3 Stocks You Can Set and Forget

Description

Investors can make money trading in and out of stocks quickly. However, the way to generate great wealth is to treat stock purchases as buying pieces of real businesses. Invest in quality businesses over a long period of time as a part owner and you'll be richer than you plan to be.

Here are three top-notch businesses that you can set and forget at good valuations.

Toronto-Dominion Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock has generated tremendous wealth for long-term shareholders. A $10,000 investment in 2001 would have transformed to more than $46,000 today for annual returns of 8.7%. The quality business simply survived through two recessions in that period and came out stronger.

Today, TD is the sixth-largest bank in North America by total assets, net income, and market cap, generating more than a third of its net income from the U.S. It has more than 26 million customers worldwide — 50% of which are digital customers and more than a third are mobile Canadian and U.S. users.

TD Bank's 20-year dividend growth rate of about 11% from 1999 to 2019 is simply superb. With the bank's medium-term earnings-per-share growth of 7-10% per year, shareholders can expect dividend growth to be in that range as well.

The quality bank's dividend yield of 3.9% combined with 7-10% growth implies estimated total returns of about 11-14% per year. If we account for the multiples expansion potential of the undervalued stock, estimated total returns should be boosted by about 1.5% per year.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) should be applauded for evolving into a better and better utility while increasing its dividends for more than four decades. Its business has 10 utility operations, consisting of virtually regulated assets of which about 93% are based on transmission and distribution.

Fortis' regulatory risks are diversified widely; it has regulated electric operations, regulated gas operations, and FERC-regulated electric transmission assets from the ITC Holdings acquisition.

Fortis' regulated operations result in very stable earnings and dividend growth. Moreover, about 65% of its earnings come from the U.S., which improves the safety of its dividend as the U.S. dollar tends to be stronger than the Canadian dollar.

If you invested $10,000 in FTS stock 13 years ago when it was fair valued, you would have transformed to more than $31,000 today for annual returns of 9.1%. Unfortunately, the stock is on the expensive side at a price-to-earnings ratio (P/E) of 20.1, at $51.80 per share as of writing, against a premium fair P/E of about 18, which calls for a fair price of about $46.20 per share.

Shopify

Admittedly, it's difficult to buy **Shopify** (TSX:SHOP)(NYSE:SHOP) stock at a "good" valuation. Shopify is an entirely different beast from TD bank and Fortis. It's a high growth stock, not a dividend payer. Moreover, it has traded at extremely high multiples since it was publicly traded.

We can't really comment on Shopify's long-term returns, as it has only been trading for about four years or so. However, it has already been a 10-bagger since IPO, running from US$28 per share to US$297 per share at writing — not without huge volatility in between, too. To put it in dollar terms, that's a $10,000 initial investment transforming to more than $100,000!

That said, it'd be wise to avoid IPOs in general, as it's super difficult to pick out winners from the get-go. Why not consider Shopify stock now, which has already proven itself to be a winner?

It’s not too late to get in to the high growth name if you have a long-term investment horizon of at least five years. The innovative company is still relatively small compared to many other global tech giants. Still, it’d be prudent to average into SHOP stock over time, especially on dips.

Foolish takeaway

TD Bank, Fortis, and Shopify are all set and forget stocks that can create some serious wealth for you in the long haul.

Right now, TD stock is the best value and Fortis looks a tad too expensive. Then, there’s Shopify that looks super expensive (as it always has). So, the high growth stock is for investors with a bigger appetite for risk.

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2. NYSE:SHOP (Shopify Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:FTS (Fortis Inc.)
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