



## Know What Kind of Business You Are Buying

### Description

Buying stocks is buying businesses. You become a part owner of the businesses you buy. When you buy shares in a stock, you should know that *eventually* the shares are going to go up.

How would you know? First, you have to know what kind of business you're buying.

#### What kind of business is it?

Buying a gold-mining business like **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) is very different from buying a utility like **Fortis Inc.** ([TSX:FTS](#)).

Barrick Gold's business performance is dependent on the prices of the underlying commodities that it mines, such as gold and copper. Both commodities have seen steep price declines in the past few years due to soft demand. As a result, Barrick Gold has been in a multi-year decline.

Barrick Gold's share price has dropped from the \$50 level in 2011 to under \$10 today, an 80% drop. Barrick is a real-world example of capital destruction. At best, it could be a potential turnaround investment.

In my opinion, **Goldcorp Inc.** (TSX:G)(NYSE:GG) would be a better turnaround investment given that it has a more solid balance sheet with an S&P credit rating of BBB+ and debt/cap of 12% versus Barrick Gold's credit rating of BBB- and debt/cap of 45%.

#### Why not choose a stable, high-quality business?

Instead of gold miners, investors are much better off buying Fortis. From its 2011 \$34 level, the shares have risen to \$37. You might think that a few bucks of price appreciation don't amount to much. However, that is close to 9% of appreciation.

When comparing that to Barrick Gold's 80% drop and Goldcorp's 70% drop in the same period, the 9% appreciation is a big deal. Additionally, in the same period both miners' dividends rose and then fell to below the 2011 level this year.

However, being a stable, regulated utility, Fortis's quarterly dividend has increased from 2011's 29 cents per share to the current 37.5 cents per share. Fortis shareholders that held the shares in 2011 would have seen their income increase over 29%, an average rate of 6.6% per year.

### **In conclusion**

It's possible that the gold miners could do very well in the next few years. However, it will take an event that brings the prices of the underlying commodities up.

With a stable business that steadily grows its earnings, such as Fortis, investors don't have to guess whether or not its price will go up. We know that it eventually will. It will become a more valuable business over time as its assets continue to generate stable cash flows and its strategic acquisitions start generating revenue.

With businesses like Fortis, it's best to hold on for a very long time to collect growing dividends. After all, it has increased its dividends for more than 40 years in a row.

You have to ask yourself the following questions before you buy a stock:

- Is it the kind of business you'd like to own?
- What are you buying it for? Is it a gamble in the hopes of price appreciation, or are you buying it to collect growing dividends?

### **CATEGORY**

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:FTS (Fortis Inc.)

### **Category**

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

## Tags

1. Editor's Choice

### Date

2025/08/04

### Date Created

2015/11/18

### Author

kayng

default watermark

default watermark