# What Should You Do Now That Your Quality Shares Have Gone up?

## Description

Investing is a funny thing. When shares go up, investors typically want to sell, afraid that they will lose their gains.



At the same time, if shares go down, they want to cut their losses, afraid that they'll go down even more.

However, I don't think we should focus only on gains or losses. More importantly, what are your investment goals?

**Back to your goals**

Before you invest in anything, you should have some idea about your portfolio goal as well as how the investment you're considering fits into that goal.

Without a portfolio goal, how can you be sure you're hitting your targets and are on track to your ultimate goal, most likely retirement?

We'll use **Royal Bank of Canada** (TSX:RY)(NYSE:RY) as an example. It has gone up about 18% from its recent low of $67. If I had the extra cash, I would have bought more shares when it was low.

What might my portfolio goal be if I'd bought at $67? It might be building a quality portfolio with a growing income stream.

Royal Bank is the leader of the Big Five banks that operate in an oligopoly structure in Canada, it has an S&P credit rating of AA-, it serves millions of clients in 46 countries, and it has paid a dividend for more than a century! It certainly lands in the quality category in my book.

I don't have a minimum yield requirement for a dividend investment. However, I target a portfolio yield of 3%. Royal Bank still yields 4.1% today, and its payout ratio is below 50%, so it can certainly continue to raise its dividend as it has for the past several years.

Since I hold it for its steadily growing dividend, there's no reason to sell even when it rises. Besides, the shares aren't extremely overvalued.

**What if it falls?**

No one can predict Royal Bank's share price for tomorrow, next month, or next year. It might very well go lower. However, if I sell my shares for gains today, I'm killing the goose that lays golden eggs–dividends.

I'd be cutting off the growing income stream generated by Royal Bank and going against my portfolio goal of building a growing income stream.

If Royal Bank shares fall to an attractive enough price, I can simply buy more shares for more income.

**Is Royal Bank a buy today?**

It'd seem Royal Bank is not a buy today because it has already gone up 18% from its recent low of $67. However, valuation-wise, the bank is fairly valued.

One of Warren Buffett's famous quotes is "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." And I'd say Royal Bank fits into the former category.



That said, I'd rather buy a wonderful business at a *discounted* price. In the past five years, Royal Bank has yielded about 4.6% at the high end, so anytime it yields 4.6% or higher, it may be time to buy some shares for a strong yield.

Based on its quarterly dividend of $0.81 per share, Royal Bank yields 4.6% at $70.43 per share.

**Conclusion**

After this discussion, I hope investors will pay more attention to the quality of the businesses they're buying and dividends, instead of to the less predictable stock-price movements.

A quality business will do well over time, and that will eventually be reflected in its stock price. Investors just need to focus on buying it when it's discounted.

**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**TICKERS GLOBAL**

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