cash
RRSP+Commuted Pension \$	\$250,000	\$5,000	\$295000	2%
Totals	\$250,000	\$5,000	\$295000	2%
Grand Total All	\$365,000	\$12000	\$403000	3%
House Value	\$400,000			
Auto Values	\$20,000			
Other Assets	\$55,000			
Total of All Assets	\$840,000			
Total Liabilities	\$275,000			
Total Assets Net Liabilities	\$565,000			
Available TFSA Contribution	\$5,000			
Available RRSP Contribution	\$5,000			
Forecasted Investment Income				
USD CAD =	1.33			
Mortgage Rate	4.5%			

Key Data::

Non-Registered Accounts - YTD Returns = 32%; Profit/Tax Loss Harvesting Plans; Adding safety in fixed income 5% overall?, reducing total names for 2025.

Registered Accounts - RRSP Contribution room to Feb, 2025, adding safety in fixed income?, Reducing total names - shift out of mediocre names.

Added to Telus, BCE, TD and Started position in CNQ.

Other Assets:

- Home - Value of Home
- Autos - Value of Autos
- Other - List with values

Debt:

- Mortgage - Total amounts owing
- Line of Credit - Total amounts owing
- Auto Loans - Total amounts owing

USD/CAD - Document for Quarter

Mortgage Rates - Document for Quarter

LOC Rates - Document for Quarter

TOTAL ASSETS LESS LIABILITIES - QoQ and YoY Growth/Decline

Highlight Contributors to Growth or Decline

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Review YTD Results

Key Data::

10 Year Returns - US Margin 256%; Canadian Margin 87%; Canadian Registered: 56%

5 Year Reruns - US Margin 146%: Canadian Margin 46%; Canadian Registered 32%

US Markets driving overall portfolio growth including USD at 1.41 CAD.

Top US Names: Apple, JP Morgan and Googler

Top Canadian Names: TC Energy, Royal Bank of Canada, XAW ETF, and Couche Tard

What are we looking at:

Profit taking in Q1 to harvest some gains.
Adding fixed income as % of overall portfolio - Bull run has been great and we fully participated.
Adding to laggards with positive financials.

Other:
Alibaba Rollercoaster
Bell Canada Disaster
TD Bank Struggles

Quarterly Top Three Account Performance and Activity - Thom's Sample

Returns and Top/Bottom Equities	US Margin	Action	Can Margin	Action	RRSP	Action
10 Year Return	256%	Target 97%	83%	Target 97%	59%	Target 110%
5 Year Return	143%	Target 40%	53%	Target 40%	28%	Target 48%
Top Three						
1						
2						
3						
Bottom Three						
1						
2						
3						
Other Holdings						
ETF's Listed Above						
Considering						
Other Notes	Returns do net reflect dividend income; Canada market assumed to “catch up” some of gap to USA over next three years, USD to fall back once USA drops interest rates in line with EU and other G7 countries, ETF participation with Vanguard or Blackrock but looking at adding others. Portfolios structured to include Transports, Pharma, Telecom, Tech, Financials, Energy and Technology. Moving to 25% ETF to capture broader market while maintaining top names by sector where possible.					

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Pick A Stock - Scotiabank



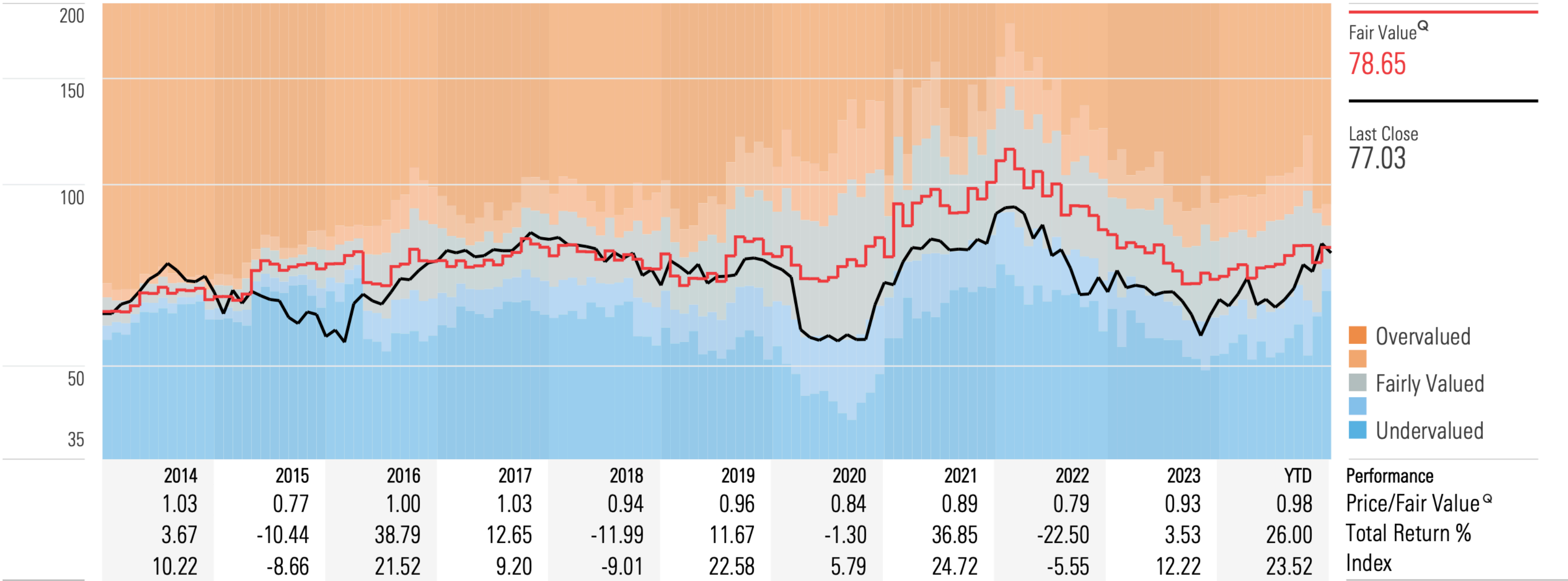
S&P Index Fund
Outperforms Over
25 years

Periods of outperformance
S&P 2023 and 2024 gains
Not sustainable with
Reversion to mean likely.

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Score Averages						
Banking Services Group: 6.5				Large Market Cap: 7.5		
Banking & Investment Svcs. Sector: 6.3				TSX Comp Index: 7.2		
Peers	-6M	-3M	-1M	-1W	Current	1Y Trend
NA	10	9	9	9	9	
BNS	5	7	7	7	8	
CM	9	10	9	8	8	
TD	8	8	6	7	7	
BMO	4	6	4	4	4	
I/B/E/S MEAN						
Hold				Mean recommendation from all analysts covering the company on a standardized 5-point scale.		
15 Analysts						
Strong Sell	Sell	Hold	Buy	Strong Buy		

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Weekly Headline - TFSA Reminder

Five TFSA ideas for investors trying to make sense of what's coming in 2025



ROB CARRICK > PERSONAL FINANCE COLUMNIST
PUBLISHED YESTERDAY

2025 Contribution Limit = \$7,000