



Don't Speculate. Invest

Description

Some people think they're investing when they're actually speculating. You're speculating if you expect an investment to turn out in your favour when there are insufficient facts supporting it.

Here's what Benjamin Graham had to say about investing and speculating in *The Intelligent Investor*. "An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative."

Speculating

For example, some people might have thought **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) was a good investment when it fell from \$50 to \$20 per share from 2011 to 2013. If you're an investor though, you might have looked at the history of the company and decided that it was not a good investment.

From 1997 to 2004, Barrick Gold's earnings per share fell 22.3% per year on average—and fell six out of the seven years. After seeing those kinds of results, true investors would probably avoid the company. Why? When you invest in a company, you own a piece of it.

If a company's earnings aren't stable, how can it be profitable for its shareholders? Barrick Gold's earnings will always be volatile and unpredictable because the underlying precious metal prices are volatile and unpredictable.

Graham certainly wouldn't have thought of Barrick Gold as an investment because it doesn't promise safety of principal and an adequate return. In fact, Barrick Gold fell to as low as \$8 in 2015. Arguably, those who bought at \$8 would have been speculating because Barrick Gold's earnings per share fell 47% that year, even when its shares rose over 125% in less than half a year.

Investing

Investors will be better off investing in solid businesses such as **Emera Inc.** ([TSX:EMA](#)) for the long term when they are relatively cheap. Emera's utility products and services are needed if the economy is good or bad, so the utility's earnings and cash flows are also more stable than companies such as

Barrick Gold. At \$48, Emera is fully valued, but its 4% yield is still very solid. It would be a fairer buy at or under \$41 per share.

Brookfield Infrastructure Partners L.P. ([TSX:BIP.UN](#))([NYSE:BIP](#)) is a fairly valued utility investors can consider today. It pays a U.S. dollar-denominated distribution and yields 5.4% using a foreign exchange of US\$1 to CAD\$1.25. Brookfield Infrastructure owns and operates a portfolio of critical and diverse infrastructure assets on five continents, including rail, toll roads, energy and electricity transmission, regulated terminal, and communication infrastructure.

Conclusion

If you speculate, you can't guarantee the safety of your principal nor an adequate return. So instead of placing bets on companies with volatile earnings, it's safer to invest for the long term in quality businesses such as Emera and Brookfield Infrastructure when they experience dips of 15-20%.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
3. TSX:ABX (Barrick Mining)
4. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
5. TSX:EMA (Emera Incorporated)

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