



## Bestselling Author Derek Foster Explains Verizon's Effect on Canadian Telecoms and Why Coca-Cola Is "Idiot-Proof"

### Description

Derek Foster is an inspiration for many Canadian investors. At the age of 34, he was able to retire after building a portfolio of high-quality, dividend paying stocks. Today, Derek is the author of several bestselling books, including *Stop Working*, *The Worried Boomer*, and *The Idiot Millionaire*. [You can learn more about him on his website here.](#)

In the final part of my interview with Derek, I ask him for his take on **Verizon** ([NYSE: VZ](#)) dropping its bid to enter the Canadian telecom market, as well as his recent investments south of the border. Below is the transcript of our conversation; it has been lightly edited for clarity. (Here are parts [1](#), [2](#), [3](#), and [4](#).)

**Robert Baillieul:** Verizon has been in the news after announcing that it's abandoning plans to enter the Canadian market. What does this suggest for the future of Canada's telecom companies like BCE (TSX: BCE, NYSE: BCE) and Rogers (TSX: RCI.B, NYSE: RCI)?

**Derek Foster:** I bought some BCE shares a short time ago. I guess with Verizon not entering the market, it keeps a nice little oligopoly going. I generally think the telecom space is a pretty reliable cash generator.

What's interesting about BCE — and I guess Rogers to a certain extent as well — is they've really been able to get the content right around the same time Verizon announced they were going to enter the market. BCE completed its acquisition of Astral [Media]. That's going to give them a big media presence, especially in the French-speaking market. I think it's going to be fairly difficult to enter that too because a big U.S. company cannot come into Quebec like it can enter English Canada because of the language barrier. So I think there's a little bit of a moat there. They also own the [Toronto] Maple Leafs and the Montreal Canadiens, which I think is weird that they own both. So I think that the content as their product will help them over the long-term.

I don't think it's a huge, growing company. But the fact that Verizon is not going to be there will keep the prices high and they'll keep making a good profit margin and paying plush dividends and I'm happy to be a shareholder of that.

**Baillieul: In recent years you've been putting more emphasis on U.S. stocks. Is there any particular reason why you're looking south of the border for investment opportunities?**

**Foster:** On Halloween 2006, I believe, they changed the rules on income trusts so they were no longer as favourable to operate as a trust. So I began looking for other things.

The other thing that happened was that the price of oil was really high. And when that happened our Canadian dollar reached parity and actually traded above [par]. So just like when people drive across the border to shop for back-to-school stuff or whatever, I started cross-border shopping for U.S. stocks because they were cheaper for Canadians to buy. So that was the big reason why I bought a lot of U.S. stocks.

The other reason, of course, is that there's a bigger market in the United States. We have our financial companies, perhaps pipelines and railways. You mentioned telecoms and **Tim Hortons**, but that's about it. There isn't anything equivalent to a **Coca-Cola** ([NYSE: KO](#)), **Johnson & Johnson**, or a **Wal-Mart**. When our dollar is trading at parity or above, you can buy U.S. companies very cheaply.

**Baillieul: In your book *The Idiot Millionaire* you list many U.S. companies. Do you have any particular favourites?**

**Foster:** Out of the 50 or so they all have their good factors. But again, you're looking for the dividend aristocrats, with 25 to 50 years of dividend increases. You're looking for something with a competitive moat. You're looking for something with, ideally, global growth potential.

I spent a few years in Asia, Europe, Latin America. People were smoking Marlboro cigarettes in all of those countries. You look at a company like **Philip Morris** and I didn't realise how profitable that industry is. It's the same with **McDonald's** and it's the same with Coca-Cola or whatever. Picking a favorite is really hard to do.

**Baillieul: Thanks for taking the time to speak with me today Derek. Is there anything you would like to add or tell our readers?**

**Foster:** I just want to stress that when you're investing, don't make it more complicated than it has to be. If it's too complicated for a 6-year-old to illustrate with a crayon it's basically not worth investing in. The key is finding really simple, what I call *idiot-proof* companies or super quality companies and you don't really have to be all that smart. And I'm not advocating it, but if you overpay for a quality company it doesn't really matter. I mean, I hate to say it doesn't really matter. [But it's true] if you have a really long-term view.

If you take a look at a company like Coca-Cola, where people say that they pretty much saturated their market, so there's no growth left there. But there's a huge amount of growth left because when you look the average North America drinks around 300, I don't know the exact figure for sure, but something around 300 soft drinks per year. The average person in China drinks something like 30 per

person.

North America isn't really important from a population standpoint. Here in the U.S. and Canada we're something like 5% of the world's population. There's still a lot of growth in a company like Coca-Cola. You're not too late. It's a simple product. Everyone regardless of their race, religion, or gender gets thirsty every day — and Coke is there to provide the product.

So I give you Coke as a generic example, but you don't really have to be that smart if you buy something like that and you're going to do all right.

Author note: You can see earlier segments from our conversation here: parts [1](#), [2](#), [3](#), and [4](#).

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*Disclosure: Robert Baillieul doesn't have a position in any of the stocks mentioned in this article.*

*The Motley Fool owns shares of Johnson & Johnson, McDonald's, and Philip Morris International.*

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:BCE (BCE Inc.)
2. NYSE:KO (The Coca-Cola Company)
3. NYSE:VZ (Verizon Communications Inc.)
4. TSX:BCE (BCE Inc.)
5. TSX:RCI.B (Rogers Communications Inc.)

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