

Principles of Individual Stock Investing

3 Keys to Selecting Individual Stocks

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1 Focus on Quality

At Edward Jones, we use a disciplined selection process to recommend what we believe are quality companies with attractive stock prices. We filter stocks based on geography, longevity, risk, company size and quality, and then select companies we believe have sustainable competitive advantages. Last, we use a valuation analysis to determine fair pricing.

Dividends Define Quality

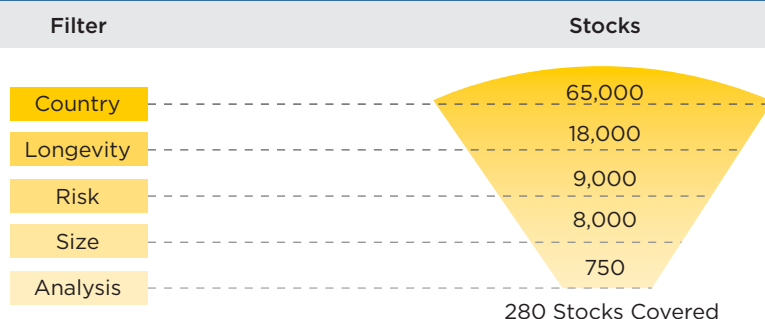
Another way we determine a stock's quality is identifying those that pay dividends. We believe companies that pay and grow their dividends offer several benefits:

- **Performance track record** – Over the past 20 years, dividends reinvested have accounted for nearly 45% of the total return investors have received from stocks. Historically, stocks that pay dividends have outperformed those that don't.¹
- **Potential protection against inflation** – Companies can potentially grow their dividends and provide rising income to investors, which can help offset rising prices.
- **Regular flow of income** – You can receive monthly income by staggering your stocks' dividend payment dates. This strategy can help you manage your monthly household expenses.

But Beware the Reach for Yield

A higher-yielding stock isn't always better. It could be a signal investors are concerned whether the company can continue to pay its dividend. We've found these stocks are most at risk of cutting their dividends. We recommend avoiding the highest-yielding stocks and, instead, balancing between growth and dividend yield.

Stock Selection Process



With So Many Stocks to Consider, We Can Help

Country – We consider companies primarily based in the U.S., Canada and Europe, with familiar accounting standards and reporting requirements.

Longevity – The companies we follow need a solid track record – typically at least 10 years of operating history. This means a company has likely faced at least one economic downturn, and management has experience with adversity as well as success.

Risk – We typically seek to exclude companies that have below investment-grade credit quality or financial strength.

Size – Larger companies usually have a longer track record of success, a broader sales base and management depth. We typically consider companies worth more than \$2.5 billion that have more than \$1 billion in annual revenue.

Analysis – Our analysts review a company's financial history, develop a financial model to project earnings and conduct on-site meetings. We also talk with competitors, suppliers and customers to determine the stock's value.

2 Diversify

Diversifying your investments is one defense against market fluctuations and economic cycles.² The asset class mix between types of stock, bond and cash investments you own is one of the most important factors in how well your portfolio performs over time.³ We also recommend diversifying across sectors, as sectors and the industries within often experience different results in various economic and market cycles, which have an impact on portfolio returns.

How Many Stocks Should You Own?

The right number can vary depending on how much of your equity investment will be in individual stocks and whether you are combining them with stock mutual funds and exchange-traded funds (ETFs). At a minimum, we recommend owning 15 individual stocks to avoid overconcentration in any single stock or sector, which can invite unnecessary risk. We also suggest that no single stock represent more than 5% of your entire portfolio.

The Percentage of Individual Stocks in an Equity Portfolio	Number of Stocks Recommended
50% or more	25 to 30 stocks
25%-50%	15 to 25 stocks
25% or less	15 stocks

Source: Edward Jones Investment Policy Committee.

Diversification by Geography and Company Size

Our stock analysis focuses primarily on domestic large-cap and mid-cap companies that meet our selection process discussed on Page 1. To gain ownership of international companies and small-cap stocks for proper portfolio diversification, we advise using mutual funds to invest in these important asset classes effectively, since they may have higher price volatility and additional risk factors. Within the domestic, large-cap equity portion of your portfolio, we also suggest considering U.S.-based companies with international operations for additional growth potential.

U.S. Recommended Sector Weightings

Communication Services	10%
Consumer Discretionary	10%
Consumer Staples	8%
Energy	3%
Financial Services	14%
Health Care	15%
Industrials	9%
Materials	2%
Technology	25%
Utilities	4%

Source: Edward Jones.

3 Invest for the Long Term

While this sounds easy enough, it may be the hardest of the three to follow. We believe you should buy investments with the intention of owning them through good and bad markets. It may help to remember that even though market declines can be unnerving, bull markets historically have lasted much longer and provided positive returns that offset declines.⁴

In addition, we don't view stock market declines as a reason to sell good-quality investments – and these situations often provide good opportunities to invest. Strategies such as dollar cost averaging and dividend reinvestment are designed to help take the emotion out of investing.⁵ Because we believe no one can accurately predict the best days to exit or return to the market, we recommend staying invested by using a long-term strategy that combines stocks and bonds based on your risk tolerance and financial goals. We believe that sticking to your strategy during different market environments is critical to achieving your investment goals.

When Should You Sell?

Even though we believe investors should focus on holding higher-quality stocks for the long term, this doesn't mean you'll never need to sell a stock. Consider the following before making that decision:

Diversification - Does any single stock represent more than 5% of your portfolio? Do you own too many stocks in a single industry sector? Is your mix between stocks and fixed income out of balance? These may be good reasons to sell.

Portfolio alignment - Stocks are dynamic investments, and their fit for your investment objective or financial goals may change. Companies change over time and may become more risky. We provide Buy, Hold and Sell recommendations on stocks we follow, as well as Investment Category, Dividend Outlook and Price Movement guidance. If any of these factors change, review whether the stock is still appropriate for your portfolio.

Company fundamentals - We recommend investors sell when we believe the fundamentals of the company are deteriorating considerably or a recovery is highly uncertain. In addition, we issue Sell ratings on stocks we believe are too expensive relative to their future growth potential.

Sources:

1 Bloomberg, 12/31/1998 - 7/1/2020 on S&P 500 Index.

2 Diversification does not guarantee a profit or protect against loss.

3 "Determinants of Portfolio Performance II: An Update," Gary P. Brinson, Brian D. Singer and Gilbert L. Beebower, Financial Analysts Journal, 1991.

4 1/1/1946 - 12/31/2019 on S&P 500 Index. Past performance is not a guarantee of how the market will perform in the future.

5 Dollar cost averaging and dividend reinvestment do not guarantee a profit or protect against loss.

Consider the Risks

Individual stocks can have large price movements over a short period of time. As a result, you may get back less than what you invested because not all investments will perform as expected. That is why it's so important to make sure a portfolio is well-diversified and fits with your overall goals and tolerance for risk. Special risks are inherent in international investing, including those related to currency fluctuations and foreign political and economic events.

What Should You Know?

Following these three principles – focusing on quality, diversifying and investing for the long term – can help you build a solid foundation to help meet your financial goals. Your financial advisor can help you build a stock portfolio and then review it regularly to help ensure it continues to fit your needs over time. Together, you can determine which stocks are most appropriate for your long-term goals and risk tolerance.

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