NH BUSINESS REVIEW

APRIL 1 - 14, 2016
VOL. 38 • NO. 7

ONLINE @ NHBR.COM

Don't forget the tortoises

A well-balanced portfolio should include companies that may not be growing as fast, but offer other value

In response to recent volatility in the markets, we've been hearing from people nervous about their investments, particularly in stocks. The so called "Wall Street jitters" continue to haunt some investors, particularly those looking for "safer" financial vehicles or products in which to invest and others expecting uninterrupted upticks in their earnings.

Unfortunately, sporadic volatility has been a fairly common, almost predictable phenomenon since the dawn of the stock market. Some might say that these market "corrections" are healthy for the economy and need to take place from time to time.

BY DANIEL COHEN

Personal Finance

Most of us learned the lesson of Aesop's classic tortoise-and-hare fable when we were children. A principled, steady and persistent effort to achieve a goal works better than a swift and reactionary approach. This is one of the fundamentals of sound investing, especially when your time horizon spans years or decades.

The historical and cyclical patterns of the markets can also inform you of how to best approach your investment options. If you have a future retirement or financial goal, you need to first consider how much time you can allow for your strategy to produce desired results. Various time flexibilities or constraints as well as life stages, family, career goals and the kind of business you're in should all factor into your financial planning.

Just about all of us can be influenced by short-term price fluctuations and volatility. Certain stocks with big gains in short periods will be very attractive to people who see fellow investors reaping the returns. A sudden drop in a stock's value can send jittery investors scrambling to cut losses when holding the shares could be the best bet if its price recovers and perhaps rallies.

Unfortunately, media publicity can sometimes include exaggerations, hype and misinformation. That very public and perhaps overhyped IPO may or may not be a good buy, but the assumption can be that its price can only go up. It can be exciting to see a young entrepreneur develop a new app, launch an "overnight success" company and become a billionaire. But the long-term state of that company is anything but certain and predictable.

McDonald's is a company that many investors wrote off as missing the latest trends in the marketplace. It wasn't growing like many of the newer companies in the fast food and casual dining sector. All the while, the company kept paying above-market rate dividends and every year for decades has been able to raise its dividend. Last year its dividend was increased almost 5 percent. This year, while the market was going through its correction, McDonald's stock was hitting an all-time high.

Another company that many investors turned away from is Coca-Cola. Why would anyone want to own a company that sells soda when so much is known about the health problems associated with too much soda consumption? Well, Coca-Cola, like McDonald's, has been paying above market level dividends for many years, with annual increases for many decades. Last year it increased its dividend more than 7 percent. Coca-Cola stock also hit a record high earlier this year while the market was experiencing heightened volatility during the January to February correction.

NextEra is one of the largest electric utilities in the country. The company is also the world's largest generator of renewable energy from the wind and sun, and it generates emissions-free electricity from its eight nuclear power units, including Seabrook Station in New Hampshire. Many investors reduced holdings in utilities fearing, rising rates would hurt the value of the shares. NextEra, like McDonald's and Coca-Cola, raised its dividend in the last year by more than 6 percent and has a long-term history of annual dividend increases. It too saw its share price hit a record this year while the markets were falling and many investors were panicking.

Each of these companies has gone through extended periods when their share price may not have kept up with the broad market or their faster-growing competitors. However, through good management, each company has been able to operate efficiently, reduce costs when necessary, maintain and grow their dividends, and find innovative ways to stay competitive in the marketplace.

A well-balanced portfolio should include the tortoises of the market that may not be growing as fast as some others, but which offer other value, like regularly increasing dividends. They can also provide long-term capital appreciation which often doesn't coincide with the movements of the broad market. NHBR

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