Learn from strong companies

High-performing firms in the market share the same solid fundamentals

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There are many ways to invest for the long term. Index funds can easily diversify your holdings either into the broad market or favored sectors. Mutual funds also provide a good way to invest on a regular basis. Most retirement plans that allow for payroll deductions use mutual funds for employee contributions.

Packaged investment products like variable annuities, index annuities, structured notes and other investment trusts offer exposure to the markets, often with a guaranteed minimum return. However, these alternatives have a high cost of ownership.

Many successful investors choose instead to purchase shares of leading companies directly. Through proper planning, they build a diversified, tax-efficient portfolio to achieve their financial goals.

Underlying all these options are the companies that comprise the publicly traded markets. What makes a company worth investing in? There is no formula that works all the time, as even the best money managers may sometimes find poor performers in their portfolio.

The big picture

If your investment goals are long term, avoid focusing on short-term price movements. The price of any company's shares fluctuates daily. Much of the movement has little or nothing to do with the fundamentals of that company.

At times, some sectors go out of favor, but if you own a leader in that sector, you may be best off holding through that market cycle.

For example, banks underperformed for a few years and many investors sold positions in that sector and missed out on the recent strong performance. The same thing happened recently in the energy sector.

Fundamental indicators

Fundamentals should be a primary consideration when investing in a company. Growth of revenue and profits are important considerations. Growing dividends over a long period of time tends to indicate financial strength. The company's products or services should be adaptable and expandable into the foreseeable future.

Perhaps most importantly, the company needs a strong management team to operate efficiently and anticipate changes in their industry so they can adapt and remain a leader. While this last quality is among the most crucial, it can also be one of the most difficult to identify.

Follow the leaders

There are many great companies we can learn from. Disney and Microsoft are two leading examples that have adapted well to changes and have rewarded their shareholders handsomely.

Everyone knows the Disney brand. Many may have thought it best for the company to stick to their formula of slowly expanding their parks by adding attractions and bringing out new movies each year. But, 15 years ago, management began acquiring media properties, starting with Pixar Animation Studios in 2006, Marvel Entertainment in 2009 and Lucasfilm in 2012.

In strategically managing its acquisitions, Disney has developed a good deal more popular entertainment cultivated from all those brands under ownership. Additionally, Disney+ was launched last year to offer unlimited access to Disney entertainment, and subscriptions have outpaced expectations by a wide margin. Disney has adapted to changing market conditions and leads its industry.

Trends and technologies

Microsoft is known all over the world, with its software being essential to personal and business computers. However, after growing significantly in the 1980s and 1990s, the company's stock price hardly moved for 15 years. Even while leading its industry, Microsoft was considered old technology, and from 2000 until 2015, the stock did not gain. However, owners of Microsoft stock have received a regular dividend starting in 2003, which was increased on a regular basis. Since 2015, the stock has multiplied almost fivefold and the dividend continues to grow. NHBR