Is Garmin the Perfect Stock?

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Everyone would love to find the perfect stock. But will you ever really find a stock that gives you everythingyou could possibly want? One thing's for sure: If you don't look, you'll never find truly great investments. So let's first take a look at what you'd want to see from a perfect stock, and then decide if Garmin(Nasdaq: GRMN) fits the bill. When you're looking for great stocks, you have to do your due diligence. It's not enough to rely on a single measure, because a stock that looks great based on one factor may turn out to be horrible in other ways. The best stocks, however, excel in many different areas, which all come together to make up a very attractive picture.

Some of the most basic yet important things to look for in a stock are:

Expanding businesses show healthy revenue growth. While past growth is no guarantee that revenue will keep rising, it's certainly a better sign than a stagnant top line. Higher sales don't mean anything if a company can't turn them into profits. Strong margins ensure a company is able to turn revenue into profit. Debt-laden companies have banks and bondholders competing with shareholders for management's attention. Companies with strong balance sheets don't have to worry about the distraction of debt. Money-making opportunities. Companies need to be able to turn their resources into profitable business opportunities. Return on equity helps measure how well a company is finding those opportunities. You can't afford to pay too much for even the best companies. Earnings multiples are simple, but using normalized figures gives you a sense of how valuation fits into a longer-term context. Investors are demanding tangible proof of profits, and there's nothing more tangible than getting a check every three months. Companies with solid dividends and strong commitments to increasing payouts treat shareholders well.

Garmin navigates its way to a score of 9, which is as close to perfect as we've seen among the stocks we've looked at over the past several months. That doesn't mean that the GPS maker is a slam-dunk buy for investors right now, though. As long as you only look backwards, Garmin makes all the right turns. Good margins, a pristine balance sheet, and good returns on equity have contributed to the company's long-term growth. And it's hard to argue with the company's healthy dividend payout of nearly 5%. But the company's sole crack in its armor lower revenue in the past year gives a hint of the challenges the company is facing right now. In November, the company reported weaker than expected earnings, with huge declines in its core U.S. market, wiping out gains in emerging markets in Asia.

More troublesome is increased competition. Garmin's decision to shutter its Nuvi smartphone shows just how vulnerable the company is to Apple (Nasdaq: AAPL), Google (Nasdaq:GOOG), and Research in Motion (Nasdaq: RIMM) and their phone-based navigation apps. Although Garmin still has good niche presence in areas like physical fitness and marine and aviation uses, prospective declines in its core car-based navigation business could put a damper on growth for years to come. In the end, the big question is whether Garmin can renew the innovative spirit that earned it such strong results early in its existence. If it can't, then it'll be a good reminder of how near-perfect stocks can fall from grace in a hurry.

Keep searching:- No stock is a sure thing, but some stocks are a lot closer to perfect than others. By looking for the perfect stock, you'll go a long way toward improving your investing prowess and learning how to separate out the best investments from the rest.

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