New to Investing? Start With ETFs, Not Stocks

Description

Are you a new investor?

If you are, you might be very excited about buying “hot stocks” like **Tesla, NVIDIA**, or **Palantir**. These stocks have cult followings and are among the first ones new investors run to when they open their brokerage accounts.

Unfortunately, such stocks aren’t always great buys. Often, their extreme popularity means that they fall dramatically when they lose favour. Palantir, for example, is down 47% this year; the other two stocks I mentioned at the start of this article are down a bit less. That doesn’t mean that any of these stocks are bad investments today, but it does illustrate an important point: you never know where a stock’s price will go. Even the most popular stock can come crashing down, and the more popular it is, the further it has to fall.

Index funds are a great alternative

Given that stocks are risky, you might be wondering what you should invest in. If the most popular stocks aren’t safe, which stocks are? That’s a complicated topic — one beyond the scope of this article. But if you’re looking for a relatively safe investment, there is one kind of asset you can consider: index ETFs.

Index ETFs like **iShares S&P/TSX Capped Composite Index Fund** (TSX:XIC) offer you an easy, low-cost way to get started with investing. They trade on the stock market just like individual stocks do, but they contain massive portfolios of assets instead of just one. Funds like XIC simply buy the exact same stocks that make up a stock market index, such as the Toronto Stock Exchange (TSX) Composite Index. The result is a truly passive investment that doesn’t require too much guess work.

Every single share/unit of XIC has 240 stocks under the hood. That gives you a measure of diversification that reduces your risk (think “don’t put all your eggs in one basket”). Also, funds like XIC can be quite inexpensive. XIC has just a 0.04% fee, which means you don’t lose much of your moneyto the fund’s managers, as is often the case with actively managed funds.

80% of active fund managers don’t outperform

Speaking of actively managed funds…

They’re another category of asset similar to index funds. Just like index funds, they are pooled collections of many different stocks. However, with active funds, managers pick out stocks trying to beat the market. The goal is to give you a better than average return. Unfortunately, 80% of these funds’ managers can’t beat the benchmark over 10 years. You usually do better with safe, cheap funds like XIC.

Does that mean you should never buy individual stocks?

Having looked at all the points above, it’s natural to ask, “Should I buy individual stocks at all?”

If index funds are so great, then you’ve got to wonder whether there’s any point to buying individual stocks.

Truthfully, for most people, that question just about ends the conversation. The odds of outperforming the indexes are quite low. However, it really depends on what your investing goals are. If you desire to get rich in the stock market, you have no choice but to buy individual stocks: index funds don’t produce life-changing amounts of money. The odds may not be in your favour, but if a truly staggering amount of money is your goal, then individual stocks are where you want to be.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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