



## Steal These 3 Dragons' Den–Inspired Investing Tips

### Description

Even after 10 complete seasons and part of an 11th, the hit CBC reality show *Dragons' Den* continues to be one of the highest-rated programs on Canadian TV.

It's easy to see why. The dragons are investing in actual businesses using their own capital. The stakes are real and the competition to get on the show is cutthroat. A strategic investment can truly change an entrepreneur's life.

It isn't just the drama I like. I'm a sponge when watching, trying to soak in everything I can about the dragons and the way they invest. Collectively, they've taught me some of my greatest lessons.

Here are three invaluable dragon tips that will make you a better investor.

#### Insist on a moat

Warren Buffett, the man who will go down as history's greatest investor, insists on a sustainable competitive advantage when he invests in a company.

The dragons do, too. It's just a little different when you're dealing with a company that only does \$500,000 in sales versus a multi-national corporation doing billions in revenue.

**CAE Inc.** ([TSX:CAE](#))([NYSE:CAE](#)) is a great example. The company doesn't usually hit the radar screen of many investors, even though it dominates the flight-simulation market. The company trains 120,000 pilots annually in 67 different locations around the world. Chances are the pilot flying your next flight was trained using a CAE flight simulator.

Its valuation is decent too. The company is on pace to generate about \$1 per share in earnings for its fiscal 2017, putting shares at under 20 times forward earnings. It also pays a 1.6% dividend.

#### Invest in management

Often, an investment made in the den is less about the quality of the product and more about the

company's management.

Investors constantly underestimate how much a company's management matters. Valuing managers is tough; the difference between a mediocre and terrific manager can't often be ascertained in conventional ways. It takes a little digging.

There's one shortcut that tends to work better than all others, at least from my perspective. Just look at previous results.

One company that constantly gets praise for its strong management is **Constellation Software Inc.** ([TSX:CSU](#)). CEO Mark Leonard and his team stumbled upon a simple, yet powerful business plan. It buys up smallish software companies that dominate niche markets. It then uses the earnings from those acquisitions to buy more. And so on.

Needless to say, it's worked like a charm. Shares are up 3,292% since their 2006 IPO, and that doesn't even include dividends. The company debuted at \$17 per share. It closed at \$620.79 on Wednesday. That's simply remarkable.

### Spread your bets

I've always thought it was silly for retail investors to put a large part of their net worth in two or three different stocks.

Instead, try a *Dragons' Den* approach. They know there's a decent chance they'll lose all their money in a particular investment. That's okay. The potential rewards more than make up for the risk.

Take a company like **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) as an example. If oil continues to stay at under \$50 per barrel, it will eventually run into financial problems. It has a mountain of debt. The only thing saving it today is the long-term nature of its borrowings. It doesn't have to worry about renewing any of its bonds until 2021.

If oil recovers to \$70-80 per barrel, Baytex shares will be worth much more than they are today. The reward is there. But there's also downside potential. It offers a similar risk/reward profile as most *Dragons' Den* investments.

### The bottom line

*Dragons' Den* is a great place to get investment tips. I've barely scratched the surface. Next time you turn on the program, look at it from an investor's perspective. I think you'll learn a thing or two.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Tech Stocks

### POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:CAE (CAE Inc.)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CAE (CAE Inc.)
4. TSX:CSU (Constellation Software Inc.)

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