How to Invest With Little Emotion

Description

Sometimes our emotions get the best of us when investing. I don't blame you. Stock prices go up and down every day. And when we experience a down day, just like what happened on Wednesday, when most stocks fell, it can be unsettling.

The **Dow Jones** and **S&P 500** were down 1.8%, the **Nasdaq** was down 2.6%, and the **S&P/TSX Composite Index** declined 1.7%. However, volatility is inherent in stocks. Share prices going up or down 1-3% in a day is actually pretty normal.

Here are some tips that can be employed to reduce the impact of emotions clouding our judgment when investing.

Maintain a list of businesses you want to own

According to metrics that are important to you, come up with a list of great businesses you want to own. Then determine the prices (i.e., valuations) you are willing to own the companies at.

As a part of my dividend-investing strategy, I have **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) in my portfolio. I started buying its shares below $12 per share in late 2016 and continued to buy more shares as they fell below $11.

In late 2016, Algonquin was trading at about 21.5 times its earnings and 11.2 times its funds from operations (FFO). These were reasonable multiples to pay for the utility with above-average growth in its industry.

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calm, no emotion

Management aims to grow Algonquin's earnings per share and FFO per share at a compound annual growth rate (CAGR) of more than 10%. Moreover, it plans to share that growth with shareholders by increasing the company's dividend per share at a CAGR of 10% through 2021.

Strong near-term earnings and cash flow growth have already started to take effect from Algonquin's acquisition of Empire, which boosted the company's first-quarter adjusted EPS by 19% year over year.

At $13.45 per share, Algonquin trades at 22 times its earnings and 10.8 times its FFO. You may decide you will only pay a maximum price-to-earnings ratio of 20 for the shares, which implies a maximum target buy price of about $12.20.

If you own Algonquin already, you may decide that if it trades at 25 times earnings, or roughly $16.40 per share, it's way overvalued.

So, to summarize, you may choose to buy some Algonquin shares if they fall to $12.21 or lower and sell if they rise to $16.40 or higher. By setting buy and sell targets, you should be less swayed by market gyrations.

Enroll in dividend-reinvestment plans

Participating in dividend reinvestment plans is a great way to invest without emotion. If you own shares of great companies, you probably want to own a bigger piece of it. You can then sign up to reinvest your dividends for more shares.

These dividends are reinvested at an average market price near the time they are paid. Some companies even offer a discount for their shares, which give an extra reason to reinvest the dividends. Algonquin offers a discount up to 5% on its reinvested shares, determined by Algonquin at the time.

Investor takeaway

By having a plan on at what price to buy or sell quality businesses, investors will be less swayed by share price volatility. If you have identified great businesses to own for a long time, you can reinvest their dividends for free if they pay a dividend, which helps you invest without emotion.

CATEGORY

1. Dividend Stocks
2. Investing

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