MODULE:4

INVESTMENT STRATEGIES

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The value of dividend paying stocks

Companies whose stocks pay dividends are considered financially stable and mature. The stock price of these companies may steadily increase over time while shareholders enjoy periodic dividend payments. Such companies tend to be less volatile than the market in general.

Dividends are after-tax cash flow the companies can distribute to their shareholders.

Dividend paying stocks are a good way to generate income in an investment portfolio. People approaching retirement tend to appreciate the stable growing cash flow a company can generate.

Some of these companies offer a dividend reinvestment program which enables the shareholder to buy more shares with the dividend they would have otherwise received in cash. This is called dividend compounding.

You should look for consistent dividend growth when you pick a dividend stock. Dividends are paid on an annual, monthly or, more commonly, on a quarterly basis.

Here is an interesting article about the benefits of dividend paying stocks:

https://www.investopedia.com/articles/investing/090715/best-places-find-highdividend-yield-stocks.asp

Value investing

Value investing is an investment strategy where the stocks selected trade for less than their intrinsic value or below their average multiples. The intrinsic value is the actual value of a company. Value investors actively seek stocks they believe the market has undervalued.

Value investors are usually investing for the long run. They use a bottom-up approach which means they begin their analysis by looking at the micro parts of a company (such as balance sheets) and then they work their way up to look at the sector and finally the overall economy.

They look for low Price-Earnings (P/E) ratio, low Price/Cash Flow (P/CF) ratio and a low Price/Earnings Growth (PEG) ratio. These ratios, which can be found all over the internet, are good indicators of a value stock.

Momentum investing

Momentum investing or trading is based on the direction of the market. Investors will buy a stock that is moving fast in one direction with lots of volume to support it. The basic idea is that once a trend is established, it is more likely to continue in that direction than to move against it.

Movements in stocks can be created by good or bad news. Investors will try to enter a position, long or short, as soon as possible to profit from the full up or down trend. If you go long that means you buy shares thinking that the stock price will go up. On the contrary, going short means you buy shares by borrowing them from your broker when you think that the price will go down.

Momentum trading can be replicated over many time frames. Some investors will hold positions in the market for just a few seconds and others will hold their trades days or longer. There is no best time frame for momentum investing. The key is to exit before the market changes direction or the hype starts to slow down, which is not an easy task. This type of investing is very difficult and very speculative. Returns can be volatile and these strategies should only be used by investors with a high tolerance for risk.

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