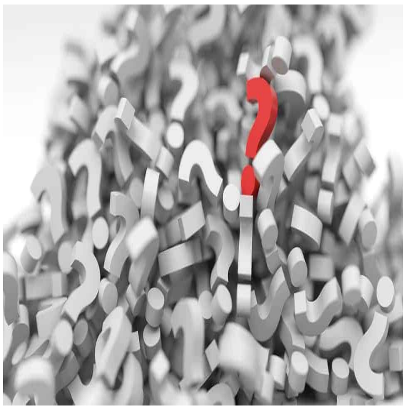
COMPANY NAME
Address | Phone | Link | Email



How Much Trading Is Enough?

Description

Throughout the year, investors will typically spend a lot of time considering their options. The better investors take action when needed and very rarely second-guess themselves in a way that forces them out of a position in a hasty way.

For those that are not so talented, the tendency may be to trade a little too much.

What portfolio managers refer to as a portfolio's turnover rate is the average of how many times all the securities in a portfolio are bought and sold throughout the year.

A turnover rate of 100% means that the entire value of the portfolio is bought and sold once throughout the year, while a rate of more than 100% translates to changing the holdings more than one time throughout the year.

A turnover rate of 50% (as an example) means that half the portfolio is bought and sold throughout the year, while the other half is held for the long term.

To clarify what this ratio really measures, it is the total dollar amount being bought and sold throughout the year, and not the individual shares themselves.

Assuming a portfolio begins and ends with $100,000, the portfolio's turnover ratio would be calculated as the total amount of shares bought and sold divided by the $100,000 account size. Had the account changed in value, we would have used the average balance.

In certain cases, investors may hold 50% of their portfolios in the same securities year after year and never exit the holding, while using the other half of their assets to trade aggressively. Although the turnover ratio may not be fairly representative in this circumstance, it is still the best way to measure just how much investors trade in and out of positions.

Although there is no right or wrong answer regarding just how much any one investor should be trading, it should be noted that long-term investors will probably not have average holding periods of less than one year. This translates to a portfolio turnover of less than 100%, showing that long-term investors need to be at least in the double digits (or even single digits).

For those searching for investments that can be held in their portfolios for the long term, shares of **Hydro One Ltd** (TSX:H) may just be at the top of the list. The company, which recently reported a massive acquisition, is in the business of providing consumers with electricity.

The company, which is clearly in the defensive category, currently pays quarterly dividends of $0.22 per share, which translates to an annualized yield of 3.9%. Depending on how the acquisition turns out, investors may receive a dividend raise down the road. Time will tell.

When searching for a permanent holding, it is critical for investors to understand which businesses will be greatly influenced by the phase of the economic cycle versus the ones that will be consistent all the way through. Choose accordingly.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)

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