Young Investors: How Should You Invest Your Money?

Description

If you're relatively new to investing stocks, you're probably still exploring the many different strategies out there. No matter which strategies you choose, there are two ways to make money: getting income or selling for a gain.

New investors tend to be mesmerized by the ups and downs of stock prices. Sure, it sounds easy to "buy low" and "sell high" to book a profit, but in practice, it's not all that simple to trade stocks for a quick gain.

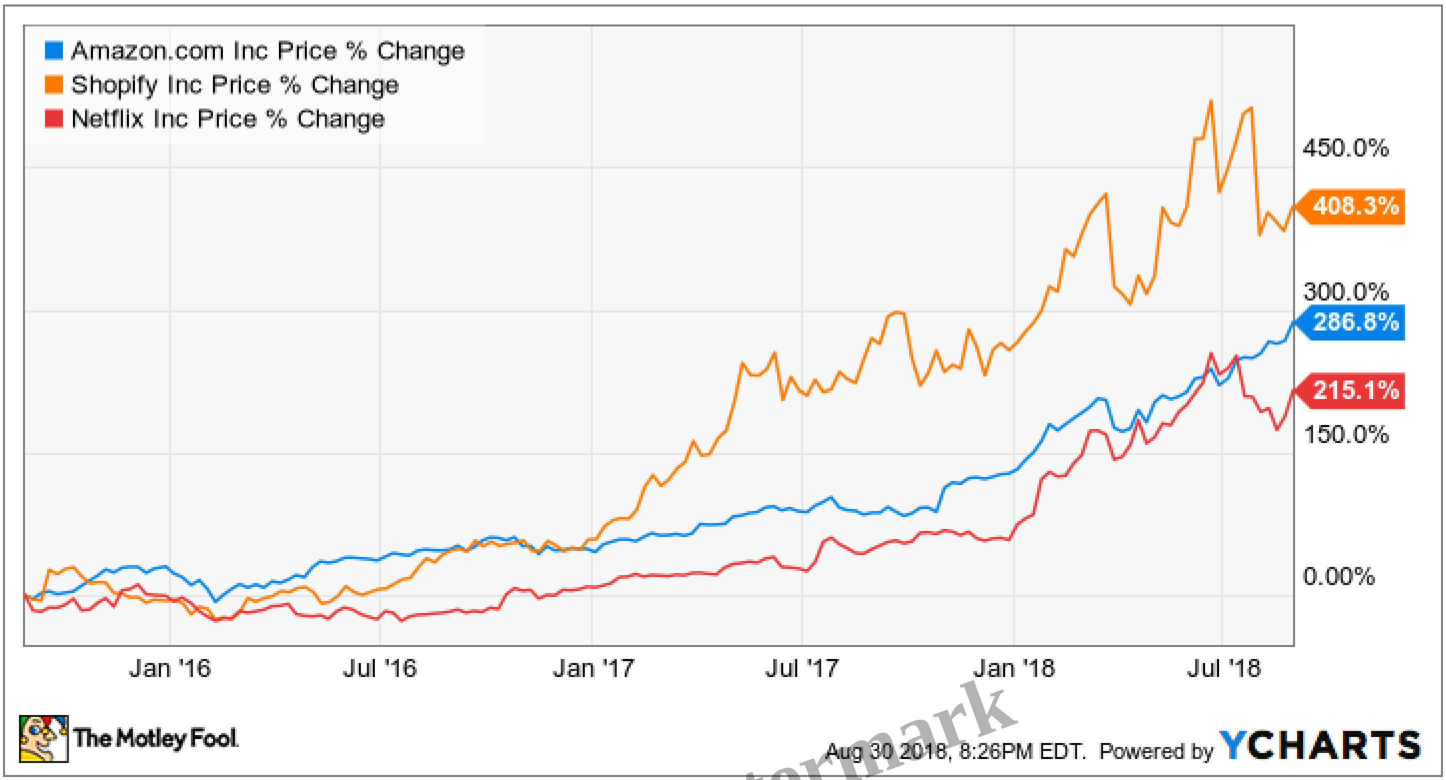
In fact, you'll notice that some aggressive growth stocks are bullet trains.

Aggressive growth stocks

Many young investors' portfolios are filled with aggressive stocks, such as **Amazon** and **Netflix**. And they have done extremely well in the recent past. An investment in either stock just a year ago would have more than doubled.

AMZN data by YCharts – One-year price appreciation of Amazon, Shopify, and Netflix.

We have our home-grown, multi-channel commerce platform, **Shopify** (TSX:SHOP)(NYSE:SHOP), which falls into this aggressive bucket. The stock hasn't done nearly as well as Amazon and Netflix in the last year, but it is a comparable aggressive growth idea for long-term investment.



AMZN data by YCharts – 3-year price appreciation of Amazon, Shopify, and Netflix.

These aggressive stocks may not have the earnings to support the multiples they're trading at, but they certainly have been growing at a fast pace. For instance, Shopify increased its revenue by 62% in the second quarter to US$245 million compared to the same period in 2017.

Dividend stocks are much tamer animals.

Dividend stocks

Dividend stocks share profits with their shareholders by paying out dividends periodically. This is a much more conservative way of investing because you're getting income. You can also view the income as getting your original investment back over time.

Young investors should aim for dividend stocks that have a growth component, even though the growth isn't nearly as high as the growth experienced in the aforementioned aggressive stocks.

For example, **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP) is a best-in-class utility that offers good income and stable growth. Its revenue increased by about 12% in the second quarter compared to the same period in 2017. This is a markedly lower growth rate than what Shopify experienced.

Actually, it's not really the right thing to do to compare Shopify and Brookfield Infrastructure, because investors buy them for different purposes in their portfolios — Shopify for aggressive growth and Brookfield Infrastructure for stability, income, and steady growth.

Brookfield Infrastructure's five-year distribution-per-unit growth rate is 11.7%. This is superb growth for a utility. Going forward, management aims for distribution growth of 5-9% per year.

So, an investment today can deliver long-term returns of about 10-14%, seeing as the stock is reasonably valued and offers a 4.7% yield right now. These are excellent returns given that the long-term average returns of the U.S. market are about 10%, while the returns of the TSX index or Canadian market are lower than that.

Investor takeaway

Young investors should decide how much of their portfolios to allocate to aggressive growth stocks and dividend-growth stocks based on their risk tolerance. Conservative investors should invest in dividend stocks at least initially.

In this part of the cycle, it would probably be more prudent to focus on dividend stocks over aggressive growth stocks. If we should experience a down market, Brookfield Infrastructure stock will most certainly fall less than Shopify, while giving you a cash distribution every quarter.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners
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1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
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