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Snoozer Stocks

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Top stock fund manager Jeff Auxier thinks boring is beautiful. He made his fortune without investing in flashy crypto or artificial intelligence stocks. Instead, since the start of the 21st century, his fund has beaten the annualized returns of the S&P 500 with a health-care insurer…a real estate property-maintenance firm…an industrial-hose manufacturer…and a supermarket chain.

Auxier calls these companies "snoozer stocks"—long-established, reputable companies with consistent earnings that you can stick in your portfolio and not worry about for years. In today's volatile and uncertain market, snoozers offer small investors some intangible advantages…

You make fewer investment mistakes. Exciting stocks make investors fearful or greedy, and they leave a lot of carnage in their wake. Holding snoozers reduces the risk that you might jump in and out of the market, possibly crippling your long-term returns.

You sleep better at night. Snoozers tend to experience less volatility than the overall market and hold up better in recessions, so they are easier to stick with. You can potentially earn above-average returns with below-average risk.

Bottom Line Personal asked Auxier how he identifies snoozers and which are his favorites now…

Finding Great Snoozers

For decades, I've operated a hazelnut farm a few miles from the end of the Oregon Trail, south of Portland. It's about as far as you can get from Wall Street in the US, but farming has heavily influenced how I invest. It has taught me that a seemingly mundane, well-managed business and a long time horizon can lead to strong, sustainable profits. In fact, I still own many of the stocks of companies I initially purchased when I launched my flagship mutual fund in 1999. My strategies for finding snoozers now…

Fill your portfolio with "compounding machines." Very few businesses can deliver moderate, sustainable long-term growth across different types of economic environments. Finding companies like this has been Warren Buffett's secret sauce for decades—think of his success with stocks such as American Express, Coca-Cola and McDonald's Corp. These compounders all share a few common characteristics including…

Durable business model: I particularly like companies that create very predictable, recurring revenue by selling smaller-ticket items that consumers can afford or necessities that people can't do without.

Pricing power: Strong brand recognition and customer loyalty allow these companies to raise prices without driving away customers.

Low capital expenditures: These companies don't need to spend a ton of money on major plant and equipment upgrades or on research and development just to stay competitive.

High return on invested capital: They reinvest their strong cash flows back into the business, so the value of the business grows year after year, compounding my initial investment.

Two compounding machines I own now…

FirstService Corp. (FSV) is North America's largest residential property manager, offering maintenance, repair and security services for nearly 9,000 homeowner and condo associations (HOAs) and high-rise properties. Customers rarely switch property managers, so this business produces reliable 10% compounded annual revenue growth. FirstService also owns branded services such as California Closets, CertaPro Painters and a home-restoration business that has seen 20% growth year-over-year due to an increase in hurricanes and other weather-related damage. *Recent share price:* $170.49.

United HealthGroup (UNH) provides medical benefits to 50 million members. The health insurer offers employer-sponsored, self-directed and Medicare Advantage plans, as well as managed-care services. This year, concerns over government regulations have hurt health-insurer stocks, but long-term demand for medical services remains robust. *Reasons:* A rapidly aging population…and increased use of home health-care services. Half of United HealthGroup's revenues come from home- and community-based care with a large roster of physicians, clinics and ambulatory surgery centers…and Medicare Advantage, the fast-growing private form of Medicare in which the government contracts with private-sector health insurers to provide benefits. Nearly 50% of Medicare beneficiaries now are enrolled in a Medicare Advantage plan. *Recent share price:* $504.54.

Hunt for compounders in out-of-favor market sectors and overlooked areas of the economy. What looks attractive now…

Property and casualty insurers have been able to institute rate increases thanks to elevated inflation and higher natural-catastrophe losses. Halfway through 2023, global reinsurance rates increased an average of 20% year-over-year and as much as 50% year-over-year for catastrophe-exposed risks. I expect higher premium rates and stronger investment yields for insurers to continue through 2024. One insurance-industry snoozer I own now…

Marsh McLennan (MMC) serves as an insurance consultant and broker, providing risk-management advice and strategies to help corporations protect from natural disasters, climate change, cybersecurity breaches and other threats. The company benefits from rising insurance rates because it generally charges a percentage of insurer premiums as a commission. *Recent share price:* $190.99.

Financial-services firms benefiting from digitization. Digital forms of payment such as credit cards and mobile wallets have continued to replace cash at an even faster pace since the pandemic. More than 40% of Americans now say they don't use cash for any of their purchases in a typical week. Payment processors, which perform the authorization, clearance and settlement functions for transactions between merchants and banks that issue plastic cards, are direct beneficiaries. The global digital-payments market is expected to grow from $9.5 trillion in transactions in 2023 to $14.8 trillion by 2027. One payment-processing snoozer I own now…

MasterCard (MA) operates in more than 200 countries and handles about $5 trillion in annual transactions. There is a boom in entertainment and European travel transactions now. MasterCard is likely to grow faster over time than its main competitor, Visa, due to its smaller size and relatively higher presence in underpenetrated overseas markets, especially Southeastern Asia and the Middle East. *Recent share price:* $440.58.

High-quality industrials. After decades of underinvestment and recent pandemic-related supply-chain challenges, US companies and the federal government are seeking to bolster domestic manufacturing. One high-quality industrial snoozer I own now…

Parker Hannifin (PH) sells mostly to industrial and government buyers, but its reach is huge. The 105-year-old company manufactures hundreds of thousands of different hydraulic hoses and other parts, ranging from aerospace valves to medical-device components. Parker Hannifin also has increased its annual dividends per share to shareholders for 67 consecutive years. *Recent share price:* $476.50.

Favor potato chips over memory chips. I avoid industries that are magnets for huge waves of capital rushing in and out such as technology and biotechnology. When a sector becomes awash in cash, corporate executives get careless with how they invest capital. Euphoria leads to overinvestment, but in the long run, markets are pretty good about purging and punishing speculative behavior. I prefer companies in mundane industries such as beer and food manufacturing that are pursuing innovations that may not change the world but keep boosting their earnings growth. Two beer and food snoozers I own now…

Molson Coors (TAP) is the fifth-largest beer maker in the world, with brands such as Miller, Coors, Blue Moon and Carling. The brewer is expanding its lineup beyond beer and focusing on premium and specialty beverages including Zoa, an energy drink created by actor and former wrestler Dwayne "The Rock" Johnson. Molson Coors also has been able to capitalize on the backlash against competitor Bud Light and its controversial social-media ads. *Recent share price:* $63.69.

The Kroger Co. (KR) runs more than 2,700 supermarkets across 35 states. In an effort to take market share from restaurants by expanding its prepared-food selection, Kroger has become the largest provider of sushi in America, selling more than 40 million pieces a year and generating sales of $400 billion to $600 billion annually. Kroger is also expected to complete a merger with grocery-chain giant Albertson's in 2024. *Recent share price:* $46.53.

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