

INVESTOR'S EDGE

This year, focus investments on quality, growth and income

It should be a solid year for investors with returns in the high single digits.

"Write it on your heart that every day is the best day of the year." Ralph Waldo Emerson



Jim Burns CFA Guest columnist

Happy New Year!

2025 was the third consecutive year of a well above-average rate of returns for the broad U.S. stock market, with the S&P 500 Index up at the time of this writing nearly 20%. This was also a wonderful year for our readers who followed my advice and have remained fully invested for the long term.

Most of my picks from 2025 were spot on. In fact, the weighted average of my six investment recommendations made in January were up 25.6%, well ahead of all major U.S. market indices.

There's an old Wall Street saying: "I'd rather be lucky than smart." Well, I'd like to think I was a little bit of both!

Specifically, at the beginning of last year I advised readers to be cautious of Bitcoin — which has dropped approximately 7% this year. I instead recommended high-quality dividend paying stocks represented in the Vanguard Dividend Appreciation ETF (Ticker: VIG), pharmaceutical blue chips AbbVie (Ticker: ABBV), Merck (Ticker: MRK) and Johnson & Johnson (Ticker: JNJ) within the health care sector and staying invested in artificial intelligence through the Magnificent Seven technology stocks. Perhaps most impactful, after dramatically lagging U.S. stocks for the previous 10 years, I recommended the Vanguard International High Dividend Yield (Ticker: VYMI), which turned out to be one of 2025's best performing international funds, up 38.5% at the time of this writing.

Ok, so where do we go from here?

For 2026, I recommend an overall focus on quality, growth, and income. Like last year, here are some specific ideas to act on.

GET SMALL

Small and mid-cap stocks are a part of a diversified portfolio, yet have lagged the large cap S&P 500 Index by a large margin over the last decade. That trend began to change in the fourth quarter of this year, with small caps solidly outperforming the S&P 500 Index.

Like international stocks a year ago, I believe a reversion to the mean trade has begun and the risk/reward profile looks favorable at these levels. So, I continue to recommend the I-shares Core S&P Small Cap ETF (Ticker: IJR) and the I-shares Core S&P Mid Cap ETF (Ticker: IJH). I believe these will perform well not only in 2026 but will also generate robust returns over the next five years.

KEEP TRAVELING OVERSEAS

I own and continue to buy for clients the

Vanguard International High Dividend ETF, which is a solid, income-oriented vehicle to invest in international markets.

However, for 2026, I'm going to recommend you get even a little more adventurous in your travels and buy the Vanguard Total International Stock ETF (Ticker: VXUS). This fund has a higher growth profile, with 27% of the fund in emerging market equities, which I believe are attractively valued and have plenty of room to run for the next several years.

ALWAYS STICK WITH QUALITY. DIVIDENDS

With markets at all-time highs, you will certainly not go wrong purchasing stocks with growing earnings power and rising dividend streams. I continue to buy previous Investors' Edge recommendations including Pepsi (Ticker: PEP), Waste Management (Ticker: WM), and Amgen (Ticker: AMGN) yielding 3.9%, 2.9%, and 3.3% respectively. These are excellent buy and hold equities.

ONLY OWN PROFITABLE AI

No doubt, the artificial intelligence boom has been a driving force behind the above-average performance of the U.S. economy and stock market. My recommendations in this sector are simple and straightforward: buy only the profitable, dominant hyperscalers, specifically Nvidia (Ticker: NVDA), Microsoft (Ticker: MSFT), Apple (Ticker: AAPL), and Amazon (Ticker: AMZN). These are the very best, highest-quality growth stocks in the world, and investors actually flock to these names in tough times because of their incredible cash flow generation.

On the more aggressive side, I continue to like soon-to-be-local chip manufacturer Micron Technologies (Ticker: MU). I recommended Micron in this column in November 2022, and the stock has returned a whopping 80% per year since then.

In closing, after three consecutive barn-burning years in the stock market, many people are convinced that the party is close to tapping out. I'm not so sure.

In my 38-year career, I've rarely seen the combination of tailwinds propelling this market higher. Namely, a strong economy, easing monetary policy, robust corporate earnings growth, and high levels of investor liquidity.

Taken alone, any one of these trends could support a healthy stock market. Together, however, you have a potent mix for above average returns.

Remember, the stock market is a forward-looking animal, and right now it likes what it sees.

So, while I certainly do not expect another 20% year, and we must always be prepared for sharp corrections at any time, for any reason, I think the economic backdrop remains constructive. 2026 should be a solid year, with a return possibly in the high single digits, say 7 to-9%.

A nice, safe forecast. LOL.

Regardless, stay long.

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