3 Stock Tips I Wish I'd Known When I Started Investing

Description

Here are the stock tips I wish I'd known when I started as an investor.

Stock tip 1: Diversification

What does diversification mean in a stock portfolio? It means putting a cap on how much you allocate to buying a stock no matter how enticing it maybe.

Even the best investors like Warren Buffett don't get every single investment decision correct. It's impossible. Inherent risks exist in every business, and they can trigger large declines in stocks anytime.

You don't want to place too many eggs in one basket. Stocks in the same industry tend to move in tandem. An extreme example would be owning all Big Five banks and they make up 50% of your portfolio because you believe their dividends are safe.

Instead, save your capital for true diversification. You want to own stocks that don't tend to move together. Depending on your financial goals, your portfolio as a whole might do one of the following:

- Deliver satisfactory returns or income in the long run with below-average downside in a market crash
- Deliver high income but not outsized total returns
- Deliver outsized total returns but comes with above-average volatility

Stock tip 2: Income versus growth

Ideally, if you've got enough capital, you want to own a mix of stocks that provide both income and growth. But if not, I think it's better off for new investors to start investing in decent-yield dividend stocks.

Dividend stocks with nice yields tend to be supported by a bigger pool of long-term investors.

Therefore, these stocks should be easier to hold on to during times of extreme volatility (like during a market crash), thanks to the passive income they provide. Generally speaking, decent-yield dividend stocks include banks, utilities, and telecoms like **RBC**, **Fortis**, and **BCE**.

Dividend stocks that offer yields of 3% or greater are often value stocks. It's easier to determine their valuations than high-growth stocks like **Tesla** and **Shopify**. Growth stocks can be more volatile than dividend stocks because they have a greater pool of traders that aim for quick gains.

Perhaps you can consider the best of both worlds by investing in low-yield dividend stocks that have above-average growth potential. **Alimentation Couche-Tard**, **Brookfield Asset Management**, and **Open Text** are good considerations.

Stock tip 3: Let your winners run

Companies that tend to have an upward trend will likely continue that price momentum. For example, much of the investing community believed **Amazon**, Tesla, and Shopify to be expensive for the longest time but they continue to deliver and head higher.

Of course, they have experienced selloffs of 15-50% for different reasons at a time. So, when you buy these stocks, you must believe in their underlying businesses and long-term prospects.

If you hold these types of winners and buy on corrections for five, 10, 15… years, you can create massive wealth.

More food for thought

Stock investing is not easy. Letting your winners run might collide with your intention to keep your portfolio diversified. It's about balancing returns and risk management.

Your actual returns will depend on your investing experience, temperament, and your ability to hold through volatility.

At the end of the day, holding quality businesses through thick and thin (no matter if the respective stocks trade cheaply or expensively) should drive satisfactory returns for your financial goals, especially if you add to the positions opportunistically.

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Date
2025/07/07
Date Created
2020/12/30
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