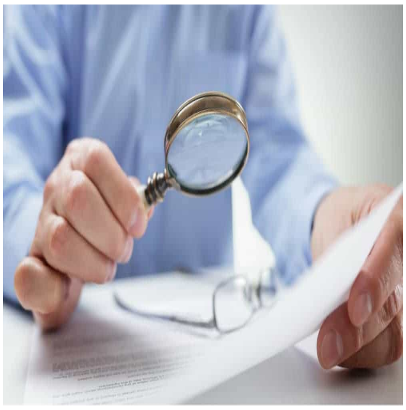

New Investors: Avoiding These 3 Mistakes Can Save You Big Money

Description

I often get asked about great stocks to buy right now. It's not an easy feat to learn the ropes in stock investing. For new investors who are interested in learning the art and science of investing, it's more important to avoid making big mistakes than hitting a home run on your investments.

You can save big money by following these three rules: don't chase high yields, don't be a hero, and don't follow the herd.

Don't chase high yields

The Canadian stock market currently offers a yield of 2.7%. You can still seek safe yields of 4-5.4% (i.e., 1.5-2.0 times the market yield) in individual stocks if you perform careful research, but if you see higher yields than that, be very skeptical about the yield's safety.

Sectors to search for safe dividend income are banks, utilities, and energy infrastructure.

For example, despite its recent run-up, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stock remains a solid pick for long-term investment. It currently offers a yield of 3.9%.

Most importantly, you can be reassured that the dividend is safe and is expected to grow by 8-10% per year thanks to a payout ratio of about 43% that's below the industry average. Its estimated annual earnings growth of 7-10% is a driver for both dividend growth and price appreciation.

What's contributing to TD Bank's peer-beating growth is its friendly franchise in the United States, which it started building via strategic acquisitions about one-and-a-half decades ago.

TD Bank continues to invest in the business, including in its insurance and mobile apps. So far, it has won the loyalty of more than 13 million active digital customers, including 8.4 million mobile users in North America.

Assuming dividend growth of 8% per year, TD stock can double the dividend in nine years.

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Don’t be a hero

Some people aim for humongous gains by investing in turnaround stocks without knowing that it’s actually a super tricky business; even professional contrarian investors get it wrong a lot of the time.

Let’s take **Maxar Technologies** as an example. Some would argue that it has been a superb stock to invest in — from its 52-week low in March, it has appreciated 140%. However, they fail to recognize that it would have been catching a falling knife for most buyers in the stock in the last five years. The stock is still 88% lower than it was versus five years ago!

Don’t follow the herd

Following the herd is when investors follow what most others are doing. When others are bidding up a stock, investors follow the herd by doing the same. When others are selling a stock they own, they might get caught in the downdraft and get shaken out of the stock.

Investors should have reasons for why they’re buying or selling a particular stock that’s driven by an underlying business. By being an independent thinker, doing your own research, and coming up with your own buy/hold/sell decisions, you have a chance to outperform.

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