New Investors: 3 Tips to Improve Your Odds of Making More Money

Description

If you're just starting investing, it can be really confusing. How should you balance your money between cash, bonds, and stocks? The simple answer is to focus on your needs. You should know your costs of living, such as how much you need to spend every month on necessities like food, housing, and transportation. Your monthly spending over at least the next three to six months should be in cash or cash equivalents like chequing or savings accounts or short-term GICs.

Then, depending on your risk tolerance and investment horizon, you could divide any excess capital into bonds and stocks to aim for higher returns. Historically, stocks generate the highest returns in the long run. So, we'll focus on improving stock returns for the rest of the discussion.

Focus on the business, not the stock

Each common stock is driven by the performance of the underlying business. When you buy the common stock of a business, you become a part-owner of the business. When the business increases its profits over time and maintains a strong financial position, its common stock will also rise over time. Therefore, you'll want to identify the businesses that generate increasing profits.

Additionally, the stock market can be irrational sometimes. The market can push up the stock to outrageously high levels, at which time it does not make sense to buy shares. However, when there's a market correction, it could make sense to buy more shares in wonderful businesses. You can observe the common stocks that Warren Buffett's **Berkshire Hathaway** owns to get a sense of what wonderful businesses are like.

In the short term, stocks are volatile, but in the long run, they always follow the fundamentals, and the valuation eventually reverts to the mean whenever stocks rise too high or fall too hard.

Buy dividend stocks

Because stock prices are unpredictable, it helps tremendously for investors (not just beginners) to own at least a portion of their diversified stock portfolio in quality dividend stocks that pay decent and growing dividends. Moreover, studies have shown that about one-third of stock market total returns come from dividends. So, it makes good sense to own dividend stocks such as **Fortis**, **TELUS**, and **Royal Bank of Canada** as core holdings in a long-term portfolio.

You can find more dividend stock ideas among Canadian Dividend Aristocrats that tend to increase their dividends every year. Start with the dividend stocks that pay yields of 3-5% today. Lock in those nice yields before expanding into lower-yield dividend stocks that typically grow (and increase their dividends) at a faster pace.

Have a long-term investing mindset

Stock investing is meant for long-term investment, because most of the time, investors will benefit from a wonderful business the most if they invest for decades. Ideally, you would also earn dividends along the way so you can benefit from the investment without having to sell any shares (i.e., a percentage of your ownership).

The sooner you start investing and let your money grow, the faster it rolls bigger. For example, monthly investments of $500 invested over 30 years for a 10% annualized return will grow into $986,964.14!

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Author
kayng