



New Investors: Which Stocks Should You Buy?

Description

There are thousands of stocks available on the stock market. How should new investors go about choosing which stocks to buy? Here are two things you can think about to help you choose.

Think about the business

Before picking a stock to buy, think about the businesses you want to own. After all, behind each stock is a unique business.

Ideally, investors want to own businesses that will be profitable every year and grow their profits over time. It's no wonder that long-term investors have at least one top Canadian bank, such as **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), in their portfolios.

In the last five fiscal years, the bank has increased its earnings per share by almost 4.2% per year. In the same period, it has increased its dividend per share by almost 6.9% per year. Paying a fair multiple for the stock five years ago would have earned shareholders annualized returns of about 11%. These are very good returns on a well-known, stable, and profitable company.



Think about value

After choosing profitable businesses, the next step is to buy them at a fair valuation or, even better, at a discounted valuation; the best companies can deliver horrible returns if you overpay for their stocks.

The best time to buy stocks in recent history was during the Financial Crisis. From peak to trough, Bank of Nova's stock fell about 40%. However, its earnings per share only fell about 6%. Of course, at the time of the crisis, the market was filled with doom-and-gloom sentiment, and investors feared the situation would get worse. So, at the time, it wasn't easy holding on to existing stock investments, let alone investing new money.

However, it was precisely during the crisis that Bank of Nova Scotia and many other great businesses were selling at steep discounts to their intrinsic values. The bank traded as low as a price-to-earnings multiple of 7.5. Buying shares then and holding them until now would have delivered annualized returns of 16%, or total returns of +260%. Right now, the stock is fully valued.

A better value today

Compared to the banks, energy infrastructure companies are generally at [better values](#). **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), [the North American leader of the group](#), shares have declined for a reason. That makes the stock likely to deliver higher returns in the next few years.

For starters, investors can get a safe, decent yield of 5.3% from the stock. Moreover, Enbridge aims to increase its dividend per share by about 10% per year for the next few years, which should lead to double-digit returns.

CATEGORY

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

TICKERS GLOBAL

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:ENB (Enbridge Inc.)

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