New Investors: How to Choose Your First Stocks

Description

It’s a very interesting time for new investors to get into the stock market. We just experienced a flash crash followed by a flash bounce all in the last month or so.

But many stocks are still cheap!

Stocks are volatile — even more so lately!

You may be keen to put your money in the stock market now after hearing success stories of regular folks experiencing stock appreciation of 10-50% in a day. Heck, even the big Canadian bank stocks like **Royal Bank of Canada** and **Bank of Montreal** experienced crazy days recently.

Keep in mind that stocks can experience massive percentages of draw-downs as well.

Before you get scared away from this rare market behaviour, here’s a more balanced perspective of stock investing. In normal markets, stocks typically go up or down 1-3%.

How to ensure you profit from the stock market

More important, rather than thinking about trading in and out stocks swiftly to make quick money, the idea of partnering with wonderful businesses for the long haul may actually appeal to you more.

Many investors, including Warren Buffett, have *become rich permanently* using the buy and hold strategy.

Along that line of thought, you need to have high confidence in the underlying businesses of the stocks that you’re buying. Otherwise, you’d have trouble holding them when they bob up and down +/-10% in a day.

Stock returns are composed of price appreciation and dividends. If you buy stocks that offer safe dividends, you'll build an awesome passive income stream.

Therefore, new investors will probably find it easier to begin their investing journeys with dividend stocks.

As long as the businesses you buy increase their profits over time, price appreciation will eventually follow.

Profit growth of the businesses and the valuation you pay for the stocks can boost price appreciation. Specifically, you want to buy stocks at lower prices than what they're worth. That comes with analyzing businesses and determining how much cash flow they'll produce in the future.

Without getting into any complex concepts, I'll simply introduce well-valued dividend stocks of businesses that may appeal to new investors.

Dividend stocks for new investors

Restaurant Brands International is the parent company of Burger King, Tim Hortons, and Popeyes Louisiana Kitchen. The stock has been hit hard by the coronavirus-triggered market crash because many of its stores have been shut down to slow down the spread of the virus.

Its 2020 earnings will be greatly impacted. Its stock therefore trades at its most attractive valuation since inception. At about $61 per share at writing, it trades at just 16.5 times earnings, while long-term earnings growth of about 9% is expected. The stock also offers a nice yield of 4.4%.

SmartCentres REIT is another dividend stock you can consider. It is the landlord of many **Walmart** locations in Canada.

The retail REIT stock has had a huge draw-down due to the coronavirus. Many shops are closed or are operating at limited capacities.

If its tenants can't pay rent, like any other REIT, SmartCentres may have trouble servicing its debt and paying cash distributions in the short run.

However, SmartCentres has a strong track record of dividend payments. It has maintained or increased its cash distribution for the last 14 years. Its recent payout ratio of 80% was also relatively conservative.

As long as the REIT can survive this year, it'll be able to deliver hefty returns from a purchase today. At writing, the REIT yields 9.5%.

The Foolish bottom line

In a bear market (like the one we're experiencing now), it's the best time for new investors to invest. You'll be paying low prices for businesses that should be worth much more!

However, you need to be absolutely choosy about the stocks you're buying. You must be confident about the underlying businesses, and you must have a long-term investment horizon (ideally at least three to five years) to allow for the recovery of the economy and stock prices.

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