

DSR PREMIUM NEWSLETTER

IN THIS ISSUE...

- A guide to selling your losers.
- Portfolio drawdowns and impacts.
- Why you have losers in your portfolio.
- What to do with them.
- How to sell... period.
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This is your site and your exclusive newsletter. Please, feel free to share any ideas, opinions, comments, or suggestions with us via email at dividendustries@gmail.com.

JUNE 28th, 2024

Dear DSR member,

It is with great pleasure that we present our weekly premium newsletter which is an important component of your subscription to [Dividend Stocks Rock](#).

You may benefit from viewing our video explaining the differences between the Buy List, our ratings, and our portfolio models. You can retrieve this information in the [Videos section](#) of the website.

Referral

Feel free to share our ideas with your friends or associates who may benefit from this information. We would personally consider any referrals you make on our behalf to be the ultimate compliment for our efforts.



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SELL EVERYTHING – A GUIDE TO SELLING YOUR LOSERS

“The desire to perform all the time is usually a barrier to performing over time.”

~ Robert Olstein

Every single stock I have purchased for my accounts have been set for a great future, or so I thought each time I added another company to my portfolio!

The problems come when after a few months the stock has underperformed. A couple of quarters later, I may now show a double-digit loss on my investment. The following year, I may still be sitting on this pile of “dead money”.

How did this happen?

What should I do now?

These are the two questions I’ll attempt to answer in this newsletter.

But first, I want to discuss the impact of portfolio drawdowns for retirees. The sequence of investment returns in the first few years of retirement has a tremendous impact on the rest of your retirement story. If you retired in early 2022, you certainly felt the heat during your first year of retirement.

PORTFOLIO DRAWDOWNS AND THEIR IMPACT UPON RETIREMENT

First, let’s define what a portfolio drawdown means:

A drawdown is a peak-to-trough decline during a specific period for an investment, trading account, or fund. A drawdown is usually quoted as the percentage between the peak and the subsequent trough. If a trading account has \$10,000 in it, and the funds drop to \$9,000 before moving back above \$10,000, then the trading account witnessed a 10% drawdown.

- [Investopedia](#)

The timing of your retirement within the market cycle could dictate how many trips you can afford per year or how many times you can afford to change the car you are driving. I found this interesting [article from Qtrade](#) where they describe three distinct scenarios.

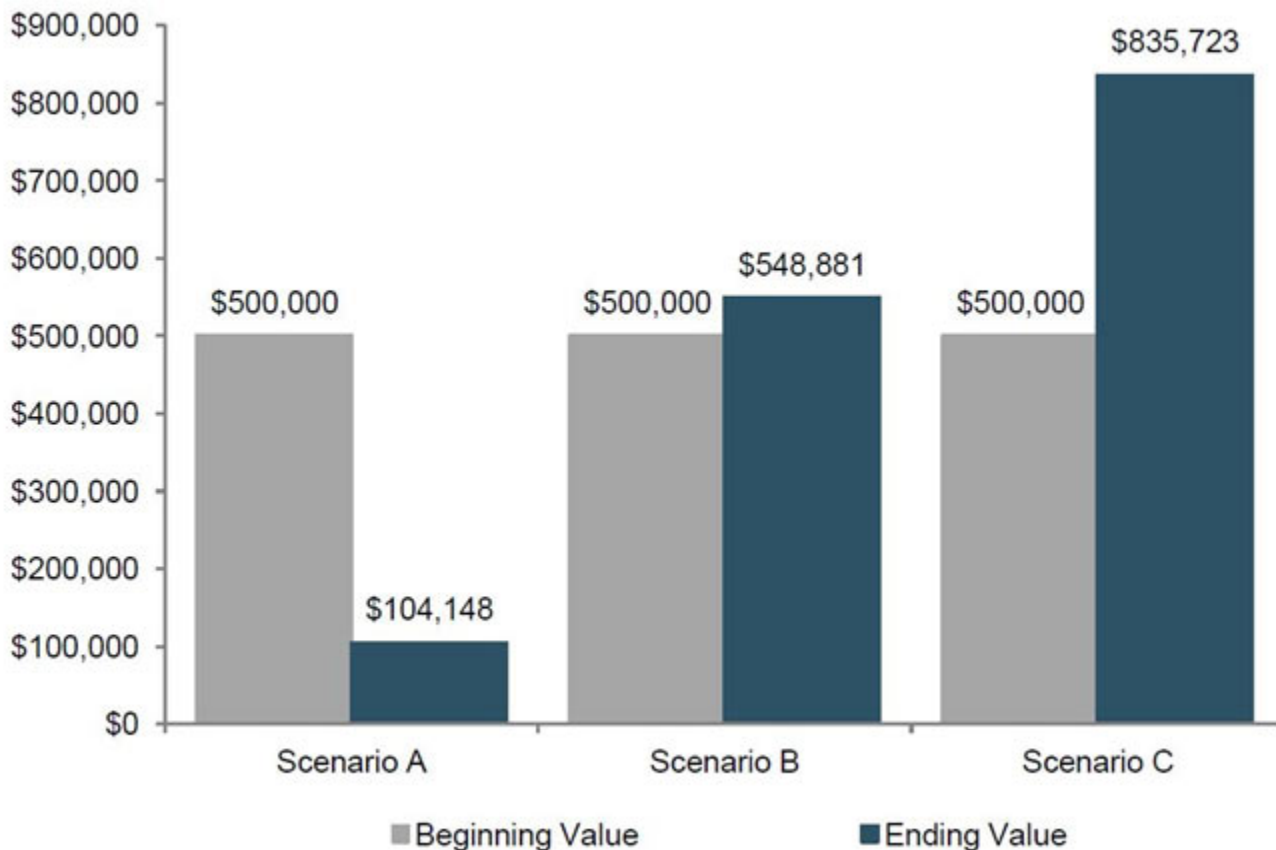
You will see how three retirement portfolios showing the same rate of returns for 30 years end up in completely different worlds depending on their first-year returns.



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	Scenario A	Scenario B	Scenario C
Starting balance	\$500,000	\$500,000	\$500,000
Annual withdrawal amount (indexed at 2%)	\$21,000	\$21,000	\$21,000
Return year 1	-15.00 %	5.40 %	27.00 %
Return year 2 to 29	5.40 %	5.40 %	5.40 %
Return year 30	27.00 %	5.40 %	-15.00 %
Value at year 30	\$104,148	\$548,881	\$835,723
Average return for 30 years	5.40 %	5.40 %	5.40 %



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What's fascinating from this example is how a single year of returns transforms your entire retirement plan. In an ideal world, we would all retire at the beginning of a bull market. The problem is that nobody knows when the bull stops, and the bear starts. With a withdrawal rate of 4.2%, you can see that regardless of what your first year looks like, you will be able to follow your plan. However, nobody wants to be in scenario A.

Can you prevent portfolio drawdowns from determining the rest of your life?

It seems quite unfair to allow one year with Mr. Market to dictate the rest of your retirement. Fortunately, there are strategies you can use to protect your portfolio against such fluctuations.

A) Build a ~4% dividend yield portfolio.

If you can live on 4% per year of your investment's portfolio value at retirement, you could build a relatively safe dividend portfolio generating a 4% yield with a dividend growth rate sufficient to cover inflation.

Our DSR Canadian Retirement and U.S. Retirement portfolio would allow you to retire on the dividend payment only. This is a great way to smooth your withdrawals and you are not forced to sell shares at a market low point. **The downside of this strategy is that you must have saved a lot of money.** If you need your portfolio to generate a 7% yield, then your retirement plan is not that rock solid.

B) Keep a cash reserve.

We have discussed this strategy in our [Retirement Portfolio & Withdrawal Mechanics](#) DSR fundamental newsletter and again in the [Low-Yield, High-Growth Stocks at Retirement](#). Going for companies with stronger dividend triangles will improve your return expectations, but will also generate a lower dividend yield.

Therefore, you must use the cash reserve to protect the sequence of withdrawal from a bear market. You can build a cash wedge in three easy steps:

1. Calculate how much your portfolio generates in income per year (ex. \$30K in dividend)
2. Calculate the gap between what you need to withdraw and the dividend
 - a. (ex: if you need \$50K per year, the gap is \$50K - \$30K in dividend = \$20K gap).
3. Build your cash reserve for 3 times this amount (ex: $3 * \$20K = \$60K$ cash reserve).

The three-year cash reserve is enough to cover most bear markets. During a good year, you still sell shares to keep the cash reserve healthy. During bearish years, you dip in the cash reserve and avoid selling shares at a bad time.

The downside of this strategy is that you keep a significant amount of money on the sideline that won't generate much in the way of dividends and/or interest earnings.



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C) Reduce potential drawdowns.

Keeping a part of your portfolio invested in bonds or preferred shares will reduce the volatility of your portfolio. Therefore, you will not likely suffer from a double-digit value drop depending on the portion of your money invested in those “safer” investment vehicles. We provide an example with our 500K portfolios including a portion invested in bond ETFs. **The downside of this strategy is that while you reduce the volatility, you also reduce your potential upside.**

As you can see, there are no perfect solutions, but one can find the one that suits him or her best. Personally, I would likely take option B as I believe low-yield, high-growth stocks are safer investments. However, I think many investors would be happy with a portfolio offering a 4-5% yield. To reach that goal, one must make sure to not keep his or her losers for too long. Let’s see when it’s time to let those losers go.



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WHY YOU HAVE LOSERS – HOW DID THIS HAPPEN?

Knowing why you lost money will tell you much about what your next move should be. For this newsletter, we will look at what happened between the peak of the market from January 1st, 2022, to December 31st, 2022. We will try to understand what really happened during that year to explain the market drop.

Writing down a clear and plausible explanation of why a stock is down will help you assess the company's chances of reversing its situation. After all, the stock market is filled with stories that ended like BlackBerry or General Electric.

The first pitfall we must avoid is being too general.

"Ah... it's just the market, it's a bad year". Such an explanation will not bring you much information. By blaming a specific event that crushed the market (using war, inflation, or interest rates) you are simply hiding behind the first reason you found. This is a mechanism of protection. After all, if it's a bad year, what can you do? Nothing, you must wait. Waiting for better days isn't often a successful strategy.

The second pitfall is to deny the situation.

"The market just doesn't get it; the stock is greatly undervalued" or "This company has been around for so long; it will come back". This sounds more like denial than describing how a company is falling short. Sometimes, you will be right, and the market clearly didn't get it. But in most cases, you are better off looking at what the market "gets" that you don't!

Where is the source of the problem?

The first question you must clearly answer is what was the source of this debacle? First, save yourself some time and check if it was:

- #1 The market
- #2 The sector
- #3 The company

If the entire market is down as it was during the second half of 2018 or in March of 2020, then look at how much your stocks are down. Everything that moves in a similar way to the market in total doesn't deserve your immediate attention. It's only normal.

Then, you can identify if it's because a sector has been hit by a specific event. In March of 2020, the oil & gas industry had been hit by two events in the same month (this is what we call a perfect storm!). First, the pandemic pushed the entire market down. Then, OPEC decided to flood the market with cheap oil. You may remember this graph from [Portfolio Management vs. Stock Picking newsletter](#) from September 2020.

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- Energy Select Sector SPDR® ETF Total Return Price % Change
- Consumer Discret Sel Sect SPDR® ETF Total Return Price % Change
- Consumer Staples Select Sector SPDR® ETF Total Return Price % Change
- Industrial Select Sector SPDR® ETF Total Return Price % Change
- Financial Select Sector SPDR® ETF Total Return Price % Change
- Health Care Select Sector SPDR® ETF Total Return Price % Change
- Real Estate Select Sector SPDR® Total Return Price % Change
- Technology Select Sector SPDR® ETF Total Return Price % Change
- Utilities Select Sector SPDR® ETF Total Return Price % Change
- Materials Select Sector SPDR® ETF Total Return Price % Change
- Communication Services Sel Sect SPDR®ETF Total Return Price % Change



Sep 21 2020, 2:12PM EDT. Powered by YCHARTS

In this chart, we clearly see the energy sector getting hammered a lot harder than any other sector. Whenever an entire sector crumbles, you must assess the situation. What is going on and why? In this case, we saw demand for oil declining drastically due to the lockdown combined with an increase in offerings from OPEC. If you go back a few years in history to add some perspective, you will notice a similar offer/demand crisis happened back in 2014-2016. The energy industry has gone through three crises in eleven years. Do you think these companies are strong enough to thrive going forward? The answer to this question will help you determine what the possible outcomes are for the coming years in this sector.

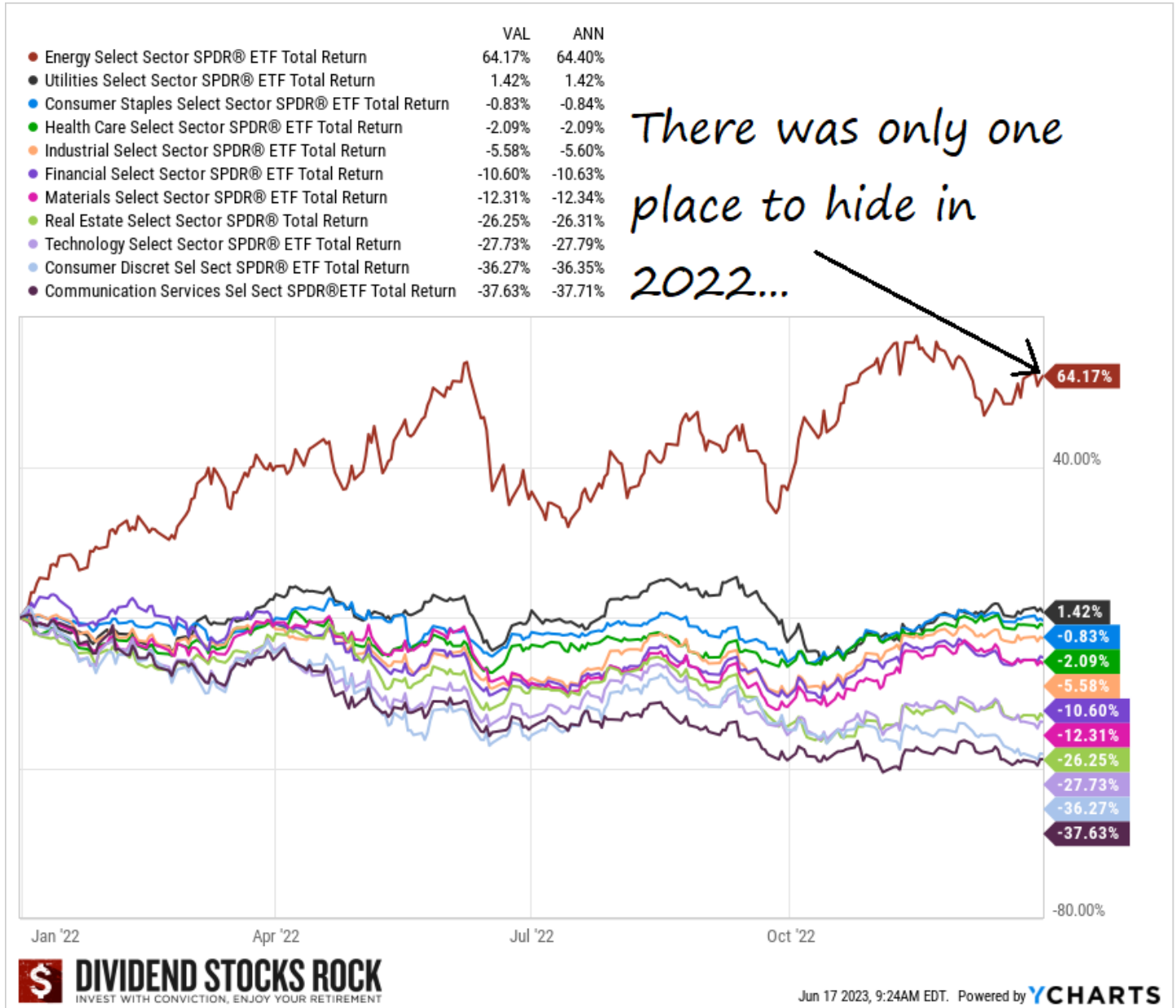
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Now back to 2022, here's how this graph looks:



Strangely enough, the energy sector (which I have disliked and bashed for so many years) was the only safe haven that year. Looking at the overall market during this period will tell you that it would have been normal for your portfolio to show some red unless you are an energy sector enthusiast.

The second step of analysis here is to determine why REITs, Technology, Communication Services and Consumer Discretionary have been so bad. We don't know for sure, but here are some valid hypotheses:

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REITs: Higher interest rates affect REITs debt structure. We often forget about this part, but the REIT business model is all about leverage. If their debt costs increase, it will hurt FFO and their ability to raise distributions. On the other hand, it seems like the market often forgets that REITs can increase their rents and pass on a part of inflation and interest rate increases to their tenants. The key here is to look at your REITs' balance sheet, debt structure (maturities), tenant quality and diversification, and credit ratings. Some industries will be affected more than others. Fast forward to 2024, we now know that office REITs continue to struggle as employees aren't coming back to their cubicles.

Technology: This has been explained a few times via this newsletter and our DSR webinars: the drop in the tech sector is directly linked to the rise of interest rates. The market was willing to pay high P/E ratios if interest rates were low. Now that the game is changing, investors require a higher rate of return on their investments. Since many tech stocks were trading at a P/E ratio above 25 and they suffered from the chip supply disruption, we have a perfect storm to crush their valuation. We now know it has not taken long for the tech sector to come up with a new narrative (the rise of A.I.). This explains the bounce back in 2023 and its continuation into 2024.

Communication Services: If you want to understand why this sector fell over the past few months, a good solution is to look at an ETF tracking that sector. You can then look at the top 10 holdings of this ETF and see which big guys had an influence. If you look at Communication Services Select Sector SPDR ETF (XLC), you will see that Meta Platforms (formerly known as Facebook) account for 20% and Alphabet (Google) for 21% of the ETF's value. There was a lot of bad press around FB in 2022 and the changes in the privacy rules applied by big smartphone players such as Apple directly affect advertising revenues for both FB and Google. In this sector, you will also count most of the streamers (notably Netflix which lost 70% in 5 months that year!). The hype around streaming services quickly faded as the market was concerned about heavy competition and the rising costs of content creation. Fast forward to today and we find both Meta and Google are back to full strength while classic capital-intensive telcos continue to suffer.

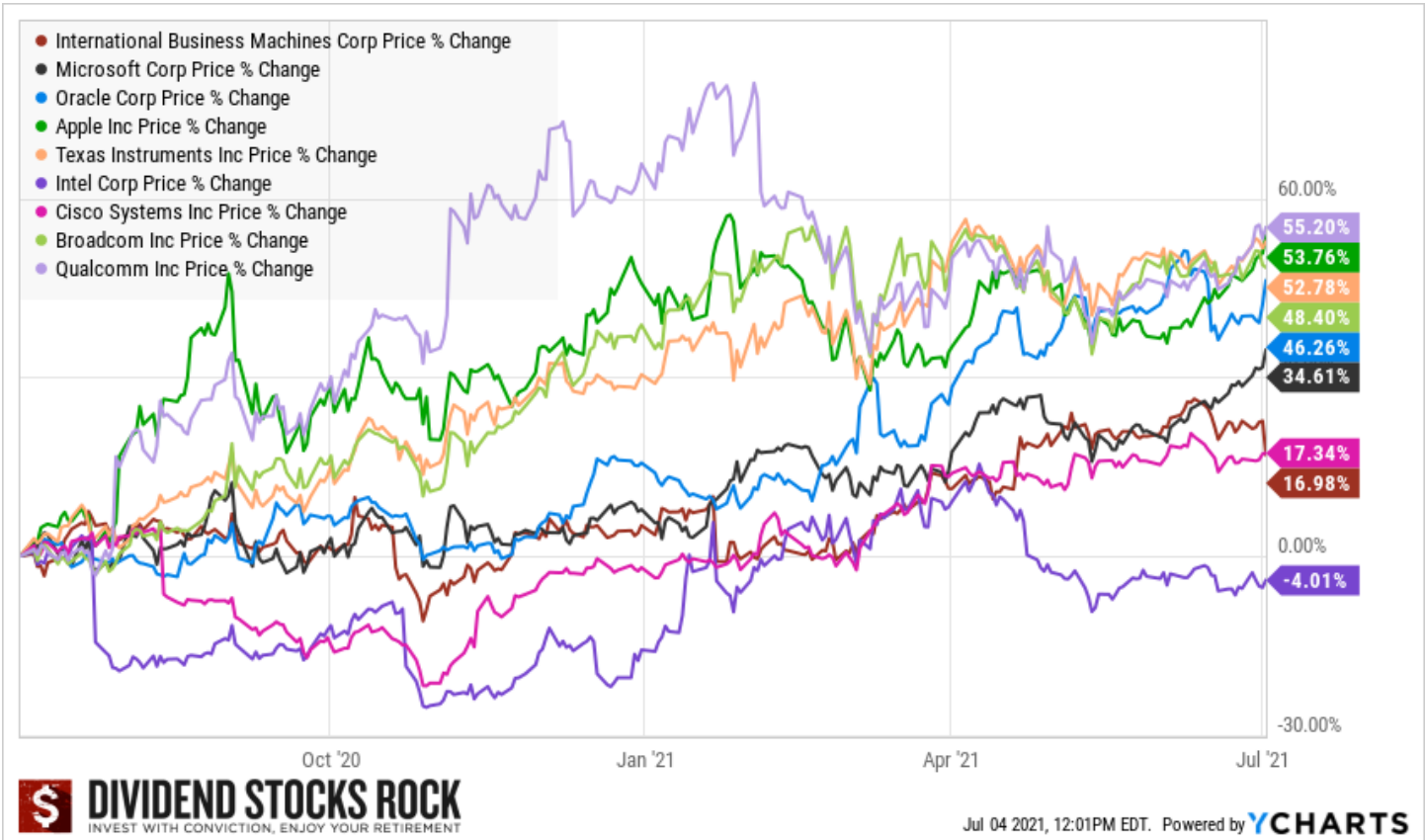
Consumer Discretionary: When the economy booms and consumers are willing to spend freely, consumer discretionary companies are at their best. With rising inflation, higher interest rates and the whisper of a recession coming, we are at the opposite end of that spectrum. If we forecast a gloomy economic future, this sector will drag. However, this could be a great time to add some stocks with solid brand names and diversified business activities.

Finally, it is possible that you are holding the underperformer of a sector, and this company has its fair share of troubles. A good example would be IBM in the tech industry between 2017 and 2021 (before they spun-off Kyndryl). While most tech stocks thrived during that period, IBM struggled consistently to post growth. IBM reported 22 or 23 consecutive quarters with revenue declines. That was quite an achievement in the wrong direction! IBM is one of the very few large tech stocks showing a negative return on their stock price over the past 5 years.



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To fully explain what happened with IBM during that period, one must investigate its quarterly earnings and look at its financial metrics. When you look at IBM's dividend triangle, for example, their revenue, EPS, and dividend growth, you will note that both revenue and earnings have been declining. You should not be surprised then to see the dividend growth slowing down over the past 5 years.

It seems clear that the company is struggling to find growth vectors. The market saw it and investors started selling shares. Taking a closer look into the company's quarterly earnings will show you that its cloud business is growing, but not fast enough to compensate for its declining core business. Therefore, IBM is trying to shift its business model while other companies in the same sector have successfully accomplished that shift years ago. Unless the company pivots dramatically soon, it will stay tagged with the "dividend trap" moniker.

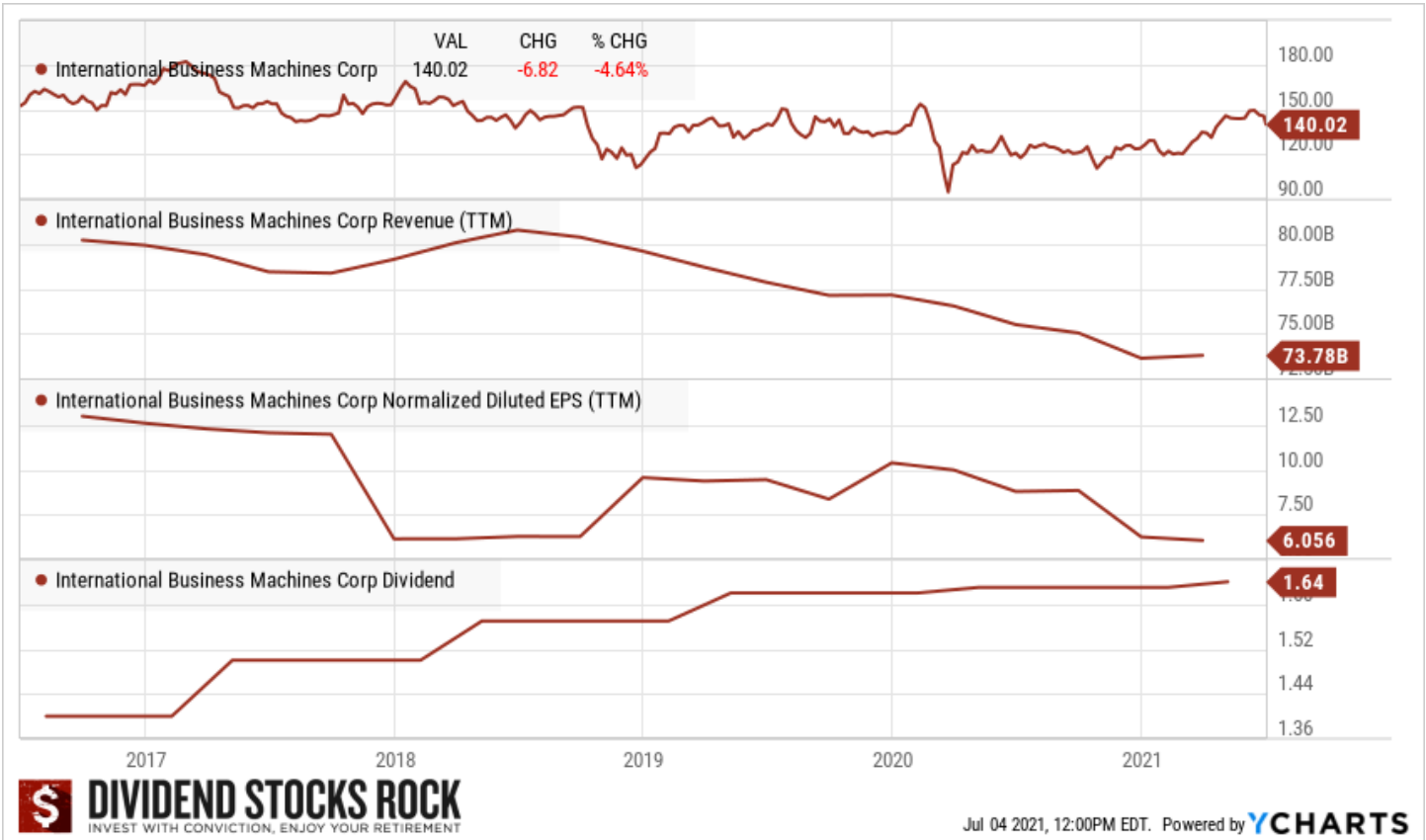
The dividend triangle clearly shows decreasing revenue and EPS over a long period of time. When you see both metrics going down and the dividend growth having slowed down, you know the stock can't generate sufficient returns to attract investor interest. It's a sign there is something broken in IBM's business model.

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Don't be trigger-happy as patience is a skill you must acquire

"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong." — George Soros

Before we move into the “what should I do section”, I’d like to put some emphasis on patience. I know, this seems counter-intuitive in a newsletter entitled “sell everything”. My point here is to make sure you don’t sell when a stock is down 10-20% before truly assessing what is happening with the company.

A 10-20% drop could possibly mean that you were unlucky and bought at the wrong time. Those who invested new money at the beginning of 2018 had to endure a 20% value drop (from July 2018 to December 2018) before smiling again in 2019, 2020 and 2021. Was 2018 a good year to invest? Today it’s easy to answer that question.

Let’s look at Microsoft which generated a total return of -28% in 2022. But if you held onto your investment, MSFT is now back in positive territory (total return of 35.45% between January 1st, 2022, and June 21st, 2024! However, this doesn’t mean you should keep all your losers, all the time. Sometimes, we make mistakes, we write the wrong investment thesis, and we must be humble enough to take our losses and move on.

Speaking of which, when is the right time to sell?

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WHAT SHOULD I DO NOW? SELL OR WAIT?

First rule: never sell your losers because you lose money.

Second rule: never keep your losers because you lose money.

Selling a loser is first and foremost an acknowledgement that you were wrong in your original assessment of the stock. Nobody likes being wrong, especially when it means losing money. Denying the problem and keeping your losers forever is a self-destructive way to avoid that cold hard truth.

When we get hit with a 40%+ loss in our portfolio, many of us may be tempted to keep the stock for a while. *I'll keep my shares until I recover a good part of my losses.* **Bad decision.** Let's dig into this fairy tale.

The breakeven fairy tale

Let's take a moment to look at what happens when you lose money on an investment. This table will show you how much return you must generate from an investment that suffered a great loss.

Original Value	% Loss	\$ Loss	Present Value	% To Break Even
\$10,000	10%	\$1,000	\$9,000	11%
\$10,000	20%	\$2,000	\$8,000	25%
\$10,000	35%	\$3,500	\$6,500	54%
\$10,000	50%	\$5,000	\$5,000	100%

Please note that the more you lose in %, the required rate of return to break even is increasing exponentially. This is why your energy stocks will require you to generate a stock return of roughly 100% for each of them that dropped by 50% only to recover back to your initial investment.

Now, what are the odds you will see your investment bouncing back that strongly in the next 5 years?

That's correct; it depends on the investment and the situation. But overall, chances aren't that strong. In many cases, you will hold onto your big losers for several years until you finally throw in the towel and move on.

If you refuse to sell for too long, you may suffer even more. **First**, you lost your money on a bad investment. **Second**, you take the risk of losing even more. Tell that to those who kept their shares of Vermilion Energy (VET) after the first drop of 2016. Believe it or not, VET shows a negative total return of -47.50% (dividends included when they were paid) between June of 2013 and June 2023. **Third**, you keep losing money by keeping your dead weight instead of investing your monies in a more profitable stock.

The costs of waiting are insidious. They hurt your portfolio like an infected wound. You must act.

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I will discuss the “Algonquin disaster” later in this newsletter. I wanted to highlight what happened to the stock since management announced the dividend cut on January 12th 2023. The stock has a short run until May 2023 and then, it went back down again.

Fast forward to June 2024, the Canadian market is up 11%, the US market is up 40% and you are down 11% if you kept AQN. Even worse, the last time you “were right to keep it” was in September of 2023.

Again, the cost of opportunity is real.

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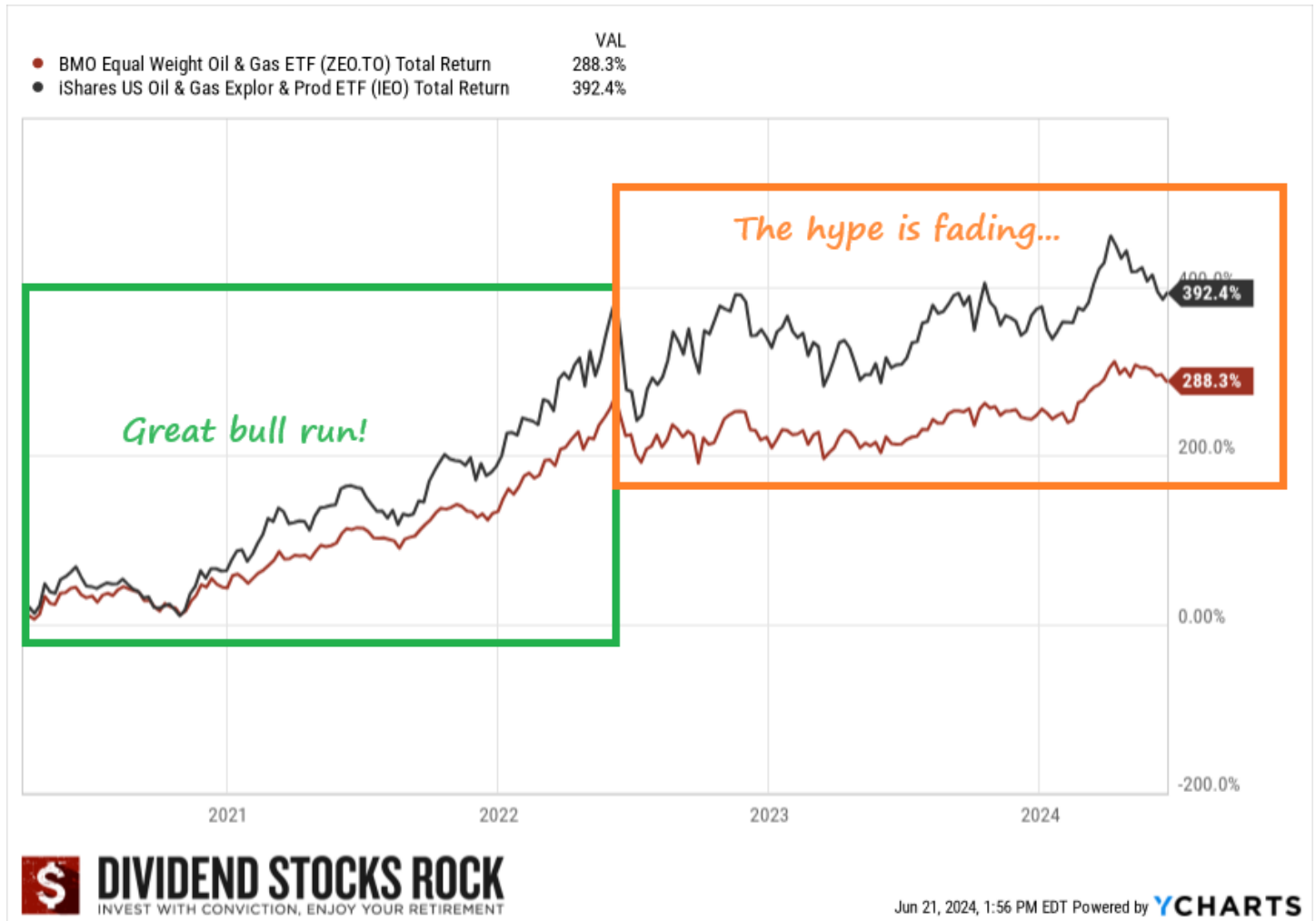


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The Oil & Gas fairy tale

Two years after seeing the oil price go negative (that's right, in 2020, you had the opportunity to **get paid to buy oil!**), this sector thrived in 2022.



But looking at how strong both oil & gas ETFs have surged since the summer of 2020 may be giving you false hope. Hence, the breakeven fairy tale. One would believe that with the industry getting close to a triple-digit return in 12 months (and many energy stocks doubled in price during that period), we would end-up making lots of money over the long haul. Think again, the breakeven fairy tale is “true”.

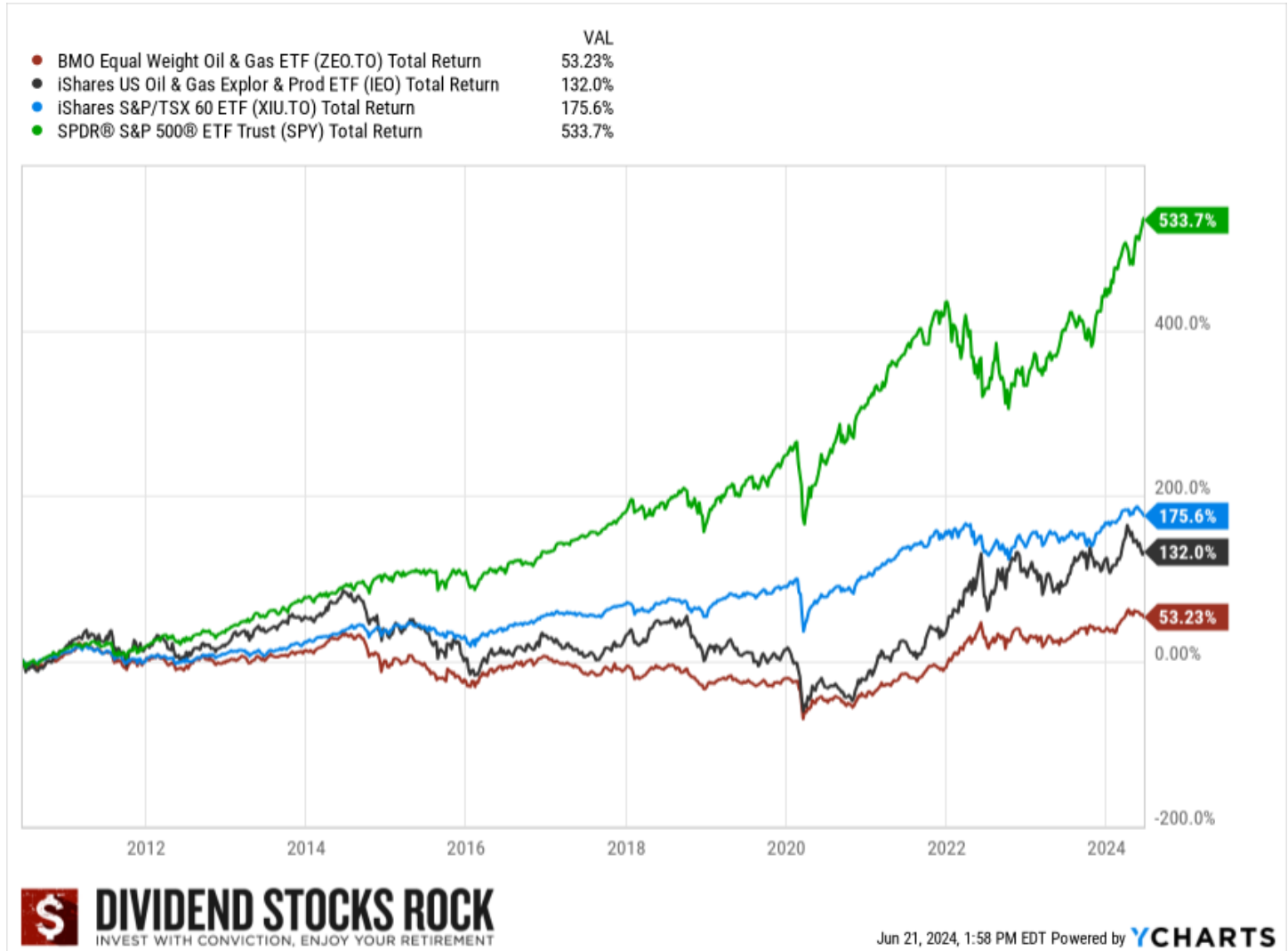
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Here's what happens when you extend the same graph to include over 14 years of history:



This graph includes three oil runs of 2012 to 2014, 2017 to 2018 and mid 2020 to 2022. The problem isn't the bull runs, as we had many. The problem is the bear runs that were brutal. Remember that whenever the price of something drops by 35%, it requires a rebound of 54% to breakeven. In the oil & gas industry, we even had 50% drops a few times. This means that each bull run must offer at least a return of 100% to simply recover your investment. Therefore, after 3 massive bull runs, the oil & gas sector is doing okay, but you are not even close to the returns on the S&P 500 or the TSX.

Then again, if you were able to catch the 2020 bottom when you invested in this sector, you no doubt did great. In fact, it's probably one of the strongest returns on investment you'll ever show. However, if you invested 10 years ago, as oil prices were going down in 2014, your oil & gas holdings' returns are not even matching inflation.

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HOW TO SELL... PERIOD

"Know what you own and know why you own it." — Peter Lynch

We all hate losing money on a bad investment, and I know exactly how you feel. Before the March 2020 market crash, I decided to let go of my shares of Lassonde Industries and I realized a 40% loss on this trade.

I wish I had a magic trick for this dilemma. I would love to give you a way to determine for sure which losers to sell and when to make the trades.

However, I don't.

Yet, I do have something else that helps a lot. I have relied on this many times in the past and overall, it works very well!

I have confidence.

Investing with conviction means that you invest according to your plan no matter what. You disregard the noise, and you keep moving forward. You know you will face many storms, but in the end, you will reach your retirement goals.

When I wrote my investment process down, I included a part on selling. I've highlighted three simple rules for knowing when to sell:

#1 My investment thesis isn't backed by financial metrics (Andrew Peller's case).

#2 A dividend cut (exceptions have been made during COVID-19).

#3 Trimming overweight positions to manage exposure risk (ex: Apple, Couche-Tard, Microsoft).

When I reviewed my investment thesis about Andrew Peller early in 2022, I realized I was wrong about the company's strategy to grow by acquisitions. I bought ADW in 2017 when the company used its dominant position to acquire smaller players. This was a smart strategy as ADW could leverage its distribution network to sell more wine from the vineyards it purchased. The stock quickly rose in 2018 and it felt good to own this Canadian dividend aristocrat.

Unfortunately, the company stopped its growth by acquisition strategy in 2019. It concentrated its budget towards marketing and the creation of new projects. This wasn't a bad idea, but the company failed to post continuous growth. What made me keep ADW for a while was the steady dividend increases (37% in 5 years) and its protection during covid (sales increased in 2020). Back in 2022 when I sold my shares, Andrew Peller hadn't made a major acquisition in a while and showed a slowdown in both revenue and earnings. The growth investment thesis was not valid anymore and I decided to take my losses and move on.

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What about uncertainties?

There will be a time when a stock doesn't perform, and you wonder if you should keep it or not. The loss isn't big enough to keep you awake at night, but you know you have a dog in your portfolio.

Throughout your analysis, you realize there are uncertainties around a specific topic. The market hates the unknown and will punish any company showing uncertainties. Those unanswered questions could look like this:

"When will Allied Properties stabilize its occupancy rate?"

"Should I keep my TD shares or sell it before the end of the anti-money laundering investigation?"

"Will Pfizer develop new drugs and get back on growth mode to get some love from the market?"

Those questions are impossible to answer when they are asked. Those are uncertainties. They will grow as a burden each company must carry. It will weigh on their stock performance until the unknown is known.

So... should you wait until the end of the movie?

That doesn't mean you should keep your shares (or run to sell them). Here's my trick to determine if I want to keep a laggard in my portfolio until the story unfolds:

I always make sure I'm comfortable with this type of risk. If I'm not, then I sell.

Here are a few examples:

If you look at my portfolio, you'll notice I don't have any big pharma. That's because I don't like their business model as they depend on the next blockbuster. It doesn't mean it's a bad business model (some will argue back that patents will protect those blockbusters for decades, generating lots of revenue). I'm just saying that I, as an investor, don't like this type of risk.

I'm good with the risk of buying shares of a stock at an all-time high price. I did that many times in the past (Costco, Microsoft, Visa just to name a few). I'm well aware that pulling the trigger on a stock priced at a peak value could result in a quick drop. But I prefer to be fully confident in a company's business model and its ability to grow in the next decade than caring about what happens with the stock price 2 months from now.

Again, that's a personal choice. There is no right or wrong answer and you should not follow my disinterest in pharmaceuticals or jump on every highly-priced stock with a strong dividend triangle. Those are just examples of my perception.

What really matters is your level of confidence in each holding. If you feel uncertain with an investment, it's usually a strong signal to sell and move on.



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THE ALGONQUIN DISASTER

First, know that **we all will make occasional mistakes as investors**. If you can't support the thought of losing 30%, 40%, 50%, you should probably not invest in equities. We went through this together in 2018, in 2020 and again in 2022. I repeated the same thing each time the market went sideways:

You must be ready to see your portfolio decrease in value from time to time.

However, it doesn't mean you can't do anything to minimize those mistakes. In fact, you can reduce the number of times it happens, and you can also reduce the impact of those rotten apples in your portfolio. And this starts by acknowledging our mistakes.

Major mistakes

Here's a list of mistakes that one could have made when investing in AQN. I've added a star beside those I made with my portfolio.

1. *Investing massively in a single stock (significant weight in your portfolio).*
2. *Not considering the impact of a major drop of this holding in your portfolio.*
3. *Identifying the dividend yield (before the cut) as a key factor in your decision.*
4. *Letting the narrative take too much importance in your analysis. **
5. *Hoping for the best and minimizing the impact of the worst. **
6. *Underestimating the potential downsides / risks (that's the most important section of the stock card).*
7. *Thinking management will keep the dividend as a priority. **

While I made several investing mistakes, I could count on my portfolio management process to protect me from the biggest ones. I'm always very careful about the weight of each of my holdings and I often consider the impact of a major drop of any of my holdings. I sold shares of Apple, Alimentation Couche-Tard and Microsoft in the past to ensure that I don't suffer from those types of mistakes.

This is also how I had minimal exposure to two stocks that did incredibly badly in 2022: Algonquin and Sylogist. However, in both cases, I was guilty of the same investor mistake: I let the narrative take too much importance and ignored the financial numbers as I minimized the impact of the "worst-case scenario". Obviously, the dividend wasn't a priority for either of those management teams.

Lessons learned

With that in mind, I'll go through my portfolio and the DSR portfolios and review them with a more cautious eye. Even though my process makes sure that I don't suffer too much when I make investment mistakes, it doesn't mean I should pay less attention to weak results and blinding narratives. Management will normally put their interests first: the company's financial health (and their salaries) and then create wealth for shareholders. If this means cutting the dividend to follow the plan, they will not hesitate to amputate an arm to save the body.

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One reason why AQN dropped so rapidly in November of 2022 was the revised guidance. When management breaks the trust of the market by providing a negative review of their guidance, it creates a lot of uncertainties. Sometimes, it's only temporary and at other times, the uncertainties lead to more problems.

Since then, when I review each of my holdings, I make sure my investment thesis is backed by financial metrics. In other words, I make sure the story I tell myself about a company is confirmed by facts. This is how I ended-up selling my shares of Magna International in May of 2024. I still believe in my investment thesis, but the numbers aren't strong enough to validate it.

Therefore, it's a lot easier to follow simple investment rules than holding, waiting, and hoping forever.

By selling, you take away a lot of mental pressure from seeing a "bad investment" in your account.

How to avoid the next AQN

If you want to avoid the next Algonquin, Sylogist, Innovalis, H&R REIT, B&G Foods, Owens & Minor, Walgreen's, Compass Diversified Holdings, etc., there is a short list of things you can do:

1. Identify your core holdings, educated guesses, and falling knives.
2. Make sure your core holdings represent most of your portfolio.
3. See yield above 5% as a red flag and investigate further.
4. Strengthen (or restrain) your investment criterion (e.g., strong dividend triangle, low payout ratio, meeting guidance, etc.).
5. Do not hesitate to move now, even though it means it may hurt (e.g., selling a loser). It could hurt even more down the line if you keep rotten apples in your portfolio.
6. Go for boring, yet consistent and recession-resilient investment narratives rather than exciting, sexy, growth stories.

Offense is the best defense

As I previously mentioned, letting go of a loser is very hard emotionally. However, there is a trick to make the pain go away faster. This is called having a "replacement list". There is nothing better than getting excited by the potential growth of a new stock to allow your laggard to go out the door gracefully.

When I review my portfolio, I look at each of my positions and review my investment thesis. When I find a company that is not meeting my thesis anymore, I put it aside and start looking for a replacement. If my portfolio is well balanced across many sectors at that time, I will look at a better company in the same industry. This is where the DSR PRO replacement list comes in handy.



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Once I have found a decent replacement, I will look at both stock cards side by side. I'll review the "[How to Compare Stocks](#)" methodology found in one of our [DSR fundamental newsletters](#) and use the stock comparison tool if both companies are in the same sector. This will help me compare both stocks analyzing six factors:

1. The business models
2. The dividend triangle
3. Dividend safety & dividend growth
4. Growth vectors
5. Potential risks
6. Valuation

Results: I get quickly excited by the new company's growth potential and quickly forgot about the laggard!

Once I determined that my investment thesis did not match the company's reality anymore, my reflex is to turn to companies with several growth vectors. When my \$10,000 is now worth \$6,500, I don't think about the \$10K as my focus is now on how I can most efficiently invest what is left.

It doesn't mean that because Andrew Peller once traded at \$18 it will ever do so again. Did BlackBerry ever get back to \$120/share? Or did General Electric (\$55) or Vermilion (\$74) ever return to those previous highs?

When I look at my potential replacement lists with stocks showing ratings of 4's and 5's, I think my chances are a lot better with those picks than retaining my losers.

Focus on how much you could make rather than how much you have lost. If you do this, you will move forward faster and much more profitably than you might otherwise.

Now it's time to identify those losers and potentially get rid of them.



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FINAL THOUGHT

I report my pension plan account monthly to show 100% transparency. I share with you my successes and my failures. Over the past 7 years, I made several mistakes (Lassonde, Andrew Peller, VF Corporation, Sylogist, and Algonquin). If you focus only on those mistakes, you might conclude that I am a poor investor. No doubt, those were all huge failures.

Yet, after 7+ years, my portfolio has outperformed the market by a wide margin (13.52% annualized return vs 11.55% for a 50% Cdn – 50% US portfolio).

Here's my secret:

- #1 **Well-diversified** portfolio (never let a loser derail my portfolio)
- #2 Focus on a **strong dividend triangle** (most of my stocks show solid fundamentals)
- #3 **Never hesitate to sell my losers** if they don't meet my investment thesis or cut their dividends.
- #4 **Let my winners run as long as possible.**

By quickly moving on after selling my losers and keeping my winners a long as possible, it creates a confidence flywheel. I get rid of the bad stuff early so it doesn't poison my mind and let my emotions rise. I keep the good stuff reminding me that while I make mistakes, my strategy works most of the time. I would rather look at the forest and forget about the weeds.

Cheers,

Mike.