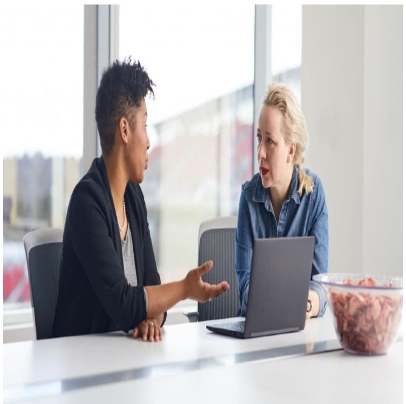

3 Quick Tips to Becoming a Better Stock Investor

Description

You're here to look for tips on becoming a better stock investor. What does it mean to be a better investor? Get greater returns, sounder sleep, or less or no stress? Maybe it's a combination of the three.

Start investing within your circle of competence

This mental model was developed by Warren Buffett and his business partner, Charlie Munger. The idea is that investors have a better chance of getting greater returns by investing in areas they are most familiar with.

For example, if you studied Computer Science, you probably have a better understanding of technology. So, you might consider investing in tech stocks first.

Stock investing is a learnable skill. So, while you might start investing within your circle of competence, you can slowly dip your toes into other areas you're interested in or areas that have the kind of investing characteristics that you like.

For example, if you're a conservative investor, you might start investing in stable businesses that pay dividends. One of the first stocks you might consider is a utility like **Fortis**, which has been increasing its dividend for more than 40 years!

Stick with what makes you money

What works for your best friend, colleague, or neighbour may not work for you. The bottom line is to make money overall.

Here's a tip. Keep track of all your stock trades — the cost basis and your dividend/total returns. Learn from them. Stick with what works for you and makes you money. Avoid the stocks that you tend to lose money in.

Whenever you are trying something new, whether it'd be a new investing strategy or a new stock, don't bet the farm. If you really want to put money in it, be cognizant of the allocation. Keep it small and keep learning.

Invest in stocks with high returns on equity

Not all winning stocks have high returns on equity (ROE), however. That said, stocks with high ROE tend to outperform when bought at good valuations. So, ROE is a key metric to consider before buying a stock.

Alimentation Couche-Tard (TSX:ATD.B) is a prime example of a high ROE stock. It has maintained an ROE of 20% or higher since 2011. Its trailing 12-month (TTM) ROE is 25%, while its five-year ROE is 23%. The growth stock has delivered incredible total returns of 27.4% per year since 2010.

The company is a global leader in fuel and convenience retail, and it will continue to consolidate in the space. It still has lots of runway for growth. Particularly, it plans to focus on expanding in the United States and Asia.

Although Couche-Tard experienced lower fuel volumes due to negative impacts of the pandemic, it still managed to deliver solid performance.

In the most recent quarter ending July 19, it increased same-store sales in all the geographies it operates (the U.S., Canada, and Europe). Additionally, it increased merchandise and service revenues by 7% year over year to more than US$3.8 billion. Furthermore, its adjusted EBITDA, a cash flow proxy, climbed 31%.

Even though its TTM revenue declined 15% year over year, its bottom-line performance remained strong. Using a similar comparison, its diluted earnings per share increased by 36%.

So, interested investors should consider the outperforming growth stock whenever it consolidates for an extended time or dips meaningfully by 15-30%.

The Foolish takeaway

You can get better stock returns and be stress free if you start investing within your circle of competence, stick with what makes you money, and buy stocks with a track record of high ROEs.

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