Tips to Avoid Losing Money When Investing

Description

The biggest risk in investing is losing money. By selling at a loss, investors have less capital to invest for future returns. Investors are less likely to sell at a loss if they view stocks as investments instead of vehicles for quick gains. Here are several ways to avoid losing money.

Buy quality businesses

By buying high-quality companies, investors can worry less. A high-quality company has a proven business model and is financially strong with a credit rating of BBB+ or higher.

If it’s a dividend-paying or dividend-growth company, that’s even better because a portion of the company’s earnings and/or cash flow is paid back to shareholders. So, shareholders can rely less on volatile stock prices. Receiving dividends can help investors hold on to their shares. Additionally, only businesses that generate stable cash flows can pay consistent dividends over a long time.

For example, **BCE Inc.** (TSX:BCE)(NYSE:BCE) is a diversified telecommunications company with an S&P credit rating of BBB+ and a seven-year track record of increasing its dividend. However, not all quality businesses are on sale at any given point in time. At about $59, BCE is trading at 17.5 times its earnings, which is moderately expensive.

Buy at a margin of safety

Even a quality business can be a risky investment if investors pay too much for its shares. So, investors should only buy when a business is priced at a discount to its intrinsic value.

For example, **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) is a life insurer with operations diversified geographically across Canada, the U.S., and Asia. Manulife yields 4% at $18.70 per share and has increased its dividend for two consecutive years. Most importantly, Manulife has a margin of safety of 15-18% and an S&P credit rating of A that indicates it’s financially strong.

Build a diversified portfolio

No matter how attractive you find an industry or company, do not put all of your money into it. Industries and companies take turns outperforming and underperforming. If you have all of your eggs in one basket and the company underperforms, you risk selling at a loss due to emotions, even if the sector or company turns around in the future. Holding underperforming companies on their own is tough enough already.

Have a long time horizon

If you invest with a long-term time frame in mind, you're less likely to sell at a loss. To avoid liquidating your investments for an emergency, always have an emergency fund of at least three to six months of your cost of living available.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:BCE (BCE Inc.)
4. TSX:MFC (Manulife Financial Corporation)

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