



# To the Point.

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## The Importance of Quality: An Essential Perspective

Being better invested implies having a thorough understanding of what constitutes a quality investment. Quality is an essential concept that should be part of every investor's investment process.

### What is a quality stock-market investment?

The quality of a stock market investment is closely related to the strength and resilience of the company whose shares you acquire. Quality companies are those that demonstrate a consistent ability to generate revenues and profits, irrespective of external economic conditions. They are therefore robust, stable and well-managed companies.

### What characterizes a quality stock?

**Financial strength:** One of the key indicators of quality is financial strength. It involves having a solid balance sheet, characterized by reasonable debt levels, sufficient liquidity and stable cash flows. Ratios such as the debt-to-equity (D/E) ratio and the interest coverage ratio offer an indication of the company's ability to honor its debts. Conversely, a company carrying too much debt is more likely to go bankrupt, to the great detriment of its shareholders.

**Profitability:** A company's ability to sell its products and/or services at a premium to its costs is essential. Net profit margins, return on equity (ROE) and return on

assets (ROA) are key indicators for measuring profitability. Companies reporting high margins and stable ROE are generally more resilient to economic shocks. In fact, it is often the same companies that can act more aggressively during recessions, buying out weaker competitors and thereby increasing their market share.



**Lasting competitive advantage:** Lasting competitive advantage: A quality company often has a competitive advantage that enables it to maintain its dominant position in the market. This advantage can be based on patents, brand strength, a unique business model, superior operational efficiency or any form of barrier to entry.

**Strong management:** The quality of management is also a determining factor in determining the quality of a company. Having an expert management team that is both experienced and ethically minded is essential for implementing strategies that ensure long-term growth. Capital allocation decisions and transparent financial reporting are indicators of management quality.



### The importance of in-depth research:

Ratko Velin, MBA, CFA Senior Analyst and Associate Portfolio Manager at Allard, Allard & Associates, emphasizes the importance of thorough research in identifying quality stocks. The analysis team takes a bottom-up approach, focusing on fundamental company analysis rather than market trends. This

method calls for an in-depth analysis of the company's activities, the reading of annual reports, as well as SWOT (strengths, weaknesses, opportunities and threats) and competitor analyses. It's a rigorous process that helps uncover solid, well-managed companies offering sustainable growth potential and predictable investments.

Ratko mentions Alimentation Couche-Tard (TSX: ATD) as an example of a high-quality company. "ATD benefits from economies of scale that enable it to launch unique initiatives, such as loyalty programs and investments in technology. Thanks to a disciplined acquisition strategy and an innovative approach to the future, ATD has been able to grow effectively in a fragmented industry."

### Why should quality matter to investors?

Investing in quality companies offers several important advantages. These companies are generally more resistant to market fluctuations, which, in turn, reduces portfolio risk and makes it more sustainable. In addition, they tend to pay regular and reliable dividends, providing an attractive passive income stream. Finally, their ability to grow sustainably also increases the value of investments over the long term.

### Our philosophy:

At Allard, Allard & Associés, we pay particular attention to identifying quality stocks that are undervalued by the market. Our investment approach is to select companies with strong fundamentals and long-term growth potential. By focusing on quality, we aim to offer our clients robust returns while mitigating risks.

**Contact us** to find out more on how our investment philosophy can help you achieve your financial goals!