Why Invest in Stocks?

Description

People can invest in stocks for a variety of reasons. Popular reasons include saving for retirement, a vacation, or a big purchase. Another reason may be to boost your income.

In any case, the longer your time horizon to invest, the safer it is. So, if you're investing in the stock market, don't expect to get your money out in less than three to five years because you don't want to sell at a loss during a down market like the one we're experiencing now.

Saving for retirement

If you're saving for retirement, hopefully you have over a decade to save. You can invest in high-quality businesses and buy them only when they're discounted. Then you'll be taking less risk compared with people who invest in the next big thing and hope for a quick gain.

Royal Bank of Canada (TSX:RY)(NYSE:RY) has a 4.7% yield and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) has a 5.4% yield. Both are quality businesses that are discounted today.

Energy infrastructure leaders **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) have 4.8% yields and are also priced at discounted valuations.

Saving for a vacation or a big purchase

You could also be saving for a vacation, which is like a big purchase. Your investment time frame could be a reasonable three to five years. In that case, you might look for investments with growth potential.

Since the quality stocks mentioned earlier are discounted today, they are good candidates for multiple expansions a few years down the road. Therefore, they also have price appreciation potential.

A growth stock to add to your radar is **Alimentation Couche-Tard Inc.** (TSX:ATD.B). It's a convenience store company with operations in North America and Europe. Its brand includes Circle K, Statoil, Kangaroo Express, Couche-Tard, and Mac's. Since 2011 its share price has risen by 550%!

So, $1,000 invested five years ago would be $6,500 today.

Boost income

Some investors buy stocks to boost their income. If you're able to invest $5,500 in a TFSA every year and earn a reasonable 4% yield, you'll get $220 of tax-free income in the first year.

Some stocks yield much higher than 4%. For example, real estate investment trusts (REITs) can yield around 10%, including **Dream Industrial Real Estate Invest Trst** (TSX:DIR.UN), which yields 10.8%, and **NorthWest Health Prop Real Est Inv Trust** (TSX:NWH.UN), which yields 9.6%. If you buy the same amount of each REIT in your TFSA, you will get an average yield of 10.2%.

Conclusion

No matter if you're investing for retirement, a big purchase, or to boost your income, it's generally better to own a balanced portfolio of stocks that includes quality businesses and a mix of income and growth, so your risk is spread around.

Different types of stocks have different risk profiles. For example, high-growth stocks such as Couche-Tard could experience multiple compression periods (and its share price will go sideways or even go down) if its growth slows.

In any case, compared with real estate investments or other forms of investments, stock investments are easier to liquidate whenever you need your money back. Just make sure you don't sell in a market downturn. That's also why we have a minimum time frame of three to five years.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:RY (Royal Bank of Canada)
4. NYSE:TRP (Tc Energy)
5. TSX:CM (Canadian Imperial Bank of Commerce)
6. TSX:DIR.UN (Dream Industrial REIT)
7. TSX:ENB (Enbridge Inc.)
8. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
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Date
2025/08/20
Date Created
2016/01/20
Author
kayng