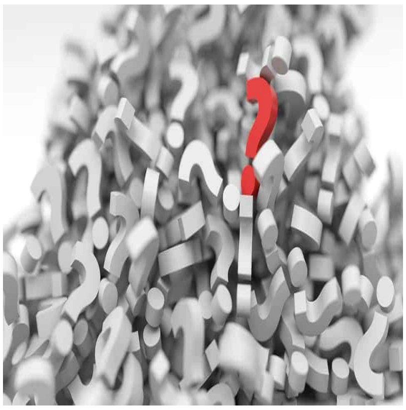

Should You Care About a Stock's Beta?

Description

When you look at financial websites such as Google Finance or TMX Money (the TSX's site), do you find yourself wondering what all of a stock's various numbers mean? Today, let's look at a stock's beta and how you can use this number as an investor, then we will look at the betas of some popular stocks.

What is beta, and what does it mean for investors?

We all know the stock market can be volatile. The more volatile a given stock, the greater its highs and lows tend to be. If you've ever wondered how volatile a particular stock is compared to others, this is where the beta comes in. Beta is a quantitative measure that lets you compare one stock against the overall market or a specific index, such as the TSX.

The index being used is assigned a beta of one. Any stock with a beta higher than one is more volatile than the index; anything lower is less volatile. For example, if Stock A has a beta of two, the stock is twice as volatile as the TSX. This means that if the TSX falls 5%, Stock A has the potential to fall 10% — twice as much as the index. If the TSX rises 8%, Stock A has the potential to increase 16%. A stock with a beta of 0.5 is only half as volatile as the index.

If you are an investor who wants low volatility, which many often consider synonymous with low risk, then you are looking for a beta of one or lower. However, if you are more of a risk taker looking for the potential of big gains, you would be looking for a stock with a beta higher than one. The higher the beta, the higher your potential gains are. Just remember: there is no promise that a stock will perform the way you think it will. These possible gains are by no means guaranteed.

Higher volatility and possible gains may sound great, but if you're rather risk averse, this strategy could keep you up worrying at night that you might lose big. Each investor needs to determine their own risk tolerance and investment strategy.

Let's look at the five following stocks and their betas: **Fortis Inc.** (TSX:FTS)(NYSE:FTS), **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), **BCE Inc.** (TSX:BCE)(NYSE:BCE), **Aurora Cannabis Inc.** (TSX:ACB), and **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE).

Stock	**Beta**	**Volatility**
Fortis Inc.	0.01	Low
TD Bank	0.69	Low
BCE Inc.	0.29	Low
Aurora Cannabis	4.90	High
Baytex Energy	4.48	High

Our first three companies have betas lower than the TSX, meaning they are considered less volatile. Fortis in particular doesn't move much, and all three of these stocks tend to move less than the overall market. Our last two companies, Aurora and Baytex, tell a different story. Each is more than four times more volatile than the TSX. This means that if the TSX gains 10%, these stock prices will likely increase over 40%. Of course, if the TSX loses 10%, these stocks are expected to lose over 40%. Stocks with a higher beta offer higher potential rewards, but they are considered to be much riskier as well.

Investor takeaway

As a Foolish investor, you know you should always do your due diligence and investigate a stock thoroughly before deciding to invest in it. Using the beta can help you gauge a stock's volatility, which is only one of many factors you want to look at when choosing stocks.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:FTS (Fortis Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:ACB (Aurora Cannabis)
5. TSX:BCE (BCE Inc.)
6. TSX:BTE (Baytex Energy Corp.)
7. TSX:FTS (Fortis Inc.)
8. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Date
2025/07/02
Date Created
2017/09/11
Author
sportelance