New Investors: Why You Shouldn't Care How Much a Stock Costs

Description

I'm a bit dumbfounded sometimes when I see articles that talk about good stocks that are under $10 or $5, or when my friends say that a stock is too expensive, referring only to its absolute price. Instead, you'd be better of looking at a stock's price relative to its earnings.

I can understand why price might be an issue if you're trying to buy **Berkshire Hathaway Inc.** and its nearly $300,000 price tag. After all, to own even one share of that company is out of reach for most investors.

However, when it comes to most of the stocks out there, it really shouldn't even be a consideration.

Number of shares just doesn't matter

Whether I buy 50 shares of **Snap Inc.** (NYSE:SNAP) or just one share of **Alphabet Inc.** (NASDAQ:GOOGL)(NASDAQ:GOOG), my total investment will be roughly about the same, and in the end, that's all that really matters. A 5% increase is still a 5% increase in your portfolio's value, regardless of what the stock price is.

All that the stock price tells you is the number of shares you'll be able to buy for the amount you plan to invest, but it really has no significance. You won't earn any more in dividends, and you won't turn more of a profit simply by having more shares.

I'm sure most investors would rather have one share of Alphabet rather than 500 of Snap, if for no other reason than that Alphabet is a much better stock that actually makes money and has a lot of upside to it. Factoring in the number of shares you own is pointless, and I find it baffling that people would even consider it.

Investing low dollars isn't worthwhile

I suppose one argument could be made that investors can't afford to invest in Alphabet because its stock is over $1,000. However, I'd suggest that if you're investing less than $2,000 at a time, it's likely not worth the effort. On most exchanges, you'll be charged a total commission of ~$20 to buy and to sell, so on a $1,000 investment, you'll need to earn 2% just to break even. The lower your investment, the higher your breakeven price will be.

In some scenarios, you may be able to avoid fees with certain brokerages, but with a low-dollar investment, the amount of profit you could earn might make you wonder if it's worth the effort. Consider a scenario where you do research, find a good stock, and buy $1,000 worth of shares. If the stock has a great return and increases 10%, you've only made $100 on all that effort, and that's under a very good scenario. The old adage of needing money to make money still rings true.

Penny stocks aren't worth the risk

One way investors will try to maximize their returns and justify making small investments is by buying penny stocks, since the upside could be tremendous. Even a one-cent change in price can be significant and produce large returns for your portfolio. However, a lot of these investments are built off hype and speculation, and the swings that happen with penny stocks can easily eclipse what we've seen happen to **Aphria Inc.** (TSX:APH) and other pot stocks recently.

Everyone hopes and believes that their penny stock is going to be the next **Amazon.com, Inc.** (NASDAQ:AMZN) and will strike it rich when the share price takes off. Unfortunately, in most cases, it won't follow Amazon's path, and investors will be lucky if it just doesn't end up being another Southridge Enterprises Inc.

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