

Roads to Investment Success

University of Toronto Faculty Association
Seminar / Workshop
December 3, 2010

Norm Rothery, PhD, CFA
www.stingyinvestor.com

Overview

- ✓ Before starting out
- ✓ Picking the right path
 - ✓ Balance
 - ✓ Dividends
 - ✓ Value
- ✓ An extended tour guide

Before starting out

- ✓ Spend less than you earn
- ✓ Be debt free
 - "I've seen more people fail because of liquor and leverage - leverage being borrowed money."*
 - Warren Buffett*
- ✓ Have a rainy day fund
 - (T-Bills ~1.0%, GICs ~1.5%, Savings ~1.5% : 1yr)
- ✓ Plan for large ticket items
- ✓ Insurance

Investment Road Map

Portfolio Size

Expertise

Balanced Investing

Any

Any

Dividend Investing

\$50,000+

Moderate

Value Investing

\$50,000+

Above Average

The Balanced Way

Buy a balanced portfolio of stocks and bonds

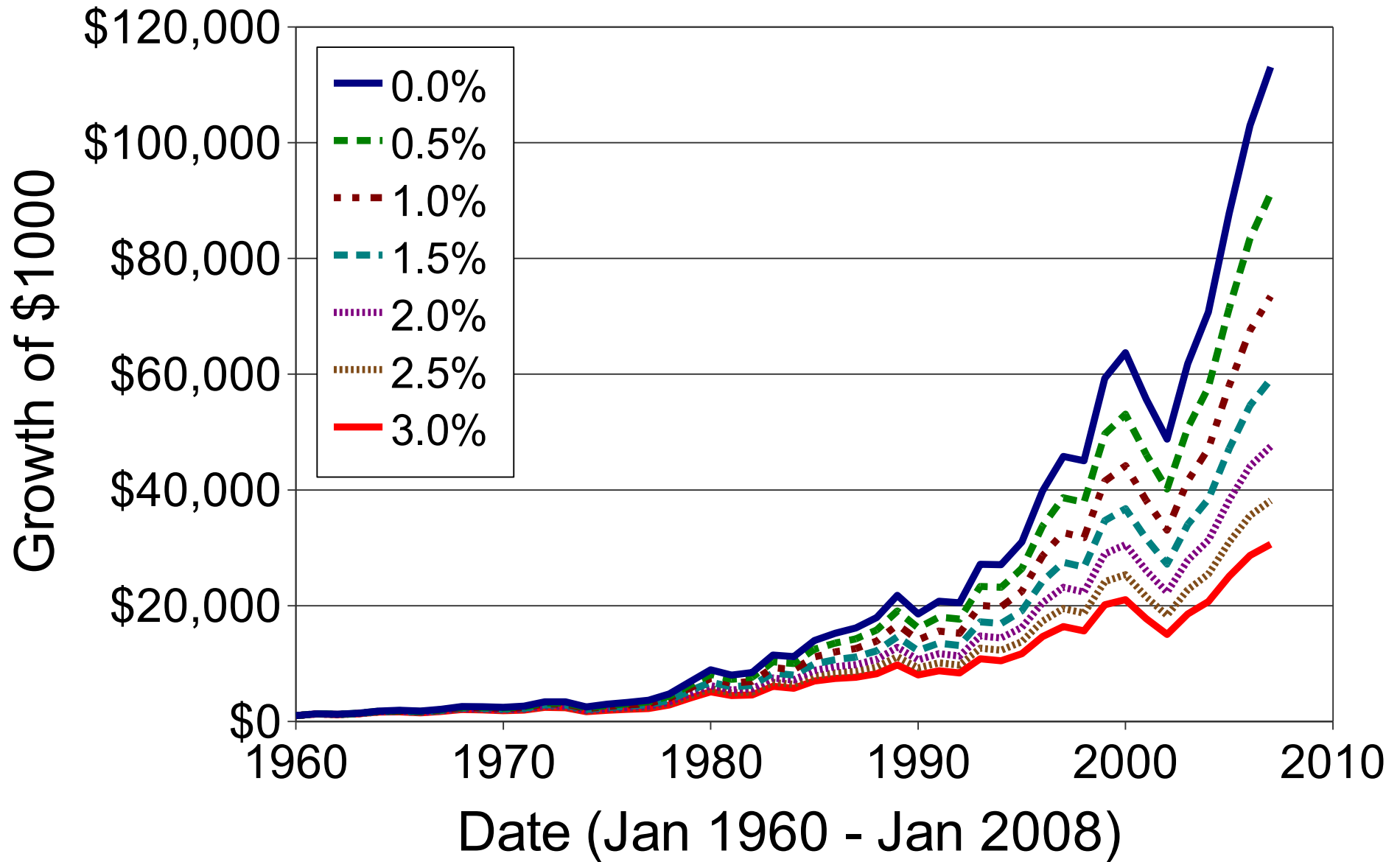
Advantages

- ✓ Easy to implement
- ✓ The ride is smoother
- ✓ Likely to outperform

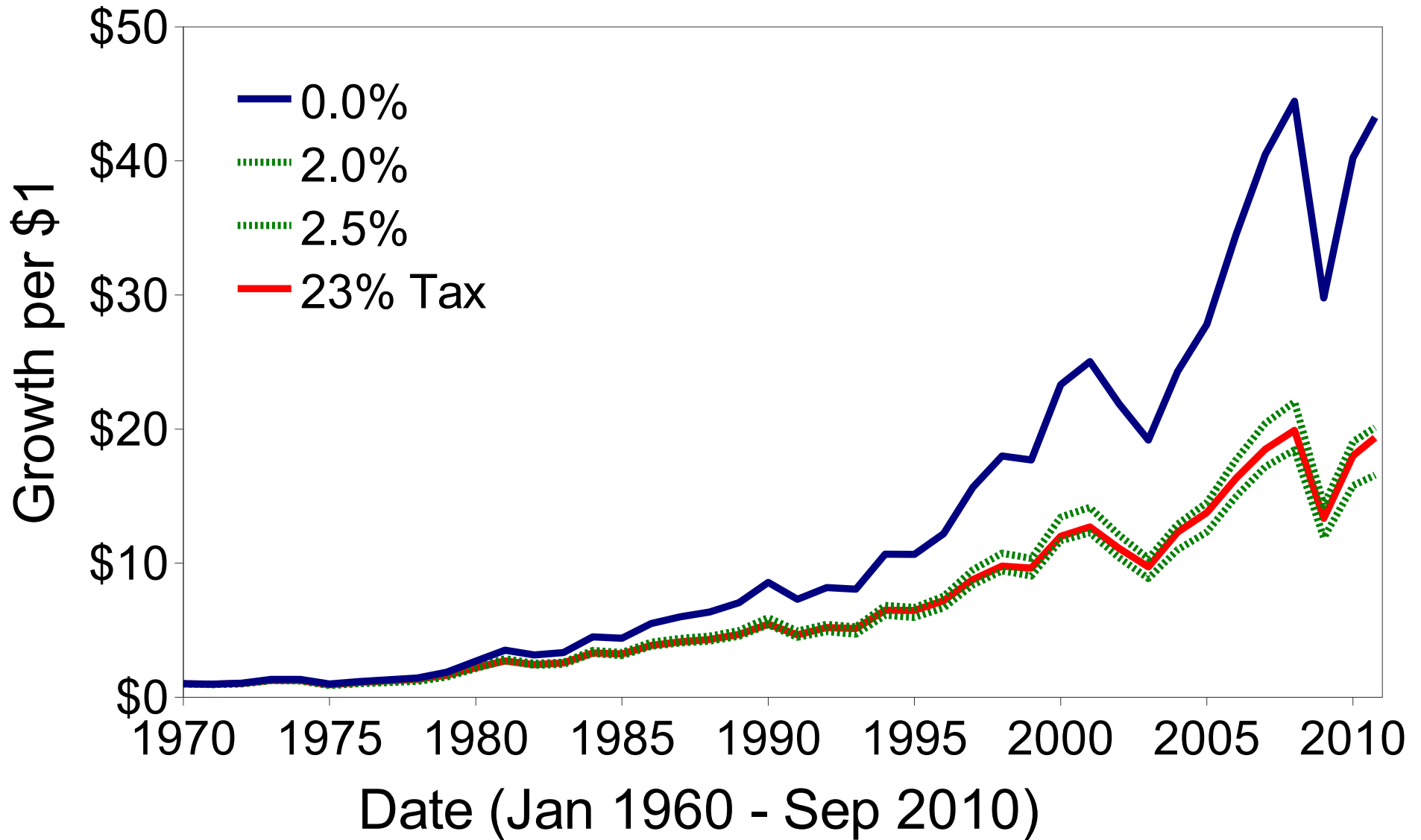
Things to be wary of

- ✓ High-fee funds
- ✓ Taxes
- ✓ Market Timing

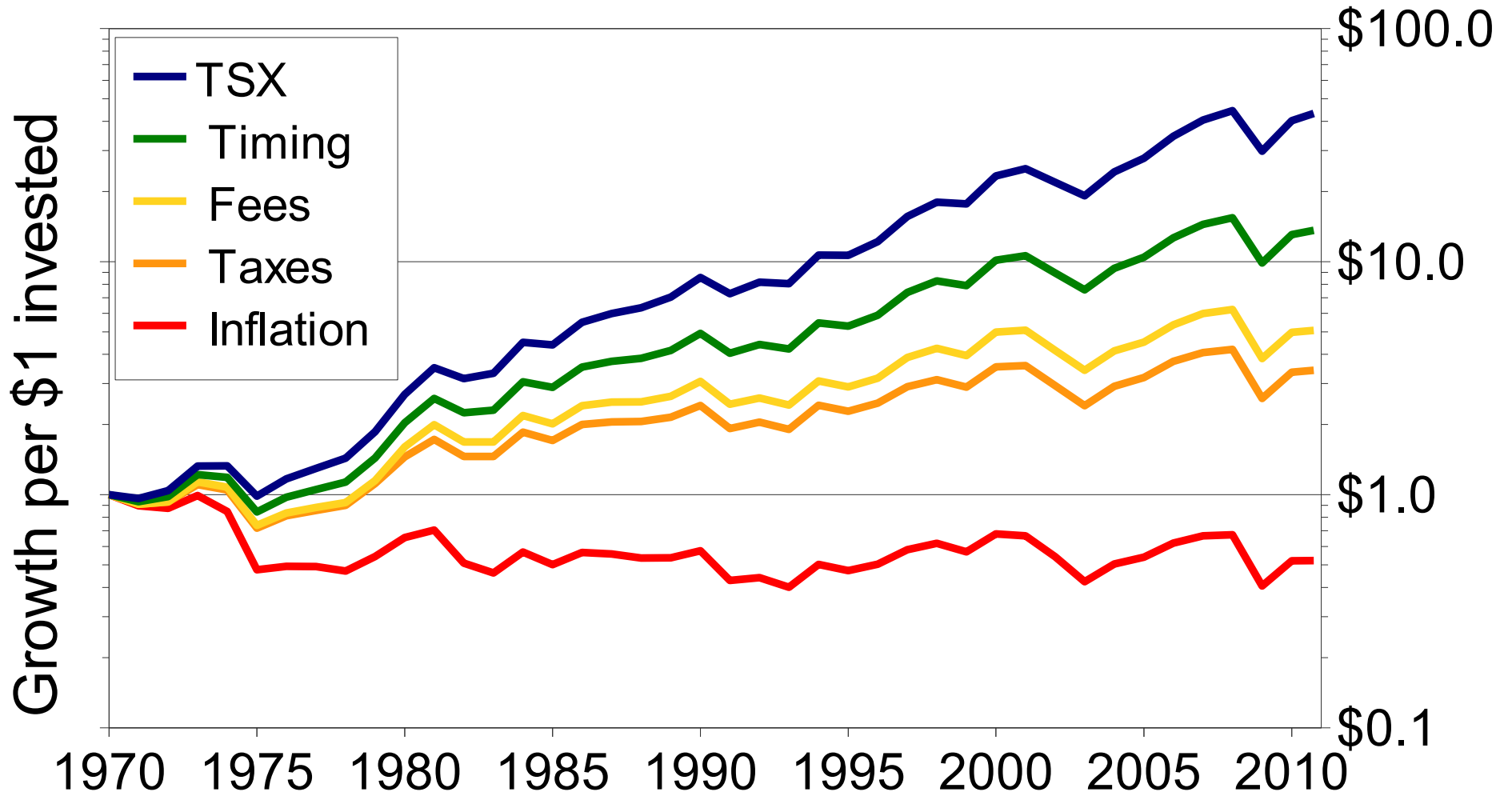
Fee Impact



Taxing Gains



Yikes!



Date (3% Bad Timing, 2.5% Fund Fees, 23% Capital Gains Tax)

Minimizing Regret

| | Performance Each Year (%) | | | | | | | | |
|------------|---------------------------|-------|------|------|------|------|------|-------|------|
| Mawer Fund | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Bond | 7.0 | 7.4 | 6.0 | 6.1 | 5.3 | 2.9 | 3.1 | 5.9 | 4.1 |
| Equity | -0.1 | -0.9 | 19.3 | 15.7 | 20.6 | 13.9 | 11.5 | -29.7 | 29.5 |
| New Cda | 29.0 | 23.5 | 26.1 | 29.5 | 18.0 | 15.3 | 16.6 | -38.4 | 51.2 |
| U.S. | 4.0 | -16.6 | 2.3 | 4.3 | -3.3 | 14.7 | -8.1 | -14.3 | 2.4 |
| World | -10.0 | -11.3 | 9.7 | 13.1 | 13.7 | 32.0 | -2.4 | -32.2 | 24.9 |
| | | | | | | | | | |
| Balanced | 4.0 | 0.1 | 11.0 | 10.7 | 10.3 | 13.9 | 2.9 | -16.1 | 16.4 |

Balanced Funds

Opt for a low-cost easy-to-hold portfolio

Mawer Canadian Balanced RSP
40/60 Bond/Stock, 1.01% MER
20-Year Average Annual Performance
8.48% vs 7.73% vs 6.84%

Many investors should stop right here

Alternates: Mawer Canadian Diversified Investment Fund (for taxable accounts) (1.02%), ING Streetwise Balanced (1.00%), CIBC Balanced Index (1.09% Fee), RBC Monthly Income (1.14%).

Dividend Investing

Grow your income via dividends

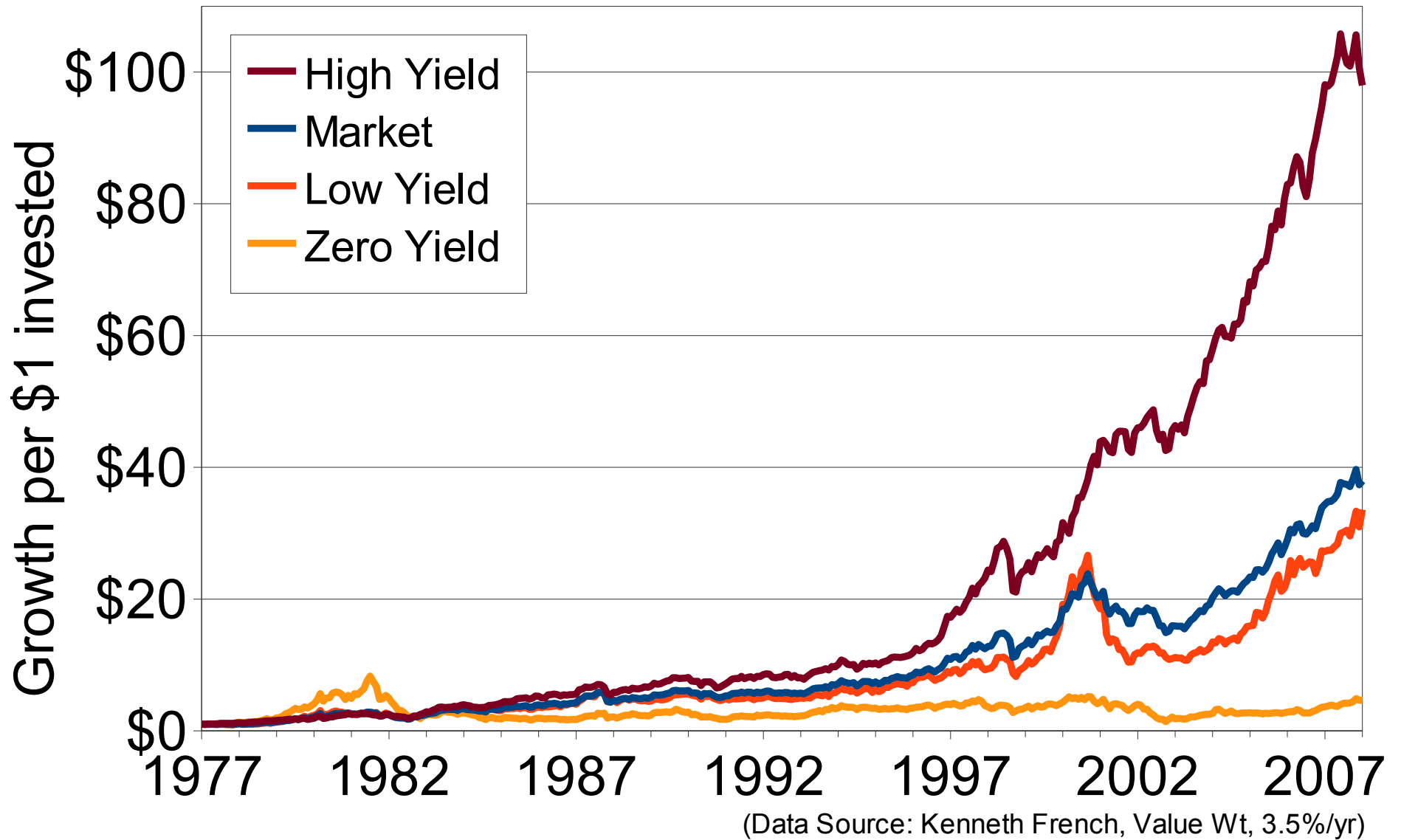
Advantages

- ✓ Steady income
- ✓ Likely return boost
- ✓ Withdrawal discipline

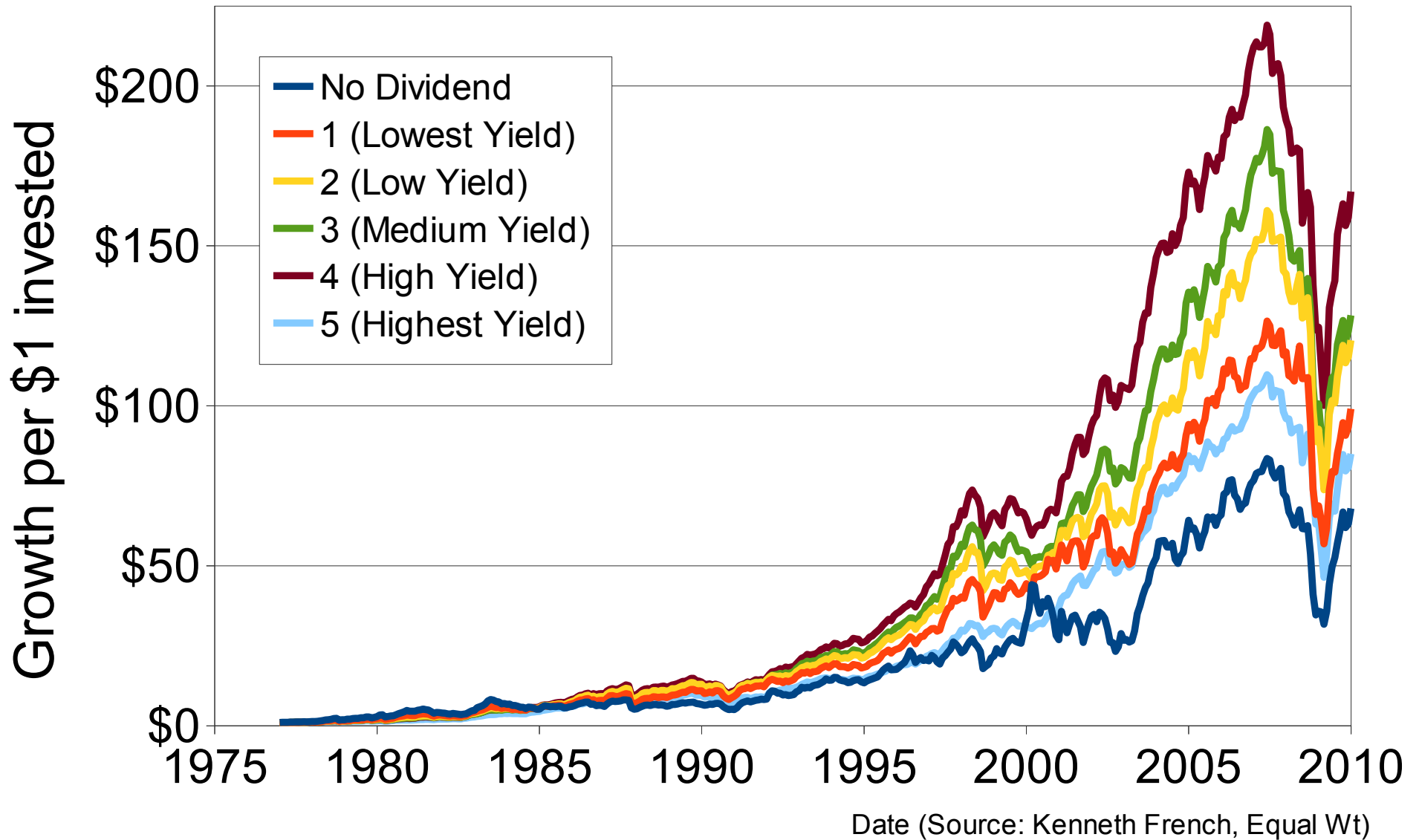
Things to watch for

- ✓ Very high yield stocks
- ✓ Foreign dividend taxes
- ✓ High-fee funds
- ✓ Dividends cuts

Canadian Dividend Advantage



U.S. Dividend Advantage



Easy Dividend Portfolios

Exchange Traded Funds

Canada

iShares Canadian Dividend ETF (XDV, 0.50%)

Claymore Canadian Dividend ETF (CDZ, 0.64%)

US

Vanguard High Dividend Yield ETF (VYM, 0.20%)

Vanguard Dividend Appreciation ETF (VIG, 0.24%)

Simple Dividend Stock Selection

Dogs of the TSX

- ✓ Start with the 60 large stocks in the S&P/TSX60
- ✓ Buy the 10 top yielding stocks
- ✓ Rebalance each year

Look to David Stanley, Canadian MoneySaver
1987-2009(end): 12.57%/yr vs 10.15%/yr index

We publish a weekly list of the Dogs of the TSX in our *free* Stingy News Weekly email letter. Sign up at
<http://www.stingyinvestor.com/cgi-bin/email.cgi>

Individual Dividend Stock Tips

Positive attributes

- ✓ Above average yields
- ✓ Dividend growth
- ✓ Financial strength
- ✓ Earnings > Dividends

Negative factors

- ✓ Extraordinarily high yields
- ✓ Derivatives/products
- ✓ Negative momentum

Value Investing

Buy stocks with a margin of safety

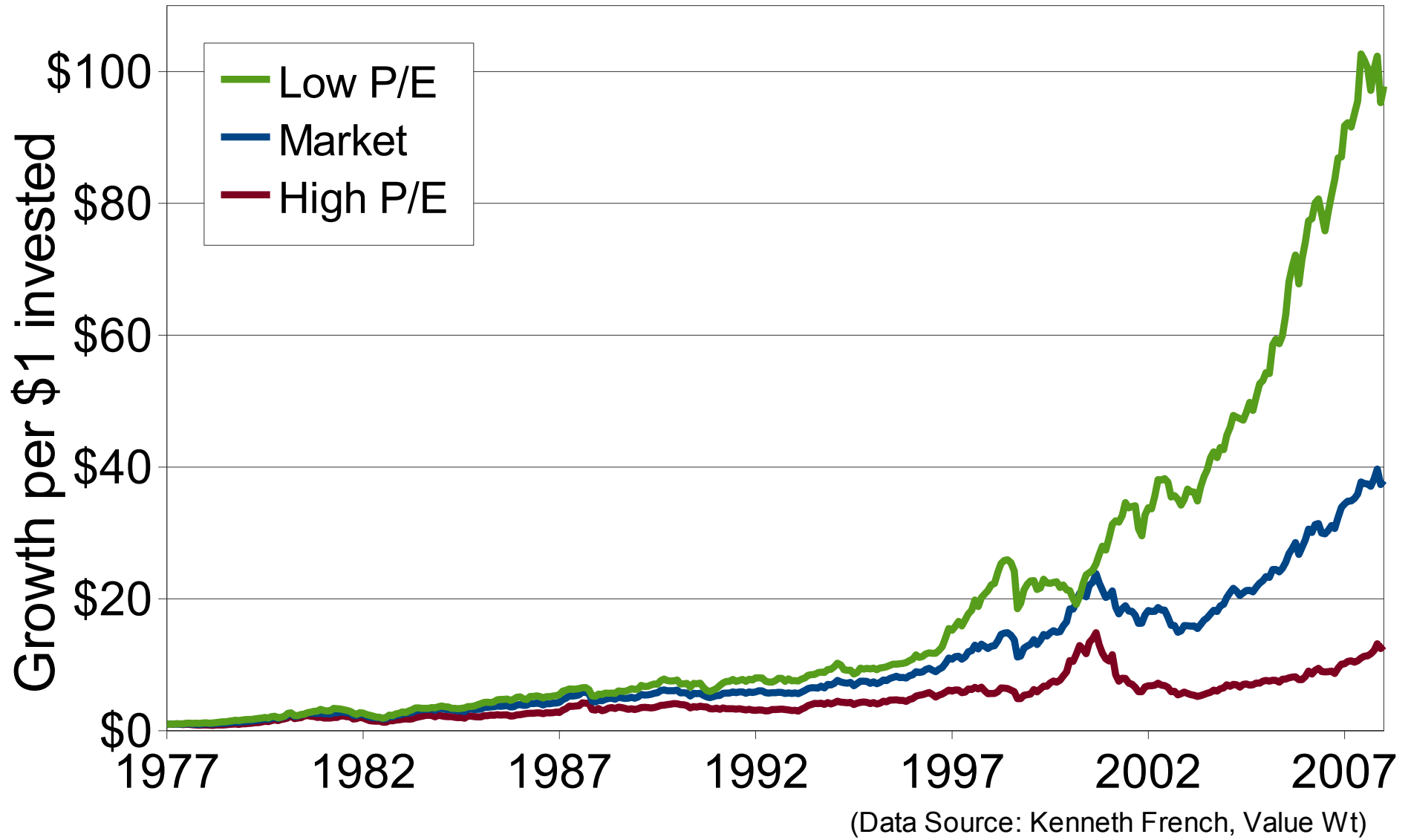
Advantages

- ✓ High return potential
- ✓ Often less volatile
- ✓ Simple valuation measures

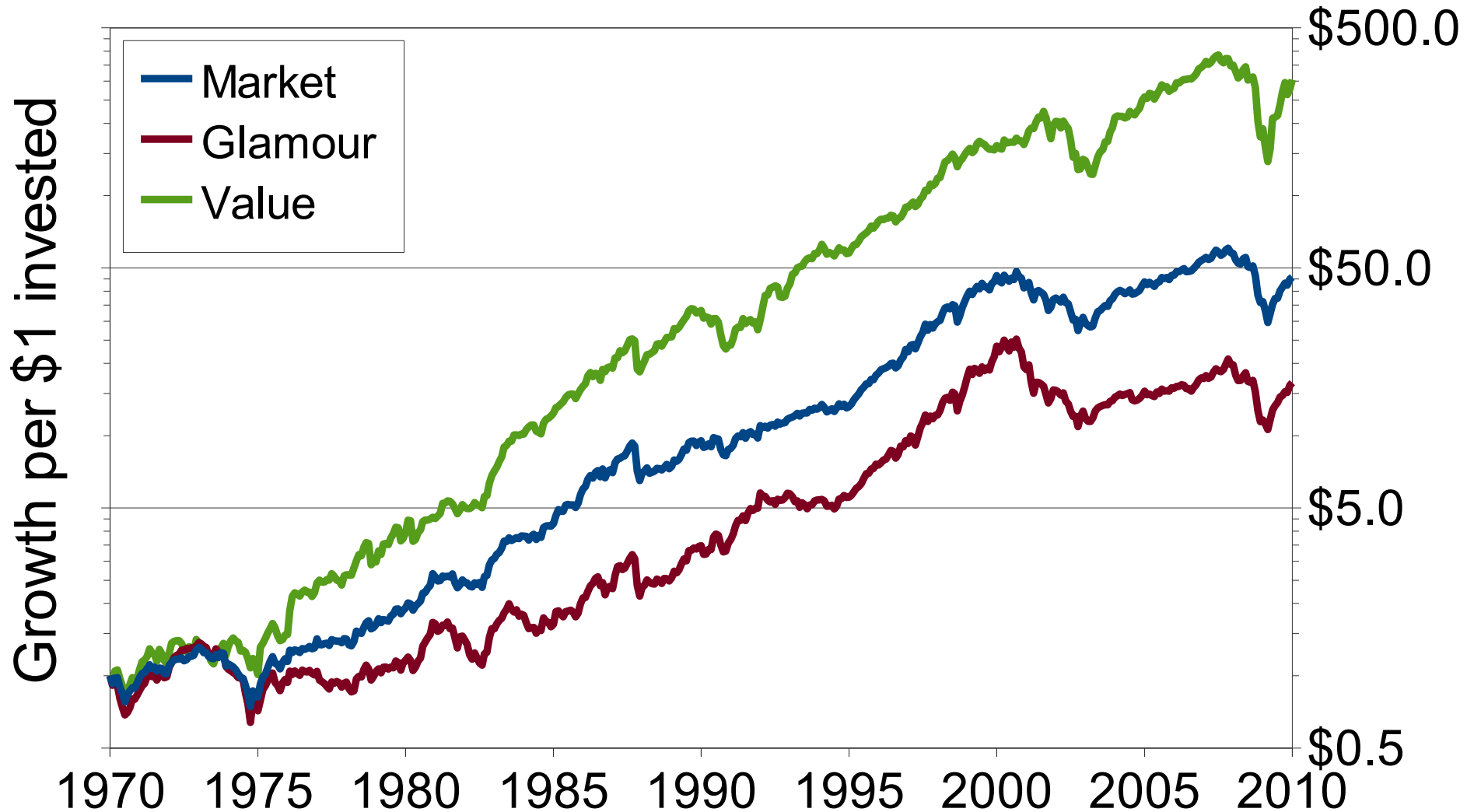
Things to watch for

- ✓ Can be hard to follow
- ✓ Forced selling

Canadian Value vs. Glamour

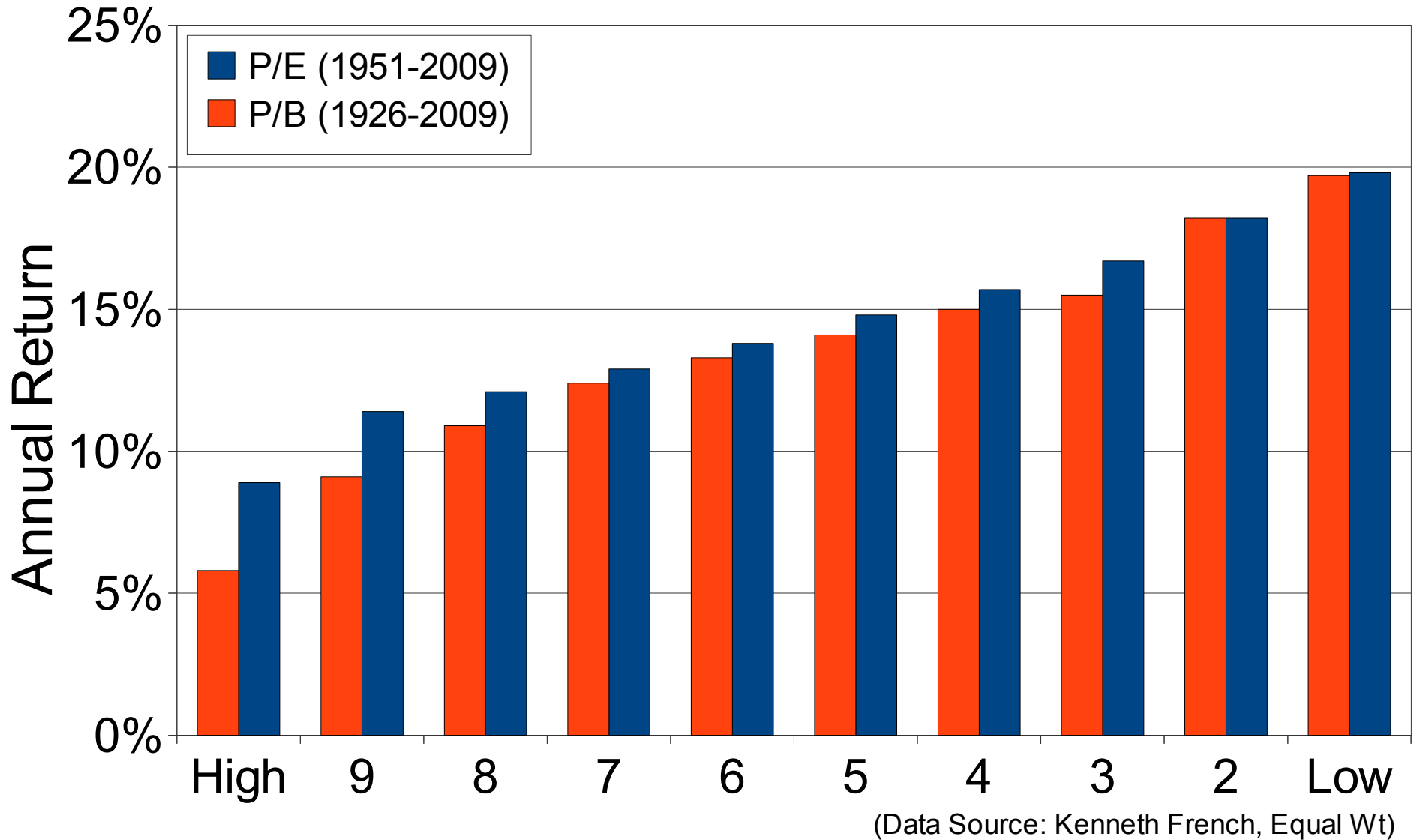


U.S. Value vs Glamour



(Data Source: Kenneth French, P/B Value Wt)

U.S. Value by Decile



Value Stock Tips

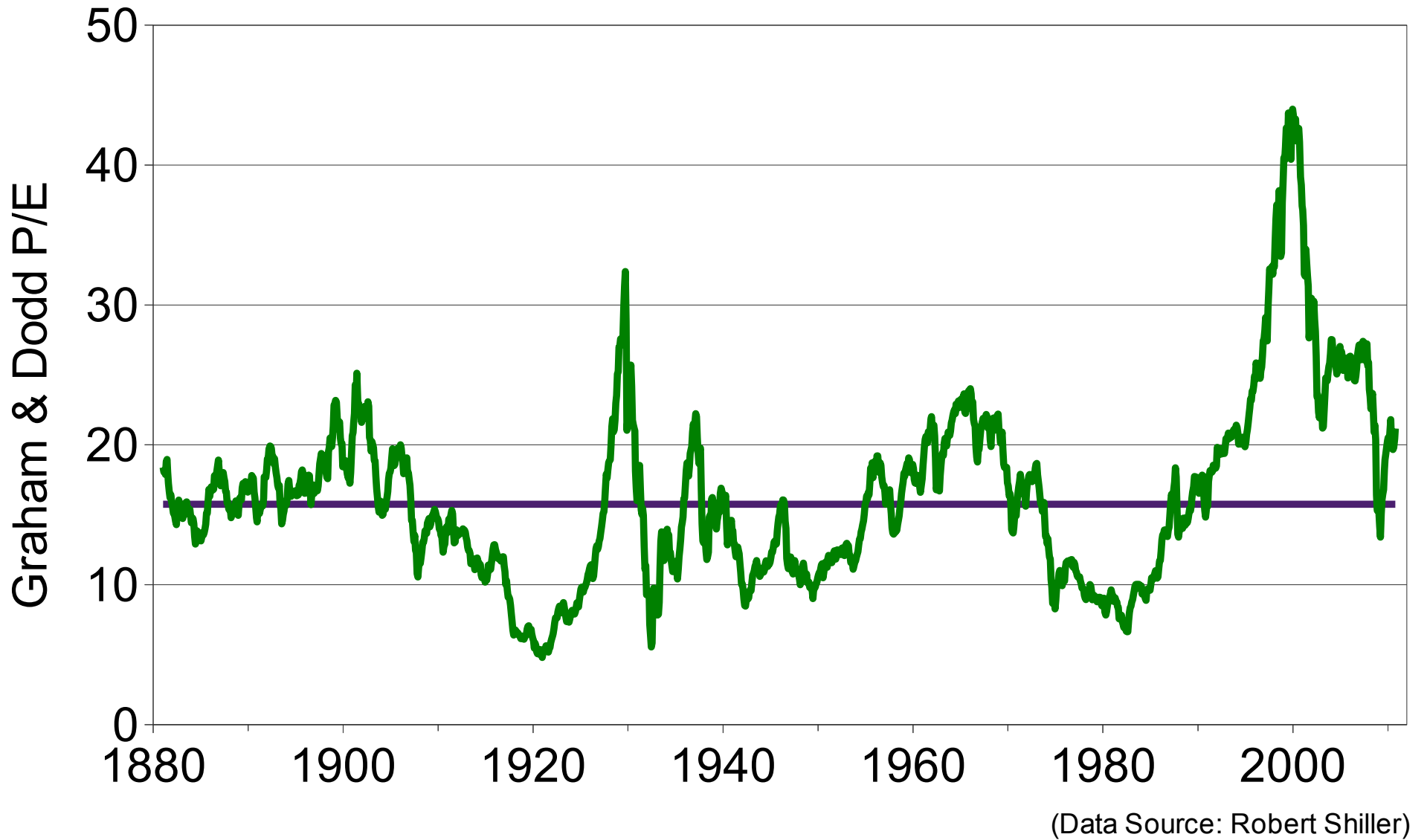
Positive Attributes

- ✓ Low ratio stocks / margin of safety
 - ✓ P/E, P/B, P/S, P/CF, P/D
- ✓ Financial strength
- ✓ Dividends and dividend growth
- ✓ Low liquidity / small / neglected stocks

Warning Signs

- ✓ Negative momentum
- ✓ Buggy whips / “value traps”
- ✓ Vampire squid management

U.S. Stock Market Valuation



Roads to Investment Success by Norm Rothery
www.stingyinvestor.com

Stingy Investor *Free* email newsletters

<http://www.stingyinvestor.com/cgi-bin/email.cgi>

Slides

http://www.stingyinvestor.com/Sl/articles/talk_1210.pdf

Useful Books

| | |
|----------------------------------|---------------------------|
| A Random Walk Down Wall Street | by Burton G. Malkiel |
| The Intelligent Investor | by Benjamin Graham |
| Contrarian Investment Strategies | by David Dreman |
| What Works on Wall Street | by James P. O'Schaugnessy |

Advanced Topics

| | |
|-------------------|--------------------|
| Security Analysis | by Benjamin Graham |
| Value Investing | by James Montier |

Market History

| | |
|---------------------|-------------------------|
| A Splendid Exchange | by William J. Bernstein |
| The Ascent of Money | by Niall Ferguson |