A Simple Way to Get Good Investment Returns

Description

Stop micro-managing your stock portfolio. Just as you don’t like your boss watching you work over your shoulder, it’s also detrimental to your portfolio’s health the more you watch your holdings’ stock prices.

By not looking at the moving stock prices every day, your investment decisions won’t be swayed by emotions of fear or greed due to stock-price volatility.

How can you get good returns without watching the market?

Focus on quality companies

Quality companies are profitable in good and bad economic times. And they tend to become more profitable over time.

For example, the Big Five Canadian banks, including **Bank of Montreal** (TSX:BMO)(NYSE:BMO), operate in an oligopoly that is supported by the government.

They maintain high fees, which customers don’t like, but they have no choice if they want to bank with the sturdiest banks in the country. On the other hand, the high fees are beneficial to shareholders, the part owners of the company.

Set alerts

I bank with one of the Big Five, and it allows me to set alerts that tell me if a stock drops to a specific share price.

The alerts are useful because I don’t have to watch the market like a hawk. Instead, I set desired prices that I’d like to buy the quality companies at.

I analyze each company for the desired buy prices based on valuation and the desired starting yield.

In the case of Bank of Montreal, for the past five years, a yield of 4.7-5% is high for the bank. That implies a buy range of $67.20-71.50.

Valuation-wise, in the last decade, the bank traded at a normal multiple of 11.5. At about $82.60 per share, it trades at a multiple of 11.6, so it’s within fair-value range. At today’s price, it yields almost 4.1%.

Conclusion

If investors buy quality dividend-growth stocks, they can get good returns regardless if the market goes up, sideways, or down.

Bank of Montreal should be able to pay its quarterly dividend of $0.84 per share (an annual payout of $3.36 per share) because its payout ratio is only about 50%.

If investors buy the bank today, they’ll start with a 4.1% yield, which can grow about 5% per year from its anticipated medium-term earnings growth of 5% per year. This gives an approximate return of 9%.

However, if investors can buy it on dips for a starting yield of 5%, they can expect roughly 10% annualized returns and a growing 5% income.

It’s a matter of investing $10,000 for income of $410 a year (a 4.1% yield) or waiting for a dip to get an annual income of $500 (a 5% yield)–either of which is a pretty good return in addition to about 5% capital appreciation each year from earnings growth (assuming shares are bought at least fair valuation).

Seeing that the market delivers average annualized returns of 7-10%, securing a 4-5% return from dividends and the rest from capital appreciation is not a bad idea for good investment returns using the simple strategy of value-dividend investing.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

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