INSIGHT SECURITIES (PRIVATE) LIMITED

BASIC RULES FOR BEGINERS

Avoid the herd mentality

The typical buyer's decision is usually heavily influenced by the actions of his acquaintances, neighbours or relatives. Thus, if everybody around is investing in a particular stock, the tendency for potential investors is to do the same. But this strategy is bound to backfire in the long run.

No need to say that you should always avoid having the herd mentality if you don't want to lose your hard-earned money in stock markets. The world's greatest investor Warren Buffett was surely not wrong when he said, "Be fearful when others are greedy, and be greedy when others are fearful!"

Invest in business you understand

Never invest in a stock. Invest in a business instead. And invest in a business you understand. In other words, before investing in a company, you should know what business the company is in.

Don't try to time the market

One thing that even Warren Buffett doesn't do is to try to time the stock market, although he does have a very strong view on the price levels appropriate to individual shares. A majority of investors, however, do just the opposite, something that financial planners have always been warning them to avoid, and thus lose their hard-earned money in the process.

"So, you should never try to time the market. In fact, nobody has ever done this successfully and consistently over multiple business or stock market cycles. Catching the tops and bottoms is a myth. It is so till today and will remain so in the future. In fact, in doing so, more people have lost far more money than people who have made money.

Follow a disciplined investment approach

Historically it has been witnessed that even great bull runs have shown bouts of panic moments. The volatility witnessed in the markets has inevitably made investors lose money despite the great bull runs.

However, the investors who put in money systematically, in the right shares and held on to their investments patiently have been seen generating outstanding returns. Hence, it is prudent to have patience and follow a disciplined investment approach besides keeping a long-term broad picture in mind.

Do not let emotions cloud your judgment

Many investors have been losing money in stock markets due to their inability to control emotions, particularly fear and greed. In a bull market, the lure of quick wealth is difficult to resist. Greed augments when investors hear stories of fabulous returns being made in the stock market in a short period of time. “This leads them to speculate.

Instead of creating wealth, these investors thus burn their fingers very badly the moment the sentiment in the market reverses. In a bear market, on the other hand, investors panic and sell their shares at rock-bottom prices. Thus, fear and greed are the worst emotions to feel when investing, and it is better not to be guided by them.

Create a broad portfolio

Diversification of portfolio across asset classes and instruments is the key factor to earn optimum returns on investments with minimum risk. Level of diversification depends on each investor’s risk-taking capacity.

Diversify and Reduce Risks

Diversification is considered to be the only free lunch in investing. In a nutshell, by investing in a range of assets, you reduce the risk of one investment’s performance severely hurting the return of your overall investment. You could think of it as financial jargon for “don’t put all of your eggs in one basket.”

Have realistic expectations

There’s nothing wrong with hoping for the ‘best’ from your investments, but you could be heading for trouble if your financial goals are based on unrealistic assumptions.

Invest only your surplus funds

If you want to take risk in a volatile market like this, then see whether you have surplus funds which you can afford to lose. It is not necessary that you will lose money in the present scenario. YouR investments can give you huge gains too in the months to come.

But no one can be hundred percent sure. That is why you will have to take risk. No need to say that invest only if you are flush with surplus funds.

Monitor rigorously

We are living in a global village. Any important event happening in any part of the world has an impact on our financial markets. Hence, we need to constantly monitor our portfolio and keep affecting the desired changes in it.