New Investors: Should You Buy Dividend Stocks or Growth Stocks?

Description

New investors may have trouble deciding which stocks to buy. There are so many to choose from. Plus, there's an overflow of top stock ideas out there. I have invested in stocks for about 13 years now. I remember that early in my journey, "guru" investors — what I call stock investors who are in their retirement and share their investing experience — would strongly encourage new investors to start with solid dividend-growth stocks.

Over the years, I have stepped into both dividend stocks and growth stocks. And I would generally recommend buying wonderful businesses that are cheap. However, growth stocks are harder to value (or perhaps they can be more unpredictable) than value stocks. So, I think to be on the safe side, I would quote guru investors and recommend new investors to start with solid dividend stocks.

Start with dividend stocks

Particularly, if you have limited capital and it's hard for you to squeeze out money to invest every month or every few months, start with good dividend stocks at good valuations. And go with no-commission-fee online brokerages if you can. You'll save tonnes of fees in the long run!

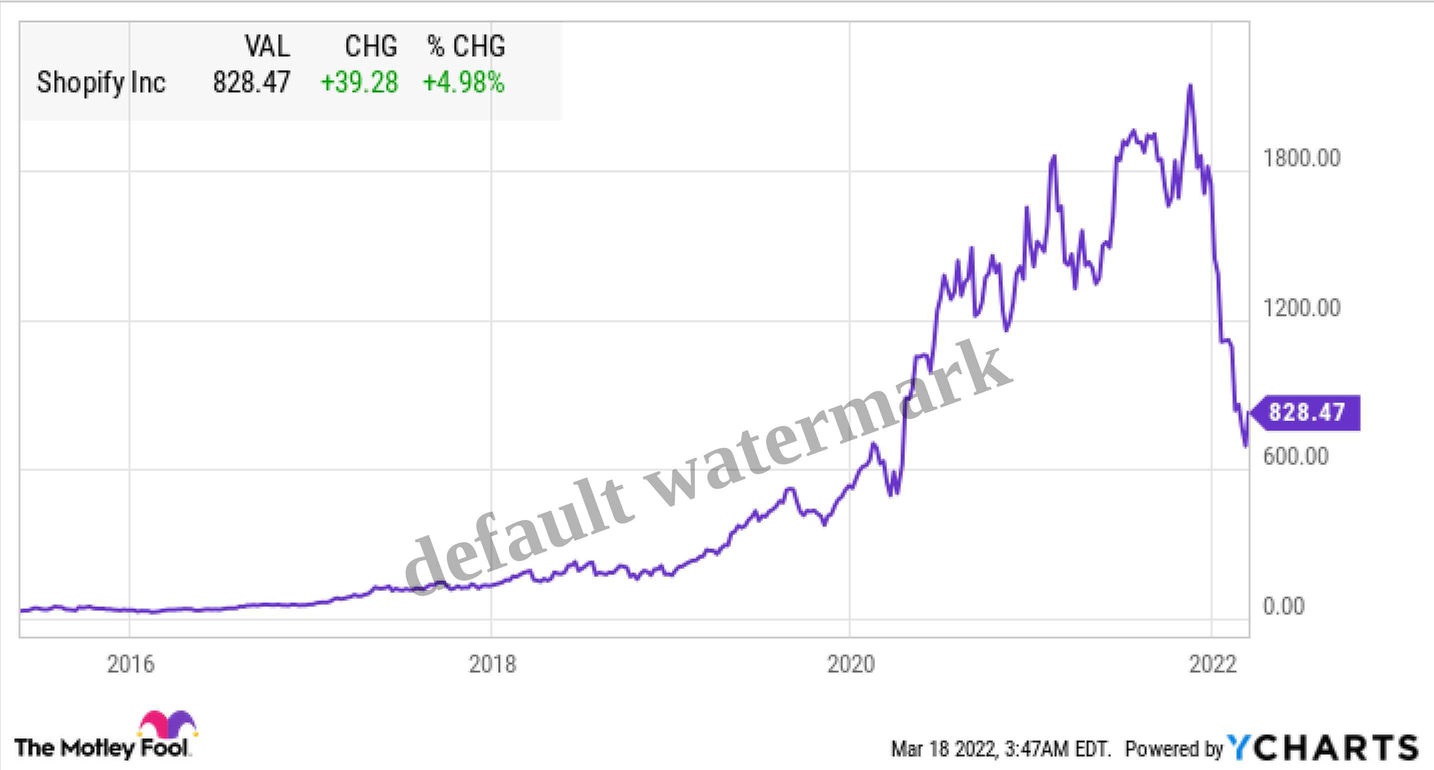
Dividend stocks that trade at good valuations you can start your research on include **Canadian Apartment REIT**, **Canadian Net REIT**, **Manulife**, **Magna International**, **Savaria**, and **CCL Industries**. Notably, some are higher risk than others. I would consider Magna and Savaria to be higher risk, as their earnings can be more unpredictable. However, the risk can work both ways in driving the stock either much higher or lower in a period versus the other stocks.

Typically, you would want to invest in dividend stocks that provide decent yields of 3-5% first. This way, you can start earning dividend income that you can mix in with your savings to reinvest in the best idea at a time.

Should you invest in growth stocks, too?

Growth stocks can be a wonderful booster of your wealth when they work favourably. You might have heard of multi-baggers — that is, investors doubling, tripling, or quadrupling their money on an investment. It's much easier said than done. Unfortunately, growth stocks can also go terribly wrong. And new investors can easily lose their shirts if they're not careful.

As an example, take a look at **Shopify** stock below. Many other growth stocks that were in a bubble witnessed a similar correction this year. This kind of price action scares even the most experienced investors.



SHOP data by YCharts

That said, it may be the best time to buy growth stocks after such a big correction. If you have lots of capital to play with, you can balance it out between dividend stocks and growth stocks. However, I would recommend focusing more on dividend stocks than growth stocks to be more conservative as you're starting out and learning stock investing. For example, depending on your comfort level, you might allocate 70% of your capital in dividend stocks and 30% in growth stocks.

Application and real-world investing experience are equally as essential as reading up on investing and gaining knowledge. After all, you are the one that's going to ride through market corrections and march to higher grounds in the long run if you picked the right stocks with wonderful underlying businesses.

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