How to Buy Top Stocks for a New TSX Portfolio

Description

New to investing? Or starting afresh with a revamped portfolio for 2021? Whether you're adding to existing positions or firing up a TFSA for the first time, uncertainty abounds. However, there are many high-quality names on the TSX that defy even today's volatile economic conditions. Today, we'll take a look at just one of them, breaking down the reasons to buy, along with a low-risk way to build positions.

How to single out a blue-chip stock to buy

When you're looking for worthy additions to a TSX stock portfolio, today's markets call for a unique blend of characteristics. Among the many qualifying indicators for a top stock purchase, new (or newly invigorated) investors may find these characteristics useful to keep in mind. Such metrics include price targets, dividend yields (and payout ratios), year-on-year market performance, value ratios, earnings outlook, and returns potential.

Let's take a popular dividend stock as a case study. **Enbridge** (TSX:ENB)(NYSE:ENB) is well known to energy investors as the owner-operator of the Mainline pipeline network. At a glance, this stock's strongest points are its dividend, its earnings potential, and fairly decent valuation. A P/B ratio of 1.5 times book is a little higher than the industry average. Other indicators suggest undervaluation, though, such as a PEG of 0.9 times earnings growth.

That latter fact is worth bearing in mind, since Enbridge's earnings are forecast to grow by nearly 50% annually. This dovetails with expected total returns of 26% by mid-decade. While this does not constitute high growth, this combination of increasing earnings with an unassailably wide economic moat places Enbridge deep within blue-chip territory. Additionally, a rich 7.9% dividend yield is among the highest for quality Canadian stocks.

Breaking down the risk? Break down the position

Buying shares in a volatile market is a tricky undertaking at the best of times. But while the worst of 2020 must surely be behind investors, they're undoubtedly going to be challenged in the coming 12 months. That’s why one simple strategy still looks relevant in today’s market. This is the build-and-trim play. It’s the same concept as buying on weakness and selling on strength, but with added portion control.

Investors using the build-and-trim method divvy up their desired positions and buy in smaller packets of shares. This allows portfolio holders to make use of deteriorating conditions without the need to time the market. Investors can also make use of downside without missing out on buying opportunities. The converse action is to trim underperforming names — rather than selling them wholesale — whenever green ink lights up your basket of tickers.

Buy building positions in such top TSX stocks as Enbridge on weakness, an investor can lower capital risk from a volatile market. There is also the passive-income thesis to recommend rich-yielding names such as Enbridge. While rich yields can be a red flag in the current market, the combination of a wide economic moat and multi-year predictability singles Enbridge out as an exemplary stock to build in a frothy market beset by uncertainty.

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