Why Choose Individual Stocks Over The Market

Description

The average market returns are 10%. So, if you invest $1,000 in the market and get a 10% return, you'll have $1,100 a year later. Of course, the market doesn't work that way every year.

Sometimes, it becomes irrational and goes way down, such as what happened in the financial crisis of 2008. Other times it moves essentially sideways or heads higher. The underlying stocks that make up the market do the same.

I prefer to invest in individual stocks because I know what I'm buying, and so, I can be less emotional and more rational when their share prices go up or down.

At the same time, I can choose stocks with characteristics that I like.

Dividend stocks

One of my favourite kind of stocks is dividend stocks. Dividend investing is a defensive type of investing because the dividend yield can offer a decent return regardless of what happens to the stock price.

For this category of stocks, I like buying companies with yields of 4% or higher that also have moderate growth. For example, **Telus Corporation** (TSX:T)(NYSE:TU) yields 4.2% at $43.38 per share, and it aims to increase its dividend by 7-10% per year in the next couple of years. Telus is one of the big three Canadian telecoms and has a BBB+ S&P credit rating.

Then, there are other dividend companies, which have higher growth. For example, although **Alimentation Couche-Tard Inc** (TSX:ATD.B) only yields 0.5%, it continues to deliver double-digit growth.

It just hiked its dividend by 14.8% that's supported by earnings and cash flow growth, and it still pays out less than 12% of its fiscal 2016 earnings. In fact, its dividend per share is 40% higher than a year ago!

Alimentation Couche-Tard is not cheap today. It trades at about 21.4 times its earnings, but it has high growth prospects. So, it's a strong candidate for total returns, especially on dips.

Conclusion

If you choose the route of buying individual stocks, it'll take a longer time to build a portfolio compared to investing in an index fund with a broad market exposure. And initially, you won't be sufficiently diversified.

A portfolio of 20 stocks, diversified across different industries with little correlation to each other, is generally accepted to be sufficiently diversified.

That said, investors should stick with what they're comfortable with. For example, an equal-weight, $500,000 portfolio of 20 stocks implies each holding will be $25,000. So, as your portfolio grows, you might feel the need to expand the number of holdings so as not to have too much in any holding. The number of holdings, and how much you allocate in each, is up to you to decide.

The benefit of holding a portfolio of individually picked stocks is that you can choose quality companies that you know and understand.

Additionally, you can choose companies to own based on your needs. If you need income now, you can invest in income-oriented stocks, such as Telus. If you want total returns, you can invest in growth-oriented dividend payers, such as Alimentation Couche-Tard. And of course, there's nothing stopping you from owning both types of stocks.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:TU (TELUS)
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Date
2025/08/24
Date Created
2016/07/15
Author
kayng