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. Mining companies are a good example of this; they 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, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is the sixth-largest North American bank that serves 24 million customers, of which about 10.7 million are active online or mobile customers.

Its core businesses are in Canada and the U.S. In the second quarter, it earned 61% of net income from its Canadian Retail business segment and 25% from its U.S. Retail segment. The bank also has a top S&P credit rating of AA-.

History of profitability

From 2005 to 2015, Toronto-Dominion Bank increased its earnings at an average rate of 8.3% per year. As of April 30, it had $1.1 trillion of total assets, $714.5 billion of total deposits, $553.4 billion of total loans, $336.3 billion of assets under administration, and $343.5 billion of assets under management.

In the second quarter, it posted net income of more than $2.2 billion and diluted earnings per share (EPS) of $1.20. Both were 5.2% higher than from the same period a year ago. Additionally, it earned $8.3 billion of revenue in the second quarter, which increased 7.4% year over year.

A strong dividend

While Toronto-Dominion Bank has been becoming more profitable, it has been sharing that wealth with shareholders.

From 1995 to 2015, it grew its dividend by 12% per year. In a more recent period, from 2005 to 2015, it grew its dividend by 9.7% per year, despite the fact that it took a cautious stance in the financial crisis by freezing its dividend in 2009 and 2010.

Its EPS are expected to grow 5-7% per year in the medium term. On top of that, its payout ratio is less than 50%. So, the bank should be able to maintain a dividend growth of 5-8% in the medium term.

Reasonably priced

Toronto-Dominion Bank is within fair-value range at a multiple of around 12.1. At $57.30 per share, it yields 3.8%. Its annual payout of $2.20 per share is solid. A better entry point would be a yield of 4% or higher at a share price of $55 or lower.

Low volatility

New investors are most likely concerned about share-price volatility. Toronto-Dominion Bank has a beta of less than 0.8. This means that the bank 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 Toronto-Dominion Bank 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. Bank Stocks
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4. Stocks for Beginners

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1. Editor's Choice

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