5 Tips on Building Lasting Wealth With Stock Investing

Description

The stock market is one of the best creations by man! You must be careful, though, because it's a double-edged sword. From an investor's perspective, you can create long-lasting wealth by putting your money in the stock market and partnering with the best companies you discover. However, people looking for quick profits could find themselves losing money quickly if they're on the wrong side of the trade.

Here are five tips that can help you build lasting wealth with stock investing.

Revenue growth

Find companies with revenue growth. Having sales growth implies there is demand for a company's products and services. Revenue growth will trickle down to gross profits, as long as management is mindful of the cost of revenue. Ideally, in the long run, the cost of revenue increases at a slower pace than revenue growth.

Gross profits will trickle down to operating income. Similarly, management will be keeping an eye on the operating cost. Ultimately, for a company to be consistently profitable, it'll need to have positive net income after paying interests and taxes. This all starts with revenue. So, it's definitely a check on the box for a company that has consistent revenue growth.

Earnings stability

Open Text (TSX:OTEX)(NASDAQ:OTEX) has one of the best track records of earnings stability. In the last 20 years, it has only experienced one year of earnings-per-share (EPS) decline. In the 20-year period, it increased its EPS at a compound annual growth rate of about 17%. In the last 10 years, its EPS has increased by about 15% per year. So, it's still got its mojo.

Valuation

For a proven tech stock like Open Text, you're pretty much guaranteed market-matching or market-beating long-term returns if you buy it at a good valuation because of its high earnings stability and tendency to increase earnings. This means you try not to overpay for companies and aim to buy when they're cheap.

For example, if you'd bought shares of Open Text on the dip during the pandemic market crash last year, you could have secured price gains of about 40-56% in a low-risk investment.

Dividends

Some companies pay dividends. It's nice for investors to earn that consistent return coming from solid companies that pay safe dividends. Open Text is one example. It began paying dividends in 2013. Since then, it has increased its dividend every year. Its five-year dividend-growth rate is 13.4%, which is certainly above average. Importantly, all these years, it has maintained a very conservative payout ratio of below 25%.

Long-term mindset

Having a long-term investing mindset will be super helpful for investors' stock accounts. In the short term, no one can predict which way stocks will go. In the long run, stocks' trajectory will follow the fundamentals. If a wonderful business is consistently growing revenues, earnings, and maybe even paying a growing dividend, you can count on the underlying stock to go higher and become more valuable.

The Foolish investor takeaway

The scariest stock selloffs are the ones triggered by drops or anticipated drops in revenues and earnings, which could imply a deterioration in the fundamentals. So, it's helpful in building lasting wealth in stock investing when you carefully select stocks that can maintain revenue and earnings stability through economic cycles.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:OTEX (Open Text Corporation)

2. TSX:OTEX (Open Text Corporation)

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. kayng
2. kduncombe

Category

1. Investing
2. Tech Stocks

Tags

1. Editor's Choice

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