FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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Investment Deal Killers

When it comes to investing in equities, there are really only two ways to make money: (1) buy a stock that's undervalued and sell it when it reaches fair value (or higher) and (2) collect dividends. However, there are many ways to lose money, especially since as an equity investor, you receive only whatever free cash flow is left after everyone else gets paid (and management has plenty of potential reasons/excuses for why they should use it for some reason other than dividends for shareholders).

So when you consider placing your hard-earned, scarce capital at risk of total loss by buying shares in a company, you need to be cautious, wary and insist that stringent conditions be met (which is the complete opposite approach of the vast majority of investors, who use index funds, ETFs and mutual funds).

Here is my list of investment deal killers, which are single conditions that prevent me from becoming a partial owner of a company, regardless of any other considerations:

The stock doesn't pay a dividend. The value of an asset is equal to its future cash flows (e.g., dividends) discounted back to the present at an interest rate that reflects its risk. So dividends provide the primary basis for an asset's value. Dividends also provide significant proof that a company is actually profitable (regardless of what its earnings statement may say). And it's a good indication that management isn't neglecting shareholders. As a group (and this is a large group), stocks that don't pay a dividend have lower returns than stocks that increase their dividend every year or that keep their dividend flat.

The stock recently reduced or eliminated its dividend. (This does not include foreign stocks that pay dividends in a foreign currency that fluctuate in value when converted into U.S. dollars, or foreign stocks that pay semiannual dividends where one payment is always larger than the other (which is most of them), or American companies that pay dividends that fluctuate each quarter based on the company's performance (which is a bit unusual). If a company reduces or eliminates its dividend, it's a major warning sign that either (1) the company is in financial distress and is probably heading toward bankruptcy in the intermediate term or (2) management no longer cares about shareholders. When this happens, I usually sell immediately because generally, the company's situation never gets better. As a group, stocks that reduce or eliminate their dividend have the worst performance.

The stock has been around for less than ten years. Stocks that are fairly new are too close in time to their IPO price, when (Smart Money) insiders sold their shares at a price that they thought was richly valued. Also, the company hasn't been through a recession or bear market yet, at least not where we can see how Mr. Market reacted to it. And despite the Efficient Market Hypothesis, most investors probably still don't know that the stock even exists. So we need to allow enough time for the longer-term weighing function of markets to allow the stock valuation to reach an equilibrium.

The company has signed on to the United Nations Global Compact or indicates in its reports that it is trying to help the U.N. reach some of its 17 Sustainable Development Goals. The U.N. is one of the most corrupt and tyrannical organizations in the world, which makes it antithetical to my goals as a profit-seeking investor.

The company is a partner of the World Economic Forum or sends a delegation to Davos. The WEF is like a private, elite version of the U.N., with virtually identical goals and malevolent intent.

The company is a signatory to the Business Roundtable's 2019 white paper that redefined the purpose of a corporation away from maximizing shareholder value to providing benefits to five different groups of "stakeholders," with shareholders mentioned last. These companies have indicated that about 80% of the reason they exist is to benefit people other than shareholders, so I take them at their word. There are about 120 such companies on my list.

The company has a high Woke Score. The management of these companies have obviously turned their company into a *de facto* social justice nonprofit, spending a lot of time, money and energy on things that have nothing to do with creating shareholder value. These companies will go bankrupt sooner rather than later.

The company is based in China, South Africa, the European Union (with a few exceptions), the United Kingdom or (as of this week) Canada. These countries are either tyrannical or are rapidly headed that way, which does not bode well for equity investors. I'm also wary of Brazil and Mexico, and companies in Japan and Indonesia are usually on the globalist bandwagon.

The company is an asset manager and belongs to either the Glasgow Financial Alliance for Net Zero or the U.N.-backed Principles for Responsible Investment. These companies are the worst, because they are destroying their customers' capital (in violation of their legal fiduciary duty to them) without full disclosure and have hijacked the free market to achieve goals that will result in its demise.

The company is in certain industries. Pharmaceutical companies generally leave people sick or dead, so I'm not down with that. Utilities (electric, water and gas) are regulated. Banks and insurance companies don't have any real assets. Banks have become overleveraged, opaque hedge funds and are highly exposed to the contracting commercial real estate market. Insurance companies have high exposure to inflation risk. Both sectors are also stuffed to the gills with U.S. Treasuries, which are much more dangerous than they appear.

There's not enough data about a stock (or the data is out of date). I need enough timely data to make informed decisions.

The stock doesn't have enough trading volume. This is somewhat common for foreign stocks that trade in the U.S. For many of these, the stock price won't change for months at a time, sometimes for over two years! This makes investing in them impractical.

The stock is a penny stock (i.e., it trades for less than $1.00 per share). So even if the price changes by just a penny, it can result in significant volatility and a wider bid-ask spread.

Everything else is pretty much an option and is just a matter of acceptable scores for value, financial strength, profitability, growth, insider owner/short seller ratio, Beneish M, dividend yield, dividend strength, investor sentiment, etc. Unfortunately, all of the above requirements eliminate over 95% of stocks from consideration, but such is the state of the stock market today. I'm not comfortable risking my own capital or that of my clients on anything else, especially since thanks to ESG and The Great Reset, we are in unchartered waters.

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not my client.

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Before starting a new diet or exercise regimen, you should consult with a doctor, nutritionist, dietician, or personal trainer.