New to Stocks? 5 Easy Tricks to Give You a Leg Up

Description

Are you just starting stock investing? It's easier said than done to pick stocks wisely. Here are five easy tricks to give you a leg up.

Buy quality businesses

Each stock has an underlying business. If the business does well in the long run, generally, it leads to good stock price performance, which leads to price gains that stock investors can profit from. Stocks driven by quality businesses don't necessarily provide the highest returns, because these stocks typically trade at a premium valuation for their quality. However, you also get a better chance of growing your wealth stably and durably by diversifying your portfolio across a basket of quality stocks.

Fortis (TSX:FTS) stock is an example of a quality utility business.

Focus on the long term

Stock prices are driven by news in the short run and by the underlying business performance in the long run. In other words, long-term stock results follow business results. For instance, Fortis increased its adjusted earnings per share (EPS) by roughly 5% per year over the last decade.

This drove the dividend stock to deliver total returns of about 8.5% per year over the last decade or so, turning an initial $10,000 investment into approximately $24,743. This is slightly below the Canadian stock market return of about 8.8% in the period. However, Fortis is a low-beta stock, and it provides a reliably growing dividend.

Dividend stocks help

Fortis stock's dividend also played a key role in delivering about a third of the total returns over the last decade. Dividend stocks that pay decent dividend yields help in providing stable returns from the dividend no matter the stock price volatility. You just need to be sure that the dividend is sustainable.

Fortis has increased its dividend for close to half a century. And it maintains a sustainable payout ratio of about 77% and a decently strong credit rating of A-. At writing, it yields 4.1%.

Save and invest regularly

Saving and investing regularly is of utmost importance for new investors. Initially, your savings will pull the weight of your portfolio growth. The longer you stay at it, the more your investments would pull the weight, as long as you're earning positive returns — of course, the higher your returns, the faster your portfolio growth.

Pay attention to valuation

You don't want to overpay for stocks. When you do, you reduce your returns potential and increase your investment risk. The tricky part is that stock valuation changes as businesses or macro environment change. For example, in 2022, rising interest rates dragged down stock valuations. Companies that generate higher earnings growth typically trade at higher valuations, as do quality businesses like Fortis that produce stable results and returns.

At just below $55 per share, analysts believe Fortis stock is fairly valued. If it maintains the current valuation and continues to grow its EPS at a rate of about 5%, the stock can deliver total returns of roughly 9% per year over the next three to five years.

Investing takeaway

If there's anything to remember from this article, stay the course. Save and invest regularly in a diversified basket of quality stocks trading at good valuations. Ideally, these stocks should pay safe and growing dividends that would help provide you with stable returns, no matter what stock prices do.

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