Stock Picking for the Public (August 11, 2019)

Updated annually and offering a fresh set of economic forecasts, *The 100 Best Stocks to Buy in 2019* is worth consulting even if the year is more than half over. Many readers will want to know if the book's predictions for 2019 are holding up and whether the justification for staying long the market holds true. Authors Scott Bobo and Peter Sander do concede that their choices for 2018 did not do especially well. They also note that their selection of 100 securities--which changes a bit every year--has fallen short of the S&P 500 stock index for two consecutive years. In 2018, *The 100 Best Stocks* did well, but the S&P did even better. Bobo and Sander lagged Standard & Poor's by 2.2 percent in 2017. Nevertheless, the authors defend themselves by noting that since 2010 they have out-performed the index by 24 percent, a pretty impressive margin. They have also identified less volatile stocks that offer security in a bear market. The choices that weakened their listing last year were General Electric, which just about collapsed, and Campbell Soup, which suffered a serious price erosion.

Nearly everyone at home with investing and markets knows by now that if you want to buy stocks, passive indexed funds are the safest path to follow. The approach was pioneered by John C. Bogle, who developed the method when he founded Vanguard in 1971. The funds, which can be applied to a number of categories of stocks and bonds, guarantee the investor a return that at least matches that of the markets overall. And the management fee of the indexed funds is low because managers choose only the stocks listed in the index. That is a major advantage.

Sander and Bobo know that as well as anyone else, of course. And they don't seem to expect readers to buy every security in their list. What they're offering is a collection of companies that have done reasonably well for a number of years and whose success they expect to continue. Firms that no longer fit their standards of safety and profitability for 2019, such as GE and Campbell Soup, have been dropped from the most recent selection. But so was AT&T. Like a lot of analysts, Sander and Bobo worry about the enormous debt the telecom took on to fund its acquisition of Time-Warner. AT&T may be a powerhouse in generating content for subscribers, but if there's slippage in demand, the dividend may be cut. A consumer products giant like General Mills also got the boot because the stock seems stagnant.

But these decisions illustrate the perils of stock selection. By the second week of August, AT&T was near a 52-week high of about $34.50 a share. General Mills started the year at $39 and now is close to $54. Colgate-Palmolive, which the authors lost interest in, has risen 22 percent since January.

Remember also the utterly unpredictable nature of interest rates. Sander and Bobo's income stocks, including REITs and utilities, are highly sensitive to the decisions of the Federal Reserve and the performance of the bond market. "We are confident," the authors wrote in December, "that [the Fed] will raise rates slowly enough so as not to knock the pins out from under our income-oriented stocks." At the time, this was received opinion. But after reaching a near-term high of 2.5 percent in the spring, the 10-year Treasury fell to a remarkably low 1.6

percent at the beginning of August. And in late July, the Federal Reserve cut short-term rates by a sliver. The financial community seems to expect further rate cuts this year.

The danger of rising rates led the authors to remove Otter Tail from their buy list. An electric utility serving the Upper Midwest, the company started the year at $48 and recently approached $54. It's an expensive stock with a modest dividend yield, but people are still buying it. Likewise, the Pennsylvania-based water utility Aqua America, another company that fell out of favor, has risen to $43 from $33 since the beginning of the year.

On the other hand, many of the authors' selections are doing well. I did an informal count of about one-third of their chosen securities, and the overwhelming majority--23--have done well, some quite well. But the averages have done well too, and even after that early-August selloff, the S&P 500 was up nearly 15 percent for the year. The authors generally stick to "companies with long-term stability and track records in paying and raising dividends." They're pursuing reasonably priced growth companies that offer protection if the market declines. Sander and Bobo are also keen on companies that cater to millennials. This in effect means firms that are involved in the intricate story of online shopping. Amazon, FedEx, and UPS are the obvious names, but so are companies that specialize in packaging and tracking services (Zebra Technologies) and Sealed Air, which makes Bubble Wrap.

Bobo and Sander recommend that investors "stay active," which means that you have to "remain abreast of your investment and, like any business you own, keep an eye on its performance. Periodically review the investment and the stock. . . ." But that does not necessarily mean checking the price on a daily basis. Although they don't mention the publications specifically, I recommend reading Value Line and Morningstar reports on individual stocks you may own. And the public always needs to take care when a market rally persists longer than many would have predicted. Darrell L. Cronk, a senior analyst at the Wells Fargo Investment Institute, seemed cautious in a recent note to investors. He writes: "Current equity valuations are only slightly above historical levels, interest rates remain low, inflation has been contained, and currency volatility appears to be abating, allowing for second-half conditions to support markets. Challenges do lie ahead, however. Global trade is still contracting, the second-half calendar is full of possible geopolitical stumbling blocks, consumer spending has downshifted, and business capital spending remains below expectations."

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