Why You Should Forget About Beating the Market

Description

If you're thinking about beating the market, you should forget about it. Even fund managers have trouble beating the market every year. When you think about it, maybe you don't necessarily *want* to beat the market.

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The Canadian market delivered returns of ~1% in the last 12 months. Would you have been happy with returns of, say, 2%, last year? Probably not.

On the other hand, the U.S. market fared much better in the period by delivering returns of ~14%. Because the U.S. market doesn't have a big exposure to commodity stocks, it tends to deliver higher returns than the Canadian market. Thus, if you're aiming to beat the market, choose the U.S. market over the Canadian market.

Focus on your goals

Investors should find it more meaningful to focus on their goals instead of beating the market. For example, you might be saving up for a vacation in a year. In that case, you probably don't want to put that money in the stock market. Therefore, choosing a GIC is the safest way to go.

You might want to get your own place. To save for a down payment, you might aim to invest your savings with a five-year investment horizon. For your down payment, you should know roughly how much you need. If you're aiming for a $400,000 apartment with an +$80,000 down payment (at least 20% of your home's purchase price), you'll save money by not getting mortgage insurance. To get to +$80,000 by the end of year five on a return of 7% per year, you'll need to invest ~$1,150 per month, or ~$575 between two people.

You might also be saving for your retirement that's decades down the road. In any case, investing in businesses that will grow their profitability over time is a good way to go.

Buy great businesses at good valuations

The big Canadian banks churn out billions of dollars of profits every year. They are great businesses to own for the long run to generate returns of ~7%, assuming you buy them at fair valuations.

Right now, one of the largest banks in Canada, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), is fairly valued and offers a yield of nearly 3.7%. The quality bank just hiked its dividend by ~11.7%. Investors looking to invest for the next five years or longer can consider the stock, especially on dips.

Under normal market conditions, Toronto-Dominion Bank can deliver ~7% per year. If you buy the stock on meaningful dips, getting ~10% per year isn't farfetched.

Investor takeaway

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Instead of focusing on beating the market every year, consider focusing on your goals. What are you saving for? How much do you need to save? What rate of returns do you need? Be reasonable with your goals; they should be specific, attainable, and have a deadline. In the beginning, saving is more important than investing for high returns.

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kayng

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