



What's the Secret Sauce to Beat the Market?

Description

Although I've written about [a simple tip anyone can apply to beat the market](#), it's actually simple in theory, but probably not so easy to apply in reality. What's the secret sauce that can help you beat the market? It can contain these ingredients: you, dividends, and buying stocks on sale.

You

The core idea discussed in the linked article above is to hold on to your winners, such as **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)). The company must be doing something right; otherwise, the tech stock wouldn't be beating the market with +60% gains in the last 12 months, despite experiencing a recent dip of ~24%.

It's not easy holding on to Shopify stock, though, because of its outrageously high valuation and its occasional large dips or upward movements. However, if you really believe in the long-term prospects of the company, it might make sense to hold on to the stock for aggressive growth and add to the stock on large dips as a part of your diversified portfolio.

Individual investors must have the fortitude, confidence, and patience to hold on to the stocks they believe in. A part of that comes from thorough research about the company.



Dividends

Dividend stocks will help investors hold on to their shares. Studies have shown that in the long run, dividends deliver about a third of the total returns. So, holding dividend stocks can certainly boost your returns and help you beat the market.

It's even better if stocks have a track record of growing their dividends. **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) has increased its dividend for 22 consecutive years. Although the stock is down big time from its recent high [for a number of reasons](#), the company has continued to grow its dividend. The dividend aristocrat now offers a whopping yield of ~6.6%, which is a rare sight for Enbridge stock. The dividend will help investors to hold on and allow them to have a good chance of beating the market in the long run.

Valuation

Investors should aim to buy companies when they're on sale. I believe Enbridge is on sale right now and that today's buyers could see double-digit gains three to five years down the road under a normal market.

Enbridge stock is trading at a price-to-cash-flow ratio of ~8.6 at \$40.60 per share, whereas it normally trades at a multiple of ~10.6, which implies the stock is undervalued by ~30% and has ~47% upside potential.

Investor takeaway

To beat the market, research thoroughly potential investment candidates and aim to buy the short list of stocks when they're on sale.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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