Do You Have to Invest Now?

Description

You've probably heard about compounding returns. Assuming you can invest for a certain rate of return, the sooner you invest your money, the more assets you'll accumulate.

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For example, if you invest $1,200 every year for a 7% rate of return for 30 years, you'll end up with almost $122,000 (of which $36,000 came from your pocket). However, if you invest $1,200 for the same returns, but you invest the money for 10 years, you'll only end up with ~$17,300, which is a huge difference!

Under the circumstance that you get guaranteed returns and principal, it would make sense to invest as early as possible. Guaranteed investment certificates (GICs) give you that guarantee. The problem is, GICs offer interest rates of ~2.75% right now. For many people, that's not enough.

In the case of stock investing, it might work against you to invest as early as possible. For instance, some investors want their money to work for them all the time and remain fully invested.

Why investing now might work against you

Investing early (or putting money to work in the stock market as soon as you get it) doesn't guarantee that you'll get a lower price on a stock. Take a look at the price action of **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **BCE Inc.** (TSX:BCE)(NYSE:BCE) in the last year to see what I mean.

To protect your stock position from downside risk, you can determine the fair valuation of the company, and then make a rule to not consider buying unless the company trades at least 25% below the estimated fair price.

You can also use the analyst consensus to help you with this exercise. For example, **Thomson Reuters** has a 12-month mean target price of $56.50 per share on Enbridge. A 25% margin of safety implies a target buy price of $42.37 per share. Since the stock currently trades at ~$41 per share, you might consider buying some shares.

There are always exceptions

Investing early would probably work better for value stocks. However, you might end up kicking yourself if you wait to invest in a growth stock such as **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP). The stock has more than doubled in the last 12 months.

Growth stocks can be especially volatile, but if you wait for dips, the stock might end up running away from you. When investing in growth stocks, it might be better to build your position over time and aim to buy on dips.

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Investor takeaway

At any point in time, there are probably only a handful of the best stock ideas (e.g., best value or best growth prospects). If you have already invested in those ideas, it might make better sense to hold on to remaining cash until the next best idea comes along.

For growth stocks, if you're afraid their prices will run away from you, buy some now and build your position over time.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:SHOP (Shopify Inc.)
4. TSX:BCE (BCE Inc.)
5. TSX:ENB (Enbridge Inc.)
6. TSX:SHOP (Shopify Inc.)

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