



How to Pick the Best Stocks For a Starter Portfolio

Description

Picking the right stocks for a starter portfolio can often be challenging. In a bull market, such as the one being experienced at the present time, it is all too easy to buy stocks in companies that are overpriced. After all, a number of stock markets are now trading close to all-time highs, with margins of safety arguably being narrower than they have been for a number of years.

Likewise, during more difficult periods it may be tough for a new investor to take the plunge and buy stocks that appear to have challenging outlooks. Doing so could lead to high long-term returns, but also mean short-term paper losses.

The best sectors

As a result, instead of focusing on the best stocks to buy, investors may wish to concentrate on the best industries in which to invest. Doing so could mean they are able to capitalise on potential tailwinds, while also obtaining some of the best investment opportunities within an index in a variety of market conditions.

One way of finding the best sectors in which to invest is to focus on the long-term trends within the economy. For example, at the present time the [banking sector](#) could enjoy a period of higher growth than it has done in recent years. Global inflation is set to increase after a decade of deflationary forces, and this could prompt higher interest rates over the medium term. Banking stocks could therefore enjoy more profitable trading conditions which mean that their valuations enjoy a tailwind.

Long-term approach

Certainly, the banking sector and other industries may not be the top performers in the short run. Risks to the global economic growth rate persist, with geopolitical concerns also having the potential to hold back investor sentiment. But by adopting a long-term approach and trying to ascertain where growth will occur in the next 5-10 years, an investor may be able to position their portfolio for growth.

For example, at the present time there is a continued high rate of growth on offer across the emerging

world. In China, for instance, demand growth for consumer goods is expected to remain in the high-single digits over the coming years. This could act as a major growth catalyst on consumer goods companies operating in the region, and lead to higher profitability and stock prices across the industry.

Outlook

Rather than focusing specifically on which stocks to buy at any given time, new investors may wish to instead concentrate on which industries could enjoy the largest tailwind over the long run.

In doing so, it may move the odds further in an investor's favour, since while they may not find the top performers in any given sector, the companies they choose to buy should benefit from improving trading conditions within their niche. As a result, their overall returns could prove to be stronger than they would have been through using stocks as their starting point, rather than sectors.

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Date

2025/08/27

Date Created

2018/06/10

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