



Buy What You Know: 2 Top Stocks You Visit Every Day

Description

Buy what you know. That was the commonsense philosophy immortalized by the legendary investor Peter Lynch in his classic book *One Up on Wall Street*. Sometimes, the best investment ideas come from the very same goods and services you use every day. What stores are attracting crowds at the mall? What products are getting rave reviews from family and friends? A keen observer can sometimes spot an investment opportunity long before the analysts on Bay Street.

Of course, as Lynch made clear, just because you like a company doesn't necessarily qualify it as a good investment. The diligent investor must drill deeper. Is the balance sheet strong? What are competitors doing? Is the stock reasonably priced? Only then can a security be confidently added to a portfolio.

With this theme in mind, here are two companies you probably visit every day that double as great investments.

I'll take a large double-double in my portfolio

It's a simple business. You take some bean and add hot water. Sell each cup for \$2.00. Yet it's a highly profitable business model that has made **Tim Horton's** (TSX: THI, NYSE: THI) a Canadian icon and one of the most successful businesses in the country.

The numbers are impressive. Tim Horton's sells eight out of every 10 cups of coffee in the country. The company sold more than 2 billion cups of coffee last year. And its product is habit-forming. More than 40% of Canadian Tim Horton customers visit the chain at least four times per week.

Of course, when you're posting those kinds of numbers, it's natural to assume that Tim's has saturated the market. But that's not necessarily true. Tim's still has an opportunity to grow in Alberta and Quebec. New stores in established markets will be smaller, kiosk-like shops with limited menus. The company is also trying new initiatives to grow sales at existing locations. In what's called in the industry lingo "daypart expansion", the company is beefing up its lunch and dinner menu.

Exporting the Tim's brand south of the border has been a mixed success. Last quarter, U.S. same-store sales grew only 1.4%. But, notably, in states where the company is more established —

Michigan, Ohio, and New York — operations have posted strong results.

Better yet, Tim Hortons has a great track record of rewarding shareholders. Since going public, management has tripled its dividend payment. In August, the company has also pledged to buy back \$1 billion in stock. That could be a catalyst for a higher share price.

Padding your portfolio one dollar at a time

Dollarama ([TSX: DOL](#)) is the ultimate no-frills operation. Until recently the company tracked its inventory by paper. It was only in 2011 that stores started to accept debit cards.

How did such a simple operation come to dominate Canadian business? By sticking to the basics, differentiating itself from other retailers, and aggressively expanding. And the model is working. Last quarter, sales hit a record \$511 million — up 16% year over year. Comparable-store sales and net income increased 6.5% and 24%, respectively.

And the company still has a long growth runway left. Relative to the U.S., dollar stores remain an underrepresented retail concept in the Canadian market. Dollarama is also adding higher margin merchandise to its stores through the introduction of \$2.00 and \$3.00 price points.

Now, some investors may be a little concerned about Dollarama's valuation. At 20 times forward earnings, the stock certainly hasn't been marked for the discount bin. But once you factor in the company's growth rate, that multiple seems much more reasonable. With analysts anticipating earnings to grow 18% annually over the next five years, the stock trades at a reasonable 1.1 price-earnings-to-growth, or PEG, ratio. That's hardly nosebleed territory.

Foolish bottom line

Buying what you know is a time-tested investment principle. Of course, your homework doesn't end there. But reviewing the businesses you patronize every day is a great way to find investment candidates.

What are you doing October 1?

Our senior investment analyst will unveil his [top two stock ideas](#) for new money now on Oct. 1. And YOU can be one of the select few investors to find out first — just [click here](#) to reserve your invitation.

Disclosure: Robert Baillieul has no positions in any of the stocks mentioned in this article.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

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