Instant Stock Portfolio for Gen Y Investors

Description

You have an edge over Bay Street.

In fact, if you're under the age of 30, you have a giant advantage over professional investors and they might not even know it. I can definitively say that even billionaire investor Warren Buffett doesn't have it.

What is the advantage? It's time.

Cue the collective groans.

Yes, know you've heard this before. But the benefits of starting your investment journey early cannot be understated.

Thanks to the magic of compound interest, a dollar invested in your 20s is worth far more than a dollar invested in your 40s or 50s. And unlike your older peers, young investors have more time to recover from any major investment mistakes. That's why it makes so much sense to get started investing NOW.

Unfortunately, sifting through the investment universe can be overwhelming even for the best of us. Thankfully, Motley Fool U.S. contributor Nicole Seghetti suggested a great method for constructing a new stock portfolio last week: Allocate a portion of your portfolio in foundation holdings, another in growth stocks, and a piece in more speculative names. So with that theme in mind, let's apply the same guidelines to young Canadian investors.

Foundation

Just like a house, all portfolios need to be built upon a strong foundation. Core holdings tend to be big, tried-and-true companies that have been around for decades. Yes, they're boring. But they provide steady-eddy growth and regular dividends that investors can likely count on forever.

The **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) is a great example of a core holding. Over the past decade, TD has increased its dividend by about 10% each year. If you had bought and held the stock over that time, the yield on your original investment would be almost 10% today!

What if we were to play out this thought experiment another decade? Assuming that TD can continue to grow its dividend at a 10% annual rate, by 2024 our yield on cost would be almost 24%. That's the type of cash flow that could fund an annual vacation or a cozy retirement with a sufficient investment.

Growth

Growth stocks exist in a odd netherworld. They aren't as as sexy as their more speculative cousins, but they're less stodgy than core foundation names. Growth companies boast established business models yet still have excellent expansion potential.

For investors with a little higher risk tolerance, consider adding **Dollarama** (TSX:DOL) to your portfolio. Over the past decade this company has been one of Canada's great business success stories by more than doubling its store count to almost 850 locations. And over just the past four years, sales and profits have increased 50% and 200% respectively.

Yet despite this expansion, the company still has a long growth runway. The dollar store concept is still underrepresented in Canada relative to the United States. And management sees room to more than double its store footprint.

Speculative

Speculative stocks are the next big thing. For historical examples think of businesses like **Apple**, **Amazon.com**, **Google**, or **Microsoft**. These companies have delivered stupendous returns for investors after reinventing their respective industries or creating new ones entirely.

Westport Innovations (TSX:WPT)(NASDAQ:WPRT) could be on the cusp of one such paradigm shift. Thanks to the enormous new supplies of dry gas in North America, natural gas-powered technologies for trucks and buses have moved from egghead concepts into actual use.

Advocates like billionaire T. Boone Pickens believe the abundance of inexpensive natural gas will cause the biggest shift in transportation since diesel replaced gasoline more than a half century ago. And thanks to its proprietary technology centers around the fuel injection system, Westport Innovations has most of the natural gas engine market in its back pocket.

Of course for every Apple or Google, history is littered with dozens of failed companies that never quite made it. Speculative stocks are like pepper to your chile. A little adds a nice kick. But too much can ruin your meal.

So while a few speculative names are great for provides a little zest to your portfolio, never invest more than you can afford to lose.

Foolish bottom line

What is the biggest mistake a young investor can make? Procrastination. The biggest asset a young person has is time. That’s why it’s never too early to start investing.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:WPRT (Westport Fuel Systems Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:DOL (Dollarama Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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Date
2025/09/04
Date Created
2014/03/11
Author
rbaillieul