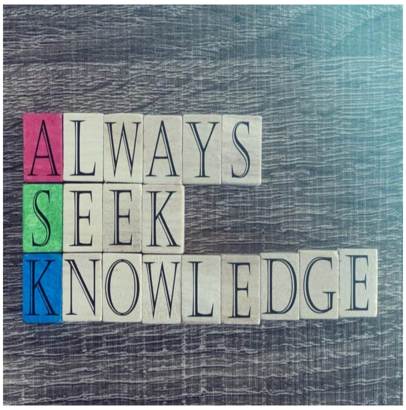

New Investors: Stock Investing Doesn't Have to Be Risky

Description

Some people don't invest in the stock market because they have the notion that stocks are risky. They think that you take higher risk for potentially higher returns than investing in bonds or GICs.

However, no stock is the same, and it's too general a statement to say that stocks are risky. Every stock has a different risk profile. Simply put, every stock is powered by an underlying business. If the business makes more money, the stock will go higher over time.

At a high level, it's easy to say that **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) is riskier than **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), though it might not have been obvious for a long time.

A risky stock for high returns potential

From 2003 to 2014, Crescent Point Energy was a wonderful dividend stock. Many income investors bought the stock for its stable monthly dividend, but sadly, it all ended when the WTI oil price came tumbling down from more than US$100 per barrel in 2014 to less than US$30 per barrel in 2016. Like many other oil and gas producers, Crescent Point Energy had to slash its dividend.

Currently, Crescent Point Energy's production mix is about 10% natural gas, so as an oil-weighted producer, the fluctuation of oil prices has a big impact on its profitability.

Over five years' time, Crescent Point Energy stock fell 90%. Arguably, it's less risky now, as at $4.14 per share as of writing, it trades at about 1.3 times cash flow and offers a yield of 8.7%.

Bank of Nova Scotia has a one-year target of $9.50 per share on the stock, which implies an investment today can more than double by appreciating 129%. However, Bank of Nova Scotia cautions that the stock should be for investors who have a medium- to long-term investment horizon. After all, no one knows where oil prices will be at in the future.

In comparison, TD Bank is a much lower-risk investment, which should help you deliver higher returns than bonds and GICs in the long run at current levels.

A low-risk stock for high returns

TD Bank focuses largely on low-risk retail banking in Canada and the United States. So, the economic health of both countries will impact the bank's profitability.

Over the past 18 years, the quality bank increased its earnings per share by more than 8% per year on average. Over the past 11 years, starting in 2007, before the last recession, the bank increased its earnings per share by 7.6% per year on average. Over the past five years from fiscal 2013 to 2018, TD Bank increased its earnings per share by 11.6%.

Conservative investors should consider predictable TD Bank as a core holding because of its consistent earnings growth over the long term. The bank's recent accelerated growth shows that it made the right decision to expand into the U.S. market more than a decade ago.

TD Bank's persistent earnings growth allowed it to increase its dividend by more than 10% per year on average over the past 18 years, by 8.6% per year on average over the past 11 years, and by 10% per year on average over the past five years.

What makes TD Bank a great investment today is that the stock is discounted from its normal levels after the recent market correction. The fair value of the stock should be about $82.50 right now, which implies it's discounted by about 18%. **Thomson Reuters** has a 12-month mean target of $85.30 on TD Bank, which indicates near-term upside potential of 25%.

Investor takeaway

No two stocks are the same. Some are riskier and have a greater chance of losing you money. Between Crescent Point and TD Bank, new investors should consider the low-risk bank for high returns. TD is trading at a discount and offers a growing dividend with an initial yield of about 4%.

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