New Investors: 3 Ways You Can Increase Your Chance of Success

Description

There is so much information out there from TV programmes, online videos, articles, and books, etc. that new investors will probably have a hard time deciding what to do that makes sense for their stock portfolios.

Here are several things that you can do to improve your chance of success and higher returns.

Focus on the business

Focus on businesses that generate consistently growing profitability in the long run. Over decades, the top Canadian banks have proven themselves. For a long-term portfolio, it makes sense to own at least one of Canada's leading banks.

Right now, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) offer safe yields of 3.5-3.9%. They can probably increase their dividends by at least 5% per year for the next few years.

Buy companies with a leading position

After identifying businesses that consistently grow their profitability, choose the one with a leading position that tends to have competitive advantages over its peers.

For some time now, Royal Bank has maintained its leading position among the big banks. It generates the most revenue ($39.1 billion in the trailing 12 months), operating income ($14.4 billion), and net income ($10.8 billion).

For comparison, TD Bank's trailing 12-month revenue, operating income, and net income of $35.6 billion, $11.8 billion, and $9.8 billion, respectively.

In the last five years, on a per-year basis, Royal Bank saw revenue growth of 6.8% and operating income growth of nearly 8.2%. TD Bank's five-year revenue growth and operating income growth were 7.5% and 8.3%, respectively.

You can't really go wrong with having Royal Bank or TD Bank, the top two leading Canadian banks, in your long-term portfolio. They are fairly valued today and investors can consider buying whichever one experiences a meaningful pullback in the future.

Buy dividend companies

Given the choice between two companies, which have pulled back meaningfully, if you can't decide which to buy, invest in the one that pays a dividend or offers a bigger dividend yield. Historically, dividends have contributed to as much as one-third of total returns. So, it makes good sense to target dividend stocks in your portfolio.

Bonus tip: Diversify

Instead of having half of your portfolio in the top Canadian banks, you should diversify into other great businesses in the utilities, technology, healthcare, consumer staples, and consumer discretionary sectors. Remember that they can behave very differently from the banks.

For example, **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) is a home-grown, high-growth tech phenomenon, which can offer significant price appreciation in the long run but can have big price swings — up or down — in a short period of time. Buyers need to be ready for the roller-coaster ride, unlike bank and utility stocks, which are typically smooth sailing.

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2. NYSE:SHOP (Shopify Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:RY (Royal Bank of Canada)

5. TSX:SHOP (Shopify Inc.)
6. TSX:TD (The Toronto-Dominion Bank)

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