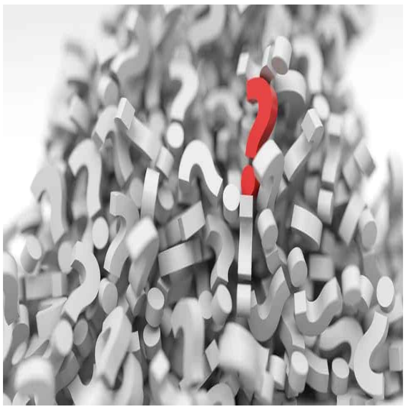

How Should You Invest in Stocks if You Don’t Have a Lot of Money?

Description

Not everyone is born with a silver spoon in their mouth. However, anyone can benefit from investing in the stock market. In the long run, stocks tend to outperform other asset classes, including bonds and real estate.

How should you invest your money if you have little to invest every month, quarter, or year?

Exchanged-traded funds

Let’s say you’re able to save $1,000 a year (which comes out to about $83 a month, or less than $3 a day), your best bet is to start with a broad market exchange-traded fund such as **SPDR S&P 500 ETF Trust** (NYSEARCA:SPY), which is well diversified across different sectors. As soon as you save up another $1,000, you can keep averaging in to the fund.

But that’s kind of boring. To make things more interesting and fun, you can invest in stocks instead.

What’s the best stock idea right now?

Whenever you have $1,000 to invest, you can invest in your best idea at the time. You’re not necessarily looking for high returns (which imply high risk). Instead, you’re looking for low-risk and reliable returns.

Is there really such a thing in stock investing? You were sure your financial advisor told you that stocks are risky.

Stocks are traditionally viewed as risky because of their volatile prices. And businesses can go bankrupt. However, there are ways to reduce your risk when investing in stocks.

Quality businesses offer safety of principal, reliable returns, a dividend, and dividend growth over the long term.

Intact Financial Corporation (TSX:IFC) offers all that. It is the leading provider of property and casualty insurance in Canada with a market share of about 17%. It is the leader of the pack, as the next competitor has a market share of about 10%.

Over a 10-year period, Intact Financial has outperformed the industry by having higher premium growth, a lower combined ratio, and a higher return on equity.

At below $94 per share, Intact Financial trades at a reasonable multiple of 17.4, while it's expected to grow its earnings per share by about 20% per year for the next three to five years.

Since the end of 2007, before the last recession, the shares have delivered annualized returns of 11.4%. In the long run, investors can expect annualized returns of at least 10%, barring a market-wide correction.

In the meantime, Intact Financial offers a dividend, which it has increased every year since its initial public offering. At the recent quotation, it offers a yield of 2.7% which you can expect to grow, on average, 8% per year.

Investor takeaway

You don't need a lot of money to start investing. By investing in your best idea (which should be a great business that is reasonably valued and increases its dividend over time) once you've saved up $1,000, over time, you'll build a robust, diversified, quality portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:IFC (Intact Financial Corporation)

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