New Investors: Should You Invest in Stocks?

Description

There are many places you can put your money: savings accounts, GICs, bonds, exchange-traded funds, mutual funds, real estate, etc. You might be interested in stock investing, because stocks have historically delivered outperforming long-term returns compared to other assets.

The actual returns individual investors get from stock investing can vary widely, though. The rest of the article should give you a better idea about stock investing and why returns vary between you and your friends.

What's your investment horizon?

If you're putting money in the stock market, you should have a long-term investment horizon. There are multiple reasons for this.

First, you could be unlucky and experience a market correction after you put large amounts of money into the stock market. It'll take time for the correction to recover. More severe market crashes could take a year or two or even longer to get back to previous highs.

Second, behind each stock is a business. The business performance drives the long-term performance of its stock. Businesses have long-term strategies that could take years to play out before they drive significant value for shareholders.

So, how long is a "long enough" investment horizon? Generally, you can't go wrong by aiming to hold your stocks for at least five years. If you aim to trade in and out of stocks quickly, you're subject to the whims and short-term volatility of the market.

Investors who put money in the stock market only to realize they need the money sooner than they think might end up booking losses or cutting their profits short.

Can you keep your emotions in check?

When stocks fall a lot, many investors want to cut losses. When stocks rise a lot, many investors want to buy more. Generally, you want to do the opposite of this. That is, as Warren Buffett once said, "Be fearful when others are greedy and greedy when others are fearful."

However, it's not so clear cut when it comes to executing your trades. Since stocks are driven by businesses in the long run and are driven by a voting machine (the stock market with many participants) in the short run, when your stocks make big moves, you have to determine if you should buy, hold, or sell.

The more rational you are by basing your investment decisions on facts versus emotions, the better.

For example, a dividend grower of +40 years, **Fortis** (TSX:FTS)(NYSE:FTS), after falling to $49 per share earlier this year, was a no-brainer buy. At that time, it had an estimated long-term rate of return of about 10% based on an initial yield of 4% and an estimated earnings-per-share growth rate of about 6%.

What if an investor bought the stock at $55 at the start of the year? They would need to have endured the more than 25% drop during the pandemic market crash. That kind of big decline doesn't happen very often for Fortis. Going up or down 10% is more normal for the low-volatility stock.

Mind you, Fortis stock is as low risk as stocks go. If you can't stand the kind of volatility that it brings, stocks are either not for you, or you'll need to train yourself, perhaps with paper trading.

The Foolish takeaway

Is stock investing for you? You won't know until you try. Read a lot and invest small amounts initially to gain experience and get a sense of what works for you. As you learn and apply more and more, you will find an investment strategy that's unique to you. And it could be very rewarding!

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1. Dividend Stocks
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