New Investors: How to Choose Your 1st Stocks

Description

It can be challenging for new investors to choose their first stocks. I don't blame them. There are thousands of companies to choose from on the American stock exchanges and the Toronto Stock Exchange.

However, not all companies are good investments for investors, especially new investors. A good example is mining companies, which have generally done poorly in the past few years, even with the recent price recovery.

Instead, new investors should look for quality companies with these characteristics: a long history of profitability, strong earnings and/or cash flows, a strong dividend, a reasonable price, and low volatility.

For example, **Fortis Inc.** (TSX:FTS) is a low-risk business with a strong S&P credit rating of A-. Fortis is comprised of nine utilities that serve 3.2 million electric or gas utility customers.

History of profitability

Fortis's roots go as far back as 1885. Today it's a leading North American utility with $29 billion of assets. It's primarily a regulated utility, so its earnings are stable and growing.

As far back as my data goes, Fortis hasn't lost money for two decades. In fact, from 2007 to 2015, its earnings per share grew by 6.6% per year.

One way Fortis increases its profitability is via acquisitions. Its latest acquisition is **ITC Holdings**, which awaits regulatory approvals. ITC Holdings is a fully regulated electric transmission utility with support from FERC regulator, which is expected to allow for reasonable returns.

A strong dividend

While Fortis has been becoming more profitable, it has been sharing that wealth with shareholders. Indeed, it has hiked its dividend for 42 consecutive years. Only one other Canadian public companyhas achieved that.

Fortis is executing its $9 billion five-year capital program through 2020, which should help contribute to its growth. On top of that, its payout ratio is about 70%. These factors should help the company achieve its dividend-growth target of 6% per year through 2020.

Reasonably priced

Unfortunately, Fortis is fully priced today at a multiple of 19. At $40.50 per share, it yields 3.7%. Its annual payout of $1.50 per share is solid. A better entry point would be a yield of 4% or higher at a share price of $37.50 or lower.

Low volatility

New investors are most likely concerned about share-price volatility. Fortis has a beta of less than 0.1. This means that Fortis tends to be much less volatile than the market and would be an investment that’s easier to hold on to.

Conclusion

New investors should consider Fortis and similar stocks as their first stocks. These are quality companies that have below-market betas, long histories of profitability, stable and growing earnings, sustainable and growing dividends, and are reasonably priced.

CATEGORY

1. Dividend Stocks
2. Investing
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TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

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