New Investors: 3 Things You Must Know Before Making Your 1st Investments

Description

You have been working hard to make money. With an emergency fund and excess savings, it's time to get your money working for you. When you go to your financial advisor for advice on where to invest, they'll probably ask you some of these questions. Let's go through them.

What's your investing experience?

If you have zero investing experience, your financial advisor might nudge you to invest in low-risk investments initially. Low-risk investments include GICs that guarantee the safety of your principal and a certain interest rate. Unfortunately, low-risk investments also tend to generate low rewards. Currently, the best five-year GIC rate is about 2.5%.

You probably don't know what your risk tolerance is until you try different types of investments. New investors might think that they have a low risk tolerance and are afraid to take high risks. But they may not realize that by taking low risks, they're also getting low returns.

Besides, what is risk? In the financial markets, risk is often synonymous with volatility. However, I believe the real risk is losing your capital or not getting sufficient returns for your financial goals. Keep in mind that many people invest with the ultimate goal of a comfortable retirement for their unique lifestyle. Without high enough returns, you might not get to live the retirement you want.

You can gain investing experience over time. If you have the interest, take the time to read and learn about different investments. Don't be afraid to try different investments to find the ones that are fitting for your goals.

How long is your investment horizon?

Stock investing is considered high risk. Stocks can be quite volatile during day-to-day and month-to-month trading. However, with an investment horizon of at least three to five years, you could generate much higher returns from quality stocks than parking your money in low interest rate, fixed-income investments. When you have a long investment horizon, you have the time to ride out market volatility and corrections. If you need your money back in a year or two, it makes sense to keep your money in something like a GIC to ensure you get your principal back.

What are your return expectations?

The more you save regularly and the higher your returns, the larger your investment portfolio will grow. Some new investors are afraid to lose money, so they go for low returns that are secure (like from a GIC). It'll be really unfortunate to find out years later that a 2.5% rate of return only helps them roughly maintain purchasing power due to inflation, while, ultimately, they might have hoped that their investments will grow their wealth to a hefty sum for retirement.

It may be shocking, but it's okay to lose money for specific investments if your overall returns are satisfactory for your needs. Ultimately, you want to build a solid and diversified investment portfolio that'll balance your risk and reward.

Here's an idea

Don't know what to invest in? Consider buying quality dividend stocks like **Fortis** and **TC Energy** on dips. These Canadian Dividend Aristocrats that tend to increase their dividends year after year are typically lower risk than the average stock. They also provide decent dividend income while you read up and learn more about investing.

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Date
2025/08/28
Date Created
2021/11/08
Author
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