Don’t Ruin Your Retirement With Stocks Like This

Description

If you want to ruin your retirement, buy stocks like **Bombardier, Inc.** (TSX:BBD.B). If you bought shares in 1995 and held on for 25 years, you would have accumulated a total return of *negative* 30%. Of course, it’s easy to suggest that you avoid long-term losers in hindsight.

But what if you could identify these portfolio-ruining stocks ahead of time? Not only is it possible, but there are a few tricks to identifying these loser stocks quickly.

First, let’s learn how to avoid disappointing stocks like Bombardier. After that, we’ll cover the types of stocks you *should* be buying.

It’s all about capital

Warren Buffett generally avoids companies that are capital-intensive. These companies are *required* to reinvest huge sums back into the business every year simply to stay afloat. They’re not required to do this due to regulation—it’s simply the nature of the business.

Take Bombardier, for example. The company makes huge equipment and infrastructure like airplanes and train cars. Can you make either of those things without huge sums of money? No.

That means that in order to stay in business, Bombardier must regularly deploy *billions* in capital. That’s what Buffett is talking about when he says a business is capital intensive.

In fact, Buffett once called Berkshire Hathaway (the eponymous textile business he bought decades ago) his worst investment ever. That’s because he needed to reinvest vast sums of capital back into the business to stay price competitive – a huge disadvantage given that Buffett could have invested that capital elsewhere at very attractive returns.

The lesson here is to avoid capital-intensive businesses. Sure, there are still examples of successful capital intensive businesses, but the dawn of capital-light businesses is where the real opportunity lies.

Go light

Buffett has long avoided tech stocks, but his views have shifted in recent years. At his 2019 shareholders meeting, Buffett described companies like **Facebook, Inc.**, **Microsoft Corporation**, and **Alphabet Inc** as "ideal businesses." He even ponied up to buy big stakes in **Amazon.com** and **Apple Inc**.

What's changed? Buffett finally realized that these stocks are perfect examples of capital light businesses. "I believe that probably the five largest American companies by market cap…they have a market value of over two-and-a-half trillion dollars…and if you take those five companies, essentially you could run them with no equity capital at all. None," Buffett said. "You really don't need any money to run these companies."

According to *CNBC,* Buffett also said, "People don't appreciate how much the world has changed and how fast it can change further now that the future biggest companies in the world can be built through the use of very little capital and software in a relatively short period of time."

Shopify Inc (TSX:SHOP)(NYSE:SHOP) is a perfect example. Since its IPO in 2015, shares have risen by more than 1,000%. Revenue growth has averaged above 50% per year. The company is now worth more than $60 billion.

How much did the company spend on capital expenditures last year? Just $57 million. By comparison, Bombardier spent more than $1 billion despite the fact that it has a 90% *smaller* market cap.

Capital light businesses simply dominate. The trick now is to find the *next* Shopify.

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