

HOW TO SELECT STOCKS TO BEAT THE MARKET

by
Alan M. Spears

In last month's column I discussed the importance of finding the right Asset Allocation for your portfolio. After you have settled on an Asset Allocation strategy the next step is to select the appropriate stocks for your investment portfolio. A future article will discuss fixed income investment strategies.

Many investment managers follow a specific equity style of investing, typically either focusing on growth, that is looking for stocks with strong earnings and/or revenue growth potential. Or they are value investors, seeking good stocks at great prices rather than great stocks at good prices. Like various asset classes and market sectors, investing styles go in and out of favor with investors. One year value investing is popular and the next year, growth investing may be instead.

Growth and value stocks perform differently. In any given year, growth may outperform value or visa versa. Having a portfolio tilted towards the winning style can provide great rewards. However, having a portfolio heavily weighted in a style that is under performing can prove costly. Fortunately, no one can predict which style between growth and value will perform best in any given year.

Rather than focusing on either a value or growth approach, you may want to consider building a portfolio using quality stocks, chosen because they have the best potential for price appreciation, regardless of their style distinction. This approach helps your portfolio even out the ups and downs of style volatility, while providing you with more consistent returns. Your goal should be to out-perform the market, but to do so in a more consistent manner than portfolios bias towards growth or value styles. In selecting stocks, you should look for companies with:

- ✎ Strong financial conditions and consistent profitable growth
- ✎ Three to five years of consistent earnings
- ✎ Low Debt to total capital ratios

Selecting the right stocks is vital in creating an investment portfolio that will help you reach your investment goals. You may want to consider consulting an experienced investment manager to help you with the selection process.

March, 2004