How to Develop Personal Investment Goals

Description

Before developing your personal investment goals, it might help to take a look at other people's goals. Here are some investment goals I've heard from retail investors such as yourself: beat the market, get income that doubles what the market offers, generate $40,000 of income annually from your portfolio, and preserve capital.

You'll notice that these can overlap.

Beat the market

Historically, the average market rate of return has been 7-10%. So, if one of your goals is to beat the market, you'd aim to buy stocks that have an estimated return of more than 7-10%.

Right now, you can secure a +7% yield from **Altagas Ltd.** (TSX:ALA) before it raises its dividend by the end of the year. With this high yield, you only need minimum growth to beat the market.

Get income that is X times what the market offers

The Canadian market (using **iShares S&P/TSX 60 Index Fund** (TSX:XIU) as a proxy) offers a yield of 2.65%. If one of your goals is to get income that doubles what the market offers, then you'd aim to buy stocks that offer a yield of at least 5.3%.

Not that many stocks offer a safe yield of 5.3% and offer good growth. Altagas happens to be one of them with stable cash flow supported by a diversified portfolio of regulated gas-distribution utility, power-generation, and highly contracted midstream assets.

If you find it too difficult to build a diversified portfolio with a safe 5.3% yield and good growth, rework your goal to perhaps aim for a yield of 3.98%, which is 1.5 times that of the market's yield.

Generate $X of income annually from your portfolio

Some investors aim to have their portfolio income eventually replace their job's income. By the time they're able to generate their cost of living consistently from their investment income, they can choose to retire if they want to.

Since stock prices are volatile, it helps to focus on getting income from dividends instead of depending on capital appreciation.

Capital preservation

Stocks can cut their dividends due to deteriorating fundamentals, which will also likely lead to lower share prices. So, you should avoid such companies if you foresee potential fundamental deterioration, which could mean lower profitability or cash flow.

Share prices can go up or down, even if the long-term prospects of a company are still intact. If share prices drop and you sell at a loss, it also wouldn't work.

You need to know your risk tolerance, as well as understand the companies you're buying. If you don't, even if you were right in buying a company that's cheap, you might not be able to hold on to it as the stock drops further.

Investor takeaway

With the above examples, you should be able to start developing your own investment goals, whether they pertain to total returns or income.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)
2. TSX:XIU (iShares S&P/TSX 60 Index ETF)

PARTNER-FEEDS

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

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kayng