New Investor? Why It’s Smart to Get Started Investing With Little Money

Description

You don’t need to max out your TFSA (Tax-Free Savings Account) to begin your investing journey. The sooner you start, the better. As a younger investor, you have time on your side and will be able to get back up if you’ve had a fall. In 2021, many new investors got into markets for the very first time. Thus far, 2022 has been quite a wake-up call. Many new investors have slipped and fallen. But that’s okay, given many new investors have plenty of time to get back on their feet under their own power.

Sure, it’s okay to place big bets on growth stocks you truly believe in, especially if you’re a young investor. However, it’s not fine to take on more risk than you’d be comfortable with, especially if you stand to bet on a stock that can shed more than 75% of its value.

We all have a tendency to overestimate our ability to handle volatility. When stocks soar, as they did in 2021, and everybody around you is making easy money, it’s hard to even imagine a scenario where markets would be down 10%, 20%, or even over 30% (in the case of the tech-heavy Nasdaq 100).

Now that the tables have turned, it’s those who went against conventional wisdom who are probably finding they’re doing better than the averages. Those who didn’t go “YOLO” (you only live once) on meme stocks lacking in fundamentals avoided a trap set by an overly euphoric Mr. Market. Though the trap has gone off, investors must remember that many more such traps will be set in the future.

Don’t fall into the traps set by Mr. Market!

Traps will take different forms, but by staying contrarian and avoiding the “get rich quick” mindset, you’ll be able to steer clear of trouble. By focusing on getting rich slowly, you’ll be able to maximize your risk-adjusted returns (the return of an investment relative to the risk taken). Beta is commonly used to measure the volatility of a stock relative to that of the whole market. The **S&P/TSX Composite Index**,a benchmark for Canadian stocks, has a beta of 1. Many examples of low beta stocks can be found inthe stable non-cyclical utility sector, which has a beta under 1. On the other end of the risk spectrum,some Canadian technology and mining stocks have betas of 2, or higher. If the TSX rises or falls 10%,these stocks will move 20% higher or lower, respectively. At the end of the day, investing is aboutobtaining the highest risk-adjusted return possible, not the highest return independent of risk.

Strive to maximize your portfolio’s chances of recovering from a substantial drawdown. From time to time, everybody can get knocked down. The key is ensuring your ability to get back up after you’ve fallen.

Indeed, 50% plunges can happen, as many growth investors found out over the past year. But it’s your job to minimize the potential for such vicious plunges. When you’ve got stocks in your portfolio down more than 70-80% from their peak, you may be guilty of getting too greedy when following the herd.

The smartest investors of our time don’t chase returns if they have to bear astronomical magnitudes of risk. They know the good times don’t last forever and seek to find the perfect balance between risk and reward. Beginners should do the same.

New investors: The case for investing sooner rather than later

The sooner investors start investing, the quicker they’ll be able to gain their market legs and begin to outpace the averages. Even if you’ve got less than $1,000 sitting in your TFSA, you should get started today, as there are many lessons that can only be learned by those who have skin in the game. And once you get started on your investment journey, don’t seek to maximize returns in good times or minimize losses in bad times. Know that your investment career will have many good and bad times. And position yourself to do relatively well in both climates.

Hydro One (TSX:H) stock is just one of many all-weather stocks that you can buy and forget you own. The stock of Ontario’s largest electricity distributor sports a 0.20 five-year beta (a beta below one means shares are less volatile than the **S&P/TSX Composite Index**). In a nutshell, the low beta means Hydro One stock is more likely to trade higher on a market-wide down day and vice-versa.

It’s the low correlation and rich dividend (3.15% yield) that allows investors to have peace of mind in most market scenarios. When the stock markets are too hot, and investors are getting euphoric, shares are less likely to overshoot, only to plunge later. On the flipside, shares are also likelier to continue climbing higher in a multi-month (or multi-year) bear market, when it seems like everything is pulled lower by the gravitational force of the bear.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. cleona
2. joefrenette

Category

1. Investing
2. Stocks for Beginners

Date
2025/09/20
Date Created
2022/09/12
Author
joefrenette