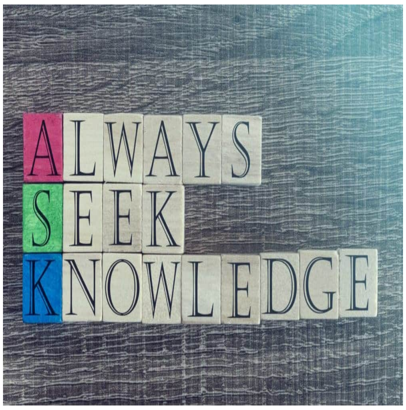

New Investors: 3 Traits of Quality Stocks

Description

It's easy to gamble on the stock market by buying and selling stocks quickly. However, we all know that most of the time, gambling leads to less money in your pocket.

So, new investors should start by investing in quality stocks. After all, your goal is to make money and not to gamble your savings away.

Quality stocks have underlying businesses that are consistently profitable, have low uncertainty, and have a strong balance sheet. Here we'll use **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Intact Financial Corporation** (TSX:IFC) as examples.

Consistently profitable

Bank of Montreal, or BMO, has remained profitable for decades and even throughout the last two recessions. Its recent net margin was 17%. The big bank just ended its fiscal year with $8.99 of adjusted earnings per share and $8.17 of diluted earnings per share for the year. So, at about $89.20 per share as of writing, BMO trades at less than 11 times earnings, which is inexpensive.

Intact Financial is the leading home, auto, and business insurer in Canada. It has the largest market share of about 17% in the fragmented industry. It aims for net operating income per share growth of 10%, but it has actually achieved a compound annual growth rate of 11.5% over eight years. Additionally, it has beaten the industry's return on equity by about 5% every year! Intact Financial tends to under promise and outperform.

Low uncertainty

Quality stocks with underlying businesses that have little uncertainty will lead to a stable generation of earnings or cash flow. Likely, their stock prices will have low volatility as well. In other words, their stocks will have a lower chance of big downside surprises.

Yahoo Finance has a recent beta of 0.99 for BMO and 0.60 for Intact Financial. So, BMO's volatility aligns with that of the general market, while Intact Financial tends to be much less volatile than the general market.

Strong balance sheet

A quick way to tell if a company has a solid balance sheet is by looking at its credit rating. BMO has an S&P credit rating of A+. Since an S&P credit rating of BBB- or higher is investment grade, BMO's A-grade credit rating indicates a strong balance sheet. Intact Financial isn't rated by S&P, but its debt-to-cap ratio is reasonable at about 23%.

Bonus trait: A safe, growing dividend

Quality stocks don't necessarily pay a dividend. However, it's certainly nice for shareholders to receive regular income from dividends.

BMO pays an above-average dividend, in terms of having a bigger yield and a safer dividend, compared to most other dividend stocks on the market. In five years' time, the bank increased its dividend by more than 28%. BMO's shareholders can expect to generate about 30% of long-term total returns from the bank's dividends. As of writing, BMO offers a 4.5% yield.

Intact Financial's dividend is also safe. In five years' time, the insurer increased its dividend by 59%. As of writing, it offers a yield of 2.8%.

Investor takeaway

It's always a good idea to buy quality stocks on dips. Between the two, BMO currently looks to be a better buy. For investors looking for an entry point in Intact Financial, consider the stock in the low

$90s level. Here are more Foolish stock ideas for your choosing!

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1. Bank Stocks
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3. Investing

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1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)
3. TSX:IFC (Intact Financial Corporation)

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