New to Investing? Here’s How to Get Started

Description

Are you new to investing?

If so, right now would be a great time to get started. The markets are currently down for the year, and, historically, situations like this one have been great opportunities to buy stocks. There is no guarantee that buying stocks in a bear market will make you rich — sometimes stocks that are down fall even more. But if you buy into a globally diversified portfolio of equities at a time like this, you have a fighting chance of doing well.

In this article I will explore three keys to getting started investing for complete newbies who are just getting their feet wet.

Invest in low-cost ETFs

You might think that deciding what to invest in is a super-complicated exercise. There are thousands of stocks out there, surely it must take a colossal amount of research to find good ones, right?

If you are dead set on buying individual stocks, then yes, that is the case.

But you don’t have to do that. By buying low-cost index ETFs, you can simply buy the entire market, sit on your position long term, and most likely outperform the average individual stock picker. These types of funds are what academic finance literature pretty much advocates investing in. They won’t make you rich, but they usually deliver “adequate” returns over time.

Consider **iShares S&P/TSX Capped Composite Index ETF** (TSX:XIC). It’s a diversified index fund based on Canadian stocks. It holds 240 stocks, which provides ample diversification — reducing the risk considerably. The fund has a 2.5% yield, a low 0.06% MER, and high liquidity. As long as the Canadian economy grows, this fund should do well. So, it’s a great stock for beginners looking to get their feet wet with investing.

Dollar cost average

After you have established a portfolio of quality index ETFs, the next step is to dollar cost average over time. “Dollar cost averaging” means buying at regular intervals to ensure you are not always buying the top. By dollar cost averaging, you get good prices on your investments. If you start your investing journey by buying into a historical high, dollar cost averaging can gradually bring your average cost down. So, buy your ETFs regularly. It is much better than trying to time your entries into stocks.

Remember your taxes!

Last but not least, it pays to consider the tax implications of your investments. Dividends and capital gains are usually taxable. However, you can skip the taxes by investing in a Tax-Free Savings Account (TFSA).

A TFSA is a special tax-exempt account that spares you dividend and capital gains taxes. By holding your stocks in a TFSA, you boost your lifetime return. You get a certain amount of TFSA contribution room each and every year. How much total room you have depends on how old you were when the TFSA was first launched. If you were 18 or older in 2009 and haven’t contributed to a TFSA yet, you have $81,500 in tax-free space to play with.

So, by all means, go ahead and contribute to a TFSA. The money you put in it could grow much more than money in a taxable account ever could.

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1. Investing

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1. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)

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