



Stock Market Cheat Codes: Use These to Beat the Market

Description

If you're investing in individual stocks, you're likely trying to outperform the market. However, knowing which companies will lead the market in the future can be tough. Many companies that are initially promising can falter (i.e., **Lyft**), and some companies that seem to be hitting heavy resistance for years can suddenly explode (think **Tesla**). In this article, we will explore two characteristics that make great companies.

For both of these characteristics, I will draw examples from many companies, but I'll use **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) as the main case study.

Its eggs are not all in the same basket

If you look around at the top companies in the world, you will see that they do not restrict themselves to a single source of revenue. **Apple**, the largest company by market cap, of course has the iPhone and other portable devices (MacBook), but they have also expanded into wearables (Apple Watches), entertainment (Apple Music and Apple TV), and services (Apple Pay).

Other examples of top companies that have successfully spread their revenue into different streams are **Amazon** (Amazon Web Services, e-commerce, music, express delivery), **Sea Limited** (e-sports, e-commerce, and digital payments), and Tesla (electric vehicles, energy storage, solar roofing).

Shopify has taken a similar route with its business. One method it uses to generate revenue is its subscription service, which allows merchants to open online stores and sell their products. Shopify also offers a [variety of merchant solutions](#) such as Shopify Shipping, Shopify Capital, and point of sale hardware, among many others.

As you can see, the company generates sales in many ways, and you can rest assured it will continue to find new streams of revenue as the company continues to innovate.

The company is founder-led

I was going to choose “high level of insider ownership” as one thing to look for, but I previously [wrote about that in detail](#). Instead, look for a company where the founder is still actively involved. In many cases, the founder will be the CEO, but in rarer cases, the founder may believe that he or she is best served as either president or another type of executive.

For instance, Artur Bergman of **Fastly** stepped down as CEO to better focus on the back end of the company, where he believes he is better suited.

If you attended FoolFest 2020, which was held online due to the COVID-19 pandemic, you may have been able to sit in for the “Beating the Market with Founder-Led Companies” session. In it, Motley Fool U.S. analysts presented some compelling evidence regarding their services.

They stated that within their Stock Advisor Recommendations from 2012-2018, the stock of founder-led companies increased 195% compared to the **S&P 500**, which only saw a 61% increase. That’s over a three times increase compared to the performance of the broader market over the same period.

Going back to Shopify, CEO Tobi Lütke recently said that he remembers writing the very first line of code in what would later become the Shopify platform, which shows you how deeply entrenched he is in his company. It’s unlikely that Lütke will allow Shopify to go down the wrong direction as long as he’s in charge.

Other examples where companies are led by founders are **Constellation Software** (Mark Leonard), **Lightspeed** (Dax Dasilva), and **Netflix** (Reed Hastings).

Foolish takeaway

This is by no means a comprehensive list of characteristics to seek out, as there are many more factors that go into making a company great. I simply identified two. I may write future articles covering other points, since there is so much more than can fit into a single write-up.

Until then, keep these in mind and evaluate your positions. Do the companies you believe in the most hold up to these qualities?

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