

LEARNING MADE EASY



6th Edition

Stock Investing For Canadians

**for
dummies[®]**
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Invest in trends like
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Incorporate stocks that fit your
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Pick stocks for growth or
income in any market

Andrew Dagys

**Chartered Professional
Accountant**

*Author, RRSPs & TFSAs For Canadians
For Dummies*



Stock Investing For Canadians

6th Edition

by Andrew Dagys

for
dummies[®]
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Introduction

Stock Investing For Canadians For Dummies, 6th Edition, has been nothing less than an amazing writing adventure. It represents our entry into the third decade of helping Canadians navigate the evolving and fascinating world of stock investing. We are grateful we can share our thoughts, information, and experience with such a large and devoted group of Canadian readers. Since our last edition, so much has changed by way of brand-new markets, jurisdictions, and financial vehicles that stock investors can now invest in. In today's global investing landscape, the opportunities for great gains (and even greater losses) have reached an extreme. In some ways, our current market reminds us of Dickens's famous novel opener: "It was the best of times, it was the worst of times . . ."

In terms of the negative realities that face us now — a nervous post-pandemic recovery, international conflict, political tensions, inflation, high interest rates, employment and economic instability, and so on — these seem like the worst of times. Yet when we think of the investment opportunities driven by emerging industries as well as new and powerful financial technologies to improve investing and risk management, we are encouraged. Financial technology innovations such as robo-advisors, stock selection tools that use artificial intelligence, and new ways to easily access the world of the blockchain have captured the imagination, and finances, of the stock market. New and unique industries and trends like cannabis, decarbonization, technological innovation, the sharing economy, and labour transformation have expanded the stock market playing field and created exciting stock-investing opportunities for Canadians. Some trends are also re-igniting traditionally "Canadian industries" like natural resources, banking, and services. It's clear these can also become the best of times.

At the time of this writing and by most measures of performance, the combined value of U.S. and Canadian stocks has reached record levels. This is despite recent market volatility during and after the pandemic, wars, crazy living costs, and a really stressed-out and sometimes scarce labour force. There are likely a multitude of reasons but a key reason is that more Canadians realize that investing at least a portion of savings in stocks is not just a "fun-to-know pastime" but rather an "essential life skill" and a clear and present path to help you stay ahead of inflation and also help you reach your personal goals.

Exactly what can or should Canadian stock investors do? How can Canadians seize the opportunities we mention above? How can investors reduce the risks

associated with stock investing? As with so many of life's lessons, being successful at stock investing takes diligent effort, experience, and knowledge. We can definitely help you understand stock-investing fundamentals and avoid some of the big mistakes others have already made. We can also help you better understand and hopefully not repeat any past stock-investing mistakes you yourself may have made.

In this edition, for the very first time, we introduce you to investing during inflation and trends to watch through brand new chapters. We radically update and simplify the chapters on the blockchain, dividend income investing, financial technology (Fintech), cannabis, global stock investing, taxation, and much more including discussion of risks. Of course, we start and will always focus on the core of this book — stocks. Our focus is on the fundamentals. It is our pleasure and purpose to help you succeed!

In the face of all of this uncertainty, today's most effective stock investors will be those who are nimble, prepared to make quick decisions, and perceptive to changes that are relevant to stock investing. This book helps you get to that state and shows you how to make important connections to the events and drivers that move stocks in one direction or another.

In all the years that we've counselled and educated investors, the single difference between success and failure, between gain and loss, boils down to one word: *knowledge*. Welcome to this book — and welcome to the intriguing and exciting world of stock investing!

About This Book

The stock market has been a cornerstone of the Canadian investor's wealth-building program for more than a century and continues in this role. Recent years have been one wild roller-coaster ride for stock investors. Fortunes have been made and lost. Even with all the talking heads on business radio and television, investment journalists, and the reams of books promising great profits, the investing public is still exposed to things like world recessions, corporate scandals, and other market-moving events. With just a little more knowledge and a few wealth-preserving techniques, more investors could have held onto their hard-earned stock market fortunes. This book gives you an early warning on those megatrends and events that will affect your stock portfolio.

This book is designed to give you a realistic approach to making money in stocks. It can help you succeed not only in up markets but also in down markets. It provides the essence of sound, practical stock-investing strategies and insights that

have been market-tested and proven over a century of stock market history. We don't expect you to read it cover to cover, although we'd be delighted if you read every word. Instead, this book is primarily designed as a reference tool. Feel free to read the chapters in whatever order you choose.

Stock Investing For Canadians For Dummies, 6th Edition, is different from the "get rich with stocks" titles that have crammed the bookshelves in recent years. It doesn't take a standard approach to the topic; it doesn't assume that stocks are a sure thing and the be-all, end-all of wealth building. In fact, at times in this book, we tell you when *not* to invest in certain types of stocks. We rest confident that this is our best edition ever.

Foolish Assumptions

We figure you've picked up this book for one or more of the following reasons:

- » You're a beginner and want a crash course on stock investing that's an easy read.
- » You're already a stock investor, and you need a book that allows you to read only those chapters that cover specific stock investing topics of interest to you.
- » You need to review your own situation with the information in the book to see whether you missed anything when you invested in that hot stock your brother-in-law recommended.
- » You need a great gift. When Uncle Albert gets upset over his poor stock picks, give him this book so he can get back on his financial feet. Be sure to get a copy for his broker or neighbour, too. (Odds are the broker or neighbour were the ones who made those picks to begin with.)

Icons Used in This Book

Useful icons appear in the margins of this book; here's what they mean.



REMEMBER

When you see this icon, we're reminding you about some information to always keep stashed in your memory, whether you're new to investing or an old pro.



TECHNICAL
STUFF

The text attached to this icon may not be crucial to your success as an investor, but it may enable you to talk shop with investing gurus and better understand the financial pages of your favourite business publication or website.



TIP

This icon flags a particular bit of advice that may just give you an edge over other investors.



WARNING

Pay special attention to this icon, because the advice can prevent headaches, heartaches, and financial aches.

Beyond the Book

In addition to the material in the print or digital book you're reading right now, *Stock Investing For Canadians For Dummies*, 6th Edition, comes with other great content available online. To get the Cheat Sheet, simply go to www.dummies.com and search for "Stock Investing For Canadians For Dummies Cheat Sheet" in the Search box.

Where to Go from Here

You may not need to read every chapter to make you more confident as a stock investor, so feel free to jump around to suit your personal needs. Because every chapter is designed to be as self-contained as possible, it won't do you any harm to cherry-pick what you really want to read. But if you're like us, you may still want to check out every chapter because you never know when you may come across a new tip or resource that will make a profitable difference in your stock portfolio. We want you to be successful so we can brag about you in the next edition!

1

The Essentials of Stock Investing

IN THIS PART . . .

Knowing the basics, preparing to buy stocks, and figuring out how to pick good ones.

Tallying up your personal balance sheet and cash flow statement and set some personal financial goals.

Coming up with strategies to match your investing goals.

Looking at different types of risk, understand volatility, and balance risk versus return.

Diving deeper into ETFs and the basics of indexes and index funds.

- » Knowing the essentials
- » Getting ready to purchase stocks
- » Recognizing winners

Chapter 1

Surveying the World of Stock Investing

For Canadians who are new to stock investing, the stock market must certainly look both enticing and intimidating at the same time. Since we wrote the last edition, the world-leading U.S. stock market has gone nowhere but up, with a number of scary dips along the way. During this time, the much smaller but still exciting Canadian stock market has gone up, too, but also with a few hiccups along the way. No matter where you invest, or what level the stock market is at today, the decision to buy or sell is never easy.

We wrote much of this 6th Canadian Edition as the United States, Canada, and the rest of the world were wondering if the COVID-19 pandemic would ever end, or whether international military tensions around the world would escalate, to name just a few world events that shaped the last few years. A lot of Canadians still wonder whether times like these could lead to financial turbulence or even an economic abyss. (Events such as these directly affect stock investing because our world and our financial markets are more interrelated and connected than ever.) Too many folks are pining for the good 'ole days of the '80s and '90s, when choosing winning stocks was easier than finding aliens in *Star Wars*. Today's stock market is more than a little puzzling . . . but it can still be rewarding. And it can be better understood. We can only promise you that if you read this book seriously and apply its fundamental lessons, you'll do *much* better than the average investor. Just keep in mind that patience and discipline count now more than ever.

The purpose of this book is not only to tell you about the basics of stock investing but also to let you in on solid investment strategies that can help you profit from the stock market. Before you invest, you need to understand the fundamentals of stock investing, which we introduce in this chapter. Then we give you an overview of how to put your money where it will count the most. We even point you to some emerging and exciting areas that represent great opportunities. But first things first.

Understanding the Basics

The basics of stock investing are so elementary that few people recognize them. When you lose track of the basics or first principles, you lose track of why you invested in the first place. Part 1 of this book helps you grasp these basics:

- » Knowing the risk and volatility involved: Perhaps the most fundamental (and therefore most important) concept to grasp is the risk you face whenever you put your hard-earned money in an investment, such as a stock. In fact, very few investors have the risk tolerance to invest 100 percent in stocks. They generally invest in a balanced, diversified portfolio composed of multiple stocks, fixed income, and other assets. This important asset allocation decision (how many stocks, bonds, and other assets you should own) helps determine the overall risk of your total portfolio.

Related to risk is the concept of volatility: *Volatility* refers to a condition in which there is rapid movement in either direction in the price of a particular stock (or other investment); investors use this term especially when there's a sudden drop in price in a relatively short period of time. Fixed income investments (bonds, bank certificates of deposit, and so on) tend to be less volatile than stocks. Find out more about both risk and volatility in Chapter 4.
- » **Assessing your financial situation:** You need a firm awareness of your starting point and where you want to go. Chapter 2 helps you take stock of your current financial status, stage of life, and your goals, — just a few of the fundamental building blocks that need to be in place and understood before you invest in stocks.
- » **Understanding approaches to investing:** You want to approach investing in a way that works best for you. Chapter 3 discusses investment time horizons, as well as purpose- and style-driven approaches to investing.
- » **Seeing what exchange-traded funds have to offer:** Exchange-traded funds are like mutual funds, but have grown in popularity much faster than mutual funds because they can be traded like stocks. See Chapter 5 for the lowdown on Canadian and other exchange-traded funds.



REMEMBER

The bottom line in stock investing is that you shouldn't immediately send your money to a Canadian brokerage account or go to a website and click "Buy Stock." The first task you should do is find out as much as you can about what stocks are, key stock-investing principles, and how to use this knowledge to achieve your wealth-building goals.



REMEMBER

Before you continue, we want to get straight exactly what a stock is. *Stock* is a type of security or financial instrument that indicates ownership in a corporation and represents a claim on a part of that corporation's assets and earnings. The two primary types of stocks are common and preferred:

- » **Common stock:** Common stock (the type we mostly cover throughout this book) entitles the owner to vote at shareholders' meetings and receive any dividends that the company issues.
- » **Preferred stock:** Preferred stock doesn't usually confer voting rights, but it does include some rights that exceed those of common stock. Preferred stockholders, for example, have priority in certain conditions, such as receiving dividends before common stockholders in the event that the corporation goes bankrupt. Additionally, preferred stocks operate similarly to a bond for those investors who seek stable income. However, you should be aware that bondholders generally hold priority over both common and preferred stockholders.

In addition to common stock, in this new Canadian edition, we also cover exchange-traded funds in a fair measure of depth because they can be a very valuable part of the Canadian stock investor's portfolio (see Chapter 5 for more details on exchange-traded funds).

Preparing to Buy Stocks

Gathering information is critical in your stock-investing pursuits. You should gather information on your stock picks two times: before you invest and after you invest. Obviously, you should become more informed before you invest your first dollar, but you also need to stay informed about what's happening to the company whose stock you buy as well as about the industry and the general Canadian and world economies. All too many Canadians don't make it a habit to check up on their stock holdings, which is risky business. To find the best information sources to stay on top of your stocks, check out Chapter 6.

When you're ready to invest, you need a Canadian brokerage account, and you may even need some advice about matters, such as portfolio allocation options.

How do you know which broker to use? What type of portfolio best aligns with your financial goals and risk appetite? Chapter 7 provides some answers and resources to help you choose brokers and advisors that serve your needs.

Knowing How to Pick Winners

After you get past the basics, you can get to the meat of stockpicking. Successful stockpicking isn't mysterious, but it does take some time, effort, and analysis. And the effort is worthwhile because stocks are a convenient and important part of most investors' portfolios. Read the following sections and be sure to leapfrog to the relevant chapters to get the inside scoop on hot stocks.

Recognizing stock value

Imagine that you like eggs and you're buying them at the grocery store. In this example, the eggs are like companies, and the prices represent the prices that you would pay for the companies' stock. The grocery store is the stock market. What if two brands of eggs are similar, but one costs \$2.99 a carton and the other costs \$3.99? Which would you choose? Odds are that you'd look at both brands, judge their quality, and, if they're indeed similar, take the cheaper eggs. The eggs at \$3.99 are overpriced. The same is true of stocks. What if you compare two companies that are similar in every respect but have different share prices? All things being equal, the cheaper price has greater value for the investor.

But the egg example has another side. What if the quality of the two brands of eggs is significantly different, but their prices are the same? If one brand of eggs is stale, of poor quality, and priced at \$2.99 and the other brand is fresh, of superior quality, and also priced at \$2.99, which would you get? We'd take the good brand because they're better eggs. Perhaps the lesser eggs are an acceptable purchase at \$1.99, but they're definitely overpriced at \$2.99. The same example works with stocks. A poorly run company isn't a good choice if you can buy a better company in the marketplace at the same — or a better — price.



REMEMBER

Comparing the value of eggs may seem overly simplistic, but doing so does cut to the heart of stock investing. Eggs and egg prices can be as varied as companies and stock prices. When considering stocks, however, *relative valuation* (how undervalued or overvalued the stock is relative to the overall market index) is generally more important than absolute price. As a Canadian investor, you must make it your job to find the best value for your investment dollars. (Otherwise, you get egg on your face. You saw that one coming, right?)