3 Stock-Investing New Year’s Resolutions

Description

Ideally, I would love to buy high-quality, dividend-growth companies only when they’re undervalued. However, not all market conditions allow for that scenario. In today’s relatively high stock market, investors must be selective about what they buy.

For safer investing, here are three stock-investing New Year’s resolutions that you can consider in this soaring stock market going into 2018.

Buy quality companies

Quality companies generate stable earnings and cash flow most of the time. When a black swan occurs and the market falls hard, these are the companies that will experience less volatility.

For example, **Fortis Inc.** (TSX:FTS)(NYSE:FTS) is largely composed of regulated assets, which generate predictable returns and growth. Its earnings per share have grown over the long term, although though there were occasional small dips.

Don’t overpay

Fortis' five-year normal price-to-earnings multiple is about 18.8, so one could say the stock is fairly valued today. At under $46 per share, Fortis trades at a multiple of about 18.2.

In the last recession, Fortis traded as low as a multiple of 14.2. If we see a market-wide correction, assuming a multiple of 15, the stock could fall to ~$38, which implies a potential drawdown of about 17%. If Fortis trades at about that price in the next 12 months, I'd consider it a bargain.

That said, investors should look for a bigger margin of safety for commodity stocks, such as **Peyto Exploration & Development Corp.** (TSX:PEY). The plummet of the oil price from 2014's high and the decline of oil stocks soon after was a good lesson on cyclicality.

Although Peyto is a quality company, it's vastly different from Fortis. Peyto's efficient, low-cost business model still doesn't save it from the oversupply and the low natural gas prices. When the commodity prices are low, it'll be a drag on the stock, which is exactly what happened in the past 12 months.

Generate dividends

It's nice to get paid income for owning a piece of a company. That's where dividends come in. Fortis has paid a growing dividend for 43 consecutive years, so it's one of two public Canadian companies to do so. Currently, Fortis offers a yield of 3.7%.

Although Peyto offers a bigger yield of ~8.8% for starters, there's concern that it could cut its dividend next year if natural gas prices don't recover.

Investor takeaway

No two companies are the same. However, if you stick with high-quality, dividend stocks and don't overpay, your investments should do fine over the long run – just make sure your portfolio is sufficiently diversified.

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1. Dividend Stocks
2. Energy Stocks
3. Investing

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2. TSX:FTS (Fortis Inc.)
3. TSX:PEY (Peyto Exploration & Development Corp)

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