3 Top TSX Blue-Chip Stocks for New Investors

Description

As a new investor, you should be focused on buying shares of companies that operate businesses that are easy to understand. This will allow you to focus less brain power on figuring out the ins and outs of a certain company and spend more time trying to identify new stocks to add to your portfolio. With that in mind, I believe new investors should focus on blue chips. These are companies that are established and usually have some sort of competitive advantage over its peers. Here are three examples.

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Buying one of the banks

I'm convinced that the Canadian banks are excellent stocks to hold if you're a new investor. This is because the Canadian banking industry is highly regulated. That has resulted in a very concentrated industry, where smaller competitors have a difficult time surpassing the industry leaders. As a result, the Big Five banks are very recognizable to Canadians. Of that group, investors would be fine to invest in the company they bank with, since these stocks tend to move in the same direction.

However, if asked to choose, I would suggest investing in **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). This stock has steadily generated returns over the years. Looking at its past five-year performance, Bank of Nova Scotia stock has generated a return of about 44% if dividends are included. That represents an annual return of about 7.8%. To put that into perspective, the **TSX** has gained about 6.9% per year over that same period.

Choose one of the railway companies

New investors should also consider buying shares of one of the large Canadian railway companies. Like the banking industry, Canada's railway industry is highly concentrated. There are two companies that dominate this business area. These two railway companies may even be more recognizable than some of the Canadian banks, as their railway networks span from coast to coast.

Of the Canadian railway duopoly, I would be more comfortable investing in **Canadian National Railway** (TSX:CNR)(NYSE:CNI). It is the larger of the two companies. Canadian National's rail network spans nearly 33,000 km. This company is also a well-known Dividend Aristocrat. Canadian National has managed to increase its dividend in each of the past 25 years. With a modest payout ratio (35.7%), this company could continue to comfortably raise its dividend in the future.

Some of these stocks have more growth potential

Although the first two companies listed here are known to grow at a more modest rate, there are blue-chip stocks that are in a high-growth stage. Take **Shopify** (TSX:SHOP)(NYSE:SHOP) for example. It is a component of the **S&P/TSX 60**. That identifies Shopify as one of the most established companies in the country. However, the e-commerce industry is expected to grow at a CAGR of 14% through to 2027. If that happens, it wouldn't be outrageous to see Shopify grow much larger by the end of the decade.

In 2020 and 2021, Shopify's revenue grew at a crazy rate. In 2020, the company saw an 86% year-over-year increase in its total revenue. Much of that growth has come as a consequence of the COVID-19 pandemic. The company expects that this growth rate will slow down to pre-COVID levels. However, I believe that Shopify is still well positioned for success in the future.

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