Where Should New Investors Start?

Description

Now that we're in the middle of July, summer is in full swing, and most are thinking about how to make the best out of what's left of summer. With another academic year in the books, a number of new graduates have obtained full-time employment. In the hopes that many of these graduates are doing something responsible with the money they're earning, let's take a look at the investments that could make sense for those wanting to invest for the first time.

The first thing to consider is the reason that someone is putting money aside. Obviously, the motivations for saving are going to be very different for someone who is 22 years old in comparison to someone older. By the time you pass age 25, it is normal to think about purchasing a home or spending for things much more permanent. A 22-year-old fresh out of school may need to accumulate an emergency fund before thinking about bigger commitments. Money for an emergency fund should be kept highly liquid.

After creating the emergency fund, investing in the equity markets is what many choose to do. Although some younger investors believe it is essential to start with aggressive stocks as they have a much longer investment time frame, that is most often not the case. Given that there are still a number of major expenses that need to be made, such as a wedding, new vehicle, or the purchase of a new home, the investment time frame needs to be reconsidered.

Overlaying these factors to the lack of investing experience of first-timers. The best approach may be to purchase shares in defensive companies. For those not in the know, a defensive company is characterized by consistent revenues and earnings during all phases of the business cycle. Examples of these companies can be grocery stores or power companies. Cyclical companies have much larger fluctuations in revenues and earnings depending on the phase of the economic cycle. Many cyclical companies will report losses during recessions.

For beginners, some of the best investments to consider may be Canada's railroads. Currently, the biggest in the country with a market capitalization of almost $80 billion, **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) has performed very well over the past decade. Over a 10-year period, shares have appreciated by over 600%, translating to an annual compounded rate of return of almost 25%. To boot, the company also pays a very small dividend to shareholders.

Canada's second-largest railroad is **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP), which carries a market capitalization of over $31 billion. Shares have had an incredible five-year run, returning a total of 180%, or 29.3% compounded annually. Clearly, long-term investors have been well rewarded over a longer period.

With consistency and a slow approach to wealth creation, new investors have these options in addition to many others to begin their investing careers.

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