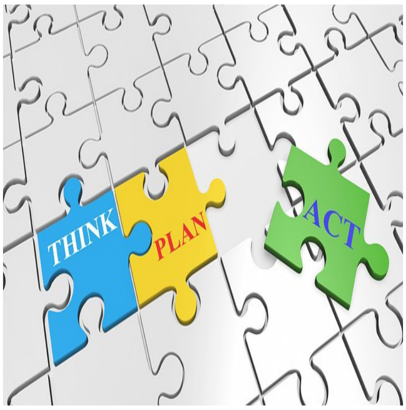

New Investors: 2 Things You Might Have Wrong About Stocks

Description

Stock investing is not gambling. There's no way to guess if the share price will go up, down, or sideways the next day. So, focus on buying excellent businesses at a fair or discounted valuations.

The share price doesn't tell you if a stock is expensive or cheap

Investors new to investing tend to focus on the share price. For example, they might think **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is more expensive than **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) because they trade at about $108 and $68.50 per share, respectively.

One way to tell if CIBC or TD is more expensive is by comparing their price-to-earnings ratios (P/E). Currently, CIBC and TD trade at a P/E of ~10 and ~12.5, respectively. So, TD is actually more expensive than CIBC. However, it doesn't mean you should automatically buy CIBC because it's cheaper; stocks tend to be cheap for a reason.

In this case, it's because CIBC is expected to grow its earnings at a slower rate than TD in the next few years. That said, if you care more about income than returns, then you might choose CIBC over TD because the former offers a 4.8% yield, while the latter offers a 3.5% yield.

What's the business behind the stock?

Some investors trade in and out of stocks in an attempt to make a quick buck. That could work sometimes. However, stock investing can be so much more powerful.

If you're serious about investing and want to profit in the long run, don't depend on finicky short-term price volatility.

Instead, look for businesses that you want to own for a long time. Then buy them at a good value. High-quality companies tend to trade at a premium to the market or its peers. However, occasionally, the market will be kind and give you a buying opportunity.

Other than the top Canadian banks, another type of business that's great for long-term investment is utilities because of their stable nature and the tendency to pay out decent yields and growing dividends.

Brookfield Renewable Partners LP (TSX:BEP.UN)(NYSE:BEP) is a nice utility you can consider. Last month, the company's S&P credit rating was upgraded from BBB to BBB+, which is a positive sign and means it will be able to borrow at a lower cost.

With its renewable power facilities of primarily (88%) hydroelectric generation in 15 markets across seven countries, the utility generates largely (92%) contracted cash flows, which improves its dividend safety. In fact, management aims to grow its dividend per share by 5-9% per year. Currently, it offers a reliable yield of 5.6%.

Investor takeaway

Focus on finding great businesses that pay you (in the form of dividends) to own them. Then buy at the right valuation. But don't forget to monitor the businesses every quarter or year to ensure they are still doing well.

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2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:TD (The Toronto-Dominion Bank)
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