4 Simple Ingredients for Massive Multi-Bagger Returns

Description

Take Stock *is the Motley Fool Canada's* ***free*** *investing newsletter. To have future editions delivered directly to you, simply* ***click here now****.*

Dear Fellow Fools,

Show me an investor that says they *don't* dream about scoring big with their stock picks and I'll show you a liar. We all want to strike it rich with each and every stock we buy. Unfortunately, that's just not possible in investing.

However, there *is* a collection of variables that can help to bridge this gap between fantasy and reality. This week's Take Stock will share a few of these variables with you. These are traits we Fools seek out on a daily basis — and they've helped our U.S.-based and other international services achieve market-dominating returns over the years.

1. The power of patience
There is perhaps no better way to achieve a monstrous return, with relatively little risk, than investing in a fantastic company and remaining invested in that company for a very long time. It's as simple as that.

To serve as an example, let's consider two of Canada's leading cable television providers, **Rogers** (TSX:RCI.B, NYSE:RCI) and **Shaw Communications** (TSX:SJR.B, NYSE:SJR). Now, as many of us are customers of one or the other, we've probably had a bad experience with these companies at some point. We may even question their greatness. But the fact is, given the unique communication-based infrastructure assets that they possess, these are fantastic businesses.

Their stock returns prove it. Had you been so fortunate as to have recognized the power of these businesses when they first hit the public market (for Rogers in November 1979; for Shaw, March 1983) and held on through thick and thin, you'd be sitting on capital gains of over 9,200% for Rogers and 6,400% for Shaw.

To achieve these life-altering gains, your patience would have been tested on numerous occasions, and the temptation to sell would have been significant throughout. However, great businesses are able to endure the rocky periods and thrive during the good times. Hanging onto them is well worth the ride through the short-term ups and downs.

2. Small is big
Fact: All multi-baggers start small.

Given the size to which they have grown, the returns for Rogers and Shaw over the course of the next 30 years are not going to come anywhere close to the returns that have been booked over the past 30 years. Even though their businesses are sound, the law of large numbers simply won't allow it.

Companies that offer a long-term return of 10,000% currently reside where Rogers and Shaw were 30 years ago. That is, they are small, and they possess a significant competitive edge. Because of this, the hunt for multi-baggers begins and ends in small-cap land.

3. The importance of dividends
Capital gains are great, and provide an indication that a business is growing — a trait that all multi-baggers must demonstrate. Growth, however, can be fickle.

If the company's stock is solely reliant on earnings growth to drive it higher, you could go through periods of stagnant or even negative returns as results ebb and flow. Dividends help to negate these flat spots and ensure that your capital is continually generating a return.

To help illustrate how significant dividends can be to a shareholder's long-term return, let's have a look at another long-term Canadian multi-bagger.

Power Corp. (TSX:POW) is a holding company that owns a controlling stake in a mix of financial service companies. Current holdings include **Great-West Life** and **IGM Financial**. However, the company, which is controlled by Quebec's Desmarais family, has taken on several iterations over the years.

Power Corp. was born in 1925 and started out, fittingly enough, as a company that owned a collection of power generation assets. Since the Desmarais regime began in 1968, Power has been more focused on controlling a limited number of large, diversified, long-term holdings.

And though the business mix has shifted as these holdings have come and gone, over the years a significant dividend has been maintained. This long-term focus and consistent payout has contributed to an eye-popping capital gain for long-term owners in excess of 10,000%.

More astounding is the total return (dividends included) that long-term Power investors have achieved. Take a gander at the chart below to see what a difference dividends have made for Power's long-term shareholders. The top line (light blue) represents dividend-adjusted returns; the bottom line (royal blue) represents only capital gains.

Power Corporation of Canada (TSX: POW)

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Source: Capital IQ

When dividends are factored in, since 1975, Power Corp. has generated a total return of more than 45,000%!

4. Management is aligned
Regardless of how great a business may appear, its long-term success begins and ends with the quality of the decisions that are made by the company's management, as well as its board of directors.

And depending on how this group is compensated, their decisions may not always be in the best interest of the company's owners. That's us, the shareholders. A misaligned management team may be far more interested in enriching themselves at our expense, so to speak.

There is no better way to ensure that management and the company's board are making decisions in our best interest than for them to also have a significant ownership stake in the company. All three of the companies that we've mentioned fit this criterion, by the way.

Inside ownership information is readily available in a company's Annual Information Form (AIF) and/or in the management proxy circular. Both documents can be found for all of Canada's publicly traded companies at www.sedar.com.

Putting it together
Find a small company with an edge, buy it, hold it, collect dividends from it, and get rich alongside management. See, investing doesn't have to be that hard!

By focusing on these four principles, among others, many Motley Fool services, both in the U.S. and in other parts of the world, have trounced the market. And the best news is, these same principles transfer very nicely to the Canadian market. (You might have noted some of the teaser ads we've been putting out about a special event on October 1. I can't say much yet because the details aren't confirmed, but I assure you that there's some really great news coming for Canadian investors who want to invest Foolishly.)

Here's to finding tomorrow's multi-baggers today … together!

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With an increased number of contributors at Fool.ca, we’re better able to handle whatever might be on your mind. Although we still can’t necessarily address each with a direct response, we’ll do our best to at least incorporate your queries into either a post at Fool.ca or a future edition of Take Stock.

One final note: Be sure to follow us on Twitter and Facebook for the latest in Foolish investing.

‘Til next time … happy investing and Fool on!

Sincerely,

Iain Butler

Senior Analyst

The Motley Fool Canada

Iain Butler does not own any of the companies mentioned. The Motley Fool doesn’t own any of the companies mentioned.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RCI (Rogers Communications Inc.)
2. NYSE:SJR (Shaw Communications Inc.)
3. TSX:POW (Power Corporation of Canada)
4. TSX:RCI.B (Rogers Communications Inc.)
5. TSX:SJR.B (Shaw Communications)

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