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## Viewpoint Q&A

# Earnings and Dividends—Forget the Rest

**J.W. Burns & Company** was founded on May 1, 1974. Headed by James C. Burns, CFA, the firm currently has approximately \$400 million in assets under management. J.W. Burns & Company is a participant in T.D. Waterhouse's Advisor Direct and Managed Assets Network Programs. Working with Burns, who is lead portfolio manager, is Patrick Dalton, CFA, Peter Bunitsky, and Edward Grassi, senior portfolio managers.

**TDW: Can you describe the J.W. Burns & Company investment philosophy to us?**

**JB:** Our investment approach is very straightforward. We seek to invest in the world's best businesses for long-term wealth creation. We have a focused investment discipline which we refer to as the J.W. Burns & Company "Triangle of Value." There are three legs to our "Triangle of Value." First, we want to invest in companies that have simple products which we can understand and that dominate their respective markets. Secondly, we seek companies with a consistently high return on equity (ROE), preferably 15% or more over a 10-year period. Lastly, we want to own businesses with significant and increasing international sales. The "Triangle of Value" constitutes the cornerstone of our investment philosophy and guides our intensive research efforts when evaluating businesses. In addition, we demand clean balance sheets and honest, ethical management.

**TDW: How many stocks do you hold in a portfolio?**

**JB:** J.W. Burns & Company will generally hold between 20 and 25 stocks in an equity portfolio. Our reason for this is quite simple—we do not want to dilute our proven stock picking ability. Countless studies have shown that the benefit of

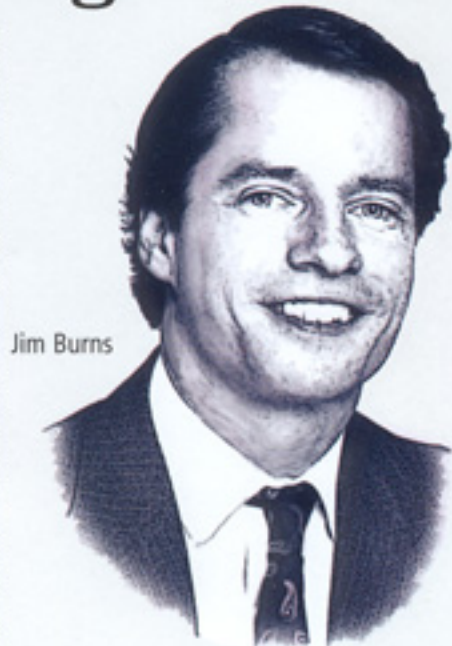
adding more stocks to a portfolio for the purpose of diversification falls off sharply after 16 or 17 stocks. As such, we believe superior risk adjusted returns will be achieved when we focus on companies that meet our stringent investment philosophy and monitor them closely.

**TDW: What is your outlook on the market?**

**JB:** We are rather optimistic despite so much negative investor sentiment today. However, looking at the overall economic and corporate specific data, I think much of this pessimism is misguided. Interest rates are at a 40-year low, corporate earnings have been stronger than expected and, certainly, valuations are far more attractive than they were three years ago. J.W. Burns & Company is taking a more constructive view than most and positioning our clients' portfolios for the eventual market rebound. Many high quality companies are selling at very attractive valuations.

**TDW: Are there any areas of the market that you like right now?**

**JB:** Yes. Healthcare is one area that we have always liked. Pharmaceutical stocks, in particular, look very attractive right now. It is rare that you can buy this group at a discount to the overall market, as is the case today. Pharmaceuticals historically trade at a premium to the market due to the strength and stability of their earnings. Currently, many of these companies have come down in price due to concerns over patent expirations. However, there are specific drug companies, such as Pfizer, that have strong and rich product pipelines. Another area that we like is the medical device industry. Stryker, for example, is a company that we have owned for years. They manufacture orthopedic implants and have delivered 20% earnings growth in 21 of the past 22 years. With an aging population, longer life



Jim Burns

expectancy and an increasing consumer awareness of healthcare options, we feel this sector will continue to experience strong growth.

**TDW: What causes you to sell a stock?**

**JB:** Our motto at J.W. Burns & Company has always been "earnings and dividends, forget all the rest." As such, we want to own companies with a proven track record of consistent earnings and dividend growth. Therefore, the primary reason we will sell a stock from our portfolio is if we see a significant slow down in earnings or the dividend payout. There are two other reasons that will also cause us to liquidate a position. First, if the fundamental reason we purchase a stock changes, such as the loss of a dominant position within their industry. Second, we will sell a stock if a better investment opportunity arises from our research efforts. There are also times when an individual holding becomes too large of a weighting in a client's portfolio and we will trim it back to better manage risk.

For more information on J.W. Burns & Company, including a brochure outlining long term performance results and overall investment philosophy, please call 800-592-8767 or visit [www.jwburns.com](http://www.jwburns.com).

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