



## New to Investing? Here's How to Choose Your First Market-Beating Stocks

### Description

Let's face it: buying stocks can feel overwhelming, let alone buying stocks that have market-beating potential. It won't be easy, but once you take a few important steps, you'll be in a good position to [choose stocks wisely](#). As you're building a solid investment portfolio, here's what you can do to pick your first market-beating stocks.

### Choose a strategy

Successful investors don't just throw money at the stock market and call it a day. Instead, they start with an [investing strategy](#), especially one that aligns with their investment goals and risk tolerance.

Some investors choose a [growth stock strategy](#). This involves investing in companies that have the potential to outperform their competition as well as grow exponentially. To be a good growth stock investor, you'll need to identify companies with strong competitive advantages, market-disrupting potential, and solid finances. Whether they're [small-caps](#) or [micro-caps](#), growth stocks could, over time, become the investments your portfolio needs to beat the market.

Other investors choose a [value stock approach](#). This involves identifying companies that are undervalued given their potential. For instance, you might find a stock that's priced at \$50. After you do some fundamental analysis, however, you discover the stock should be worth \$80. If you're right, you could earn some significant returns, especially if the price goes *above* \$80.

### Know your market sectors

The Canadian economy is broken into 11 [market sectors](#):

- Energy
- Materials
- Industrials
- Utilities

- Healthcare
- Financials
- Consumer discretionary
- Consumer staples
- Information technology
- Communication services
- Real estate

Part of building a market-beating portfolio is using these sectors strategically. As an example, some of these sectors, such as the consumer discretionary sector, are cyclical, meaning their value is tied to market cycles of expansion and contraction. Investing in cyclical stocks could help you beat the market when the economy is strong, though you'll want safe stocks, too, for when the economy weakens.

On the note of "safe stocks," investing in different market sectors helps you achieve diversification. Diversification, or buying stocks in more than one market sector, helps you minimize risks and maximize gains. It can help you hedge losses during a market downturn or recession, as bad times affect the 11 market sectors differently.

For that reason, you'll have a greater opportunity to beat the market when you spread your money across numerous sectors.

## Stick with companies you know

When you look at Peter Lynch, Warren Buffett, Ronald Reed, and, indeed, the bulk of history's most successful investors, you'll see that they built wealth on one simple idea: invest in companies you understand.

What does understanding a company look like? Well, among other things, [choosing a company wisely](#) involves answering the following questions:

- What products and services does the company sell?
- How does the company make money? (What's its business model?)
- What competitive advantages does a company have?
- What market sector does the company fall into?
- What's its competition like?
- Will the company be around in 10, 15, or 20 years?

In addition to these, you should also use valuation metrics to analyze a company's stock. These metrics help you go below the surface price, helping you see if a stock is overvalued, undervalued, or valued just right.

## Choose stocks with the right broker

Finally, be sure you shop around for the right brokerage. Look for a broker who charges low transaction fees, who has great customer service, and who will trade the securities you want to trade. Canada has [some of the best brokerages around](#), so it shouldn't be too difficult to find one that's the right fit for you. Compare the fees among different brokers and make a choice based on what you

expect to trade.

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