



3 Stocks That Could Serve As the Foundation of Your Portfolio

Description

Investing in the stock market is a great way to build wealth. However, every stock picker knows that the foundation of your portfolio is very important. If you fail to select solid companies, then your portfolio will have a tough time beating the broader market. In that case, it would be wiser to stick with broad market ETFs. However, it's very possible to beat the market over the long term if you choose the right companies. In this article, I discuss three stocks that could serve as the foundation of your portfolio.

Stick with what you know

Peter Lynch is a legendary investor who became well-known for his extraordinary gains. Over his career, he averaged an annual return of about 29%. In comparison, the average return by the **S&P 500 Composite Index** over the long term is about 10%. Peter Lynch stated that by "investing in what you know," investors can put themselves in a great position for success. Therefore, new investors should look at the companies they interact with daily. By doing so, you have a greater chance of picking a great company.

For example, if you bank with **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), you'll have a rough idea of how the company makes its money. You'll also know how it operates and what its products and services are. From there, it wouldn't take too long to do research on the company's management team and how it differs from its competitors. Choosing a company you interact with daily could also help you stay on top of important news updates.

Choose a great blue-chip growth stock

Once you have a selection of companies that you interact with on a daily basis, in your portfolio, it would be a good idea to consider adding growth stocks. This will help give you a better chance of beating the market over the long term. Investors should consult the TSX 60. This is a list of 60 large companies which lead important industries in Canada. Of those companies, my top choice is **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)).

There's no denying that Shopify has already generated massive amounts of wealth for shareholders since its 2015 initial public offering (IPO). However, the stock's not done growing just yet. In fact, if I could only pick one stock to invest in, it would be Shopify. In its latest earnings presentation, Shopify reported that its Q3 revenue increased by 46% year over year. This proves that there is an increasing demand for online retail. As e-commerce continues to penetrate the global retail industry, expect Shopify to grow. It could be the first Canadian stock to hit a \$1 trillion market cap.

Dividend companies can help protect against downturns

Finally, investors should consider adding dividend companies to their portfolios. It's been shown that dividend companies tend to suffer less severe losses during market downturns. This could provide your portfolio with downside protection during a recession. When looking for dividend companies, investors shouldn't focus on high dividend yields. Instead, look for companies that have a long history of increasing dividends over time. Companies that increase dividends for at least five years are known as Canadian Dividend Aristocrats.

Of all the dividend companies on the **TSX**, my top choice is **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)). The company holds the second-longest active dividend growth streak in Canada, [at 47 years](#). Fortis is a diversified company, providing regulated gas and electric utilities to more than 3.4 million customers in Canada, the United States, and the Caribbean. If you're looking for a top dividend stock to add to your portfolio, Fortis should be up for consideration.

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