

# How Much to Invest Abroad?

Individual investors may reap [diversification benefits](#) by investing internationally.

The level of benefit is based on many factors – cross-country correlations, major industries, domestic companies that operate globally, etc. Over time, [global diversification benefits have fallen](#). However, investing outside your home country is still worthwhile.

The question then, how much should you invest abroad?

This question was asked of a panel in [The Wall Street Journal](#). Some good responses. I will comment on a few and include my own view of the world.

## **My Thoughts (Since No One Asked)**

The global market is 100%. Your domestic market is a piece of the pie. The U.S. is the largest financial market with about 33% (plus or minus – you actually may see some claim it as high as 46%, but that is too high) of global market capitalization. Canada has only about 4% of the global market share.

Some experts recommend investing in line with relative global weightings. So roughly 33% in U.S. equities, 4% Canada, etc. Fine by me. An easy way to do this is to simply purchase a global equity fund. For example, the [Vanguard Total World Stock ETF \(VT\)](#) or [iShares MSCI All Country World Index \(ACWI\) ETF \(ACWI\)](#).

Both are extremely inexpensive and do an excellent job of replicating the global equity markets in reasonable weightings. I use “reasonable” as global equity funds tend to overweight U.S. equities. In this case, both Vanguard and iShares invest about 48% in U.S. equities. The higher

weighting in funds versus actual real world weightings has to do with investable assets and a slight U.S. bias. Not a huge issue if you are looking for one single fund to invest in. Canada's weighting sits at its proper 4%.

Some experts recommend home country bias when investing. If you live in Canada, instead of 4%, you might want to invest between 10 and 20% in Canadian equities.

Why? Your life is tied to your domestic financial markets. If you live in Canada, you are paid salary in Canadian dollars (CAD). Your debt is in CAD. Interest rates, inflation, unemployment, are all tied to Canadian-centric events. What goes on in Canada impacts Canadians disproportionately to world events. As a result, you may want to have greater exposure to Canadian equity markets.

I might add that some experts make the exact counter-argument. That you should underweight your home market because of all the other impacts.

Me? I do not mind using either relative global weightings or home country bias. I think you need to consider other factors (what is your home market, debt load, other investments, cash flow requirements, etc.) before choosing one or the other. For many individuals who do not want [currency and interest rate impact](#), a home country bias may be preferable. For younger investors, relative global weightings may prove better.

So what do the experts from The Wall Street Journal say? And bear in mind these folks are speaking as U.S. based investors. What might make sense for Americans may not be optimal for Aussies, Channel Islanders, or Malaysians.

### **Gus Sauter: Keep a Home Country Bias**

*In my view, investors should have a home-country bias because they face risks that are peculiar to their home country.*

*So, an investor should invest a significant portion in their home country, but invest enough internationally to take advantage of diversification.*

Gus does not provide a suggestion for Aussies. But at 3% global weighting, a home country bias would probably put Australian equities at 10 to 20%. But some would say that more like 30 to 50% is suitable. Too high for me, but just letting you know.

As an aside, I have heard Gus speak a couple of times. Sharp guy.

### **Manisha Thakor: Don't Think About Where a Company is Based**

*As the consumer class around the globe continues to blossom, growth rates in emerging markets continue to eclipse those at home.*

Good advice. You need to consider the prospects for your home market versus foreign markets.

Also the region in which you live. If you live in Argentina, what goes on in Chile has more significance in your home market than what is happening in Germany. Conversely, Poles need to monitor the German market very closely given physical proximity and trade partnerships.

*So the real question I think is: What is a non-U.S. investment?*

*To date, corporate domicile has typically been the litmus test for the categorization of an investment as domestic or international. Going forward, I think it's important to pay attention to the source of revenue and profit generation*

So, so true.

Is Apple an American company? Much of its manufacturing is in China. Its customers surround the globe.

Is Nestle a Swiss company? Is Samsung only South Korean? HSBC solely British? Obviously not. These companies operate globally and derive much of their revenue outside their domestic markets. Yet if you look at each country's main indices, Nestle, Samsung, and HSBC dominate the domestic weightings.

As an aside, you can actually create an internationally diversified portfolio by strategically choosing domestic companies.

### **Frank Holmes: Anticipate Before You Participate**

*when you combine non-U.S. stocks, U.S. stocks, real-estate securities and commodity-linked securities, the resulting portfolio historically outpaced any individual asset class with less volatility.*

*understand the typical price movements of an asset class before you invest.*

Not quite sure what Frank's point is here. Whenever you prepare a portfolio you must consider historic returns and volatility (i.e., risk). That really is the whole point of diversification. Adding non-correlated assets to try and enhance overall portfolio returns while maintaining the risk level. Or reducing portfolio risk while maintaining the existing expected return levels.

### **Charles Rotblut: No Crystal Ball? Then Best Diversify**

*unless a person has a working crystal ball, it is impossible to predict where one should invest right now to maximize returns for the next 10 years. By mixing domestic equities with foreign equities, an investor increases the odds of being allocated to the right geographic region at the right*

*time.*

Diversification spreads out the risks. Unless you are certain of the future, hedge your bets.

*by diversifying internationally, an investor's wealth won't solely be dependent on the strength or weakness of the U.S. dollar.*

This is a two-edged sword. If your cash needs (living income, debt repayment, etc.) are in your home currency, investments in foreign currency denominated assets might be risky. But if you do not have these concerns, owning assets in a different currency may add value.

### **The Other Experts**

Mostly dross. But you can see that there is no consensus on how much to invest outside your domestic market.

If you have a decent risk appetite and long time horizon, look to higher levels of non-domestic equities. Especially in emergent (and smaller) markets.

If you have substantial liability exposure to your domestic currency or you require income flows in local currency, then focus on a significant home bias.

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**Emerging** **Market**

# Diversification

What do you think of when you hear the term, [“emerging markets”](#)?

What type of companies and industries exist in emerging equity markets?

I have no idea what you may think. But in case you do not know ...

## **Emerging Markets May Mirror Developed Markets**

In [“iShares: Challenging Investor Assumptions About Emerging Markets”](#), ETF Trends compares portfolio holdings between emerging and developed markets.

*But what’s so surprising to me is that over this 18 year period, how similar the sector weightings between these two types of markets has become.*

I like BlackRock and iShares. But if the article’s author is truly surprised by this similarity, I may need to rethink my view on BlackRock. That aside, realize that there are likely similarities between industries in equity market indices, whether they are emergent or not.

*While investors often associate the emerging world with resources, these days, emerging markets are just as likely to be associated with banks. Financials make up 28% of the MSCI Emerging Markets Index, compared with a 22% combined share of energy and materials and, interestingly, a 21% financials share in developed markets.*

## **Mirrored Industries, But Still Local Flavour**

True. And worth keeping in mind when seeking diversification through different asset classes and markets. But I would add

though that this is not 100% accurate.

You need to look at local population, proximity to other markets, natural resource base, availability of labour, etc., as these items greatly impact what goes on in any one country. Country (and industry, company) specific factors influence local companies to a great extent.

Compare Switzerland to Canada. Both developed markets. Lots of natural resources in Canada, so you would expect related industries to dominate major indices. Lots of milk producing cows in Switzerland, hence Nestle as a major company. Not all developed markets are homogeneous.

Or compare the emerging markets of Brazil to Poland. Yes, [Brazil is considered \(for now\) an emerging market](#). Country specific factors impact major industries. If we break down the major industry exposures, we see financials (Brazil 28% versus Poland 45%), energy (B 16%, P 14%), consumer staples (B 15%, P 4%), materials (B 15%, P 16%), and utilities (B 7%, P 8%). In some industries, extremely close percentages. In others, significant variance. Depending on which emerging markets you invest in, you may discover high similarity or you may find low. Part of your research into which funds you want should consider this point.

Even if companies operate in the same industries, there will be some significant differences in results based on local factors.

A bank operating in Poland may have a relatively low correlation with a bank in Brazil. There are common factors that inherently keep correlations high (global economy a big one). But there are local factors (customer base, local economy, government, trading partners, etc.) that reduce correlations. The greater the difference in local specific factors, the lower the correlations (and the better the diversification).

I would expect correlations between Brazilian and Argentine banks to be higher as compared to Brazilian and Polish banks. Owning a Brazilian, Polish, and Vietnamese bank will provide better diversification than three Canadian banks.

Energy accounts for 16% of Brazil and 15% of Poland equity markets. Very similar percentages in industry allocation. [Petrobras](#) makes up a large portion of the Brazilian component. [PKN Orlen](#) a large portion of Polish energy. If you go to the links, both are indeed energy companies. But Petrobras is the 7th largest energy company in the world and operates in 25 countries. It is renowned for deep water oil exploration. Whereas PKN Orlen specializes in refining crude oil. Both energy, but different emphasis. That provides diversification benefits.

Yes, there can be similar industries and percent composition between developed and emergent markets (as well as between developed markets or emerging markets). But the local situation and circumstances will [lower asset correlations](#) to some extent. Which means you can still get diversification benefits from investing in emerging markets.

### **Increased Globalization Increases Correlations**

Okay, let's rein in the "diversify with emerging markets" horse a little.

Twenty years ago, investing in emerging markets provided strong diversification with domestic market investment portfolios. That was the investing mantra.

With each passing year, the world seems to get smaller. Domestic companies in developed markets increasingly operate in emerging and frontier markets. Emerging markets, especially larger ones like Brazil, Russian, India, and China (known collectively as BRICs), have extensive trade relationships with developed nations. This results in ever increasing correlations as the differences between developed and emergent



continues to blur.

You can still get [enhanced portfolio diversification by investing in emerging markets](#). Just realize that the benefits are decreasing over time. And that individual portfolio holdings within an emerging market index may be quite similar in nature and ratio as in your home developed market index.

It is beneficial to include emerging market equities in one's portfolio. But do not blindly assume that simply including them will bring positive results. Consider the components of the emerging market index. How they relates to your domestic equity holdings, as well as how they correlate to other emerging and non-domestic developed markets you wish to invest in.

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## Investment Analyst Reports

I do not believe small investors should invest in individual stocks.

Limited capital makes it difficult to diversify portfolios and increases transaction costs.

Smaller investors typically lack the investment expertise, experience, and tools to successfully analyze stocks or time markets.

Stick with low-cost, well-diversified exchange traded and open-ended index mutual funds.

The reality though is that many smaller investors do invest in individual stocks. A high percentage rely on analyst reports to help them select which equities to buy.

This post is for you.

The Financial Post looks at [“5 things to watch out for in analyst reports and company statements”](#). A (rare) good article which you should read.

### **Analyst reports are not written for individual investors**

Agreed.

Use analyst reports to learn about the company and industry. Not to assess whether it will be an investment winner or loser.

### **“We are cautiously optimistic” and Hold recommendations**

A major problem with analyst reports is that you have to read between the lines and understand the underlying meanings for phrases.

A friend tries to set you up on a date. “What’s he/she like?” “Great personality!”. Okay, then. That tells you a lot of other things about the person. Sadly, I do not even have a good personality.

It is what the analyst does not say, or how something is said, that actually tells you the key things. If you intend to rely on analyst reports to invest, spend some time learning the jargon and how to interpret the real meaning from the words.

### **Price targets**

I understand price targets. Take all the data, put it in the model, generate what you consider to be fair market value. That is the price target.

Price targets are largely based on estimated future [price-to-earnings ratios](#).

[Price-to-book](#), [dividend yield](#), [earnings growth rates](#), are other popular quantified variables.

The problem is that there are so many possible factors and so many ways to assess the variables, that one small error can completely alter reality.

There is also the issue of [efficient markets](#). A huge number of analysts and investors follow larger companies in major markets. With access to the same data, many come to similar valuations. As a result, future expectations are very quickly factored into the current price. This makes the possibility of obtaining abnormal returns difficult.

**“Some orders were delayed, or pushed into the next quarter”**

Another example of how reality can differ – even slightly – from forecasts and projections in computer models and analysis. Slight delays, a lost order, a new competitor, a bad snowstorm, etc., all can impact actual results and alter earnings and price multiples.

It is also another good example of needing to read between the lines. Assessing the real meaning of a statement is crucial for your own analysis.

Use analyst reports to gain an understanding of a specific company and the industry.

Do not use analyst reports to select your investments for you.

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## **Dangers of Dividend Funds**

Dividend funds are currently very popular with investors.

In many parts of the world, interest rate yields are quite low

on a historical basis. To enhance returns, fixed income investors have turned to riskier investments that may offer higher yields. Such as dividends on preferred shares or dividend paying common shares.

As well, general equity investors are turning to perceived “safer” equity investments. Common shares in large, dividend paying companies. Shares that provide capital gains potential over time, but are back-stopped by a (hopefully) steady stream of dividend income.

Sounds like a good strategy to me. But there are always risks when investing.

Here are a few things to consider when assessing dividend funds (or dividend paying shares).

### **A Flight to Dividend Funds**

The Wall Street Journal's, [“The Dangers of Dividend Funds”](#), looks at a few perils with dividend investments.

The first thing though that interested me was the flight of investors to dividend funds.

*This year through May 1, investors have taken about \$2.65 billion out of U.S. stock funds overall—while placing a net \$12.72 billion in mutual funds and exchange-traded funds that focus on dividend-paying stocks, according to EPFR Global.*

That is a lot of money, just in the U.S. alone. Given what is going on in the world right now – low interest rates, economic uncertainty, potentially higher inflation, volatility in the equity markets, etc. – I have no problem with investors shifting assets to dividend paying stocks.

If you are someone who wants to increase your asset allocation in dividend stocks, make sure you consider the following points.

## **Do Not Simply Chase Performance**

Past performance is no guarantee of future results.

You will see that in every mutual fund prospectus you read.

Evaluate your needs going forward. What investments make the most sense in light of your objectives, constraints, and personal situation (i.e., [Investor Profile](#)).

Investing based on prior performance is usually not a recipe for long-term investment success.

## **Concentrate on Your Optimal Asset Allocation**

Your Investor Profile will lead to an [Investment Policy Statement](#) with a [target asset allocation for your unique needs](#).

Part of your optimal asset allocation will include fixed income and dividend producing investments. But the amount will reflect your individual circumstances.

Focus your investment portfolio on your asset allocation and not on chasing the flavour of the day. In the long run, I believe this will be the more successful approach.

## **Remember the Risk-Return Concept**

I think that the major financial markets are relatively efficient. That means that the price of an asset should reflect its future. And the price of the asset is what drives the [dividend yield](#).

Perhaps a one year Treasury bill (i.e., the risk-free asset) yields 4%. You can invest in that or you could invest in common shares of ABC company with a dividend yield of 7%. 4% versus 7%. A fairly easy choice.

But why is ABC yielding 7%? It could be because ABC is a forgotten stock or has been poorly analyzed, so that it is

under-valued. And that could be true for small companies, companies in ignored markets, etc. Areas where a [single, informed investor might gain a competitive advantage](#). But for larger companies in established markets, these companies tend to be analyzed to death.

So (again) why the 7% yield? Because ABC is significantly riskier than the Treasury bill. And that greater risk is reflected in the higher offered dividend yield.

Perhaps the company's cash flow may not allow ABC to continue paying out the same dividend amount. That may cause future yields to fall. Or perhaps ABC's business prospects are in question. That may hurt the future share price. While you maintain a 7% yield on the dividend, you may just find your capital slipping away as the share price falls. So you earn 7% annually in dividends, but perhaps you lose 25% on your initial capital investment. That may make your annualized total return much less attractive.

Bottom line: when seeing an investment that offers a very generous return, always ask yourself why? It could be an under-valued gem that you have found. Or the relatively high yield could indicate investment difficulties down the road.

## **Diversification**

If investing in dividend stocks, make sure that you [diversify](#) within this category.

Some dividend funds concentrate in very narrow ranges and that can cause problems.

For example, bank stocks often pay good dividends. So you go out and buy a dividend fund that focusses on Canadian bank stocks. However, Canadian banks are highly correlated (they tend to move in lock-step). If you own a fund with 10 Canadian bank stocks, your diversification is poor. If you do want bank stocks, consider global banks to reduce some of the geographic

issues. Better still, consider dividend paying companies from a variety of industries and countries.

Always watch the diversification within any one fund. If the fund's holdings are too concentrated, the [inter-asset correlations](#) will be high, resulting in poor diversification.

### **Taxes May Be Your Biggest Expense**

Always consider tax consequences.

Your investment focus must be on after-tax returns. Never focus on gross returns.

For example, in Canada, dividends receive preferential tax treatment versus interest income. Say you earn \$10,000 in dividend income from shares in Royal Bank and \$10,000 in interest income on Royal Bank bonds. You will pay less tax on the dividend income than on the interest. So your net return will be higher with the dividends.

But not all dividends. Only dividends sourced from an eligible Canadian corporation receive the dividend tax credit. Your \$10,000 in dividends from Bank of America will receive the same tax treatment as your interest income.

And not all portfolios. Investment income earned inside a tax-deferred investment account is obviously treated differently than income earned in a non-tax-deferred account.

When assessing dividend funds, never consider the publicized rates of return. Understand your personal tax situation and then invest to optimize your net returns.

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# Will Your Growth Stock Keep Growing?

Investing in growth stocks normally requires a growth premium to be paid.

The [growth premium](#) reflects the above average expected growth rates in the company's earnings. So you better be sure that the company earnings continue to grow over time.

There are a few areas of quantitative analysis to help assess future growth prospects.

The Wall Street Journal outlines these areas in [How to Tell if a Growth Stock Can Keep on Growing](#).

## **Organic Over Acquired**

*“Organic” revenue growth, which comes from winning new business, is generally better for shareholders than growth fueled by acquisitions, experts say, because it tends to cost less and carry fewer risks. Management’s discussion of operations in its quarterly reports often contains clues to how much of the growth is organic.*

It may be easy in the short term to buy growth. But the costs of integration and ensuring that old and new corporate components move in lockstep, can be a costly process.

Also, be aware that some companies use acquisitions to distort prior years’ performance comparisons.

## **Growth Over Cost Cutting**

*But keep in mind that any earnings growth driven by cost cutting and share repurchases might not last for long. Just as important is to look for increasing revenue, the hallmark*



*of long-term growth.*

Earnings is a function of revenues and expenses.

Revenues come from the sale of products and services. New products that are highly sought by customers indicate revenue growth. Revenues are great because they can grow forever.

But you want to see more than just sought after products. Is there a pipeline of new products that will enter the marketplace to spur continuing growth? Is there protection in place (e.g., patents, cost to produce, control over inputs, etc.) that prevent other firms from entering your market and stealing business? Are there any regulatory (e.g., reclamation costs for mines) or other potential issues (e.g., doing business with clients in a newly sanctioned country) that can impact future revenues? And so on.

Expenses, on the other hand, cannot be cut forever. If a company is experiencing earnings growth due to cost cutting, layoffs, asset sales, etc., those can only go so far. These measures will have a one-time impact on earnings, but will not generally drive future earnings growth. I say generally because lower costs may allow a company to reduce sales price which may stimulate demand. If competitors cannot match, then it may drive long term sales growth.

When assessing current growth rates, make certain you understand where the growth came from. And if it is sustainable in the future.

### **Return on Invested Capital**

*Another place to spot sustainable growth is a measure called "return on invested capital," which is listed on some stock-quote websites. The measure shows whether companies are finding lucrative projects that can power future growth. Today, numbers in the 13% to 16% range are ordinary, while*

*those above 30% are excellent*

I would caution about following the given guidelines. Today, 13-16% may indeed be ordinary. 5 years from now, 35% (or 5%) may be ordinary. Never take a guideline as forever. Always put things in context against the circumstances at the time you are assessing. Do comparisons against the company's history, its peer group, and the market as a whole. Never rely on the fact that someone told you once that "such and such" was the correct benchmark.

This is one area that is making me a little jittery about Apple and their dividend announcement. Granted, Apple has a pile of money under its iMattress. But, in general, companies that have excellent projects to develop will finance those through internal cash flow (or debt or equity financing).

That is why growth companies typically do not pay out dividends. They believe that their shareholders will get a better long term return by having the company reinvest its profits in new corporate ventures than by paying out dividends. And growth investors agree.

However, companies that do not have new projects in the pipeline with acceptable internal rates of return tend to pay out more money to shareholders. The idea is that the shareholder is better off with the cash, so that he or she can invest in other opportunities that may provide better returns.

When I see any company raise its dividend rates or buy back shares, it makes me wonder if long term growth prospects are dimming.

### **Work Forward and Backward When Analyzing Investments**

*Mr. Koller favors another method for telling which growth stocks are worth their prices: working backward on the math.*

With any potential investment, you want to analyze from all sides. Sometimes the numbers make sense in one sense, but less so in another.

### **What Goes Up Can Come Down**

*Above all, investors should keep in mind that with fast growth comes the possibility of a swift tumble if that growth slows. P/E ratios in the high teens or even low 20s don't increase an investor's risk significantly, Mr. Koller says. "But once you get above 25 you'd better have a very clear understanding of the long-term potential for the business."*

More good advice. Although remember that a [price-earnings \(P/E\) ratio](#) of 25 may be high today. It may be reasonable (or insane) next year.

The premium paid for a growth stock is kind of like leverage. As the stock's prospects shine, the premium may rise and enhance the company's share price more than the base fundamentals. Part of this may be due to hype and investor excitement.

When the company fails to meet expectations, it may be punished by unhappy investors.

Consider [Intuitive Surgical](#), the company we looked at in [Growth Stock Premiums](#). As at March 23, 2012 it closed at USD 533.51 and its forward P/E ratio was 31.51. So expected one year future earnings are USD 16.93.

Perhaps Intuitive meets those earnings forecasts, but investors are underwhelmed and lower the growth premium to a P/E of 20. Still high, mind you. That would cause the share price to fall to USD 338.60, down 37%. Yet, in this scenario, Intuitive met its earnings projections.

Even worse if Intuitive stumbled. Say they only earned USD 14 in earnings next year. 17.3% less than expected. At a P/E of

36, that translates into a share price of only USD 441.14. Still a 17.3% decrease. But if the growth premium falls so that the P/E ratio is 20, the share price will go to only USD 280. A 47.5% reduction.

If you buy low and a growth premium starts to reflect in the P/E ratio, great. But if you pay a premium for the stock, be aware that if the company's prospects slow, you can get hit in more than one way.

Those are a few of the common areas used to assess a company's future growth potential.

### **Accounting, Finance, and Business Knowledge is Key**

Investing in growth stocks can provide excellent investment potential, but it is not always easy to implement. Identifying growth stocks might be straightforward. Assessing the growth premium that must be paid and whether the company can sustain its growth rates is much more tricky.

As you can see in the above points, analyzing companies requires the ability to comprehend financial statements and business forecasts. It is also important to understand the business – market, products, competitors, trends, regulatory, etc. – if you wish to successfully analyze stocks.

And, yes, this applies with value investing as well.

If you want to become a better investor, spend some time in other areas of learning.

Or stick to passive investing. Where you can spread out the investment risks in a well-diversified portfolio of identified growth (or value) stocks.

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# Growth Stock Premiums

I have written a bit about [value investing](#) lately. Mainly in the context of [Warren Buffett](#) and [Benjamin Graham](#), two staunch advocates of value investing.

But there is also growth investing. A slightly different approach to investment analysis.

Today we will show a little love for those who wish to acquire [growth stocks](#).

## **Value or Growth?**

I think there is opportunity in both areas. Put a gun to my head and I would choose value investing. If the gun is cocked, small cap value investing. But that is just me.

Growth investors can also do quite well.

And many investors jump between the two investment styles. Probably the best approach as economic/market circumstances that are favourable for value plays often are less so for growth. And when growth stocks are in vogue, value stocks may lag.

Ceteris paribus, I prefer value investing for long-term investing. I believe it is easier for me to identify undervalued assets than to outguess other investors on premiums paid for current growth rates and future growth projections. However, when market conditions are right, I definitely utilize a growth strategy.

## **The Growth Premium**

It is not that difficult to identify a growth stock. Just look

at prior, actual and future forecast growth rates. Both in absolute terms as well as comparative (the company, peers, market).

If a company is projecting next year earnings growth of 15% and the market is projecting only 7%, you probably have a growth stock. If the company is forecasting 20% growth, but its peers are expecting 40%, it may not be a growth stock. You always need to put your investment analysis in context.

So identifying growth stocks is not too hard.

However, in exchange for growing earnings, buyers of growth stocks must pay a premium. Evaluating this premium is the tricky part. Ah, there is always a tricky part when investing.

### **Is Your Growth Stock Worth the Premium?**

Will the growth stock continue to grow at a rate to justify the premium paid? That is the question explored by [The Wall Street Journal](#).

For example, consider Intuitive Surgical. A company cited in the linked article.

*Intuitive Surgical, a maker of medical robots, is expected to increase its earnings by 33% this year.*

*That is tantalizing growth at a time when the broad Standard & Poor's 500-stock index is projected to see a 9% gain in operating earnings this year, versus 15% last year and 47% in 2010.*

A growth stock? Most likely. But, and there always tends to be a but.

*But investors might pause before buying Intuitive when they see the price: 36 times this year's earnings forecast, compared with 13 times for the S&P 500.*

Is the 33% projected growth rate – a key driver of share price – worth paying 36 times earnings per share? Quite a premium as the average stock only trades at 13 times earnings.

That is the question. And the challenge for successful growth investors.

You must pay a premium to acquire a growth stock. So you had better make sure the company's earnings continue to grow at a rate justifying the premium paid.

Next time, we will discuss [ways to assess a company's future growth](#) prospects.

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## Apple First Quarter Results

Apple released its first quarter 2012 results last week.

Interesting stuff.

Yes, the results were impressive, but that was not the most fascinating part.

### **The Interesting Results**

According to the [Apple press release](#):

*The Company posted record quarterly revenue of \$46.33 billion and record quarterly net profit of \$13.06 billion, or \$13.87 per diluted share.*

During the quarter, Apple sold:

*37.04 million iPhones, representing 128 percent unit growth over the year-ago quarter.*

*15.43 million iPads, a 111 percent unit increase over the year-ago quarter.*

*5.2 million Macs, a 26 percent unit increase over the year-ago quarter.*

*15.4 million iPods, a 21 percent unit decline from the year-ago quarter.*

Not bad.

### **The Fascinating Part**

In 1976, Apple was founded by Steve Jobs and Steve Wozniak.

In 1985, Steve Jobs was considered a “bad Apple” and ousted from the company. Share price fell under USD 2.50 (adjusted for subsequent stock splits) by the middle of 1985.

Apple was not seen as a great investment.

In December 1996, Steve Jobs returned to Apple and took over as interim CEO in July 1997. No great market reaction to either news. In November 1996, Apple adjusted share price was USD 6.03. At year end 1996, USD 4.16. And USD 4.38 on July 1, 1997.

Investors were clearly not impressed with Jobs and Apple.

But then things started to change.

In late 2001, the iPod was introduced. Perhaps an interesting creation, but investors did not think so. At the start of 2001, Apple was worth USD 10.81. By the end of 2001, USD 12.36. And by the end of 2002, USD 7.18. A negative 33.6% return over the two year period.

Did this Jobs character have any idea how to grow a business?

Yet the iPod became a very successful product. And it laid the



groundwork for the iPhone and iPad lines. A decade later, in the first quarter results, Apple sold 67.87 million of these 3 items.

Just over a decade ago, there were no iPhones, iPods, iPads, iTunes, MacBooks, et al. Today they account for the bulk of Apple's success.

And a share price as at February 1, 2012 of USD 456.19. With diluted earnings per share of USD 13.87.

Compare both to the share price at the end of 2002, USD 7.18.

Maybe Steve Jobs had a clue after all.

### **The Really Fascinating Part**

Also known as the relevant part for investors.

#### Hindsight is 20-20

It is easy to look back and see a great company in the making. And many people you meet in life – especially at parties, in the office, or nephews – will magically have bought the Apples of the world back when they were unloved and worth USD 2.00.

Unless they are wearing genuine Rolexes and driving fancy cars, take their words with a grain of salt. Because Apple did not really start to take off as an investment until 2006.

Any truly smart investor could have made a bundle investing between 2001 (introduction of the iPod) and onwards. Most did not.

But was it their fault?

#### Forecasting is tricky business

Investors did not realize the future impact of the iPod and other product lines from the early 2000s. If they had, it would not have taken until 2006 for the stock to really soar.

Investors did not realize the impact that Steve Jobs would make in his return.

And not just investors.

Professional analysts who are supposed to understand the industry.

Apple management and Board members who thought Steve Jobs was hurting the company.

If industry experts, analysts, and Apple insiders did not know what would ultimately result under Steve Jobs, it is difficult to imagine ordinary investors getting it right back then.

### Corporate Management

Corporate management is crucial to a company's success. Leadership, vision, creativity, drive, etc., are all important attributes in good management.

Yet what about Steve Jobs?

World beater in the 1970s. Corporate destroyer in the 1980s. "Not him again!" in the 1990s. Creative genius in the 2000s.

Sometimes that is a tough thing about individual leaders.

Maybe Apple made a mistake tossing him aside in the 80s.

Maybe Jobs was hurting the company and needed a break from Apple. Perhaps the time away allowed Jobs to become the leader he was in the 2000s. Maybe if he had not been ousted, Apple would not have had the success they did.

Good management is key to success. But assessing who is the right manager at the time may not be easy for investors.

### **It Makes Investing a Complex Pursuit**

Looking back, it seems that the success of Apple is a no-

brainer.

That Steve Jobs was a [genius](#) and [visionary](#).

But as you can see from the share price changes and perception of Steve Jobs over the years, it was not always so clear. In fact, the consensus may have leaned more to the opposite side of the spectrum.

Assessing a company's future based on current events is a difficult business.

Another reason that I generally recommend a passive investment strategy. One that invests not in individual companies, but rather in well-diversified mutual and exchange traded funds.

### **Where is the Next Apple?**

But if seeking individual companies, is there another Apple out there?

Which companies today have depressed share prices and shareholders yelling for change in leadership?

Is [Research in Motion](#) (RIM) and its line of BlackBerry products a future Apple? Its share price is down about 75% over the last year. The co-CEOs of the company were ousted in January. Neither RIM nor its shares appear to have promising futures.

Given media analysis of RIM today, it is hard to believe Apple was once in very similar straits.

So have you invested in RIM this week?

Probably not. It is tough to invest in a company that looks weak. Difficult to buy when conventional wisdom says not to. But often that is the precise time to buy shares.

RIM is not a company I am fond of. As one of my associates who is a significant shareholder knows too well, I recommended

that he sell over two years ago. And keep reminding him of that. Of course, he also has substantial holdings in Apple, so I do not expect to see him at the soup kitchen anytime soon. So more soup for me.

Regardless of my opinion, I am interested to see where RIM stands a decade from now.

I know not whether it will soar high again or crash further. The only thing I do know is that if it does rise again, my nephew will have bought shares last week. As will many other experts.

And if it fails, I know that my nephew will have shorted the stock.

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## [Top Stock Picks for 2012](#)

Everyone wants to know the best stocks to invest in for 2012.

I know I do.

So what are the top stock picks for next year?

I am just a single person tooling away in the tundra of Western Canada, so who am I to choose.

Instead, I shall bring you the absolutely best 10 stocks for 2012 courtesy of the professionals who do this for a living. As such, these 10 must be the top performing picks over the next 12 months.

No thanks needed. I am just trying to help you succeed in

wealth creation.

## **Merrill Lynch Top 10 Stocks for 2012**

Merrill Lynch, a long-standing high quality investment dealer. Part of the Bank of America world. You can take their top picks as the best of the best.

The [top 10 stocks for 2012 are](#) (drum roll please): Xcel Energy, Lincoln National, Marathon Oil, CenturyLink, Apple, Air Products & Chemicals, CBS, Eli Lilly, Union Pacific, Altria.

Okay, let me pause in my writing to race out and purchase these gems.

Hey, what is this? I just noticed that Goldman Sachs has come out with its own top 10 stock picks for 2012. Perhaps the world's number one investment banker. They must know what they are doing.

No concern though. As Goldman Sachs has access to the same information as Merrill Lynch, uses the same tools, has analysts with the same skills and experience, etc., the picks will be identical. They have to be, shouldn't they?

## **Goldman Sachs Top 9 Stock Picks for 2012**

Only 9 top picks from Goldman. Maybe it means 2012 is going to be a poor year for everyone else. Or perhaps Goldman is penalizing itself for foisting [Jon Corzine](#) on the investment world.

According to Goldman, the [best stocks for 2012](#) will be: Aeroflex Holding, Apple, EMC, NCR, Oracle, Qualcomm, Synchronoss, Visa, VMWare.

See, what did I tell you, identical top stock lists between Goldman and Merrill.

What's that? Not a chance. In fact only Apple made both lists. And that is probably a bereavement ritual for the late Steve Jobs. Kind of like a widow wearing black. After the death of a great entrepreneur you have to love his company for at least one year.

Okay, maybe those lists were anomalies. But perhaps I should look at a few more "best equities for 2012" lists before investing my capital.

### **CNNMoney and Fortune Magazine**

With a magazine named Fortune, how can you go wrong?

Fortune's [top 10 stocks to invest in for 2012](#) are: Apple, Caterpillar, Enbridge Energy, Goodyear, Halliburton, Intel, Johnson Controls, Lockheed Martin, Microsoft, Royal Bank of Canada.

Thank goodness for Steve Jobs or we would have yet another completely different list.

By now I am feeling a little seasick from all the differences.

How can three different companies choose 29 stocks as top picks and only agree on one?

### **Raymond James Best Picks for 2012**

Raymond James, what do you have for us in 2012? Sanity and consistency perhaps?

According to Raymond James, the [stocks to invest in over the next year](#) are: Nvidia, Superior Energy, Whiting Petroleum, BMC Software, Lincoln National, Stanley Black & Decker, TW Telecom, Verifone, BB&T, Nuance Communications, Chevron, Post Properties, Brinker International.

No love for Apple from Raymond James. But they do agree with Merrill on Lincoln National.

## **Barron's Top Stocks for 2012**

Finally, [Barron's favourite 10 stocks for 2012](#) includes: Berkshire Hathaway, Met Life, Sanofi, Seagate, Vodafone, Royal Dutch, Freeport McMoRan, Comcast, Procter & Gamble, Daimler.

Some international stocks in this list, but no matches with any of the above listings.

Thanks everyone. By now I am totally confused and more than a little nauseous.

I think my first investment will be in a bottle of Pepto-Bismol.

### **What Did We Find?**

Out of five different "top stocks to invest in for 2012" lists with 52 total recommendations, we had exactly two companies on more than one list.

Apple made three of the top lists, Lincoln National made two.

Not much consensus among the investment professionals on the best performing stocks for 2012.

Even within specific industries there was no consensus. For example, look at the energy related sectors. Merrill likes Marathon and Xcel. Fortune likes Enbridge and Halliburton. Raymond James likes Superior, Whiting, and Chevron. Barron's likes Royal Dutch. Not even any agreement within a market subcategory.

There are other "best for 2012" lists out there. Lest you think I cherry-picked the above five because they did not agree, do some comparisons yourself. I think you will find a lot of disparity in any of the lists you come across.

### **Morals of the Story**

Investment Professionals Differ More Than They Agree

Despite all investment professionals (with the same investment skills and experience) having access to the same data, and utilizing the same tools and techniques to analyze the companies, there is a huge variance in top stock picks for the coming year. And there will be huge differences in 2013, 2014, and on and on.

Everyone gets the same information. Everyone does not agree on the results.

Remember this when your broker calls with a hot stock tip or the talking head on television gives you the next great investment idea. It is not sacrosanct. If you flip the channel or wait a few days, a completely different (yet entirely plausible) investment tip will come your way.

### If Professionals Cannot Determine the Best Stocks, Can You?

If the investment professionals cannot agree on the best investments, can you?

Are you someone that gets caught up in the flavor of the day and invests immediately after hearing something on the television? As we saw above what you hear from one person will not be the same as another. This leads to confusion, stress, and an investment portfolio that experiences a lot of turnover and costs. Things that lead to underperformance.

Or are you someone that likes to analyze investment opportunities for yourself? I have no problem with that. The issue I do have is if the professionals cannot agree on their analysis, will someone with less investment expertise and poorer access to information get it right? For most investors, I think not.

### Passive Investing is Better Than Chasing Hot Tips

Stick with passive investing rather than stock picking and trying to beat the market.



The professionals cannot even agree on a few of the top future performers. Do not even try.

Instead, take a passive approach. One [whose key goals are](#) to minimize portfolio costs, match the benchmark returns, and attain your personal investment objectives.

Empirical evidence indicates that [active management does not outperform a passive approach](#) anyway. So do not be too concerned about the professionals finding diamonds in the rough that a passive approach misses.

### Passive Investing May Still Include the Hot Stocks

As for missing out on 2012's best stocks, consider this.

The Standard & Poor's (S&P) 500 is the main equity index in the U.S. There are many mutual and exchange traded funds that track this index.

The top 20 current holdings in the S&P 500 index are: Exxon, Apple, IBM, Chevron, Microsoft, Procter & Gamble, General Electric, Johnson & Johnson, AT&T, Pfizer, Coca-Cola, Google, Wells Fargo, JP Morgan, Oracle, Berkshire Hathaway, Intel, Philip Morris, Verizon, Merck.

When we compared the 52 top picks from the five lists against each other we found two companies on more than one list. Apple with three matches, Lincoln National with two.

But when we compare the top 20 of the S&P 500 against the 52 recommendations, we find seven matches. Apple on three lists and Oracle, Intel, Microsoft, Chevron, Berkshire Hathaway, Procter & Gamble each on one list.

Better consensus between the index and the top picks than between the top picks themselves.

In buying the index, you get a nice sample of all the top picks. Plus it comes in one easy, low-cost investment.

Skip the hot list flavours of the day. What is thought hot today, may not hold true. Or may not be hot tomorrow. A short-term emphasis is not the way to build wealth over time.

Instead, focus on the long-term by building a well-diversified, low-cost portfolio under a passive approach.

No thanks needed. I am just trying to help you succeed in wealth creation.

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## [An Ever Changing Investment World](#)

I saw a (now) humorous video from The Today Show dated January 1994.

Quite funny now, but back then a serious topic.

It is a great lesson on how the investment world is constantly changing.

What was a relatively unknown concept 17 years ago is now commonplace.

First the video, then a few examples:

### [YouTube](#)

*No Description*

The Today Show was a major morning show on NBC back in 1994. It was not your local community access station. Yet the

knowledge level about the internet was negligible.

Technology like Facebook, Twitter, and iPads was not even imagined by (almost) anyone.

A mere 17 years later, the internet and email are taken for granted.

### **Investing Tip #1**

When investing, look to the future, not just a company's past results.

The future will determine where money will be made in the stock market.

Consider the following:

Apple began trading on September 7, 1984. It closed the first day at an adjusted (for stock splits, etc.) price of USD 3.02. On January 31, 1994, around the time of the above video, Apple closed at an adjusted price of USD 7.98. On January 31, 2011, Apple closed at USD 339.32.

Microsoft began trading on March 13, 1986. It closed the first day at an adjusted price of USD 0.08. On January 31, 1994, Microsoft closed at an adjusted price of USD 2.13. On January 31, 2011, Microsoft closed at USD 27.73.

Yahoo only came into existence in early 1994. It began trading on April 12, 1996 and closed the day at an adjusted price of USD 1.38. On January 31, 2011, Yahoo closed at USD 16.12.

Google did not start trading until August 19, 2004. It closed the day at USD 100.34. On January 31, 2011, Google closed at USD 600.36.

Even with many of these examples suffering during the crash of the dot.coms in the early 200s, the overall returns are strong.

## **Investing Tip #2**

And it is not simply technology firms. Companies that utilize the technology also will flourish.

As an investor, there is money to be made on secondary companies.

Look at the Apple App Store. It began operating on July 11, 2008 with 500 available apps. In less than 3 years, over 400,000 apps are now available. And on January 22, 2011, 10 billion apps had been downloaded. Probably a few of those by Katie Couric and Bryant Gumbel.

Some app developers have made good money from their association with Apple's technology.

Or consider Amazon. It began trading on May 16, 1997. It closed its first day at USD 1.73 on an adjusted basis. On January 31, 2011, Amazon closed at USD 169.64.

Lucrative returns can be made investing in next generation technology and the businesses that utilize the technology.

## **Investing Tip #3**

Of course, new technology alone does guarantee success.

The lessons learned from the rise and crash of the dot.coms serve as proof positive.

For every Amazon, Yahoo, or Apple that prospered, there are also many companies like [Webvan](#), [Think Tools](#), and [InfoSpace](#).

When investing, look to the future.

What are the unknown technologies today that will be common in 10-15 years?

If you can figure it out, you have a chance to find the next Amazon.

But do your due diligence. You need to try and separate the wheat from the chaff.

A little luck will not hurt either.

Then perhaps your future Amazon will not turn out to be another Webvan.

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## Dividend Yield

Another ratio used by value investors, as well as seekers of cash flow, is the dividend yield.

Whereas value investors seek companies with relatively low price-to-earnings (P/E) and price-to-book (P/B) ratios, they desire companies with high dividend yields.

Today we will look at the dividend yield.

### **What is Dividend Yield?**

There are two ways to think about dividend yield.

First, dividend yield is an indicator of how much annual cash flow an investment generates.

If you own an investment that yields 10% per annum, you know how much cash flow you will receive each year. If you invest \$100, you will receive \$10 each year.

Second, the dividend yield indicates the payback period on an investment.

That is, how much time is required for repayment of your initial capital. If you invest \$1000 in a company with a 10% annual dividend, you will recover your original \$1000 in 10

years.

A good analytical tool if you are concerned about the safety of the investment.

### **Calculating the Dividend Yield**

Dividend yield is calculated by taking the amount of dividends paid annually divided by the current share price.

Unless the dividend is increased or decreased by the company, the yield will be constant for existing shareholders.

For example, ABC company pays a steady \$1 per year dividend. You bought 100 shares at \$12 per share. Your sister bought 200 shares at \$8 per share and your brother bought 500 shares at \$15 per share.

You will receive \$100 in dividends annually with a yield of 8.3%. Your sister will receive \$200 annually. But because she bought at a lower share price, her dividend yield is 12.5%. And your brother will receive \$500 in dividends each year. However, as he bought his shares at \$15 each, his dividend yield is only 6.7%.

Note that some companies pay dividends in terms of percentage payouts. Do not confuse this with the yield. The dividend yield is based on the price you paid for the shares. The stated percentage dividend is based on the share's par value at issue.

For example, Fixedco issues A Class Preferred Shares at \$100 par value with a fixed 6% annual dividend. For each share you own, you receive 6% of the par value. In this example, \$6.

If you purchased the shares at \$150 each, you will still receive 6% of the par value, not 6% of your purchase price. You will earn \$6 annually and your dividend yield will be 4%.

### **Dividend Yield and Share Price**

Assuming a fixed dollar or fixed percentage dividend, investors' yields will vary dependent on when they purchase the shares. Fixed rate dividends are usually seen in preferred shares.

If investors paid more than the par or issued value for the shares, their yields will be lower than the original fixed yield.

If they paid less than par or issue value, they will receive a higher yield.

We saw this in the examples above.

If the dividend paid varies over time, as is the case of most dividend paying common shares, then a shareholder's dividend yield will also vary.

### **Analytical Considerations**

As with price-to-earnings, investors consider dividend yields based on actual payouts (e.g. previous year, 5 year average, etc.) and on on expected future payouts.

If assessing whether to invest in shares, I suggest comparing the expected future yield against the 5 year average payout to determine any trend of increasing or decreasing the dividend.

I would also remove any extraordinary or special dividends from my comparative data.

These dividends are paid only on special occasions and are not recurring in nature. Excluding them from the analysis allows for better comparison with normal dividend payments.

I would also review the company's dividend history.

Have prior year dividends been stable or increasing in amount? Or have there been periods when dividends were reduced or not paid? If the former, there is more comfort that future

dividend streams will continue. If the latter, the risk of reduced future income rises.

## **Why is Dividend Yield Important?**

Dividend yield calculations are important in two different areas.

### Fixed Income Investing

Some investors seek investments with a steady income flow. They tend to be the more risk averse, fixed income investors.

The dividend yield of a stock allows them to compare the income stream against fixed income alternatives, such as money market or bond investments.

It also lets them review historic and expected dividend payouts to provide some comfort as to future income streams.

Finally, although locking in a (hopefully) fixed income stream, there is also the possibility for capital appreciation should the share price increase.

As with bonds, if general interest rates fall, the price of the shares should rise.

As an example, consider Prefco. When general interest rates were 4%, the unique circumstances for the company (earnings potential, competitors, industry, risk, etc.) required that they issue their preferred shares at \$50, with a fixed dividend of 5%. This equates to an annual payout of \$2.50.

If general interest rates decrease to 2.5%, there will be an impact on the company's shares. Probably not an identical impact, but some change. Perhaps the appropriate yield for Prefco based on the lower interest rate is 4%.

As it is paying 5% at \$50 per share, investors will buy Prefco as a value play. This will drive the share price up, until it



hits \$62.50. That is the price that reflects the new appropriate yield of 4% (\$2.5 annual cash dividend divided into \$62.50 share price).

Had a fixed income investor bought shares during the original offering, he will have an unrealized capital gain of \$12.50 per share or 25%.

### Value Investing

Value investors seeking capital gains also use dividend yield in their quantitative analysis.

The dividends are nice as they provide a hedge should the shares not appreciate. But the main hope for value shareholders is an increase in share price.

Value investors look for companies with relatively high dividend yields. Relative as compared to benchmark yields, including: company, competitor, industry, sector, stock market. Yields would also be compared to interest rates offered on money market instruments and bonds.

The belief is that high dividend yields results in two possible actions.

One, the high dividend yield may indicate that the share price is undervalued. Over time, the company's fortunes will improve and the dividend yield will revert to historic lower levels relative to the benchmark employed as the share price increases.

Two, fixed income seekers will identify the high dividend yield stocks as superior investments versus lower yield alternatives.

As the fixed income investors increase demand for shares of the high yield company, the share price will rise, bringing capital gains to the value investor.

As the high dividend yield returns to a lower rate, demand slows and the share price finds equilibrium at a reasonable dividend yield. Reasonable being in line with investor demand based on expectations of the company's future performance, ability to pay dividends, etc.

The Prefco example above illustrates this principle.

## **Dividend Yield Limitations**

### The Past is Not the Future

What transpired in the past is no guarantee of future events.

Dividends are only paid if the company has adequate free cash flow to pay shareholders.

Company expansion, new debt issues, dealing with lawsuits are all examples of activities that can erode free cash positions.

Just because a company has made payments in the past does not mean that they will continue in the future. This is especially true concerning common shares. Of less concern are preferred shares, but there is still a risk.

Note that companies do not like to slash or cancel dividends if they historically pay them out.

Investors like dividend consistency. Companies that fluctuate their payouts are less attractive to investors. This necessitates the company having to increase their dividends, when they do pay them, to entice investors to accept a risk of periods with smaller or no dividends.

### High Yields Can be a Negative

Companies with high dividend yields are often mature companies with minimal opportunities for continued operational growth.

Because of the limited internal investment possibilities, these companies tend to have high dividend payout ratios.

A dividend payout ratio is the amount of dividends paid to shareholders divided by the net earnings of a company. Companies that payout all their earnings in dividends have a 100% payout ratio. Companies that pay no dividends have 0% payout ratios (100% earnings retention ratio).

High dividend payout ratios are good for those who seek dividend income, but less so for those who desire capital appreciation.

Consider a low dividend payout company, or one that does not pay any dividends.

Often these companies prefer to reinvest positive cash flow into growing the business. Purchasing new equipment, conducting research and development of new product lines, spending money to market existing products.

Investors believe that the return from cash reinvested in the company's operations is a better investment than receiving a dividend and investing it elsewhere.

So as a value investor, you may see limited capital appreciation in a value stock if there are few opportunities for internal growth.

### High Yield Indicates Value and Junk

As with low P/E or P/B ratios, high dividend yields may indicate value in a company's shares.

But it may also indicate that the shares are worth less than previously thought by investors.

### An Example of Limitations

On July 1, Junkco traded at \$50 per share and had a trailing dividend yield of 4% (so its annual dividend was \$2). This yield was considered reasonable as compared to industry and market averages, as well as to prevailing interest rates

offered in the bond and money markets.

On July 10, Junkco announced that it lost a key sales contract that provided 85% of its annual revenue. With no replacement sales available, the share price plunged to \$20.

Not good for the company, but great for the dividend yield as it rose to 10%. Significantly higher than benchmark comparisons.

But does this make the company a value play?

If Junkco cannot replace the lost 85% of total revenue, then earnings and cash flow will both suffer. Junkco may survive this much lost revenue in the short term, but over the long run they will need to scale back their operations or face bankruptcy.

Without new sources of revenue, Junkco is definitely not a value stock.

The same warning applies to fixed income investors.

If the original 4% yield was considered reasonable, then at 10% Junkco should be very attractive for dividend seekers.

And if Junkco can replace their revenues, it might be a great deal.

But if they cannot, even in the short term, I would expect Junkco to cancel or severely reduce their dividends. If Junkco reduces the dividend from \$2 to \$0.50, that would lower the dividend yield to 2.5%. Not a good deal versus the old yield of 4%. And if they cancel the dividend due to lack of cash, that would be even worse for fixed income investors.

## **Final Thoughts**

All quantitative analysis – P/E, P/B, and dividend yield – can be a good indicator of a value investment. But they can also lead

investors to see poor investments as having value.

You always need to do qualitative analysis to separate the good from the bad. To put the numbers into their proper context.

Try not to ignore the soft side of the analysis and only focus on the numbers.