New Investors: How Embracing Market Volatility Can Make You Rich

Description

Some new investors don’t know where to start. They might have heard that stock investing provides the greatest long-term returns, which will get you to your financial goals faster.

However, they don’t know what to start investing in. Moreover, they might be concerned about the volatility that comes with every stock. In other words, they’re afraid to lose money.

Here are some tips to help you get started.

Start simple

The basic idea about stock investing is that you get returns from dividends and price appreciation. Dividends are paid out from a company’s earnings or cash flow.

Price appreciation comes naturally to a stock when a company becomes more profitable over time by generating greater earnings or cash flow.

For example, the market correction has brought **Fortis** (TSX:FTS)(NYSE:FTS) stock down to a good valuation for purchase. An upside of about 17% is possible over the next 12 months, according to the analyst consensus.

Fortis is a good stock for new investors to consider, because of its defensive and low-volatility nature. Importantly, you get stable returns from the regulated utility through its trustworthy dividends.

Fortis pays a dividend every three months. At $50.21 per share at writing, it yields 4%. Management anticipates growing its dividend at a healthy pace of about 6% per year through 2025. This should result in long-term returns of about 10% per year based on its reasonable valuation today.

About 4% of the returns will come from the dividends and 6% from price appreciation from the growthof the underlying utility. A 10% rate of return would allow investors to double their investment in about7.2 years, according to the rule of 72.

Embrace market volatility

Market sell-offs can lead to greater stock price appreciation in the long run. Even for an above-average defensive and low volatility stock like Fortis, it still fell approximately 30% from peak to trough in the pandemic market crash.

Most investors would have missed the low in a flash and see the stock falling only about 23%. Besides, the stock rebounded from the $40s to the $50s level within three weeks from the low.

By buying at a low of about $44 in Fortis during the 2020 market correction, investors would be sitting in price gains of 14%. The price appreciation would be even more prominent on higher-growth stocks. For example, **Open Text** stock has appreciated about 27% from its 2020 market crash low of about $45.

This suggests that investors should embrace market volatility and buy quality stocks when they are on sale. So, only buy stocks that you’re comfortable adding to at lower prices.

The Foolish investor takeaway

Investors new to stock investing just need to get started. Don’t be afraid to start small to learn the ropes before investing a bigger percentage of your investment portfolio in stocks.

Remember to work market pullbacks and corrections to your advantage by aiming to buy quality stocks instead of selling out of panic. Long-term investors of quality companies like Fortis and Open Text have made good money while earning nice income along the way.

Right now, both stocks are trading at good valuations, which means they should make good money for patient investors buying at current levels.

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Date
2025/08/25
Date Created
2021/03/08
Author
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