



How to Make Money Online With Stocks

Description

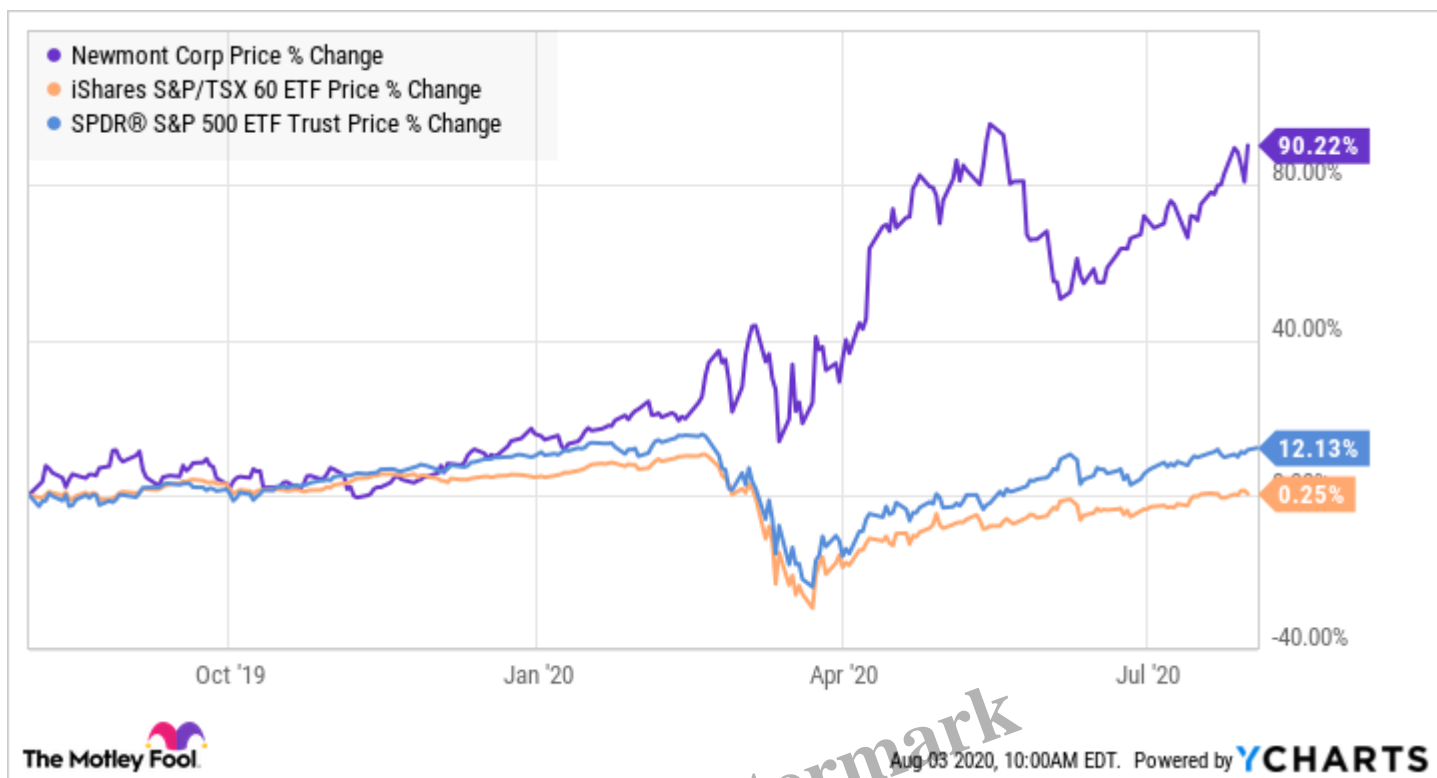
Self-directed investors can [start making money online with stocks](#) after they've created a stock investing account at a financial institution. There are two straightforward ways to make money — through price appreciation and dividends.

What drives stock price appreciation?

Two things drive stock price appreciation: business performance and valuation expansion. Here are examples for illustration.

Thanks to higher gold prices, gold stocks like **Newmont** ([TSX:NGT](#))([NYSE:NEM](#)) have gone through the roof, beating the U.S. and Canadian markets with a strong punch!

From the price appreciation perspective, Newmont has outperformed the Canadian market by 360 times in the last year, while it beat the U.S. market by seven times.



Data by YCharts. Comparing Newmont stock's price performance with the U.S. and Canadian stock markets in the last year.

Newmont's recent all-in sustaining costs of US\$1,030 per ounce versus the gold price of about US\$1,975 will result in pure profits. The gold stock also pays a dividend. However, Newmont's dividend yield is only about 1.5%. So, it's better to view the dividend as a bonus and best to focus on its price appreciation potential.

The stock looks expensive for having such a massive run-up. For now, though, it appears to have more upside on the backdrop of high gold prices, quality assets, and a reasonable valuation. Analysts' average 12-month price target on the gold stock is roughly 12% higher.

Stock price appreciation by valuation expansion

By buying quality stocks at discounts, there will be greater potential for valuation expansion that leads to strong price appreciation.

Similar to the other big Canadian banks, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) is taking a big hit in earnings this year due to the higher expected levels of bad loans from COVID-19 disruptions. Consequently, the bank stocks are also taking a hit.

Specifically, BNS stock has declined by roughly 21% in the last 12 months. At about \$55 per share, it trades at roughly 7.7 times normalized earnings, whereas normally it trades at approximately 11.5 times. So, the bank stock trades at a discount of about 33%.

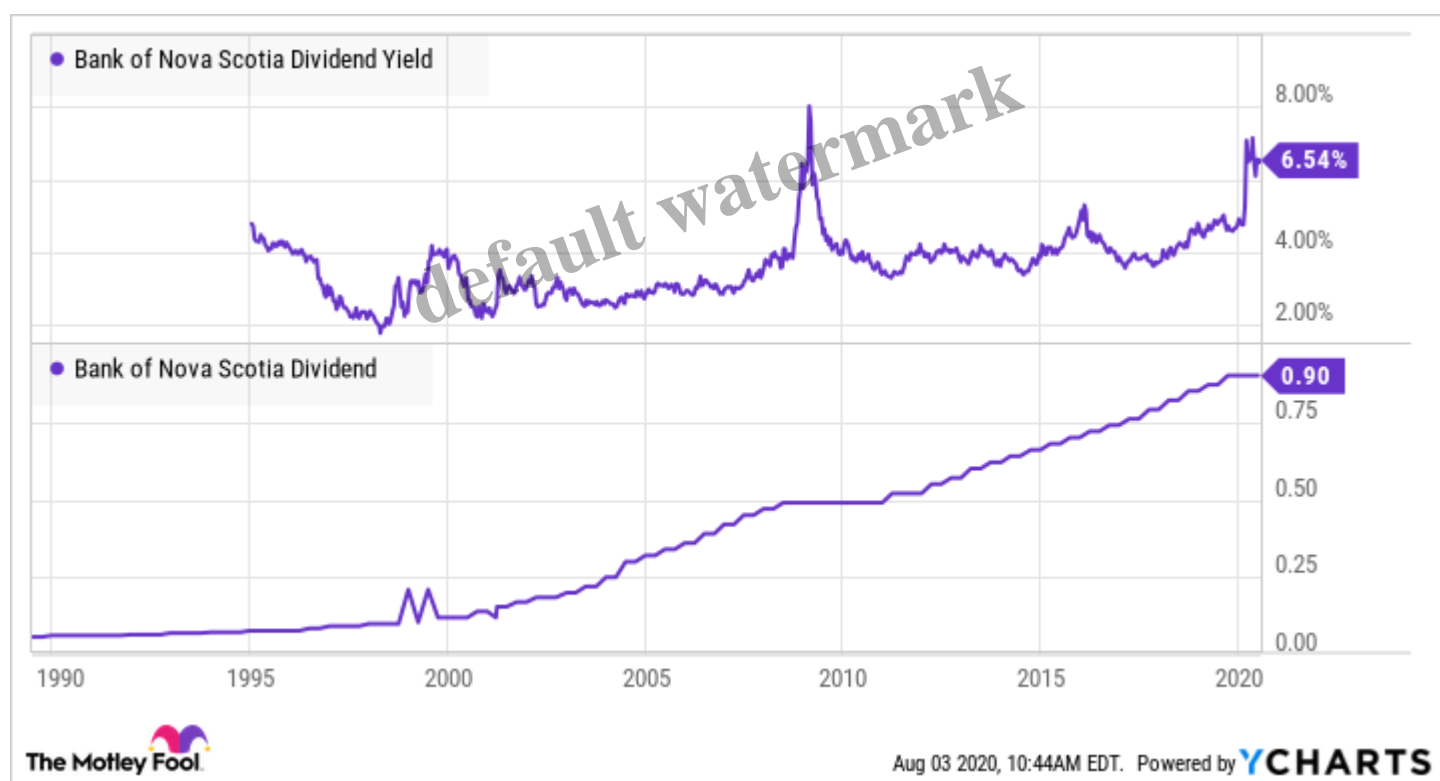
A combination of earnings normalizing, valuation expansion, and stable growth of the business over the next three to five years should drive above-average price appreciation.

Make money from dividends

By buying and holding shares of [dividend stocks](#), shareholders receive periodic dividends. Typically, dividends are paid from earnings or cash flow. Currently, both Newmont and BNS stocks pay dividends from their earnings. However, BNS stock's dividend yield is much richer. Investors can therefore already gain substantial returns from getting dividend income from Bank of Nova Scotia.

The long-term average Canadian market returns are about 7%. The bank offers a yield of 6.5%. So, you only need to get 0.5% per year from price appreciation to match market returns. That's a low bar.

As shown in the graph below, BNS stock tends to increase its dividend over time. Additionally, it also offers a historically high yield that suggests the stock is cheap for long-term investment.



BNS Dividend data by YCharts. BNS stock's dividend and dividend yield history.

The Foolish takeaway

Businesses doing well drive earnings growth and price appreciation if the underlying stock is reasonably valued. Newmont and BNS offer price appreciation potential and safe dividends.

Between the two, BNS stock is a more defensive investment given that its earnings are generally more stable and it pays a big dividend.

Let's be conservative and assume the earnings and valuation normalization process takes five years and BNS maintains the same dividend throughout — buyers at \$55 per share will get total returns of about 15% per year.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Metals and Mining Stocks
5. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:NEM (Newmont Mining Corporation)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:NGT (Newmont Mining Corporation)

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