Unbelievable! Buying the Right Stock Could Be Better Than Buying a House

Description

The debate between real estate and stocks seems endless. It seems fair to say that most people consider real estate a safer and more reliable way to generate wealth over time. For most ordinary savers, stocks are simply too volatile or risky to consider.

Those concerns aside, I believe there's plenty of evidence to suggest that, at least in terms of returns, one of these asset classes is better. Here's why buying the right stock could be far better than investing in real estate.

Historical returns

Since the year 2000, the Canadian New Housing Price Index has jumped 75%. In other words, the price of an average Canadian new home has nearly doubled in 20 years. Certain megacities, such as Toronto, have clearly performed better. The average price of a house in Toronto has jumped from under $400,000 in 2010 to nearly $900,000 today. That's a compound annual growth rate of 8.4%.

However, considering the fact that interest rates were roughly 3% over that period and maintenance and taxation could cut another 2% annually, the real return was closer to 5.4%. By comparison, the S&P/TSX 60 Index has delivered a CAGR of 6.6% over the same period.

But leverage!

This is a fair argument real estate investors make. Unlike stocks, you can borrow money easily to buy real estate. This boosts the total return. That's a logical argument. In the example above, a homeowner's total CAGR would be five times higher if they put a 20% down payment and borrowed 80% to purchase real estate.

So, the actual CAGR could have been 27%. However, some stocks *even outperform this levered return.*

Stocks that have performed better

Probably the best example of stock that blew this 27% CAGR out of the water is **Shopify**. The stock has delivered a 104% CAGR over the past five years alone. To put that into context, you could have put a fourth of your portfolio into Shopify in 2015 instead of all your money as a down payment on a house and come out ahead.

“Okay, Vishesh!” I hear you argue, “Shopify is one of a kind. What are my chances of finding the next big thing? Pretty low.” That’s a fair point, too. However, you don’t need a sexy tech stock with phenomenal potential to outperform real estate.

Some pretty boring stocks have delivered better returns over the past 10 years. **Dollarama**, for example, has delivered a CAGR of 28% since 2010. If Dollarama isn’t boring enough, convenience store chain **Alimentation Couche-Tard** has performed even better. The stock has delivered a CAGR of 30.7% since 2010. It’s also paid dividends along the way that probably enhance the total return further.

Bottom line

Most people assume real estate is the ultimate investment. However, a closer look at the numbers reveals that you could probably make more money investing in a growth stock over time. That holds true even if you invest in a boring company like Dollarama and invest without leverage.

In my view, clicking a button online to invest in stocks is clearly better than dealing with obnoxious tenants and maintaining toilets. Take the easier path to riches.

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