

When fear sets in, I consult the Three Wise Men

JOHN HEINZL

1037 Words

Wednesday, September 24, 2008

Page B16

jheinzl@globeandmail.com

All material copyright CTVglobemedia Publishing Inc. or its licensors. All rights reserved.

In turbulent times like these, it helps to have someone to lean on. Someone older, wiser and more experienced in investing matters. Someone like Lowell Miller, for example.

Lowell who?

Maybe you've never heard of him, but when the market is experiencing fits of panic, I've been known to pull out his book, *The Single Best Investment: Creating Wealth with Dividend Growth*.

It helps me stay focused on the long term, instead of getting freaked out by day-to-day market gyrations caused by hedge funds, short sellers and other deep-pocketed investors against whom I'm hopelessly mismatched.

Another person whose wisdom comes in handy at times like these is Tom Connolly, who writes the *Connolly Report* newsletter from Kingston, Ont. Like Mr. Miller, Mr. Connolly has a long-term horizon and is a big fan of dividend growth.

If you aren't familiar with the previous two investors, I know you'll recognize the next name on my list: Warren Buffett. The Oracle of Omaha's annual letters to Berkshire Hathaway Inc. shareholders are chock full of excellent advice, and they're a great source of stock ideas, too.

Let's take a closer look at each of these investors. If they can help me cope with upheaval in the markets, chances are they can help you, too.

Lowell Miller Considering this is the worst financial crisis since the Great Depression, Lowell Miller sounds remarkably calm on the phone from Woodstock, N.Y., where he is president of Miller/Howard Investments. Maybe that's because his investing philosophy is all about ignoring short-term market swings and building wealth long term.

"The mistake that people make in investing is looking at stocks the way they might look at baseball teams or horses and not looking at them as investments," he says. "Everybody is constantly looking at their account value to see if they're winning the race or not."

A better approach, he says, is to think of your portfolio as an apartment building full of units (stocks) that pay you rent (dividends). If you buy stocks that increase their dividends every year, your stream of rental income will grow. And if you reinvest your dividends in more shares, you'll have more apartment units paying you more rent, which in turn will buy more units, and so on.

The great thing about dividends is that they're a lot less volatile than stock prices. While it's true that some U.S. financial institutions have reduced or eliminated their dividends because of the credit crisis, such cuts are still rare.

So if you want to free yourself from market tyranny, turn off the ticker and focus on how much cash your portfolio is throwing off every quarter.

"It's hard. You have to take a deep breath. You have to focus on the fact that it's a compounding process and you're in it for the income, and as the income grows, the value of your asset grows," he says.

Tom Connolly

I remember the first time I stumbled upon Mr. Connolly's website, dividendgrowth.ca. Four sentences, in particular, resonated: "You can invest yourself. In fact, you must learn to invest yourself. ... It's your money. You alone are motivated to manage it best."

The problem with mutual funds and advisers is that both charge fees that erode returns. That's why Mr. Connolly urges investors to invest in stocks directly, focusing on conservative, blue-chip companies that raise their dividends regularly (sound familiar?).

He's not accepting new subscribers to his newsletter, but there's a wealth of free information on the website. Newbies will find the "just starting" section useful. It has tips for choosing stocks, buying them at value prices and controlling your emotions when the market is going bonkers.

As a student of investing, Mr. Connolly draws inspiration from some of the world's greatest money managers, and sprinkles his website and newsletter with quotations from the likes of Stephen Jarislowsky (whose book, *The Investment Zoo*, he calls a "must read") and Warren Buffet.

One of the skills Mr. Connolly preaches is patience. It takes years for dividend growth and compounding to work their magic, but over time, these stocks deliver superior returns. That knowledge will help you ride out turmoil like we're experiencing now.

"Have faith and believe and don't waver. That's the key to the whole thing," he says.

Warren BuffettI keep a quote from Warren Buffett tacked to my bulletin board at work: "If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."

In other words, you should only invest in companies whose earnings are virtually guaranteed to rise steadily over time. The corollary is that, if the share price of your company is getting yanked around by market forces beyond your control, you needn't panic because, if earnings keep rising, 10 or 20 years from now, your stock should be worth more than it is today.

Which stocks make the cut? If you download Mr. Buffett's most recent shareholder letter (www.berkshirehathaway.com/letters/letters.html) and go to page 15, you'll see a list of stocks he owns.

At the risk of sounding like a broken record, many of Mr. Buffett's companies sport long histories of dividend growth - Johnson & Johnson, Coca-Cola Co., Procter & Gamble Co. and Wal-Mart Stores Inc. among them. So even if the share price falls or is stuck in neutral for a few years, the dividend income should keep rising.

Late yesterday, Mr. Buffett added a \$5-billion (U.S.) investment in Goldman Sachs Group Inc. to his holdings.

Watching the stock market do the bungee jump isn't pleasant. But Mr. Buffett probably isn't losing any sleep, and you don't have to, either, if you take a few lessons from the pros.

Three of Buffett's favourites

JOHNSON & JOHNSON

Yesterday's close: \$68.15 U.S., down 26¢

PROCTER & GAMBLE

Yesterday's close: \$67.28 U.S., down 76¢

WAL-MART

Yesterday's close: \$58.40 U.S., down 49¢

SOURCE: THOMSON DATASTREAM

CTVglobemedia

© Copyright 2008 CTVglobemedia Publishing Inc. All Rights Reserved.

globeandmail.com and The Globe and Mail are division of CTVglobemedia Publishing Inc., 444 Front St. W., Toronto,

Canada M5V 2S9
Philip Crawley, Publisher