Should You Buy a Home or Invest in Stocks?

Description

According to a Canadian income survey conducted by Statistics Canada in 2020, “the median after-tax income of Canadian families and unattached individuals was $66,800 in 2020, which represented an increase of $4,400 (+7.1%) from the previous year.”

However, older age groups and males (versus females) tend to earn higher income. Therefore, individuals are encouraged to play with the inputs of this income table made available by Statistics Canada to see how they fare with their related groups.

Anyhow, it’s a good habit to save a percentage of each of your paycheques to pay yourself first. How do you pay yourself? You can save towards the down payment for your home or invest in stocks.

Should you buy a home or invest in stocks first?

Buying a home

If you plan to buy a home within the next three years, you should probably park the money, which is reserved for your down payment, in safe places like high-interest savings accounts or GICs. If you have a longer investment horizon, you might consider investing in stocks — just be ready to change your plans if you’re caught up in a market downturn, which could last for more than a year before stocks recover.

Investing in stocks

Some Canadians invest in stocks first with growing a massive down payment in mind. However, this strategy requires, more or less, the co-operation of stocks. For example, in the decade that ended in 2021, growth stocks had a tremendous run. Canadians who invested in growth stocks during that period probably made truckloads of money that they could have taken profit from and contributed towards a meaningful down payment if they wanted to.

Growth stocks

Growth stocks have corrected this year and are out of favour in today's rising interest rate environment. It's not to say that they cannot help Canadians grow a bigger down payment over the next five to 10 years. However, at the current point, it's safer for investors to be picky and focus on growth stocks that are profitable and expected to increase their profits. For example, growth stocks like **Amazon**, **Alphabet**, and **Constellation Software** continue to be decent considerations for long-term investment.

Dividend stocks

Solid dividend stocks can provide more stable returns than growth stocks. Particularly, you might consider dividend stocks that pay yields of at least 3% and tend to increase their dividends. Since we are in a rising interest rate environment, dividend-growth stocks provide better security than dividend stocks that pay constant dividends.

Dividend-growth stocks that yield about 3% may be able to grow their dividends by about 6-7%. If you accept more unpredictability by buying dividend stocks that yield about 2%, you may be able to get dividend growth of +10% from these stocks.

No matter what, dividend stocks are generally lower risk than pure growth stocks from the perspective of earning more predictable returns from presumably safe and regular dividends. Consequently, investors should determine the dividend safety before buying dividend stocks for that +2% yield.

The investor takeaway

Ideally, for diversification, you would simultaneously save and invest for both a home and potentially stock investments if you have the capacity to do so. Naturally, we have multiple financial goals, such as saving for a big purchase like a car or down payment for a home, and for retirement. Whether you prioritize saving for a home or investing in stocks first depend on your personal preference.

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kayng