How to Buy Stocks in Canada

Description

Thanks to improvements in mobile technology and smartphone apps, buying stocks in Canada has perhaps never been easier. Even so, when you're buying stocks on the **Toronto Stock Exchange**, you might get confused by terms like "market" and "limit order," or feel anxious about how many shares you should buy, or even feel daunted by the selection of online brokerage accounts out there.

Don't worry—the more you buy stocks, the more it'll become second nature. To help you get there, here's how to buy stocks in Canada and start investing today.

Let's break it down.

1. Open an online brokerage account

A broker is essentially your go-to person or entity when you want to connect to the stock market, buy and sell stocks, and possibly get educational materials on different stock companies. A Canadian broker makes trading stocks even easier by allowing you to buy stocks from mobile devices, as well as look at your portfolio's performance.

In Canada, you have many good options for low-fee brokerage accounts. Some of our favourites include:

- Wealthsimple Trade
- Qtrade Direct Investing

- Questrade
- CIBC Investor's Edge

How to choose a brokerage account

In general, here are a few things you should look for when determining which one you want to work with:

- **Low trading fees**: Compare fees on each different trading platform, as the less you pay, the more you have to invest with.

- **Platform user-friendliness**: Look for platforms that are easy to navigate and feel intuitive. Some brokerages will even offer you a "sneak peek," which could help you decide if the platform feels right to you.

- **Investment selection**: If you want to invest outside of the Canadian stock market, in cryptocurrency, bonds, or other non-stock assets, make sure your broker allows these transactions.

- **Customer service**: If you're a beginner investor (or new to online brokerages), you want to pick a broker with a solid reputation for answering questions and resolving client conflicts. Even as a seasoned investor, you want to be sure your trading platform will assist you quickly and diligently with troubleshooting questions.

- **Research:** Often online brokers will offer stock trading education through articles, tutorials, or even a stellar customer service line.

Once you pick an online brokerage, you'll need to fill out an application to open an account. Typically, you'll need to give your Social Insurance Number, bank account information, and an image of a valid government-issued ID.

2. Choose an investment account

Once you choose a Canadian broker, you'll have to choose which type investment account you want to open. This choice depends ultimately on your stock investing goals and personal situation, but most Canadians will choose one of three accounts:

- **Registered Retirement Savings Plan (RRSP):** This tax-sheltered retirement account allows you contribute up to 18% of last year's earned income or a maximum of $29,210. Your RRSP contributions can be deducted from your taxable income, and all investment gains will be tax-deferred. RRSPs are ideal for long-term retirement savers, as the tax rules benefit those who wait until retirement to withdraw money from their account. They're also ideal for those who have high incomes, as the tax deductions could put you in a lower tax bracket.

- **Tax-Free Savings Account (TFSA):** A TFSA is also a tax-sheltered retirement account, though with much lower contribution limits. Like RRSPs, TFSAs have the benefit of tax-deferral, but their withdrawal rules are much more flexible, making them ideal for short-term and long-term savings goals.

- **Non-registered account:** A non-registered account is an investment account that isn't tax-sheltered. When you earn money on investments in these accounts, you'll have to pay capital gains taxes. Non-registered accounts have no contribution or withdrawal limits, and they're ideal for investors who have maxed out the two options above.

3. Pick stocks you want to buy

With an online brokerage and investment account chosen, you can finally do what you came here to do: pick stocks and start investing.

Of course, you don't want to pick just any old stocks. You want to find and buy stocks that have long-term growth potential, solid business models, and strong financial footing.

In short, you want to pick stocks wisely, which might involve using evaluation metrics, digging into a company's financial records, or using the research available to you in your brokerage account. The Motley Fool's Stock Advisor is also a good source of investment advice.

Once you do identify good long-term stocks, you'll want to decide how many shares to buy. This isn't as difficult as it sounds, and, in fact, your investing budget and the stock price will often help you decide. If your brokerage allows fractional shares (think 5.482 shares instead of a solid 5), you can purchase any dollar amount. For instance, with $1,000 Canadian dollars to invest with, you can buy a full $1,000 worth of shares.

If they don't offer fractional, you'll have to divide your stock trading money by the price of the stock, then round down. For instance, if a stock is selling for $94, then you can buy 10 full shares ($940) with $1,000, then save up another $34 to buy that eleventh one.

4. Choose an order type

After you've chosen a stock and the shares you want, you'll have to decide on your order type. Luckily, there are only two main order types, and they're fairly easy to understand:

- **Market order:** When you place a market order, you're asking your broker to trade shares *immediately*. Whether you're buying stock or selling it, you want it to be done right away.
- **Limit order:** When you place a limit order, you're asking your broker to buy or sell shares at a specified stock price. For instance, if you want to buy stock in Company A, but you think its current stock price is too high (say, it's $780 per share right now), you could place a limit order to buy the stock *if* it falls to $600. Likewise, if you're losing confidence in Company A, and you're currently a shareholder, you could place a limit order to sell if the individual stocks hit $800.

5. Place your stock order with your brokerage

At this point, you have all the pieces to complete your order with your brokerage. To recap, here's what your broker will ask for:

- **Ticker symbol:** an abbreviation used to identify the company you want to buy.
- **Shares:** the total number of shares you want.
- **Order type:** whether you want to place the order now (market) or wait until the stock hits a specified price (limit).

Once you hit "place order," your broker will start executing it. Depending on your brokerage, it could take a few minutes before you become an official shareholder of the company you chose. But soon enough you'll see the stock appear in your holding.

6. Continue to diversify your portfolio

Now that you know how to buy stocks in Canada, the next step is to *repeat the steps above* until you have a well-diversified holding.

What does a diversified holding look like? For one, it involves owning investments that represent a broad range of industries, market sectors, and even different asset classes (bonds, cryptocurrency, commodities, real estate).

The idea is that by spreading your money across many different investments, you might limit the downside if a market correction or downturn hurts a specific part of the economy.

Of course, if you'd rather not spend your time handpicking stocks, you can always buy shares of an exchange-traded fund (ETF) or mutual fund. One share of an ETF will spread your money across numerous companies. You can buy and sell ETFs in the same way described above, by placing an order with your online brokerage.

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