New Investors: How Should You Pick Your First Stocks?

Description

If you're new to investing, you probably don't know which stock to buy. I don't blame you. There are over a thousand companies listed on the Toronto Stock Exchange! Here are some questions you can ask yourself to help you decide on your first stocks.

Do you understand the business?

Pick businesses that you understand, so you have a better chance of holding on to the stocks when their prices go down. Believe me, eventually they will. Just take a look at stock market prices in 2008 and 2009 as an example. Investors should understand that wealth is accumulated by holding on to quality businesses for a very long time.

To understand a business, you should at least know how it makes money. For example, **Canadian Western Bank** (TSX:CWB) earns most of its money from interest on its loans. **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP) owns and invests in global, quality, long-life infrastructure assets that generate consistent cash flows. Its assets include transmission lines, ports, toll roads, rail operations, pipelines, and communications infrastructure.

Does the business pay a dividend?

New investors don't have to start with dividend stocks. However, there are benefits to learning to invest with dividend stocks because they tend to be less volatile because of the pool of long-term investors holding it for the income.

Further, dividend stocks give you a positive return in the form of dividends, even in a down market. When the share prices of dividend stocks fall, you can get higher yields. So, it's actually an opportunity to buy more shares when prices fall.

For example, I bought more **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) shares when it fell to about $49 in August last year. I've pretty much ignored its price volatility since then. However, those shares generated two quarterly dividends equating to $1.02 per share without me having to do anything. On the dip, the bank yielded about 4.1% and my yield on cost increased to 4.5% thanks to the bank’s dividend increase of 7.8%.

Is it a quality business?

The higher the quality of a company, the closer to fair price I’m willing to pay for its shares. The lower the quality of a company, the bigger margin of safety I require before I consider buying it (if I consider it at all).

What’s quality? If it’s a dividend company, I look at its dividend-growth track record, whether its dividend is sustainable or not, the company’s growth prospects (future growth leads to future dividend growth or at least a safer dividend), and its balance sheet strength.

Conclusion

There’s no “one size fits all” strategy in investing. Investors should find a strategy that fits them. Take it slowly and learn one step at a time. As you learn more and gain experience, you’re likely going to combine multiple strategies and employ them as your own. However, it certainly will help if you buy companies that you understand, that are dividend stocks, and that are quality companies.

CATEGORY

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

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:CWB (Canadian Western Bank)
5. TSX:TD (The Toronto-Dominion Bank)

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