



Are You Following These 3 Golden Rules of Investing?

Description

“Do unto others as you would have them do unto you.”

There’s a reason why it’s called the Golden Rule. Those 11 words can be applied to countless situations, good or bad. Terrible decisions have been averted by someone remembering that simple sentence.

When it comes to investing, however, there really isn’t one golden rule. There are all sorts of styles that can bring success. Value investors and growth investors have two very different ways of putting their money to work, but both can make money over the long term.

Even Warren Buffett’s number one rule—don’t lose money—can be easily refuted. I know plenty of investors who have made fantastic returns by investing in situations with a very real possibility of losing all of their capital.

Think of it this way: if there’s an opportunity that gives equal chances of bankruptcy and a 300% return, dedicating a small percentage of your portfolio to such investments isn’t such a bad thing.

So I realize there are no tried-and-true golden rules for anyone. I still think investors should come up with their own golden rules. Here are three I adhere to for my portfolio.

Insist on dividends

I used to be dividend agnostic, not really caring if I got paid for owning something. I’ve since changed my mind.

It shouldn’t really matter if I reinvest dividends into different opportunities or if the companies I own do it for me. But it does, and there’s one simple reason why: it’s my money and I want it.

I like that management is dedicated to making sure I get paid. And I like having a choice about how to spend my dividends. I can reinvest them back in the company. I can put them to work in other opportunities. Or I can squander them on tickets to a baseball game. Options are a good thing.

I've held shares in **Pizza Pizza Royalty Corp.** ([TSX:PZA](#)) for years now, and I intend to hold them for a while longer. The company's business model lends itself nicely to growth. The economics of the franchise business are fantastic. And the best part? It spins off plenty of dividends I can put to work in other opportunities.

Dividends allow me to build my own compounding machine, which I hope will eventually grow to cover all of my expenses.

Margin of safety

While I like dividends, I won't pay an outrageous price for them. That margin of safety helps limit my downside.

On first glance, **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) doesn't look like it has a margin of safety at all. The company is struggling because of its exposure to coal, bad economic conditions in its home province of Alberta, and all sorts of other issues. Shares are down 70% in the last five years.

But the company does have one big thing going for it: it owns a large stake in its subsidiary company, **TransAlta Renewables**. The value of that stake and TransAlta's market cap are virtually identical. This means investors are getting all of TransAlta's other assets for free.

Have patience

It's hard to do nothing when there's constant activity around you. And yet it's one of the best things an investor can do.

It's especially hard when a company you own is having tough times. As a value investor, I'm usually sniffing around these situations when I think the bottom is truly in. I'll often invest and see shares fall another 10% to 50%.

But over the long term, these situations often work out. Both of the examples earlier in this article fell after I bought them. So did other companies that later became some of my investing winners.

Sure, I was tempted to sell, but the thesis was still in place. That's the important part of knowing when to sell.

My three golden rules

As long as I'm following my three golden rules, I feel like I have a pathway to success. I'd encourage other investors to come up with their own rules of thumb. They'll likely be different from mine, which is a good thing. Trying to invest without them is like trying to get somewhere without a map.

CATEGORY

1. Dividend Stocks

2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:PZA (Pizza Pizza Royalty Corp.)
3. TSX:TA (TransAlta Corporation)

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