# 3 Things All Investors Should Know Before Investing Their First Dollar

## Description

When people invest in the market, the first thing that usually comes to mind is, “How much would I make?” whether that’s in terms of dollars or percentages. However, the downside is just as important. Risk and return go hand in hand, after all.



When talking about risk, traditional finance would tell you to look to the beta of the stock, or how volatile the stock is. The higher the risk or volatility, supposedly, the higher return you could get.

For me, I introduce high risk stocks into my portfolio when I overpay for a business. There’s also the possibility that stocks I own freeze, cut, or stop growing their dividends.

Before buying a single share in any business, you should assess the risks of the investment choices in terms of your investment goals.

The following is a simple example to illustrate the three essential things investors should know.

**1. Know your realistic goals**

What do you wish to accomplish from your investments? The goals must be realistic and measurable, so you know if you’re doing it right for your personal goals. If not, then you need to change your actions.

My goal is to receive a safe and growing income from my portfolio of dividend-growth stocks. The minimum yield of my portfolio at any time is 3%, and I aim for the income to grow at 6% per year.

**2. Buy stable, needed businesses**

If I were building a portfolio from scratch, I’d want to focus on stable, established businesses that pay me a growing income. They don’t all need to pay at least 3% and grow their yields at 6% per year.

For example, I could buy **Dream Global REIT** (TSX:DRG.UN) for its high yield of 8.1%, because I believe that the real estate investment trust is making the right moves by buying and receiving rents from commercial properties in the seven major cities of Germany. History indicates that Dream Global is unlikely to grow its distributions, but that's fine because it pays out a high income. That's its purpose in my portfolio.

On the other hand, I could complement Dream Global's no-income growth with **Enbridge Inc.** ( TSX:ENB)(NYSE:ENB), a pipeline leader and established business that projects 10-12% earnings-per-share growth until 2018. Enbridge is likely to translate that earnings growth into dividend growth as it has raised its dividends at an average rate of 11.8% for the past 10 years. If you choose stable, needed businesses, then those businesses should have organic growth.

Sometimes in the face of a recession, business earnings might stagnate or even go down. Don't get scared out of your holdings that way. It is common for stocks to go up and down. Sometimes, way down. As Warren Buffett stated, "Unless you can watch your stock holding decline by 50% without becoming panic-stricken, you should not be in the stock market."

**3. Buy when the businesses are priced right**

If I did the first two things right, then I shouldn't need to sell a single share, and I can just sit back and receive a growing income. However, other than buying stable businesses that pay me well, I need to ensure I don't overpay for any company.

Like many other people, I like to buy my groceries on sale. If I care about the dollar that I save at the supermarket, shouldn't I care more about the price I pay and the value I get from my investments?



Valuing a company can get really complicated, and there are resources out there to help us do that. Your discount brokerage should be your first resource in providing fair value estimates for listed stocks. You can then cross check with other resources, such as Morningstar and Value Line, though you'll need to subscribe to their services. Check with your public library for possible free access to Value Line.

**CATEGORY**

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

**TICKERS GLOBAL**

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

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**Date**
2025/09/23
**Date Created**
2015/05/11

**Author**
kayng