The Ultimate Test for Investors

Description

As a self-directed investor, there are some key things you should be doing. No matter what type of investor you are (value, growth, seasonal, momentum, options, etc.), you should never overpay for what you're buying. Just like when you're at the grocery store, you should try to buy items that are on sale and get more value for your buck.

It's the same with investing: aim to buy at low valuations, so you're buying assets at discounts. If companies are discounted due to macro factors, that would be all the better because it'd mean there aren't company-specific problems.

Due to the oil price plummet and a weak loonie and economy, not only are energy companies cheaper than they were before, but many quality businesses in Canada are also on sale, including the Big Five Canadian banks such as **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), which yields 5.4%. Another quality business that's on sale is **Telus Corporation** (TSX:T)(NYSE:TU), which yields 4.8%.

Comparatively, a year ago they yielded 4.5% and 3.7%, respectively. So, their current yields are much more attractive.

The ultimate test

Everyone is happy when the market goes up and stock prices go up. A rising tide lifts all boats. However, investors who are still in the stage of buying stocks and accumulating assets should really hope for lower prices. Counter-intuitive, I know.

So, on top of buying stocks at discounts, the ultimate test for investors is being able to hold on to their valuable stock assets when stock prices fall lower. Imagine an investor who bought Canadian Imperial Bank of Commerce a few months ago at a 5% yield, believing it was priced at a good value, and then sold it at a loss now because they didn't like seeing the red.

Selling valuable assets at a loss that you bought at good prices would defeat the purpose of investing, which is ultimately to make money. Yet many investors love seeing their holdings go up in price (and have no trouble buying more at higher prices), but feel uneasy when prices go down and are afraid to buy more, fearing prices will go even lower.

Conclusion

Investors should aim to buy quality stocks at discounts. Further, they should be prepared for the ultimate test of holding on to their shares in a down market when prices fall. In fact, when prices fall, they should buy more quality businesses at even cheaper prices.

Investors must recognize that it's impossible to catch the bottom. They can only choose to buy quality businesses at desired prices and yields.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:TU (TELUS)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:T (TELUS)

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