INSIGHT SECURITIES (PRIVATE) LIMITED

DO'S & DON'TS OF STOCK MARKETING INVESTING FOR BEGINNERS

DO’s OF STOCK MARKET INVESTING

Get an education

This is probably the most relevant do’s of stock market investing. If you really want to become a successful stock investor, start learning the market.

Start small

If you are just starting to learn how to swim, you won’t jump in 8 ft deep water, right? Similarly, when beginning to start investing in the stock market, start small. Invest the lowest possible amount and gradually increase your investments as you get more knowledge and confidence.

Get started early

I cannot emphasize enough on the importance of getting started soon with your finances. Time is in your favor when you start investing early. Moreover, here you get enough time to recover even if you make some losses during the early time of your investment journey.

Research before investing

One of the key reasons why people do not make money from stocks is that they do not put the initial efforts before investing in the share. Every investor needs to research the company before investing. Here you need to learn the company’s fundamentals, financial statements, ratios, management and more. If you do not want to regret later, research the company first before investing

Only invest what is surplus:

There are always a few risks involved in the market, and no returns are guaranteed. Moreover, many times a bad (or bear market) may even last for years. Therefore, you should only invest the surplus money which does not affect your lifestyle even if you can't get it out.

Have an investment goal

It's easier to plan your investments (and to monitor your progress) if you have an investment goal/plan. Your goal may be to build a corpus in the next ten years or to build a retirement fund. Having a goal will keep you motivated and on track.

Build a stock portfolio

Just having two or three stocks is not enough. You need to build a winning stock portfolio of 8–12 stocks which can give you reliable returns.

Although it's very less likely that you can find all the fantastic stocks to invest at once. However, year-after-year you can keep adding/removing stocks to build a strong portfolio that can help you reach your goals.

Average out:

It's challenging to time the market and almost impossible to buy the stock at the exact bottom and sell them at the highest point. If you've done it, you might be lucky. A better approach here is to Buy/Sell in 'steps'

Diversify

"Do not put all your eggs in one basket!". The risk involved while investing in just one stock is way higher compared to a portfolio of ten stocks. Even if one or two of your stock starts performing poorly in the later scenario, it may not affect the entire portfolio too much. Your stock portfolio should be sufficiently diversified.

Hold the winners, cut the losers

Cut you losing stocks if they underperform for a long time and hold your winning stocks longer to allow them to offer even better returns. This is the golden rule of investing that you should strictly follow. Moreover, keeping your winners and cutting losers will also help in building your dream portfolio.

Invest consistently

Most people get excited and enter the stock market when the market is doing well, and the indexes are touching new highs. However, if you only invest in a bull market and exit when the market is down i.e. when stocks are selling at discount, you will never find fantastic opportunities to pick cheap stocks.

Do not invest in the market just for a year. If you want to make good money from stocks, invest consistently and periodically increase your investment amount.

Have Patience

Most stocks take at least 1–2 years to give good returns to the investors. Moreover, the performances get better when you give more time. Have patience while investing in the share market and do not sell your stocks too soon for short term gratification.

DON'Ts OF STOCK MARKET INVESTING

Don't take investing as gambling

Let me repeat this in simple words- "INVESTING IS NOT GAMBLING!". Do not buy any random stock and expect it to give you two times return in a month.

Don't invest blindly on free tips/recommendations

The moment you open your trading account, you'll start getting free messages on your phone with BUY/SELL calls. Never invest blindly on free tips or recommendations that you receive, no matter how appealing they may sound.

Don't have unrealistic expectations:

Have realistic expectations while investing in stocks. A return between 12–18% in a year is considered good in the market.

Don't over trade

Don't buy/sell the stocks too often. Take confident decisions and make transactions only when necessary.

Don't follow the herd

No investor can get significant success from the market by following the herd. Do your own research, rather than following the crowd.

Avoid psychological biases/traps

There are a lot of physiological biases while investing that can adversely affect your investment decisions and your ability to make effective choices. For example- Confirmation Bias, Anchoring bias, Buyer's Remorse, Superiority trap, etc.

Most of these biases are pre-programmed in human nature, and hence it might be a little difficult to notice them by the individuals. Anyways, knowing these biases can help you to avoid them causing any serious damage. Moreover, a good thing regarding these biases is that — like any habit, you can change or get over them by practice and efforts.

Don't take unnecessary risks

Investing all your money in a hot stock/industry to get a little higher return is never a wise move. Safeguarding your money is equally important than getting high returns. You should never take unnecessary risks while investing in stocks and your 'risk-reward' should always be balanced

Don't make emotional decisions

The human mind is very complex, and there are many factors both internal and external that can affect the choices we make. While investing in the stock market, do not take emotional decisions. No matter how much you like a company, if it is not profitable and doesn't have a bright future potential, it may not be the right investment decision. Do not get emotional while making your investment decisions.