

Stable stocks outperform

The stocks that have shown the least amount of volatility have gained the most over the past decade

BY CARLYLE DUNBAR

HIGH-QUALITY STOCKS PERFORM better in the long run. But what exactly is a high-quality stock? One answer: a stock with price stability.

The proof comes from *Investment Executive's* latest study of price stability. It covers 166 stocks with 11-year price histories, most of them are dividend-payers, including most large-cap stocks in the Canadian stock market.

The study covers market performance to Dec. 31, 2010. In brief, this is what it reveals:

- The 10 stocks with the best price stability — the least volatility over 11 years — gained by an average of 188% in the past 10 calendar years. The 10 stocks with the least stability (greatest volatility) dropped by an average of 29%.

- The 50 stocks with the best price stability gained by an average of 147% over 10 years. The

bottom 50: a gain of 59%.

The pattern is similar for price performance over the five-year period ended Dec. 31, 2010:

- The top 10 stable stocks gained by an average of 33%; the bottom 10 gained by an average of 3%.

- The top 50 stocks in price stability gained by an average of 17%, vs an average loss of 2% for the bottom 50 stocks.

These results come from *IE's* occasional study of price stability; the previous study appeared in the Mid-November 2009 issue.

The study uses one of the earliest efforts to determine what identifies investment quality, developed by Arnold Bernhard, founder of *Value Line Investment Survey* in New York. Back in the 1940s, he found, to his surprise, that price stability was better at identifying long-term success in the market than earnings growth.

Bernhard's analysis is simple. It requires no more than 11 years of annual high and low stock prices for data and simple arithmetic for the seven-step calculation.

Many researchers, including those with *Value Line*, have since developed complex methods of measuring investment quality. It is doubtful these measurements perform any better in identifying investment quality than Bernhard's price stability ratio. Like so many

pioneers of investment analysis, he had uncovered a simple truth.

The accompanying table lists the 40 stocks with the best price stability ratios in *IE's* survey. Once again, pipeline operators Enbridge Inc. and TransCanada Corp. are high in the scoring.

Although Enbridge and TransCanada have market capitalizations of \$23 billion and \$29 billion, respectively, not all companies in the top 40 are large-caps. Emera Inc., the Nova Scotia power utility, ranks third in the list with a market cap of \$3.3 billion.

But the market says the next two stocks in the list are really small-cap issues: Clairvest Group Inc. (\$223 million) and High Liner Foods Inc. (\$199 million).

The least stable companies on the list of 166 stocks are not total losers, but they sure are volatile. Descartes Systems Group Inc., for example, has gained by 92% in the past five years; however, over 10 years, it has lost 80% of its value. Theratechnologies Inc. has dropped by 55% in 10 years but has gained by 411% in the past five years.

Bernhard's price stability calculation requires 11 years of price history. It includes an adjustment for an extended price trend to prevent that trend from influencing the stability calculation. **IE**

Canada's 40 most stable stocks

	Price stability ratio	10-year price gain (%)	Total return price gain (%)
Enbridge Inc.	0.199	158	55
TransCanada Corp.	0.205	121	4
Emera Inc.	0.208	77	49
Clairvest Group Inc.	0.215	267	42
High Liner Foods Inc.	0.229	259	68
McGraw-Hill Ryerson	0.229	200	22
Lassonde Industries Cl. A	0.232	332	48
Fortis Inc.	0.234	278	40
Empire Co.	0.242	237	53
Buhler Industries	0.245	73	-20
Canadian Utilities Ltd. Cl. A	0.254	114	24
Metro Inc. Cl. A	0.256	343	48
Central Fund of Canada	0.258	335	162
Uni-Select	0.264	187	-10
Canadian REIT	0.266	171	38
Royal Bank of Canada	0.271	106	15
Bank of Nova Scotia	0.275	164	24
Corby Distilleries Cl. A	0.275	45	-13
Leon's Furniture	0.276	197	64
RioCan REIT	0.280	134	-4
Richelieu Hardware	0.283	308	29
Caribbean Utilities Cl. A	0.284	-26	-25
Toromont Industries	0.284	252	21
Sportscene Group Cl. A	0.286	538	21
BMTC Group Inc.	0.290	769	156
National Bank of Canada	0.297	158	14
Saputo Inc.	0.302	337	133
Astral Media Cl. A	0.304	82	36
Power Financial Corp.	0.304	76	-8
Atco Ltd. Cl. I	0.307	154	44
Imperial Oil	0.307	209	6
Andrew Peller Ltd. Cl. A	0.308	161	0
E-L Financial	0.308	99	-7
Manitoba Telecom Services	0.308	-26	-30
Great-West Lifeco Inc.	0.310	42	-14
Toronto-Dominion Bank	0.310	71	22
IGM Financial Inc.	0.311	68	-6
Bank of Montreal	0.315	47	-11
Senvest Capital	0.319	279	194
Power Corp.	0.322	226	-13

SOURCE: FP INFOMART ANNUAL RECORD

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