How to Improve Your Return on Investment

Description

If you're getting a positive return on investment (ROI), congratulations, you are making money. If it's a return on investment on your stocks, some would say that you haven't actually made money until you booked the gains.

default watermark

Besides, it's not good enough to just get a positive return on investment. You want to get a satisfying return on investment for the timeframe you're holding your investments.

For example, Canadians can get an ROI of nearly 12% from the best-rate GIC today. However, it's going to take five years to get the 12% because the GIC only offers a 2.25% interest rate today. So, in reality, Canadians would only get an annualized return of 2.25%.

Here are a few ways that can help you improve your return on investment.

Buy dividend stocks

Dividend investing has made up about 33% of total stock market returns in the long run. Notably, dividends from quality dividend stocks are a more reliable source of return than price appreciation.

In fact, long-term investors of the Canadian Dividend Aristocrats could be sitting on very high yields on costs, which secures a high return on their dividend investments every year.

For example, an investor who bought shares of food retailer **Metro** (TSX:MRU) in 2001 would be sitting on a yield on cost of about 29%. On an initial investment of $1,000, the investor would be earning at least $290 a year from dividends.

The secure returns are supported by the following. First, the investor held on to the solid dividend stock through thick and thin, for many years. Second, Metro was managed very well and increased its dividend at a compound annual growth rate of about 15% since 2001.

Importantly, the dividend growth was backed by earnings growth. Metro's recent payout ratio was about 28%. And its dividend hike this year remained above average at 11%.

Buy on dips

The market has gone up in the long run. If you buy wonderful businesses when stocks dip, in the long run, this act will improve your ROI. For example, if you bought the dip in Metro this year at $54 per share, you would be sitting on an ROI of more than 18% plus the dividends received.

In the long run, the stock market has only returned about 10% per year on average. So, an ROI that's greater than 10% is very good.

Save on taxes

We all pay hefty income taxes for our active income. Capital gains and eligible Canadian dividends are taxed at lower rates. So, it's super helpful in building your wealth by having investment income.

Going a step further, you can invest in tax-advantaged accounts like Tax-Free Savings Accounts (TFSAs) and RRSPs to further shield taxes from your investments. You get tax-free returns, such as from dividend income and stock price appreciation, by investing in your TFSA.

You defer paying taxes by investing in your RRSP. The idea is that when you retire, you'll be earning less income, and you can withdraw from your RRSP/RRIF at a lower tax rate.

By shielding taxes from your investments, you can improve your ROI significantly!

default watermark

The Foolish investor takeaway

Stocks go up and down. You can increase your chance of getting a great ROI by investing in great businesses for the long haul, especially if you add to your positions during dips in bear markets.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MRU (Metro Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. arosenberg
2. kayng

Category

1. Dividend Stocks
2. Investing

Date
2025/08/27
Date Created
2021/08/22
Author
kayng

default watermark

default watermark