



## How to Invest for Higher Returns

### Description

Most of the time it's difficult to buy low because emotions play a role when we invest. When others are fearful, we may be fearful as well!

It may be a stretch to invest without being emotional, but there are ways to help us invest with less emotion. Doing so will improve our investment returns. Here's how.

#### Set goals for your portfolio

Whether you're aiming for total returns or regular income, it helps to write down your portfolio goals. The goals should be specific, attainable, reasonable, and have a deadline.

Since I'm primarily a dividend investor, my portfolio targets a 4% yield. To lower the risk, I also opt to buy dividend companies from different industries. If I invest \$1,000, I expect to get \$40 of income within a year.

#### Set goals for each stock before you buy

In my portfolio I have stocks that I plan to always hold a position in and to potentially never sell. These are high-quality companies that I view as core holdings.

**Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) has a 4.6% yield that fits the portfolio goal of 4%. It just bounced about 19% from its recent low of \$52 to the \$62 level. Valuation-wise, it's still about 10% off from a fair value of about \$69 based on its normal multiple.

**Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) is a utility with global infrastructure assets and stable, growing cash flows. It has increased its distribution for eight consecutive years.

Unitholders get a boost from the strong U.S. dollar because Brookfield Infrastructure pays U.S.-denominated distributions. Using a foreign exchange of US\$1 to CAD\$1.25, Brookfield Infrastructure yields 5.4% at \$52.50 per unit.

If I bought the same amount in both companies today, I'd get a portfolio yield of 5%. Since my portfolio goal is a 4% yield, I can choose to buy a company that yields 2% but has higher growth potential.

A smaller percentage of my portfolio (that I categorize differently from the main income portfolio) are stocks I believe will have above-average total returns. They can be value or growth stocks and can pay little to no dividend.

They include **Linamar Corporation** ([TSX:LNR](#)), which I averaged into in the last two months. For these holdings, I expect most returns to come from price appreciation. That's why instead of yield targets, I have sell price targets for these types of holdings.

## Conclusion

Not all investments work out as nicely as it did for Linamar. It appreciated 10% from my cost basis. However, it appreciated 20% from the recent low of \$50. This shows that investors don't have to buy at the bottom to generate a reasonable profit.

To improve returns for both my core dividend holdings and above-average-return holdings, I aim to pay prices that are cheaper than the business's intrinsic values.

The amount of the discount I require depends on what kind of company it is. If it's a high-quality company, I may be willing to pay a fair value for it. However, it would also depend on the opportunity cost—what other investments are available? If there are more compellingly valued businesses I like, I will buy those first.

In the case of Linamar, because it's in a cyclical business, I waited for it to be 30% below its long-term normal multiple before I took a closer look at it.

Generally, I believe investors can improve their returns by thinking about what they intend to get out of an investment before jumping into it. Set portfolio goals, set goals for each holding, and set income and/or buy targets before buying.

Investors should improve their returns by tracking their results, reflecting on their actions, and improving their process.

Businesses and macro factors can change anytime. So, it's okay to change your goals periodically.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:BNS (Bank Of Nova Scotia)

5. TSX:LNR (Linamar Corporation)

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