3 Things You Should Do If You Really Want to Beat the Market

Description

Outperforming the market isn't as daunting as many people might have you believe. I'm not sold on index funds being the safest investment option, particularly when the markets can be very volatile and be weighed down by some poor-performing sectors. Instead, there are steps you can take to help you improve your portfolio's performance that will give you good odds when it comes to beating the market over the long term.

Below are three things I would suggest for any risk-averse investor who is looking to secure a good return.

Stick with blue-chip stocks

Investing in **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) or some other blue-chip stock might seem like a boring idea, but it's never a bad decision. By investing in a large-cap stock with stability and a good business model, you're giving yourself a much better chance of success than if you were to follow the Bitcoin or marijuana craze, where fundamentals are simply ignored.

Avoid commodities

As appealing as it may be to invest in gold or oil and gas stocks, you're effectively multiplying you risk by doing so. Not only are you exposed to normal market-related risks as well as company-related risks, but now you're also adding in the risk that comes from commodity prices.

Oil and gas stocks have taken a beating over the past few years, which is mainly been due to low oil prices affecting not only their results but also the outlook for the industry as a whole. Uranium is another example in which even the world's largest producers have been weighed down by a low commodity price.

While the upside may be significant when investing in commodity-related stocks, so, too, is the risk.

Invest for the long term

In the case of TD, the stock has risen just 3% in 2018, and investors may be inclined to put their money elsewhere and invest in a stock with more upside or that has grown more. The problem with looking at small window of time is that it can easily skew your view of the stock. There may be some adverse conditions in the market that could be impacting the stock's value, but over the long term it may have been very successful, as in TD's case.

Consider that in 10 years, TD's share price has soared by 140%, and it has paid a growing dividend during that time as well. For the low level of risk that the stock provides, that's a great return. There's always risk when investing in the stock market, but there are safe and smart risks you can take that won't leave your portfolio vulnerable.

Bottom line

The biggest challenge for an investor is to avoid the hype and herd mentality that surrounds some stocks. Too much excitement can often distract investors from the substance that's behind a stock — and whether it's truly a good buy.

By investing in the long term, into established companies and avoiding commodities, you're giving yourself a great chance to succeed. You could invest in index funds to minimize your risk, but by doing so, you'll effectively be guaranteeing that you'll never be able to beat the market.

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Date
2025/07/07
Date Created
2018/07/29
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