The Do's and Don'ts of Stock Investing: New Year's Resolution

Description

The end of the year draws near. It's time to start thinking about your new year's resolution. Since everyone has different levels of stock investing experience, different time horizons, and a unique risk tolerance, your investment strategy should naturally be personalized. Here are some do's and don'ts to provide food for thought about stock investing.

Know your financial goals

Know what your financial goals are. Your investment strategy would be super different if you're focused on income, stable total returns, or seeking multi-bagger stocks.

For example, if you're more comfortable with getting a safe income, you can find safe dividend stocks yielding 3-7% on the **TSX**. Even if you're focused on income, you should still care about total returns, though. This way, you will take better notice of the valuation of the stocks you're holding or watching.

What's a reasonable total return to aim for? The long-term stock market return averages 7-10%. So, this is a good target. Another way to look at it is to determine what returns you need to get in the long run to achieve your financial goals. Your ultimate financial goal will probably be retirement. What's your magic retirement number? It will be different for everyone.

Since everyone's financial goals and situation are unique, it would be best to talk with a financial advisor. It's a good idea to have a concrete goal to work towards. For example, income investors may aim to get $5,000 of dividend income monthly. In contrast, a total return investor may aim for a total rate of return of 10% in the long run.

Be clear about your investment strategy

Once you have your financial goals set, you can apply a suitable investment strategy. You might have mixed thoughts about it. For example, if you want income and total returns, you might have some holdings that focus on income, while others that focus on total returns. Then, you would make sure the dividend stocks you choose for income offers a safe yield of at least 3%. Other stocks that you choose should have the potential to deliver at least 10% over the next 12 months and ideally over the next five years or longer. Some holdings may work well for both goals.

For example, **Brookfield Infrastructure Partners L.P.** yields about 3.5% and aims for a return on investment of 12-15% in the long run. So, as long as investors aim to buy it when it trades at a good valuation, they should achieve both goals with no problem.

Don’t follow other investors blindly

It’s so easy to just follow legendary investors’ footsteps. For instance, value investors may consider buying or selling stocks Warren Buffett are buying or selling, and growth investors might watch what Cathie Wood does. However, investors will never know exactly why they’re buying or selling these stocks. Therefore, new investors should take care not to follow investors blindly. Otherwise, when the stocks go up or down, you would have no idea what to do with your holdings.

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Date
2025/07/26
Date Created
2021/12/27
Author
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