TFSA: Start Investing in Stocks With Just $1,000

Description

I started off with $1,000 not too long ago. I saved up after a few months on my first job and finally had enough money to do something I'd been waiting to try: invest in stocks. However, I made the fatal mistake of dumping the entire amount into a single tech stock that was dominating the headlines at the time.

Every year, millions of people start off just like me and don't know how to take their first steps. To make things a little easier, here are three ways I would recommend first-time investors dip their toes in the stock market.

Active

Let's start with the most exciting investment strategy of them all: picking individual stocks. Buying a small piece of an enterprise that is either growing rapidly or generating tremendous profits is an excellent way to spend your first $1,000. The right investment at the right time could be life-altering for a beginner.

However, if you're going to pick stocks, you need to avoid the most common pitfalls. Don't invest everything into a single stock that excites you. Instead, do your homework and dig into the financials to see if you truly understand the company. It's preferable to start by investing in an industry you work in or have intimate knowledge of.

You also need to avoid the risk of concentration. Split your $1,000 in more than one stock, preferably four or more, to mitigate your risk of losing money. Diversification is an underrated tool that will help you create wealth over the long-run.

Passive

Of course, you don't need to be an expert stock picker or investment professional to make money in the stock market. Rather, you can take the approach millions of investors adopt every year and simply put your investments on autopilot by pouring your money into low cost index funds.

An index fund simply buys *all* the stocks on any given stock market. Academic research suggests that this level of diversification limits downside and gives investors enough exposure to the upside in a country's economy. In other words, you can generate respectable returns without doing much work at all.

The **iShares S&P/TSX 60 Index**, for example, tracks the performance of the 60 largest stocks on the Canadian stock market. It has delivered a 6.7% compounded annual return since 2010, which is much better than most individual stocks.

If you prefer an index that tracks the **S&P 500** or India's **Nifty 50** or China's **Shanghai Composite** , you can find those funds listed in Canada too. You can bet on the economy you're most optimistic about. Over the long term, they should all deliver decent returns.

Real estate

Stocks aren't the only option for your first $1,000, however. There are plenty of funds that offer exposure to property instead of corporations. Real estate investment trusts (REITs) trade on the stock exchange like regular stocks, but offer dividends that are derived from the rental income on properties that the trust owns.

The **SmartCentres Real Estate Investment Trust**, for example, owns mega-malls across Canada while **Allied Properties REIT** owns offices. $1,000 invested in any REIT should deliver between $20 to $80 in recurring annual income. As rents increase and the REIT grows, the dividends should increase as well.

REITs are a great option if you prefer the cash flow and stability of tangible properties.

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