

Smart Money: Hot stock tips!

Brad Brain / Smart Money

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Brad Brain: "I think the best way to create wealth is to own shares of profitable businesses. Businesses that are run by honest, ethical, intelligent people." | Getty Images



I know that some people read this column hoping for some hot stock tips. And, without question, there is no shortage of that kind of content in the financial media. If you tend to read columns like this one, it won't very long before you see an article along the lines of 'Ten Stocks to Buy Now!', or 'Missed the Last Rally? Grab These Hidden Gems Before its too Late!', or 'Ten Defensive Stocks to Buy Before the Coming Collapse!'

But people who are hoping to get that kind of content here are going to be disappointed. Shilling investments through this column is not my thing. And there is a very simple reason for that.

You simply cannot give personalized advice through mass media.

Yes, I have investments that I like. Of course, I do. But you won't see me writing a 'Ten Stocks to Buy Now!' column. I am never going to promote something as being appropriate for every single reader, regardless of that reader's particular situation. What might be great advice for one person could turn out to be dreadfully inappropriate for someone else.

Despite this, there have been occasions where I have said something in a public forum, and someone in the audience interpreted it as if it was personalized advice tailored specifically for them.

Here is an example. In February 2009, in the depths of the Great Recession, with the stock market down 40%, I did a presentation for about 200 people. It was at a time where almost everybody was really worried about the future of their own investments, and part of my presentation was to give some perspective on the current situation using historical examples of what happened in previous bear markets.

I can't recall exactly what I said in that presentation, but whatever it was, some people interpreted it as a recommendation to buy bank stocks.

Years later I had someone that was in the audience that day come up to me and thank me for the hot stock tip. Based on what I said, they went out and bought bank stocks in February 2009, and they made a lot of money.

I was aghast.

Sure, with the benefit of hindsight, buying bank stocks in February 2009 was about as good as it gets. The markets bottomed out just one month later and went on to enjoy years of wonderful prosperity.

The point is, I had no idea who this person was. I didn't "recommend" anything for her. How could I? I had no knowledge of her financial objectives, or her cash flow, or her debt obligations, or her resources for retirement, or her risk tolerance, or anything else. Didn't even know her name. How could I recommend anything for her?

What happened was I gave a presentation to a group of 200. She happened to be in the audience. That is not the same thing as personalized, professional advice.

You won't get any hot stock tips here. But I can say what I think makes for a good investment. And, perhaps in consultation with a Certified Financial Planner, you can consider how this relates to your own specific situation.

I think the best way to create wealth is to own shares of profitable businesses. Businesses that are run by honest, ethical, intelligent people. Businesses that create things that people want and need. I think the best businesses are those that are difficult to replicate, difficult to compete with, and difficult to live

without. And you can own these great businesses by buying stocks, mutual funds, or exchange traded funds.

But we are not done yet. There are some businesses that will meet my definition of a great business, but they may not be a good investment. The difference between a good business and a good investment is the price you pay. Pay too much, and even a great business may be a lousy investment.

This may seem like a simplification but, trust me, this is not simplistic. When you contemplate an investment ask yourself these questions. Is this difficult to replicate? Is it difficult to compete with? Is it difficult to live without? Am I able to buy it at a good price?

If you can answer these questions the right way, you won't need hot stock tips.

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