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, especially for 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, **Telus Corporation** (TSX:T)(NYSE:TU) is the fastest-growing Canadian telecom, and it generates stable cash flows and has a strong S&P credit rating of BBB+. The telecom operates in an oligopoly with about 12.4 million subscriber connections, of which about 8.4 million are wireless subscribers, 1.4 million are residential network access lines, 1.6 million are high-speed Internet subscribers, and one million are TELUS TV customers.

History of profitability

The longer a company has been profitable, the better. It's even better if the company has been increasing its earnings or cash flows with an acceptable growth rate.

Telus increased its earnings per share (EPS) by 5.35% per year from 2007 to 2015, despite the fact that its EPS declined 20% in 2009 due to the recession.

A strong dividend

Due to Telus's stable earnings, it has been able to grow its dividend for 12 consecutive years. In fact, it hiked its dividend by 9.5% this year, and its payout ratio remains sustainable at about 68%.

For the last two years, Telus's dividend-growth target was 10% per year. It achieved that on a roundednumber basis. Going forward, with anticipated slower growth, Telus targets to grow its dividend by 7-10% per year, which is not bad.

Reasonably priced

It is expected that growth will be slower than it's been in recent years, so Telus's share price has pulled back and now trades at a multiple of 15.5.

At under $41 per share, Telus yields 4.5%. It's expected to grow its earnings by 5-6% in the medium term, which indicates an approximate annualized return of 9.6-10.6%.

Low volatility

New investors are most likely concerned about share-price volatility. Telus has a beta of less than 0.8. This means that Telus tends to be less volatile than the market and would be an investment that's easier to hold on to.

Conclusion

New investors should consider Telus as one of their first stocks. It is a quality company with a below-market beta, a long history of profitability, stable and growing earnings, a sustainable and growing dividend, and it's reasonably priced.

CATEGORY

1. Dividend Stocks
2. Investing
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1. NYSE:TU (TELUS)
2. TSX:T (TELUS)

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kayng