

# Foundations

S T A Y   G R O U N D E D



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# Welcome to Foundations!

You've just taken the first step toward creating a balanced, long-term portfolio. Buying your first stock can be daunting but we hope this guide helps you build a collection of stocks you love, understand, and can comfortably hold for decades to come.

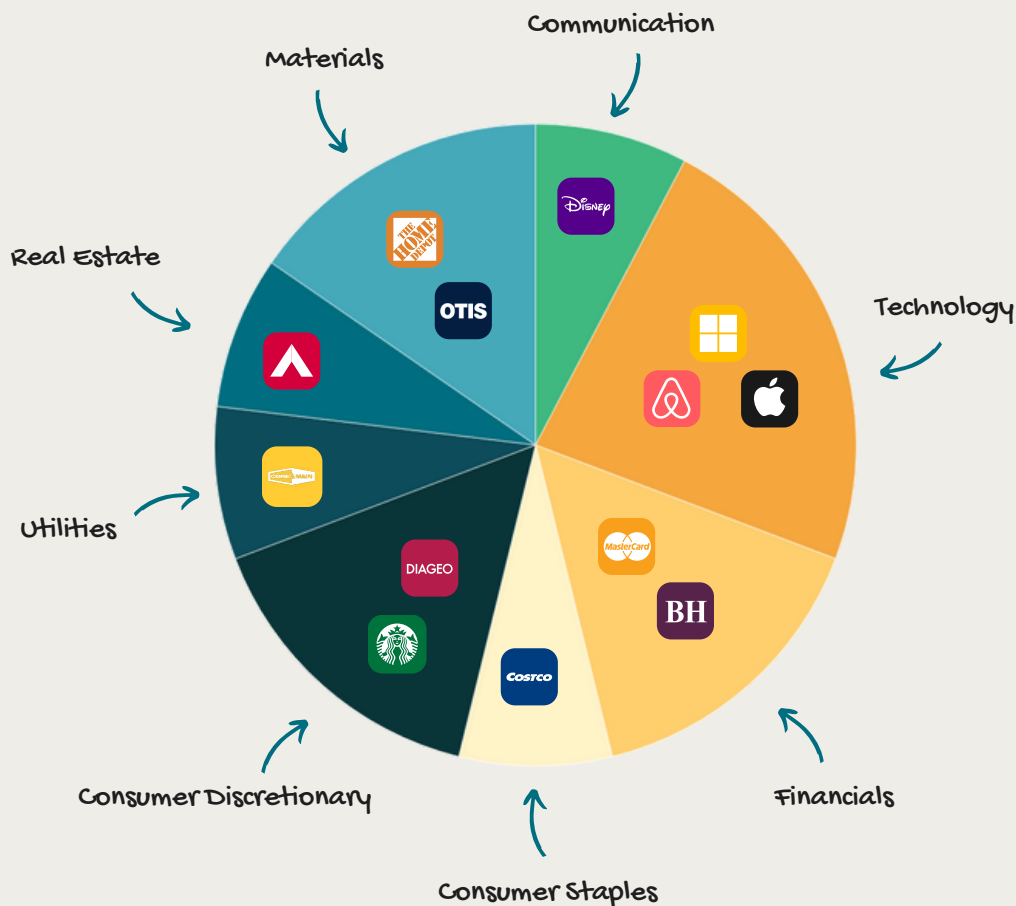
The Foundations list was selected after years of research and represents MyWallSt's favorite bedrock stocks.

What is a bedrock stock?

It's a large, time-tested business with a strong moat, making them perfect for buy-and-hold investors. While other companies fight for competitive advantages, these titans of industry stand tall, already built for success. These stocks ensure your portfolio is grounded and protected from volatility, making them the ideal starting point on your investing journey.

The Foundations list contains 13 names — lucky for some — many of which you know and interact with. Importantly, these stocks have been selected with balance in mind. Together, they represent 8 of the 11 sectors of the S&P and are labeled accordingly, helping you ensure diversity from day one. We've excluded the complex and volatile industries of healthcare & wellness, energy, and pharmaceuticals for now. Those businesses are best left to the pros in our opinion.

Good luck and happy investing!



# Understanding the MyWallSt Family

Now, before we begin, you may be wondering: how do these stocks fit in with the MyWallSt family?

This is a great question.

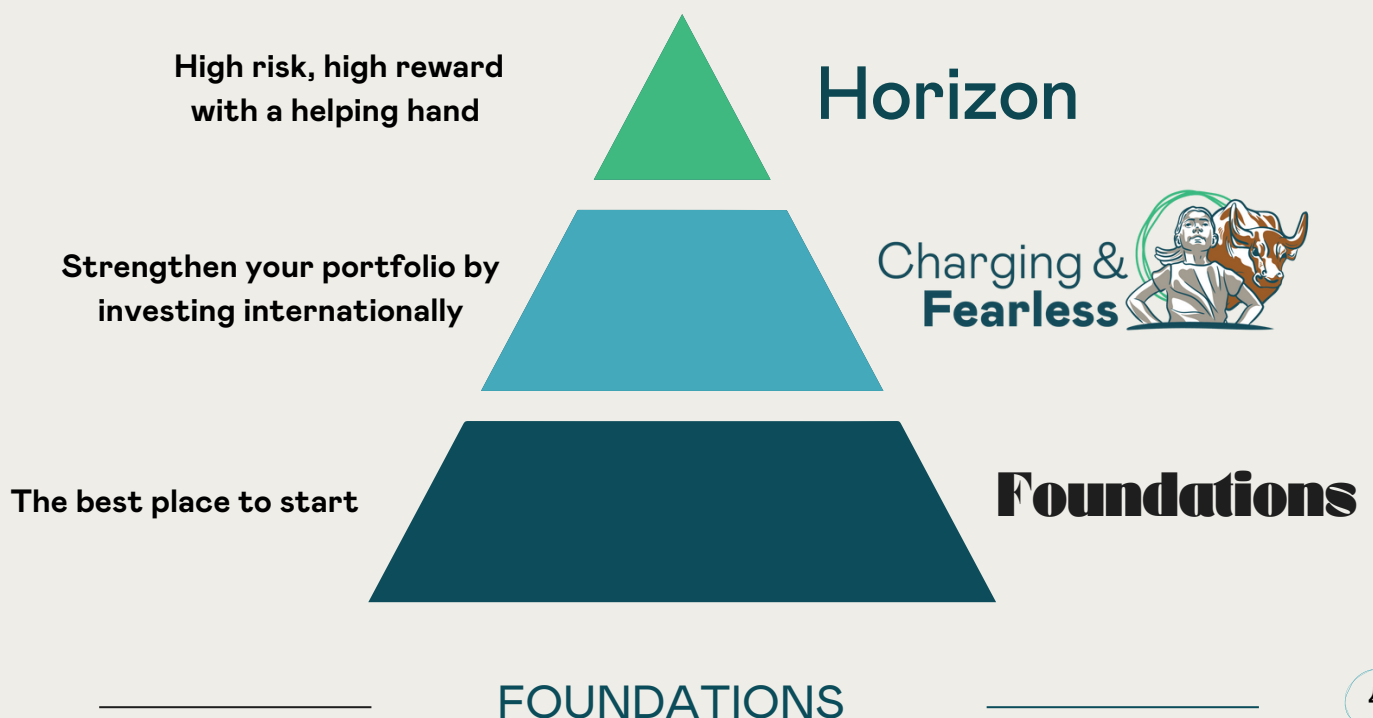
The Foundations list is designed to be the base of your portfolio, they should make up the largest percentage of your holdings and help balance out riskier assets. You can top up these positions at any time, they are the ideal dollar-cost-averaging candidate. These stocks are all large caps, American-based, and trade in New York meaning they are highly accessible; just about any broker should have them.

Foundation stocks are meant to be easy to follow and hopefully not too stressful, most are highly insulated and manage to avoid wild market swings. That being said, every new investor should also consider contributing to an S&P 500 index fund or ETF to provide additional weatherproofing.

However, depending on your investment style and appetite for risk, Foundations may not be enough for you and MyWallSt can help.

Our weekly email Charging and Fearless pitches stocks from around the world that provide the opportunity to geographically diversify your portfolio. These stocks range in size, risk, time frame, and access so make sure your picks align with your investment goals, abilities, and broker. Some will require you to do your own research but our write-ups provide a great place to start.

Finally, there's Horizon. The brainchild of MyWallSt founder Emmet Savage, Horizon gives you an inside look at the portfolio of a market-beating investor. With a focus on high-risk, high-reward stocks, Horizon provides you all the tools and support you need to find and hold the next great, life-changing investment. If you want to supercharge your portfolio and join a community of like-minded investors, look no further.





# Stock Sheet Explainer

The name of the company

The Company's Logo

The ticker symbol



**Microsoft**

**MSFT**

Microsoft is a software and hardware company best known for its Windows operating system, Office Suite software, and Azure cloud division. It is also a key player in the burgeoning AI industry thanks to its investment in OpenAI, parent company of ChatGPT

A brief description of the business

Key Highlights

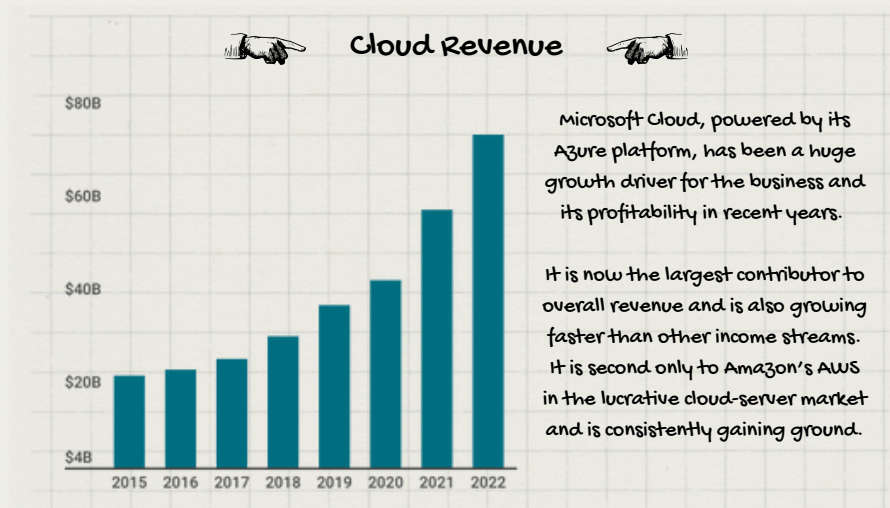
★ Sticky Business Model ★ Strong Leadership ★ History of Innovation ★

## What to Watch

- Artificial Intelligence - AI is the hot topic right now, and through its stake in OpenAI, Microsoft has taken a commanding position in the race. While ChatGPT may make all the headlines — and even make Bing a plausible competitor to Google Search — management has plans to integrate generative AI capabilities across its product suite, most prominently in Github and Office.
- Leadership - Satya Nadella took over as CEO from Steve Ballmer in 2014 and the turnaround the company has seen since is second-to-none. His leadership has propelled the company to new heights and is a key factor for our investment thesis.
- M&A - Acquisitions have been a key strategy of Nadella's in his tenure at the helm of Microsoft. Blockbuster deals saw it takeover LinkedIn, Github, Activision Blizzard (pending approval), and a significant stake in OpenAI. Watch this space.

Key metrics and trends you can check in with every quarter and why they're important

A graph of our favorite metric. Often times, visualizing data is a great way to get a long-term view.



Our favorite growth metric and why. Some of these are external to the business and that's ok.



# The Home Depot

HD

The Home Depot is an American home improvement and DIY retailer headquartered in Atlanta, Georgia. It is the largest home-improvement company in the world, with over 2,278 stores.

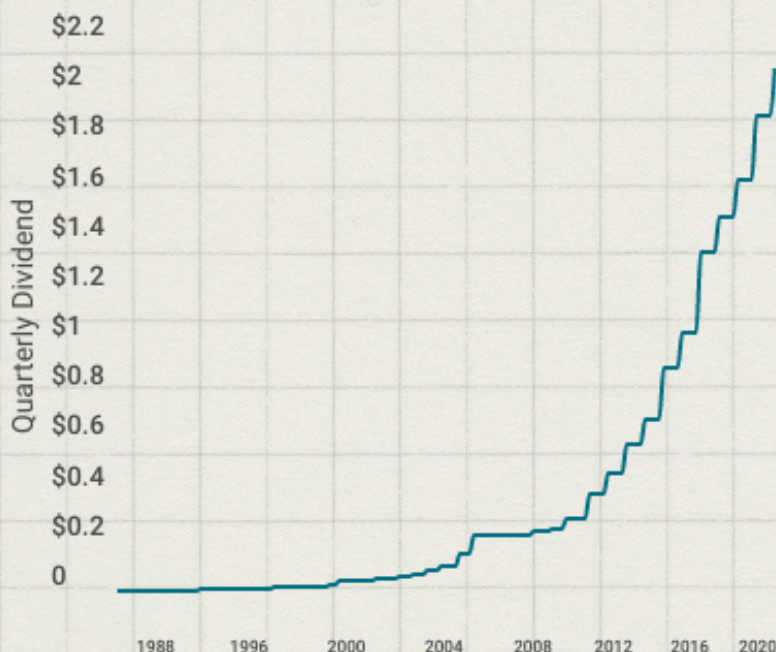
★ Dividend payer ★ Wide economic moat ★ Operational excellence ★

## What to Watch

- ❑ Store Growth and Same-Store Sales - Like most in-person retail stores, Home Depot can grow by adding new locations or making more from each existing store. Both metrics are easily provided each quarter. The coming years will see slow and steady expansion of traditional stores but also the development of large supply chain hubs that aim to bring in more home professionals and their substantial orders.
- ❑ Treatment of Frontline Workers - Part of Home Depot's appeal is its ability to service professionals and novices via in-store support. However, this means Home Depot must maintain experienced staff in its locations. To this end, management announced \$1 billion in annualized compensation for hourly associates starting in 2023. Actions like this ensure a high-quality, in-store experience.
- ❑ Stock Buybacks - On top of dividends, Home Depot loves to repurchase shares as an easy way to build investor value.



### Dividend Growth



Home Depot has a long, long history of dividend growth, as evidenced by the chart.

Its current yield is 2.75% and will likely continue to increase for years to come making this an easy way for investors to de-risk their portfolio.





# Walt Disney Co.

DIS

The Walt Disney Company is the world's best-known movie studio and one of the most recognizable brands of all time. It produces films, television, and merchandise, operates 14 theme parks, and controls several streaming services.

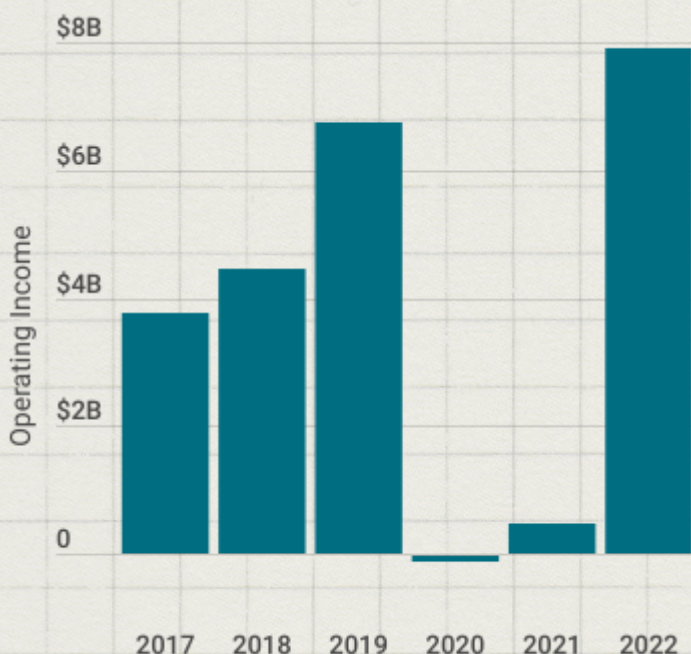
★ Portfolio of valuable assets ★ Strong history of acquisitions ★ Streaming Giant ★

## What to Watch

- Streaming Income - Disney Plus, Hulu, and ESPN+ have made headlines for their subscriber numbers but they've yet to reach profitability. According to management, the direct-to-consumer segment will break even by 2024 but along the way, it's best to check in with operating income and average revenue per user (ARPU)
- Box Office Returns - For the last seven years Disney has dominated the international box office. While this is great for revenue growth, it's also a good measure of Disney's IP value. Part of the stock's long-term appeal is the company's ability to generate decades of returns from a single creative entity. When Disney's movies outperform that's a good indicator of their ability to achieve longevity.
- Leadership - Bob Iger was recently called back from retirement to replace struggling CEO Bob Chapek. The House of Mouse needs a contingency plan for stability.



### Park, Experiences, and Products Income



While Disney may be best known for big screen marvels, it generates the majority of its profit from parks, experiences, and products.

Disney World and Disneyland are paramount for the company's cash reserves so keeping an eye on this segment's operating income and margin is a must.



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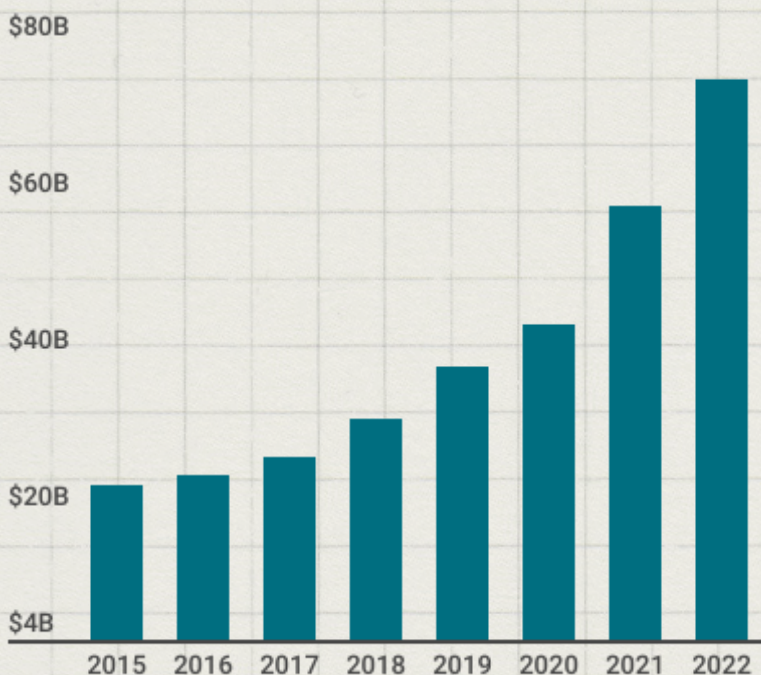
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### Cloud Revenue



Microsoft Cloud, powered by its Azure platform, has been a huge growth driver for the business and its profitability in recent years.

It is now the largest contributor to overall revenue and is also growing faster than other income streams. It is second only to Amazon's AWS in the lucrative cloud-server market and is consistently gaining ground.





# Airbnb

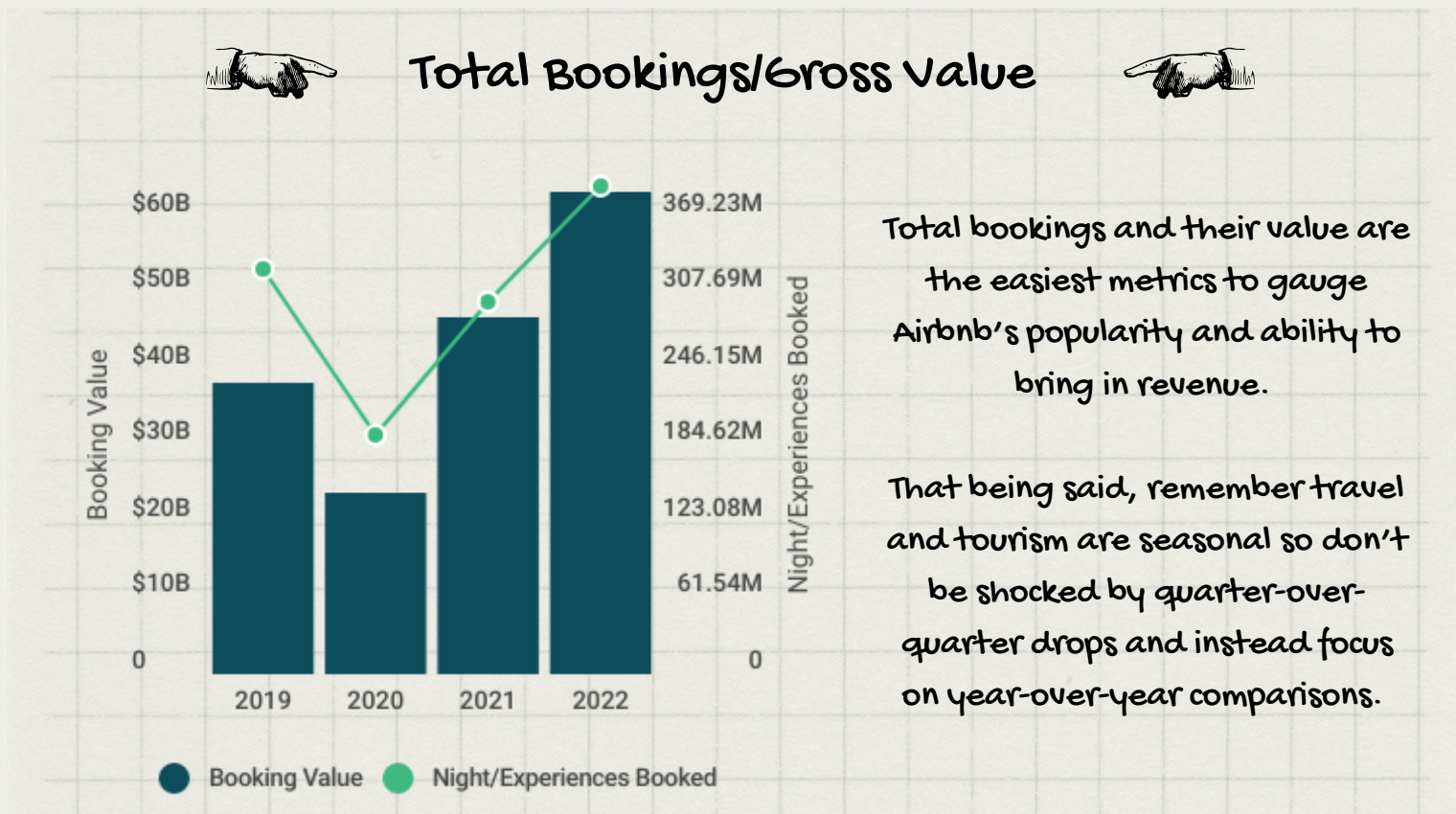
ABNB

Airbnb is an American technology company that provides a marketplace for lodgings, with a focus on alternative accommodation, homestays, and vacation rentals.

★ High insider ownership ★ Visionary founders/CEO ★ Network effects ★

## What to Watch

- Average Stay Length - The post-pandemic environment has opened up world travel for remote workers. This has been a great tailwind for Airbnb which is highly equipped for travelers looking for long-term stays (28 nights or longer). The site has seen a 40% increase in these bookings since 2019.
- Listing Supply - Essential to Airbnb's success is its ability to offer unique listings (stays or experiences) anywhere and everywhere. New hosts in new places are a must for the increasingly adventurous public. Additionally, when supply increases it's a testament to the platform's brand awareness and value offering.
- Local Legislative Shifts - We have all heard how short-term lettings are exacerbating housing crises across the world. If major countries take legislative action, it could be detrimental to Airbnb. Keep a watchful eye.





# Apple

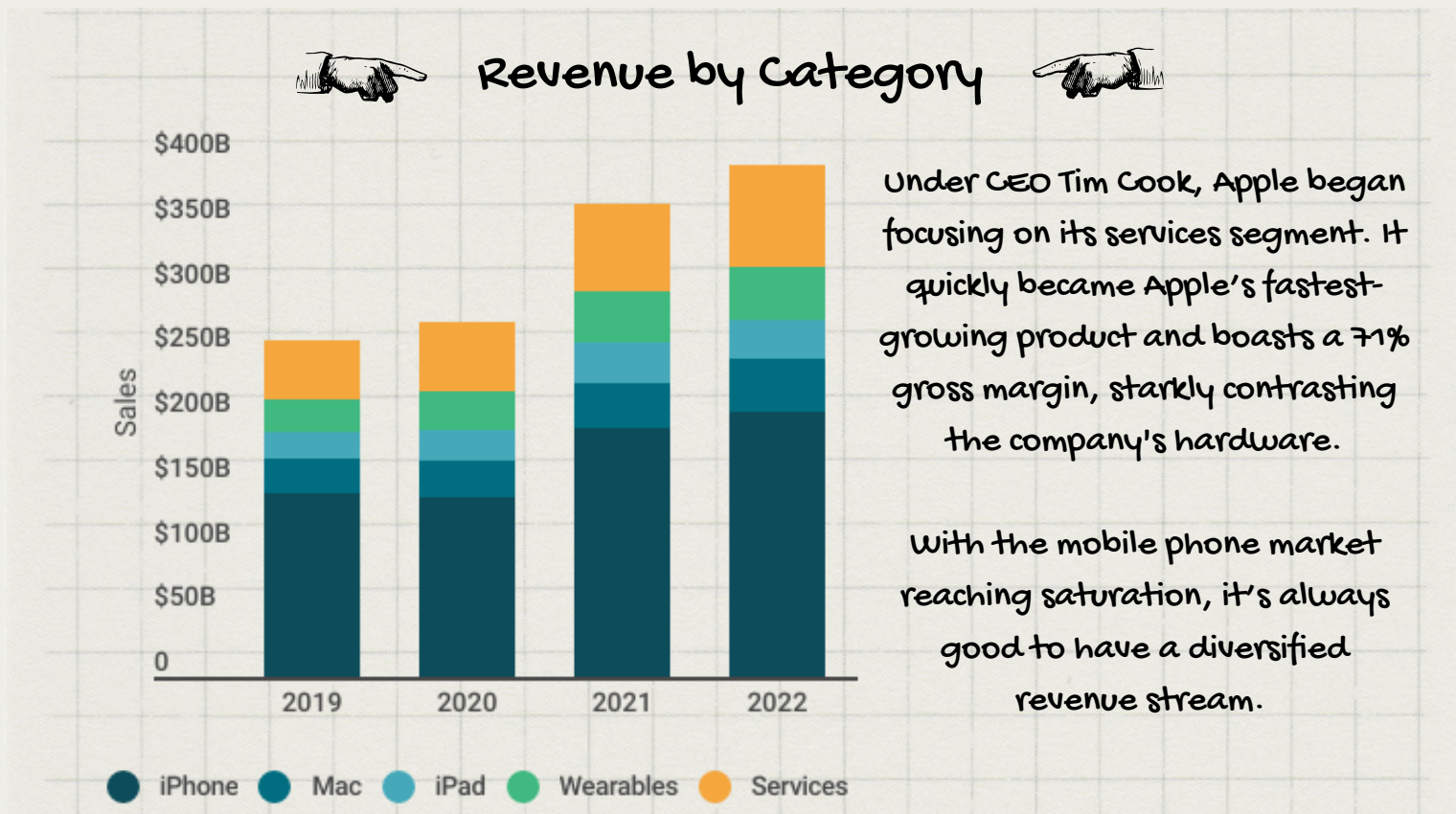
AAPL

Apple is the world's largest public company and most valuable brand. You undoubtedly know its products: the iPhone, iPod, Mac computers, AirPods, and the Apple Watch.

★ Massive cash reserves ★ Proven pricing power ★ Strong customer loyalty ★

## What to Watch

- Active Devices - As of 2022, there were 2 billion active Apple devices in the world and more than 1 billion of those were iPhones. With more and more of Apple's revenue coming from on-device purchases, it's always good to see overall hardware growth. Those 2 billion devices have resulted in 935 million paid subscribers.
- New products - Key to Apple's continued relevance is its ability to innovate. Some of these are eye-catching prospects like the rumored VR headset but others are more practical ideas such as Apple Pay Later or wearable healthcare devices. Investors should trust in Apple's ability to deliver and excitedly await product announcements.
- Stock Buybacks - In the last ten years, Apple has reduced its share count by 35% via buybacks. This is great for creating shareholder value and a product of the company's hefty cash reserves.







# Mastercard

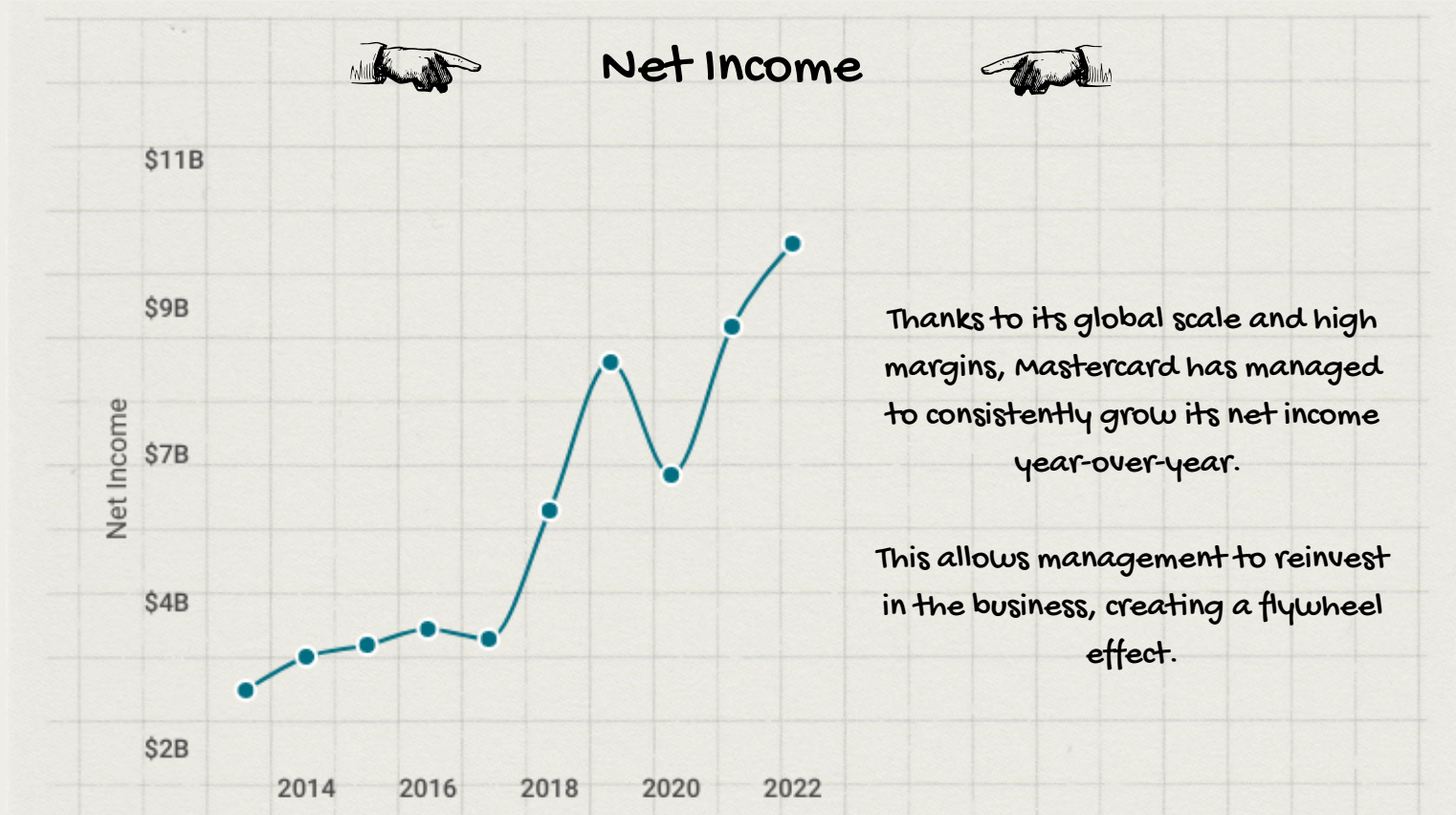
MA

Mastercard issues credit and debit cards and processes payments between merchants and card issuers. Its payment network processes over \$8 trillion transactions annually and there are 3 billion MasterCards in circulation.

★ Sticky Network Effects ★ Innovators in the Space ★ Trusted Global Brand ★

## What to Watch

- ❑ Cashless Society - While it may seem like a thing of the past where you live, Mastercard estimates that over 80% of the world's retail transactions are still done in cash. This spells opportunity for Mastercard as more and more of the world become banked and start using plastic and digital payments.
- ❑ Regulatory Rumbblings - Mastercard enjoys a duopoly with Visa when it comes to processing card transactions. While this is great for business, regulators may not be as enthused as investors. The company has been on the wrong side of legislation on both sides of the pond in recent times and this could continue as oversight boards look to build a more even playing field.
- ❑ Operating Margin - The aforementioned duopoly gives Mastercard incredible influence over its customers, allowing the processor to expand its margins over time.





# Berkshire Hathaway

BRK.B

MyWallSt  
Own It.

Berkshire Hathaway is an American multinational conglomerate. It is run by Warren Buffett, who acts as President, Chairman, and CEO. It wholly owns GEICO, Lubrizol, Dairy Queen, and others. It also has significant holdings in Apple, Coca-Cola, and American Express.

★ One of the World's Best Investors ★ Diversified Portfolio ★ Strong Succession Plan ★

## What to Watch

- ❑ M&A Activity - Berkshire boasts a famously large cash pile, which many investors are eager to see put to use. Acquisitions and large stock purchases are key components to the business. For years, Buffett was pinching pennies and focusing on repurchasing Berkshire shares as the market got frothy, but M&A activity has ramped up recently. Be sure to keep an eye on any major purchases that portend to the future strategy of the business.
- ❑ Future Leadership - This isn't a KPI per se, but Warren and Charlie won't be around forever, so over the next few years expect to see a lot more of the likely heir apparent Greg Abel when following the company. He certainly has big shoes to fill.
- ❑ Portfolio Makeup - In Warren we trust and all that but understanding what you own builds confidence. Take the occasional look under the hood.



## All-time Stock Chart



When following Berkshire, earnings will always be the first number reported, and they come from a litany of businesses and industries.

However, gains and losses on investments — even unrealized gains and losses — can lead to volatile results which make quarterly or even annual tracking less relevant for such a long-term-oriented business. Instead, take comfort in its decade-long track record.





# Costco

**COST**

Costco is a membership-only warehouse club that sells competitively-priced merchandise, often in bulk - including food, alcohol, jewelry, electronics, appliances, travel packages and more. Costco has almost 800 locations.

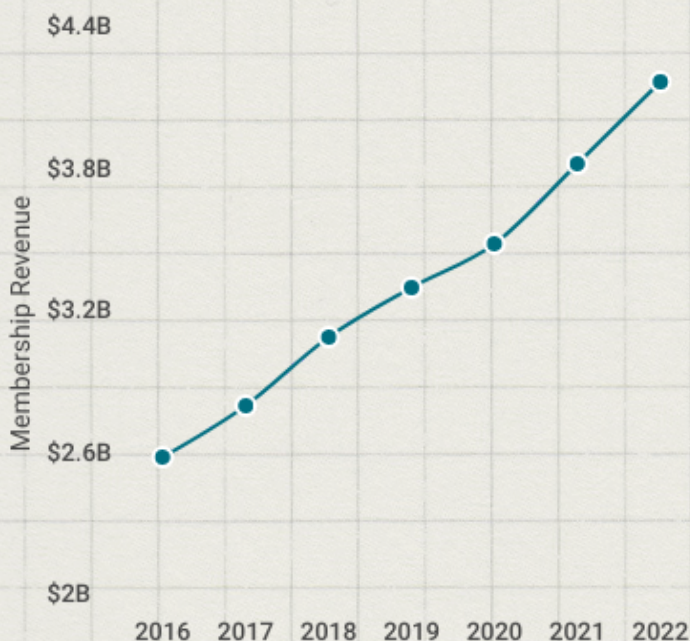
★ Recurring revenue model ★ Strong customer loyalty ★ Dividend payer ★

## What to Watch

- Store Count - Paramount to bringing in new customers is meeting them in their home neighborhoods. Costco is committed to a decade-long expansion plan which will see its warehouses reach new shores. It most recently launched in New Zealand to great acclaim.
- Gas sales - One of the many perks of being a Costco member is access to its low-price fill stations. However, these are more than just a revenue generator, they're a powerful foot in the door with consumers. It is estimated that 50% of customers who stop to fill their tanks end up shopping in stores.
- Same-store sales - While merchandise is definitely second fiddle to memberships, it's still good to see existing stores growing over time and bringing in more revenue.



### Member Fee Revenue



58% of Costco's profit comes from its membership revenue. This can grow via new sign-ups and/or fee increases.

Costco has phenomenal pricing power and raises member fees about every five years, most recently in 2017.



# Starbucks

SBUX

Based in Seattle, Washington, Starbucks is the world's largest chain of coffeehouses. It serves coffee drinks and pre-packaged foods, in addition to books, music, and coffee-related products.

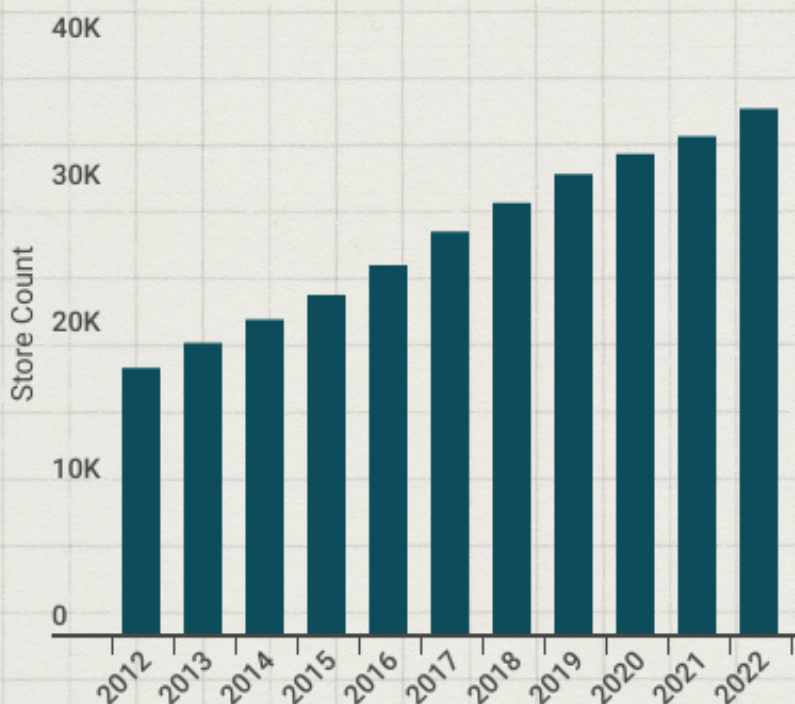
★ Proven pricing power ★ Successful loyalty program ★ Dividend stock ★

## What to Watch

- Comparable Sales - It's always good to see existing stores bringing in more revenue. Luckily for us, Starbucks provides even more detail, breaking comparable sales down by average ticket size and order volume. This way, we can understand whether growth is down to an increase in customers or price elasticity.
- Money Loaded on Starbucks Cards - In 2008, Starbucks launched its rewards program, allowing eager java drinkers the opportunity to earn free drinks if they paid with a pre-loaded Starbucks card. Today, this infrastructure uses the Starbucks app but the benefits are the same. The rewards program keeps customers crazily engaged with 50% of company sales coming from reward customers. But, it's also a great way for Starbucks to build up its cash reserves and avoid debt. More than \$2 billion dollars is sitting on Starbucks' balance sheet as stored card value.



## Store Count



It may seem like Starbucks is everywhere but in actuality, this coffee chain still has plenty of places to go and every investor should keep watch.

Starbucks has a goal of reaching 45,000 locations by 2025 demonstrating management's commitment to growth. India would appear to be the next great horizon.





# Diageo

DEO

Diageo was formed by the 1997 merger of Guinness and Grand Metropolitan. It is the largest producer of spirits in the world and one of the largest producers of beer. It owns Guinness, Johnnie Walker, Smirnoff, Gordon's, Tanqueray, and many others.

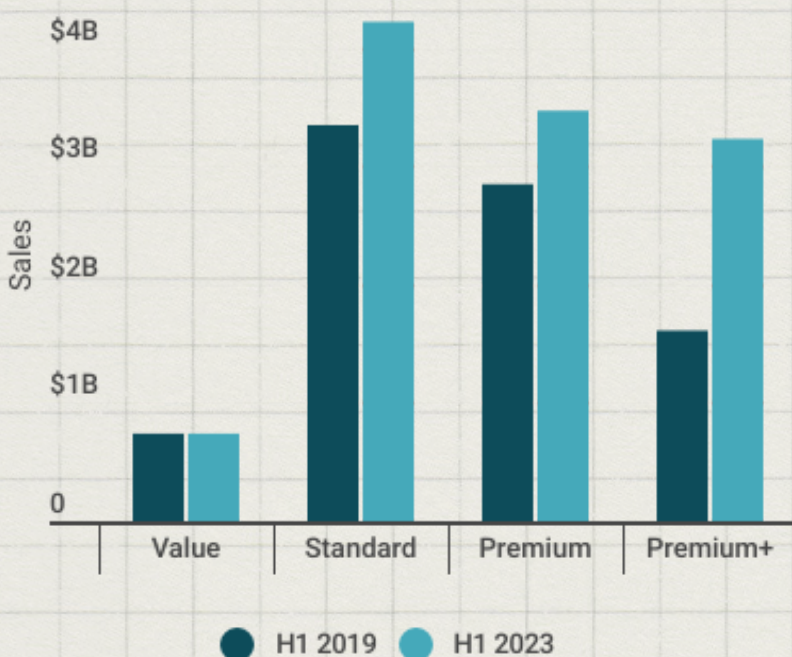
★ Diversified portfolio of brands ★ Expansion opportunities ★ High Return on Invested Capital ★

## What to Watch

- ❑ **Gross Margins** - As the world's largest producer of spirits, Diageo isn't afraid to throw around its weight to maintain margins. Despite rising industry costs, Diageo's gross margin has stayed rock solid for the last 10 years.
- ❑ **New Acquisitions** - Essential to Diageo's dominance is its ability to pick up rising talent. Keep an eye on the news for its latest additions and ensure its cash reserves stay stacked.
- ❑ **Dividend Payout** - Building on our last point, Diageo is the king of cash and regularly rewards investors with dividends and stock buybacks. Trailing twelve-month dividends have risen for the last decade so investors can use this as an indication of health and longevity.



## Premium Liquor Sales



In the last few years, the alcohol industry has gone through a process called premiumization. More and more people are willing to pay for top-shelf bottles and that has been very good for Diageo's bottom line.

Expensive spirits generate greater profit so growth in this segment is always welcome.



# Core & Main

CNM

Core & Main is a leading specialized distributor of water, wastewater, storm drainage and fire protection products, and related services. It sells to municipalities, private water companies and professional contractors across markets nationwide.

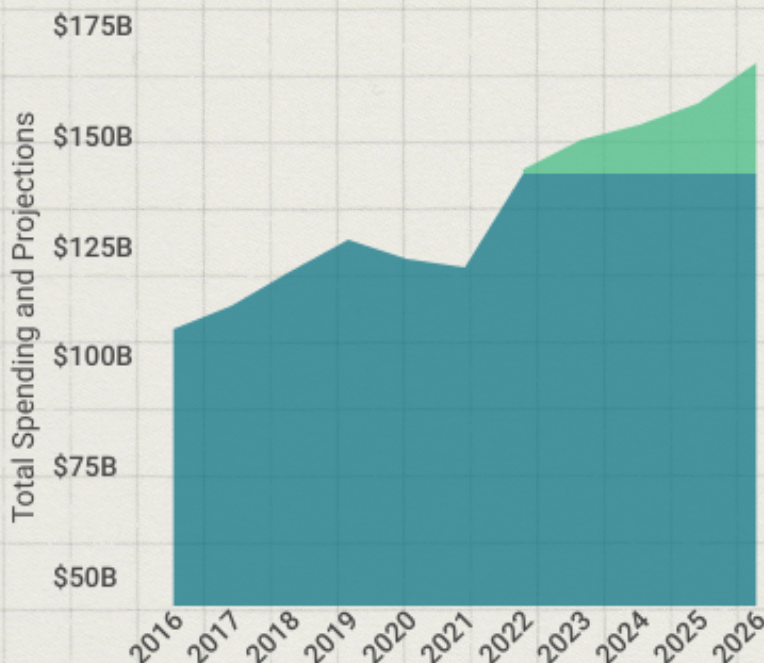
★ Cost Advantages ★ High Insider Ownership ★ Mission-Critical Products ★

## What to Watch

- Aging Infrastructure - According to Core & Main, the average age of water and wastewater pipes in 2020 was 45 years, up from 25 in 1970. Add to this over 600 municipalities still use 200-year old cast iron pipe systems. It estimates that over \$2 trillion will be needed to repair and upgrade water infrastructure in the U.S.
- M&A - Core & Main's main source of growth comes from acquisitions, a riskier strategy than investing in organic growth, but one it has been making work. By performing accretive, bolt-on acquisitions that allow it to easily and quickly expand its geographic footprint, it can avail of new income streams while concurrently achieving cost savings.
- Cyclicity - Core & Main operates in a cyclical industry, meaning it usually moves in tandem with the wider economy. This can make it more volatile than other stocks.



## Government Funding



The Infrastructure Investment and Jobs Act was signed into law in 2021 and has earmarked \$55 billion for drinking water, wastewater, and stormwater infrastructure funding.

Core & Main is in a position to be one of the main beneficiaries of this increased spend, and as you can tell from the first point, this likely won't be the end of the spending.





# American Tower

AMT

American Tower is a real estate investment trust (REIT). REITs pay out a high percentage of income to shareholders as dividends. The company rents out space for wireless communication equipment on over 200,000 towers that it owns globally.

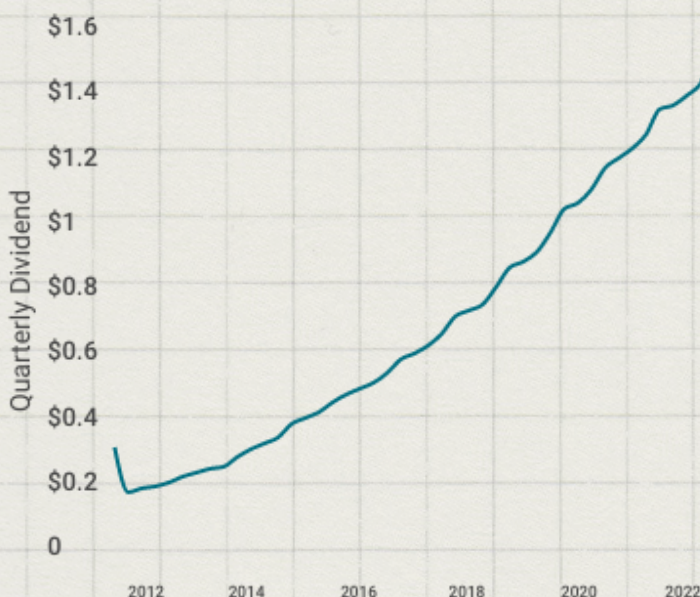
★ Regular Dividend Payer ★ Large Portfolio of Tangible Assets ★ High Switching Costs ★

## What to Watch

- Funds From Operations (FFO) - a REIT-specific metric that essentially represents cash flow and is the key benchmark for operating performance. The formula adds depreciation, amortization, and losses on sales of assets to earnings and then subtracts any gains on sales of assets and any interest income.
- Site Count - American Tower currently has 225,000 sites across the globe. It has been a measure of consistency in expanding this figure both in the U.S. and internationally.
- 5G Adoption - The transition from 4G to 5G networks is a huge boon to American Tower. Heavier data loads are expected to contribute to a need for more towers and more equipment on existing sites. In fact, the company has already penned a long-term lease agreement with Verizon to support its 5G network deployment.



### Dividend Payout



For any REIT, the dividend is a key aspect of the investment thesis. As you can see by the chart, American Tower has been consistent in growing its shareholder payouts over the last decade.



# Otis

OTIS

Otis is the world's leading provider of elevator and escalator manufacturing, installation, and service. It maintains over 2 million elevators and has installed north of 3.5 million. In its 170 years of operations, it has forged a reputation of safety and reliability.

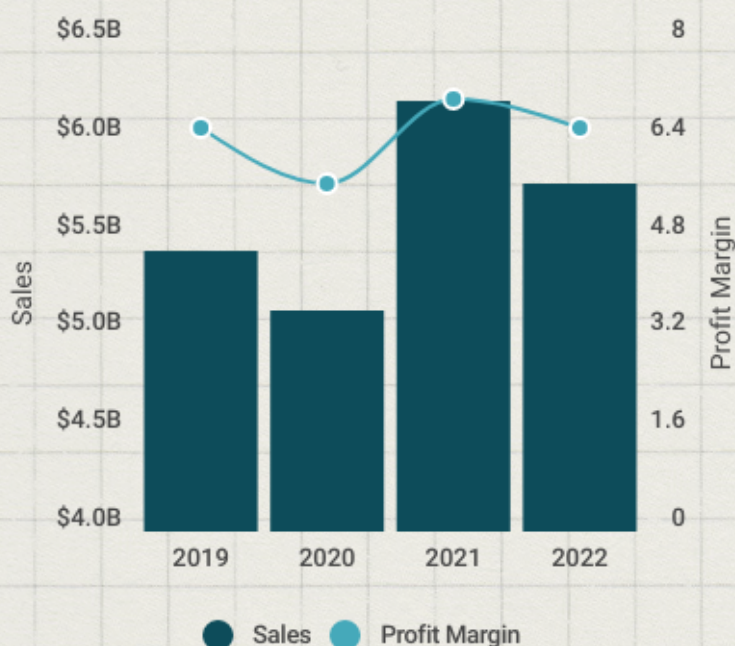
★ Strong Economic Moat ★ Razor and Blade Model ★ Recurring Revenue ★

## What to Watch

- Elevator Maintenance - Otis takes in more revenue from maintaining old elevators than installing new ones. This recurring revenue is a key aspect of the stock's investment thesis and a metric to watch. Its global retention rate falls around 60%, however, this number grows to around 80% in Europe and North America.
- Chinese Urbanization - The elevator industry has long been linked to the rapid urbanization of China. While Otis may be less invested than its peers, it remains a key source of new equipment growth. The construction industry in the region has been incredibly volatile in recent times and could affect the company's outlook.
- Cash Flow - Otis has a long history of returning value to shareholders, in the form of dividends and buybacks, thanks to its high levels of free cash flow. With \$1.5 billion of FCF forecast for 2023, expect management to continue to create long-term value.



### New Equipment Adds



The recurring revenue of Otis' maintenance contracts may come first in investors' minds but we can't overlook the importance of new equipment sales.

While this obviously brings in valuable revenue, it also builds relationships that can last decades, with a much higher likelihood of landing a service contract with those customers in question.



# Foundations

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The opinions expressed are not to be construed as investment advice.  
Please read our full disclosure here