
Market Volatility: 3 Key Criteria for Choosing a Stock

### Description

The market is clearly insane. It is going up and down as erratically as it ever has in history. One moment we are up a thousand points and the next we are down, often in the space of a single day. In times like these, it literally pays to have a strategy that can protect you from the short-term movements of the market.



The key to having an effective strategy is to focus on the most important words of the above paragraph. The words "short-term" give you the clue to building an effective strategy. If you have a long-term mindset, you are well on your way to riding out the investing storm.

It's the same as riding a bike. If you tried to look straight down, or at the road directly in front of your wheel, you would not be able to aim your bike effectively. No, you must look far ahead to the horizon to plan an effective route.

Sure, you need to notice the odd stick or hole to avoid major damage, but it's the distant goal that guides your path.

## Investing in individual companies

Choosing to put your money into individual companies is much riskier than investing in an index or an ETF. An individual business can go broke. The stock can go to zero, especially in uncertain times such as these. Therefore, if you are going to choose an individual stock, you should choose one that you are reasonably certain has a long-term future.

One company that fits the bill for an individual stock selection is **Enghouse Systems Inc.** (TSX:ENGH). This technology name operates in a growth area, has a fantastic balance sheet and has global operations for increased diversification.

## Three criteria for stock selection

The most important indicator in my mind is for the company to have a strong business that can progress through difficult situations. Enghouse provides services for telecommunications, utility companies, and transportations industries.

While in the short term some of these businesses may be affected by the global shutdown in the short term, telecommunications and utilities will most likely continue to function even during the short-term disruption.

A great balance sheet is another key factor in choosing a company. Enghouse maintains a balance sheet with no net debt and a ton of cash. It is also asset-light, with these factors helping it to weather a long-term downturn.

In fact, the huge cash balance should help it to take advantage of opportunities that arise during an economic slowdown.

It also has a growing dividend that is likely to continue during the crisis. With all the cash and continued operations that this company offers, the 1% dividend will most likely continue to be paid or even grow.

The company has grown its dividend for years, including a 22% increase in 2019. Its payout ratio has always remained low, so it will likely not be at risk through this turbulent period.

## The bottom line



Enghouse is an example of a stock that you can hold over the long term. It has a solid business in a growth area, a fantastic balance sheet, and a solid dividend. The only downside is that the stock, due to these amazing fundamentals, has remained high.

It currently trades at a price to earnings ratio of 36 times forward earnings and a price to book of 6.87. It is expensive.

At the depths of the market sell-off, the stock fell down into the $40 a share range. Personally, I don’t think the selloff is done yet, given the challenges still facing the global economy.

If it were to fall back to that level again, I would look to buy shares. Enghouse is a great company with a solid balance sheet long-term investors should keep on their radar.

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