

Investing

Plane spotting, earnings season and pricing power

By **Andy Killion**

Special to the Santa Paula Times

It's earnings season, so pay attention!

Like airplanes waiting to land at LAX, publicly traded companies representing the fabric of American free enterprise are lining up and landing their financial results and delivering their guidance for 2023.

As companies announce their results Mr. Market's actions can be mistaken for an irrational gyrating player, but don't be fooled by the activities of impulsive and ill-advised market participants. It is best that you do not panic, be patient, stick to your process and ignore the "buy the rumor, sell the news" crowd.

My previous articles have discussed how successful businesses build and maintain barriers to entry and allocate capital wisely. These attributes enable companies to remain successful even when experiencing the crosswinds and turbulence of economic and technological change.

Pricing power is another attribute of a successful enterprise. Think of this as the ability for a business to raise the price for a good or service without reducing customer demand.

Great businesses command higher

prices because their offerings are perceived to be worth it. How much did you spend on that latte, smart phone, EV or cable package and why?

In an effort to qualify my commentary on business, please tolerate a short biographical foray. A little over 12 years into my Wall Street career, I was bitten by the entrepreneurial spirit, quit my Wall Street job (against my loving wife's wishes) and bought not one, but two, boatyards with the naïve hope of lowering my stress level. My choice was helped by my absolute love of boats.

Unfortunately for my net worth, my timing could not have been worse as the Great Recession was right around the corner, allowing me to obtain what I jokingly refer to as my \$2 million MBA.

It was during those dark years making payrolls, lease payments and serving customers that my perspective of the business of investment advice changed forever. So now you know from whence I speak.

As an investor, you need to seek out businesses that command strong pricing power. Customers of these businesses make their economic choice not on how little they are paying for a product or ser-

vice, but rather upon how much value they are gaining. As inflation eats away at the power of the purse, this attribute becomes ever more valuable to the success of an enterprise. No business has ever remained economically viable without expanding profit margins for its owners. Put another way, profit margins cannot expand as costs increase without raising prices.

New Year 2023 round of earnings season will be concluded in late February, so watch, listen and learn how great businesses grow their barriers to entry and command price while the lesser ones fade away.

Our free-market system's historical timeline is strewn with the wreckage of companies that failed to adapt to, or recognize, change. Respect and learn from those that do. Better yet, own them.

I hope this was helpful and that you will return to me when I introduce the next successful business attribute. Have a great day and be safe out there!

— Andy Killion is president of *Bankers Investment Counseling Company "BICC"*— a fee-only California State registered investment advisory company 134 Davis St., Santa Paula.