

Episode 6

Why Own Individual Stocks
For Saturday January 18, 2025

Episode 6 - Why Own Individual Stocks

On This Week's Episode - Saturday January 18th

- The fear of risk in owning individual stocks.
- Taking unnecessary risk with low quality/high volatility stocks.
- A balanced set of “best in class” stocks shields us from risk.
- Build a diversified portfolio with ETF's and specific individual stocks.
- View our weekly stock example - Google pulled at random from our portfolio.
- Key headlines in the investing news.
- Closing thoughts for next week

But Before We Begin...Kelvin the Money Guy - Good Ideas to Build On.

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The Fear of Risk:

- **History** - Stories of getting burned by a penny stock, failed company (Enron, Nortel, Algonquin)
- **Market Hype** - When things get “frothy” risk of buying at the top sets in.
- **Overweight Risk** - Like the gambler trying to “get it all back”, poor risk management includes buying High risk equities to hit home runs.

Reality - It is very difficult to beat an index ETF over time. Stock pickers need a degree of luck tied to timing of purchase and sale.

Idea - Participate with a portion of your portfolio in top names. Gain strong dividend payouts and in higher growth names, gain significant capital gains potential.

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Taking Unnecessary Risk:

- **Penny Stocks:** Buying on a tip or hot news story. Low volume makes it tough to buy in and out.
- **FOMO:** Everyone else getting rich on the hottest names..
- **Overweight Short List of Names:** Winners need to be trimmed and allocations adjusted.
- **Too Committed to a Sector:** Staying too comfortable with a sector that may have cyclical challenges.

Reality: Individual stocks do come with additional risk versus a market ETF that will generate steady, long term returns. However, buying two per sector and focusing on quality names offsets risk.

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Balanced List of Top Stocks:

- **Two from Top Sectors:** Energy, Financials, Utilities, Technology, Consumer and Industrials.
- **80/20 Rule:** 80% ETF plus Fixed Income and 20% Individual Stocks.
- **Stay Connected with Economy:** News feeds on your stocks provide insights into broader economy.
- **Buy Low Sell High:** Opportunities to take advantage of bad news priced in.

Reality: Individual stocks do come with additional risk versus a market ETF that will generate steady, long term returns. However, buying two per sector and focusing on on quality names offsets risk.

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Build a List:

1. Technology

- **Apple Inc. (AAPL):** A large-cap tech giant, Apple has a strong history of performance and consistent growth, driven by its innovation in consumer electronics and services.
- **Nvidia Corporation (NVDA):** A high-growth semiconductor company leading in AI, graphics processing, and data center technologies.

2. Healthcare

- **Johnson & Johnson (JNJ):** A diversified healthcare company, JNJ is a safe, stable choice with exposure to pharmaceuticals, medical devices, and consumer health products.
- **Pfizer Inc. (PFE):** Known for its pharmaceuticals and vaccine development, Pfizer is a good choice for growth, especially in the biotech and pharma space.

3. Financials

- **JPMorgan Chase & Co. (JPM):** A leading U.S. bank with a broad array of financial services, offering stability and growth potential.
- **Goldman Sachs (GS):** A global investment banking leader with significant exposure to wealth management, investment, and trading.

4. Consumer Discretionary

- **Amazon.com, Inc. (AMZN):** As a leader in e-commerce and cloud computing, Amazon provides strong growth potential and global reach.
- **Tesla, Inc. (TSLA):** Known for its electric vehicles and energy products, Tesla combines technology with sustainability trends, offering significant growth potential.

5. Consumer Staples

- **Procter & Gamble Co. (PG):** A stable company in the consumer goods sector, known for its strong brands and consistent dividends.
- **Coca-Cola Co. (KO):** A leader in the beverage sector, Coca-Cola offers both stability and a reliable dividend, making it a good long-term hold.

6. Energy

- **Exxon Mobil Corporation (XOM):** A leader in the oil and gas sector, offering stability and dividends, along with exposure to the energy transition.
- **NextEra Energy, Inc. (NEE):** A renewable energy leader, NextEra focuses on clean energy solutions and has a growth-oriented profile.

7. Utilities

- **Duke Energy Corporation (DUK):** A large utility company with a diversified energy mix, providing stability and dividend income.
- **Southern Company (SO):** Another major utility, known for its strong dividend and growth prospects in the clean energy transition.

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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				
	Total Value	Cash	Invested	% Cash
Non Registered - TFSA, Canadian Margin, US Margin				
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+Commutated Pension \$	\$250,000	\$5,000	\$295,000	2%
Totals	\$250,000	\$5,000	\$295,000	2%
Grand Total All	\$365,000	\$12,000	\$403,000	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.

Sold a Few Winners - Targeting 20% Cash and Equivalents.

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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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 not 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.					

Review YTD Results

Key Data::

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

5 Year Returns - 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

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

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Pick A Stock - Google

Financial & Risk Analysis

FINANCIAL STRENGTH	2021	2022	2023
Cash (\$ in Millions)	20,945	21,879	24,048
Working Capital (\$ in Millions)	123,889	95,495	89,716
Current Ratio	2.93	2.38	2.10
LT Debt/Equity Ratio (%)	10.4	10.6	9.1
Total Debt/Equity Ratio (%)	11.3	11.6	10.1

RATIOS (%)

Gross Profit Margin	56.9	55.4	56.6
Operating Margin	30.6	26.5	27.4
Net Margin	29.5	21.2	24.0
Return On Assets	22.4	16.6	19.2
Return On Equity	32.1	23.6	27.4

RISK ANALYSIS

Cash Cycle (days)	33.7	40.7	—
Cash Flow/Cap Ex	3.7	2.9	3.2
Oper. Income/Int. Exp. (ratio)	263.2	200.8	279.3
Payout Ratio			

GROWTH ANALYSIS

(\$ in Millions, except per share data)	2019	2020	2021	2022	2023
Revenue	161,857	182,527	257,637	282,836	307,394
COGS	71,896	84,732	110,939	126,203	133,332
Gross Profit	89,961	97,795	146,698	156,633	174,062
SG&A	28,015	28,998	36,422	42,291	44,342
R&D	26,018	27,573	31,562	39,500	45,427
Operating Income	35,928	41,224	78,714	74,842	84,293
Interest Expense	-2,327	-1,730	-1,153	-1,817	-3,557
Pretax Income	39,625	48,082	90,734	71,328	85,717
Income Taxes	5,282	7,813	14,701	11,356	11,922
Tax Rate (%)	13	16	16	16	14
Net Income	34,343	40,269	76,033	59,972	73,795
Diluted Shares Outstanding	13,971	13,741	13,553	13,159	12,722
EPS	2.46	2.93	5.61	4.56	5.80
Dividend	—	—	—	—	—

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Pick A Stock - Google

GOOGL VS. SPY - PERFORMANCE COMPARISON

The chart below illustrates the hypothetical performance of a \$10,000 investment in Alphabet Inc. (GOOGL) and SPDR S&P 500 ETF (SPY). The values are adjusted to include any dividend payments, if applicable.



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Weekly Headline

Why most thematic ETFs fail to deliver



TIM SHUFELT > INVESTMENT REPORTER

PUBLISHED YESTERDAY

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