New Investors: Tips for Smart Investing

Description

If you're starting out in investing, you may be at a loss as to where to start. It's important to gain real life experiencing in investing, but before you do that there are some tips you can follow to improve your chances of long-term investment success.

Here are some tips on dividend and value investing.

Focus on quality dividend stocks

Businesses that have been in operation for many years must be of high quality; otherwise they would be chased out of business by their competitors. **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) has not only been in operation for over a century, but it has also paid dividends for a long time.

Since a big part of market returns comes from dividends, getting a nice yield from your investment can help improve your overall returns. CIBC has paid dividends for over 140 years!

It's not a high-flying stock you would invest in for a quick gain, but it has navigated changing economic and business landscapes and thrived.

The fact that it has been able to pay dividends for many years also shows that its earnings are pretty stable (because dividends are paid from earnings). Further, stable earnings should lead to a more stable investment.

CIBC's payout ratio is under 49% (based on the fiscal year 2015 earnings and a quarterly dividend of $1.15 per share), so its dividend of 5.4% remains safe. By investing $1,000, you'll receive $54 for the year. By investing $10,000, you'll receive $540 for the year. If CIBC continues to hike its dividend for the sixth consecutive year this year, shareholders will receive even more income.

Pay less for what a stock is worth

You want to buy businesses when they're cheaper than what they're worth. You can look back at a company's history to determine if it is cheap today. In the last 13 years, CIBC normally traded at a multiple of 11.4. With a multiple of about nine, CIBC is priced at about a 21% discount. It's important to determine why a company is trading at a discount.

Look in to the future

CIBC is cheaper now because of low oil prices and a weak economy. This year and next, the bank's earnings are likely to grow at a slower pace. However, its long-term earnings-growth rate is expected to be about 7%. So, building a position in CIBC and other discounted, quality dividend stocks over time should lead to exceptional returns.

Does the business continue to be profitable?

To determine if a business is becoming more profitable, there are a few metrics you can look at: earnings per share (EPS) growth, revenue growth, and operating margin.

From the fiscal year 2014 to 2015, CIBC's EPS grew 6%, revenue grew 3.6%, and its operating margin improved by 1.2% to 30.5%. The business did fine in the fiscal year 2015. However, shareholders should expect slower growth this year and next.

Conclusion

New investors should not expect to get quick gains from the stock market. Instead, invest in quality, discounted dividend companies. After gaining more experience, investors can explore other investment strategies, which may be more difficult to grasp than dividend and value investing.

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