



New Investors: How to Choose the 1st Stocks for Your Portfolio

Description

There are thousands of stocks to choose from. It can be a daunting task for new investors to decide what to invest in. Take a breather. Start with the business first, be careful to pay a good price (i.e., valuation) for your stock, and seek safe dividends to boost your returns.



Business first

If you don't know where to begin, start by listing well-known companies you know. Everyone in Canada knows of the largest bank in the nation, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)).

Banks happen to be the most profitable businesses in the country. Since Royal Bank has a leading position, it's a perfect fit for new investors who are just getting into stock investing.

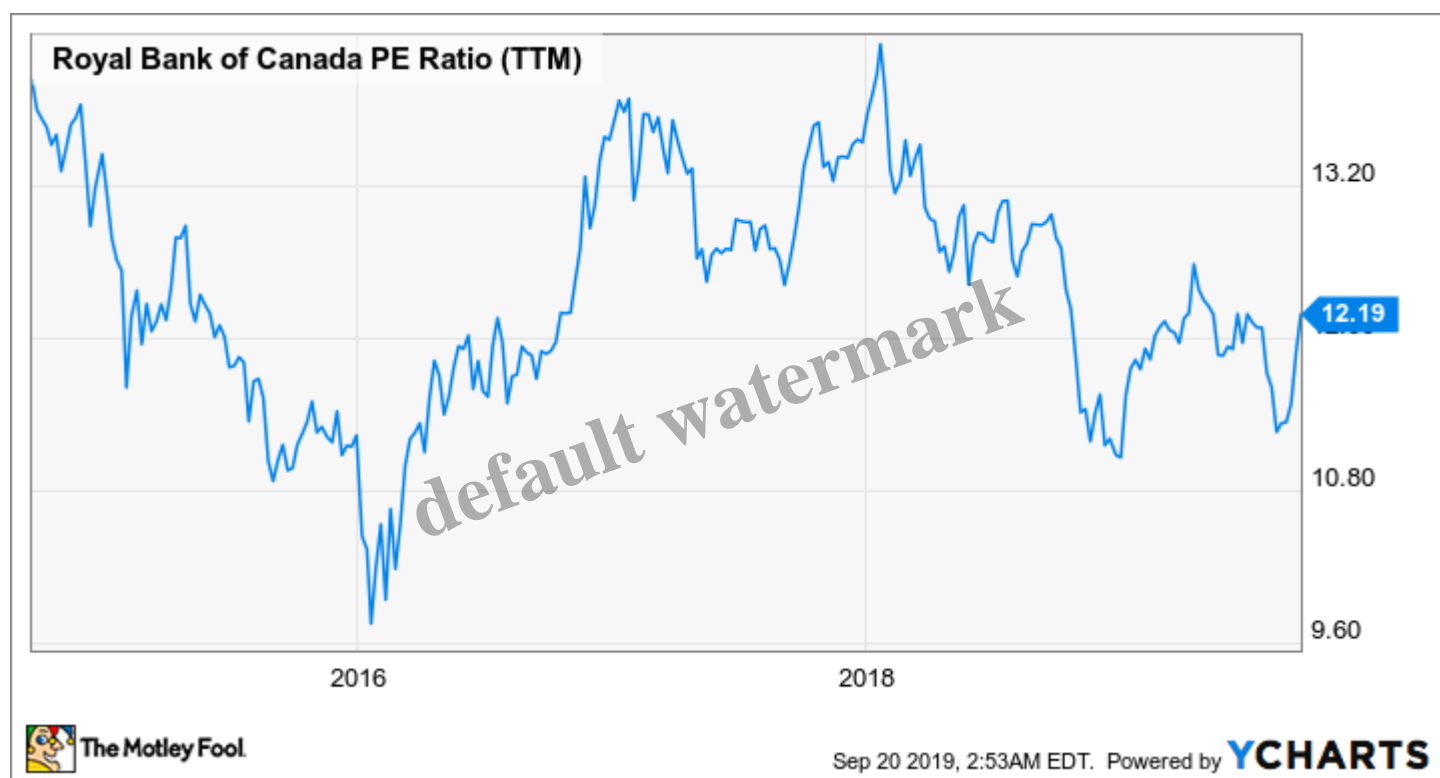
Royal Bank is simply a cash cow! Just last fiscal year, the company generated more than \$41 billion of revenue and reported net income of \$12.4 billion. So, essentially, the bank earns more than \$3 billion of profits every quarter!

To make things even better for investors, the [trusty bank pays a very solid dividend](#). At about \$107 per

share, RY is good for a yield of 3.9%. It's only paying out about 45% of its profits as dividends. Therefore, there's plenty of room for the dividend to grow, as the bank expands its payout ratio and increases its earnings. It'd be very reasonable for RY to increase its dividend by 5-8% per year over the next few years.

Valuation and growth

Buying quality stocks at a good valuation will improve your returns. Currently, Royal Bank trades at a price-to-earnings ratio of 12, while it's estimated to increase earnings by about 5% per year over the next three to five years. Compared to its historic valuation, RY is trading at a good valuation.



RY PE Ratio (TTM) data by YCharts.

Dividends

[Dividends](#) always help to boost investor returns. A company that chooses to pay dividends is sharing some of its profits with its shareholders. Companies are not required to do so and can change their minds at any time.

That's why it's important to make sure a dividend stock that you're interested in has a sustainable dividend that's backed by earnings growth and a healthy payout ratio.

Although companies can cut or even eliminate their dividends any time, any dividend that is declared must be paid.

Investor takeaway

Each stock is driven by an underlying business. Naturally, if the business becomes more profitable over time, its stock also heads higher over time. For stocks that pay dividends, higher profits also protect the dividend and drive dividend growth.

Royal Bank will continue to earn higher profits for many years to come. It currently trades at a fair value and provides safe, growing income. It's the perfect stock for new investors to start building their portfolios in.

For the other stocks in your portfolio, focus on the business first, then check its valuation and growth. Of course, stocks that pay dividends are a plus because the dividends can help fund other investments or even pay your bills.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

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