3 Powerful Tips to Build Wealth for Passive Stock Investors

Description

Stock investing can be as passive as you make it. At the very least though, you'll need to come up with a list of publicly-listed, wonderful businesses you would like to own. You can get ideas from other people's lists or you might already be ready with a list.

After making a list, you can do nothing… most of the time.

Do nothing

Let's admit it. Most of the time, stocks aren't incredibly attractive. Sure. Sometimes certain stocks or industries go on sale because of company-specific or industry-specific news.

Therefore, unless your portfolio is 50% or more in cash, you might wait until the stocks on your watch list go on a super sale before you make any purchases. That is, if you're already sufficiently invested in the stock market, you don't necessarily have to look for ideas to invest in every month.

You can simply sit back and do nothing.

Buy stocks when they're super attractive

There are times when you must do something, though.

Stocks become more attractive during market crashes or corrections, but no one knows when these sales will happen. Corrections of about 10% occur more often versus market crashes of 30-50% that happen once in a blue moon. In any case, you can watch market benchmarks like the **iShares S&P/TSX 60 Index ETF** or the **S&P 500** for these corrections and crashes.

For example, the 2020 market crash witnessed the iShares S&P/TSX 60 Index ETF and the S&P 500 falling +30% in about a month. It's amazing that in less than a year from the bottom, the North American stock markets have already recovered and made new heights.

During the last market crash, investors could have scooped up awesome growth stocks, including **Amazon** and **Tencent**, which were fairly valued but attractively priced on a forward-looking basis. Keep in mind that the pandemic situation helped drive above-average both for the internet companies in 2020. Amazon and Tencent increased their 2020 cash flow per share by approximately 70% and 45%, respectively!

Alternatively, you could have bought blue-chip dividend stocks like **Royal Bank of Canada** and **TELUS** on sale.

Never sell

Once you buy great stocks at attractive valuations, you can essentially do nothing. Simply hold on and let time and compounding work their magic.

Since 2008, Amazon has delivered 31% per year, turning a $10,000 investment into $353,796 (a 35-bagger). Since 2009, Tencent has delivered almost 43% a year, turning a $10,000 investment into $751,660 (a 75-bagger).

Since 2008, Royal Bank and TELUS have delivered about 8% per year. They were almost three-baggers. With these two stocks, for the slower growth (compared to the likes of Amazon and Tencent), investors are being compensated with more stability and safe, juicy dividend income.

The Foolish takeaway

If you have already invested a meaningful sum of money in stocks, there's no need to rush to deploy excess cash that comes into your savings account, unless you find wonderful businesses to be attractively priced.

You will probably do well by holding your shares, doing nothing most of the time, but buying aggressively when the market corrects.

If you could generate total returns of +20% in the long run, you would be on par with the greatest investors of our time. Stock investing is about buying wonderful businesses at good valuations and holding the shares for a long time, passively, ideally forever.

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kayng