STOCK MARKET

INVESTING STRATEGIES

Everything You Need To Know To Buy Your First Stock And Grow Your Money. The Step-By-Step Guide That Saves You From Making The Most Common Beginners

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STOCK MARKET INVESTING STRATEGIES FOR BEGINNERS

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INTRODUCTION

The field of investing is broad, and there is nearly a limitless quantity of information to be gained. The best investors will tell you that they are always learning, polishing, and growing their knowledge of making money in the financial markets.

You won't be able to learn all there is to know about investing in a single day, but you won't need to to begin a prosperous career as an investor.

The lack of even basic education in personal finance and investment is one of the most evident flaws in our educational system. "If I'd just been taught in high school what I ultimately managed to learn on my own about trading, I likely might have retired wealthy by age 35," one of history's most successful traders once said.

Perhaps that is an "optimistic-in-hindsight" estimate of investment success, but there's no denying that anyone can potentially reap significant financial rewards by merely learning the basics of investing as early in life as feasible.

So, if you're reading this advice at the age of 16, be grateful, but don't be disappointed if you're long past high school or even middle age. It is not too late to start investing for a fortune, and the sooner you get started, the sooner you'll be able to go past investing for beginners and realize your financial goals.

At this time, there are two facts we'd want to emphasize to you: One is that, whether you're sixteen or sixty, taking the effort to learn even the most basic aspects of investing can put you well ahead of your contemporaries in terms of financial literacy and, eventually, financial success.

The second information comes from one of the world's wealthiest commodities futures dealers. "You can create a lot more money faster by sending your money to work for you daily, instead of sending yourself to work every day."

When it comes to investment, securities are divided into four categories: equity, cash and cash equivalents, real estate, debt, and commodities. Stocks are a sort of equity investment that serve as a representation of ownership. You are a part-owner of a firm if you hold its shares, and you have the right to vote on board of directors members and other critical business decisions. If Firm ABC has 100,000 shares and you purchase 10,000, you will own 10% of the company.

CHAPTER 1:

WHY INVESTING IN STOCK MARKET IS THE GREATEST OPPORTUNITY TO BUILD LONG-TERM WEALTH

Americans are becoming more hesitant to engage in the stock market long-term.

According to a Bankrate poll, in 2021, 28% of Americans stated that real estate preferred to invest for 10 years or more. According to the financial website, around a quarter of respondents stated cash investments, such as savings accounts or CDs, are preferred long-term investment techniques, with only 16% choosing the stock market.

That's a significant swing away from the comfort zone regarding stock market investment. The stock market topped the list only a year ago, with 28 percent of Americans choosing it as their preferred investment.

“It was surprising to see that the market has performed as well as it has over the last year,” said Greg McBride, chief financial analyst at Bankrate.

The pandemic may have changed how investors think about investing and make more people aware of the significance of having cash on hand in case of an emergency.

"Investors, unfortunately, prefer to pursue results," McBride added. "That's a common trend we see." Long-term wealth creation necessitates the total opposite approach."

Why the stock market is a profitable investment for long-term wealth

According to financial experts, the greatest method to build wealth is to invest in the stock market with patience and discipline over decades.

"Over time, we've seen that stock market returns have usually outpaced other asset classes," said Roger Ma, a certified financial adviser at lifelaidout and author of "Work Your Money, Not Your Life."

Many people's initial stock investments are made through a 401(k) plan, which their company sponsors. Even for people who desire to invest outside of such accounts, various online brokerages with no fees make it quite simple to get started.

"Individual investors have never had it simpler or less expensive to engage in the stock market in a diversified manner," McBride said.

He stated, "You don't need to know what to invest in, when to acquire it, or when to sell it." "Buying a target-date fund or a one-fund portfolio that approximates when you intend to retire might be as simple as that."

As witnessed in the stock market, Compounding may dramatically double your savings. CFP Lauryn Williams, creator of Worth Winning, compares investing in the stock market to walking through an airport on a moving walkway.

"You can walk, and you should walk," Williams added. "Most people do walk when they get on the moving walkway." "You can still save, but the moving walkway will make it easier for you to get there."

Experts advise sticking the course and being pickier with the firms you invest in, even if the market stagnates in the next months and years.

"Stocks are the greatest place to be in terms of my long-term vision, but I really wouldn't anticipate much from the main averages," said billionaire investor Leon Cooperman at CNBC's Financial Advisor Summit. "I'm ready to be in a situation where I have to select and choose my route to success."

Stocks versus cash

Cash is often not a good long-term investment for accumulating wealth. It's far more convenient to have cash on hand for things like an emergency savings fund.

"Cash is ideal for short-term requirements since it is not volatile," McBride explained. "However, because of the absence of returns, it will not only not develop your wealth over time, but it will erode it."

This is related to inflation, or the cost of goods and services rising over time. If you're only saving money in cash and aren't getting good returns, you'll have to save more and more as inflation rises to buy the same products.

Following the coronavirus outbreak, this may be especially on Americans' minds as inflation rises and prices rise.

Investing in assets that will provide you a greater rate of return, such as the stock market, is one of the greatest methods to beat inflation. Investors are rewarded with higher returns in exchange for the risk of volatility.

"Your biggest long-term danger is investing too cautiously," McBride warned.

When it makes sense to invest in real estate

Property ownership is, of course, a fantastic method to accumulate money, particularly wealth that can be passed down to future generations.

People may be considering real estate now because of rising prices, which have increased the worth of properties purchased years ago.

McBride added, "Primary residences have made many a millionaire."

However, owning real estate has a significantly higher entrance barrier than investing in the stock market and much greater purchasing and selling fees that can eat into overall profits. That implies that it is usually better for people who are just getting started to start with basic stock market investment and then go on to property later.

"It is easier to get started in the stock market because you don't have to put down a large sum of money," Ma explained.

He went on to say that if you desire real estate exposure, you can do it with a well-balanced portfolio by investing in real estate firms or real estate investment trusts.

The stock market will also provide far more investment diversification than real estate, which is a method to safeguard assets built up over decades of saving and investing.

"Diversity is about dipping your toe in a lot of different ponds so that if one thing doesn't work out, something else will," Williams explained.

CHAPTER 2:

WHAT IS A MARKET?

A market is a meeting area where people can exchange products and services. Buyers and sellers are the most common parties engaged. The market may be tangible, such as a retail establishment where people meet face to face, or virtual, such as an online market where buyers and sellers may not have direct physical contact.

• A market is a gathering place for sellers and buyers to facilitate the exchange or transaction of products and services; markets can be real, such as a retail shop, or virtual, such as an e-retailer.

Other examples include the auction markets, financial markets, and illegal markets.

• Markets set pricing for products and services based on supply and demand.

Markets: An Overview

A market, in technical terms, is any location where two or more parties can gather to conduct an economic transaction, even if the transaction does not require legal cash. A market transaction can entail the exchange of commodities, services, information, cash, or any combination of these. In a nutshell, markets are gathering places for buyers and sellers to meet and interact.

While only two parties are required to make a deal, a third party must provide competition and bring the market back into equilibrium. As a result, a market under perfect competition must have many active buyers and sellers, among other criteria.

Beyond that wide meaning, depending on the context, the term "market" can refer to many things. It might, for example, allude to the stock market, which is a location where securities are exchanged. Alternatively, the phrase can refer to a group of individuals interested in purchasing a certain product or service in a given location, such as the Brooklyn housing market. It might also apply to a company or industry, such as the global diamond market.

The market determines the prices of commodities and other services regardless of the circumstances. These rates are influenced by supply and demand. Supply and demand influence these prices. Demand is created by buyers, while sellers create supply. When supply and demand balance, markets aim to reach a price equilibrium. However, variables other than prices, such as incomes, technology, the cost of manufacturing, expectations, and the number of consumers and sellers participating, can upset that equilibrium.

Markets may be depicted by physical sites where transactions are made. These include retail stores and similar businesses that sell individual things to wholesale marketplaces that sell goods to distributors. They might also be virtual. Internet-based businesses and auction sites like Amazon and eBay are examples of markets where transactions may be completed fully online without physical contact between the parties involved.

Markets can arise naturally or as a way to enable ownership rights over products, services, and information. Markets are frequently classified as "developed" or "developing" on a national or other more particular regional level, based on various factors such as income levels and the region's or nation's openness to foreign trade.

The number of sellers and buyers and the quantity of money that changes hands each year define the size of a market.

Types of Markets

The kind of products sold, the size, duration, location, and constituency of the consumer base, legality, size, and many other factors influence market size. Aside from the two most prevalent marketplaces—physical and virtual—there are various markets where parties can come together to execute their transactions.

Underground Market

An underground market is one in which transactions occur without the government's knowledge or other regulating bodies. Several illegal markets exist to circumvent existing tax laws. This is why many transactions are cash-only or involve non-traceable types of currency, making them more difficult to track.

Many illegal markets occur in developed and developing nations with a command or planned economies (where the government controls the production and distribution of products and services). When the economy is short on particular commodities and services, members of the illegal market jump in to bridge the void.

Illegal markets can arise in both developed and developing economies. When prices regulate the sale of certain products or services, especially when demand is high, these shadow markets become common as they're sometimes known. One example of a shadow or illegal market is ticket scalping. When demand for theater or concert tickets is great, scalpers will step in, acquire a large quantity, and resell them on the black market at inflated rates.

Auction Market

An auction market brings many individuals together to sell and buy particular lots of products. The purchasers or bidders compete for the highest buying price. The items up for auction are eventually sold to the highest bidder.

The most prevalent auction markets involve foreclosed homes, art, livestock, and antiques.

Many operate online now. The US Treasury, for example, has frequent auctions to sell its notes, bills, and bonds.

Financial Market

Any area where currencies, bonds, securities, and other securities are traded between two parties is referred to as a "financial market." These markets enable capital creation and liquidity for enterprises, and they constitute the foundation of capitalist societies. They can be virtual or physical.

Stock exchanges such as the Nasdaq, the LSE, New York Stock Exchange, and the TMX Group are part of the financial market. The foreign exchange market and the bond market, where individuals trade currencies, are two more types of financial markets.

Regulating Markets

Except for underground markets, most markets are governed by rules and regulations established by a regional or governing organization that dictates the character of the market. This might be the case when the regulation is as broad and well-known as an international trade agreement or as local and transient as a pop-up street market where sellers maintain order and rules among themselves.

The Securities and Exchange Commission regulates the stock, bond, and currency markets in the United States. It includes rules to prevent fraud while also ensuring that traders and investors receive the information they require to make the best judgments possible.

How Do Markets Work?

Markets are gathering places for buyers and sellers to meet and interact. A market under perfect competition must have many active buyers and sellers. The market determines the pricing of commodities and other services. Supply and demand influence these prices. Demand is created by buyers, while sellers create supply. When supply and demand balance, markets aim to reach a price equilibrium.

What Is a Black Market?

A black market is an illicit exchange or marketplace where transactions take place without the knowledge or approval of government officials or regulatory bodies. They usually appear when specific commodities and services are scarce in the economy or when the government regulates supply and pricing. Transactions are usually unrecorded and cash-only, which makes them even more untraceable.

How Are Markets Regulated?

The nature of most markets is determined by rules and regulations established by a regional or governing authority. It might be an international, national, or local government.

HOW DOES THE STOCK MARKET WORK?

If the prospect of investing in the stock market makes you nervous. People with little or no experience in stock investing are either terrified by horror stories about the average investor losing half of their portfolio value—for instance, in the two bear markets that have already occurred this millennium—or seduced by "hot tips" that promise huge profits but rarely deliver. It's no surprise, then, that the investing pendulum is considered to swing back and forth between fear and greed.

The truth is that stock market investing is risky, but when done correctly, it may be one of the most effective way to increase one's net worth. While the value of one's property often accounts for the bulk of an individual's net worth, most affluent and very wealthy people invest most of their wealth in stocks. Let's start with the definition of a stock and its many varieties to comprehend the stock market's mechanics.

Stocks reflect a company's equity and provide shareholders with voting rights and a residual claim on profits in the form of dividends and capital gains.

On stock exchanges, institutional and individual investors purchase and sell shares in a public setting.

Share prices are determined by supply and demand as sellers and buyers place orders.

Professionals or market makers frequently control order flow, and bid-ask spreads to promote an orderly and fair market.

Companies that list on exchanges may benefit from improved liquidity and the capacity to obtain money, but they may also face higher fees and regulations.

Listing on exchanges may provide organizations with the ability to raise capital, but it can also mean increased regulation and higher costs.

What Is a Stock?

A stock is a financial instrument that reflects a proportional claim on a company's assets and earnings. Stocks are also known as shares or company's equity.

Stock ownership means owning a proportion of the company's outstanding shares divided by the number of shares held. For example, a person or organization owning 100,000 shares of a company with one million outstanding shares owns 10% of the company. Most companies have millions of dollars in outstanding stock.

Types of Stock

While there are two types of stock: preferred and common, the term "equities" refers to common shares since their aggregate market value and trading volumes are several orders of magnitude more than preferred shares.

The main difference is that common shares usually come with voting rights, allowing common shareholders to participate in corporate meetings (such as the annual general meeting) where issues like the board of director election and auditor appointment are voted on, whereas preferred shares usually don't. Preferred shares are so titled because preferred shareholders get dividends and assets before common shareholders in the event of a liquidation.

There are two types of voting rights associated with common stock. While the fundamental concept of common stock is that each share should have the same voting rights (one vote per share held), some companies have two or more classes of stock, each with its own voting rights. In a dual-class structure, Class A shares may have ten votes per share, whereas Class B subordinate voting shares may only have one vote per share. Using dual- or multiple-class share arrangements, a company's founders may control its strategic direction, fortunes, and ability to innovate.

Why Companies Issue Shares

A few decades ago, today's corporate giant was most likely founded as a modest private company by a visionary entrepreneur. Consider how Alibaba (BABA) was founded in 1999 from Jack Ma's Hangzhou bedroom and how Facebook (now Meta) was founded in 2004 from Mark Zuckerberg's Harvard University dorm room. Technology like these have grown to become among the world's most powerful businesses in only a few decades.

Developing at such a fast pace, however, demands a massive inflow of capital. To turn an idea into a working company, an entrepreneur will need to rent an office or factory, recruit people, acquire raw materials and equipment, and build up a sales and distribution network, among other things. Depending on the scale and scope of the firm, these resources will necessitate a large amount of cash.

Raising Capital

To obtain funds, a company may either sell shares (equity financing) or borrow money. Debt financing can be hard for a startup because it may have few assets to pledge as collateral for a loan—particularly in sectors where a company's tangible assets are limited, such as technology or biotechnology—and the interest on the loan would be a financial strain in the early days, when the company may have no earnings.

So, for most enterprises in need of capital, equity financing is the ideal alternative. The entrepreneur may utilize personal savings and money from friends and family to get the business off the ground. As the business expands and more cash is required, the entrepreneur may seek assistance from angel investors and venture capital firms.

Listing Shares

When a company is just starting out, it may need more capital than it can get from a traditional bank loan or an ongoing operations. It may do so by selling shares in an initial public offering to the general public (IPO).

This changes the company's status from a privately owned business with a few shareholders to a publicly traded corporation with numerous stockholders. The IPO also allows early investors in the company to cash out a part of their investment, usually at a significant profit.

Once a firm is listed on a stock exchange, the price of its shares fluctuates, and trading starts as investors and traders analyze and reassess its underlying value. To evaluate stocks, a variety of measures and indicators may be utilized, but the price-to-earnings (PE) ratio is likely the most used. Technical and fundamental analysis are the two types of stock analysis.

What Is a Stock Exchange?

Existing owners can deal with potential purchasers on stock exchanges secondary markets. It is essential to remember that companies that trade on stock exchanges don't purchase and sell their stock regularly. Companies may issue new shares or buy back stock, but these are not day-to-day activities and frequently occur outside an exchange's structure.

So, when you purchase stock on the stock market, you're not purchasing it from the firm; instead, you're buying it from another shareholder. When you sell your stock, you don't sell it back to the firm; instead, you sell it to another investor.

The Evolution of Stock Exchanges

The first stock markets arose in Europe in the 17^{th} and 16th centuries, mostly in port towns or commercial centers such as London, Antwerp, and Amsterdam.

Due to the small number of corporations that issued equity, these early stock markets were more analogous to bond exchanges. Most early enterprises were considered semi-public because they had to be approved by their government to do business.

The New York Stock Exchange, for instance, was founded in the late 18th century to enable the trading of equity shares. The Philadelphia Stock Exchange (PHLX) was America's first stock exchange, and it is still in operation today. The NYSE was founded in 1792 by the Buttonwood Agreement, which was signed by 24 New York City stockbrokers and merchants. Brokers and traders would meet unofficially beneath a buttonwood tree on Wall Street to sell and buy shares before legal incorporation.

With the introduction of modern stock markets, a new era of professionalization and regulation began, ensuring that sellers and buyers of stocks may trust that their transactions would be completed at acceptable prices and within a reasonable time frame. Today, there are several stock markets in the United States and worldwide, many of which are electronically connected. So, markets have become more liquid and efficient.

Over-the-Counter Exchanges

There are also a lot of unregulated over-the-counter exchanges, sometimes known as bulletin boards (OTCBB). Because these shares list firms that do not match larger exchanges' more stringent listing standards, they are riskier. Larger exchanges may demand that a firm has been in existence for a specific period and that it satisfies certain criteria for corporate worth and profitability before it can be listed.

In most industrialized nations, stock exchanges are self-regulatory organizations (SROs), non-governmental entities with authority to formulate and enforce industry standards and norms.

The primary goal of stock exchanges is to protect investors by establishing ethical and equal-opportunity regulations. Individual stock exchanges, the Financial Industry Regulatory Authority (FINRA), and the National Association of Securities Dealers (NASD) are examples of SROs in the United States.

How Are Share Prices Determined?

On a stock market, share prices may be decided in a variety of methods. The most common approach is to hold an auction, in which buyers and sellers submit bids and offers to buy or sell anything. An offer (or ask) is the price at which someone wants to sell something, while a bid is the price at which they want to buy something. When the bid and ask are equal, a trade is made.

The market is made up of millions of traders and investors, all of whom may have differing perspectives on the value of a specific stock and, as a result, the price at which they are willing to sell or buy it. Thousands of transactions occur throughout a trading day when these traders and investors convert their intentions into actions by purchasing and/or selling a stock, causing minute-by-minute gyrations in the price.

A stock exchange offers a platform for this sort of trade by linking buyers and sellers of equities. To have access to these markets, the average individual will need to hire a stockbroker. This stockbroker acts as a middleman between the buyer and seller. Opening an account with a popular retail broker is the most common way to become a stockbroker.

Stock Market Supply and Demand

The stock market is also a wonderful illustration of supply and demand rules in action in real-time. There must be a seller and a buyer in every stock transaction. Due to the immutable principles of supply and demand, if there are more buyers than sellers for a certain stock, the stock price will rise. If there are more sellers than buyers, on the other hand, the price will decline.

The bid-offer or bid-ask spread is the difference between the highest price a buyer is willing to bid or pay for a stock and the lowest price at which a seller is selling the stock (the difference between the bid price for a stock and its ask or offer price).

A trade transaction occurs when a seller accepts the bid price or a buyer accepts the asking price. If buyers outnumber sellers, they may be compelled to increase their offers to get the stock. As a result, sellers will charge greater prices, driving up the price. If there are more sellers than purchasers, sellers may be ready to accept lesser offers for the stock, while buyers may drop their bids, ultimately pushing the price down.

Matching Buyers to Sellers

Certain stock markets depend on experienced traders to sustain continuous bids and offers because a determined seller or buyer may not be able to contact each other at any one moment. The terms "specialists" and "market makers" are used to characterize these people.

A two-sided market's bid and offer are the two sides, and the spread is the price difference between them. The stronger the stock's liquidity, the narrower the price spread, and the larger the magnitude of the bids and offers (the number of shares on either side). Furthermore, the market is said to have strong depth if numerous buyers and sellers at consecutively higher and lower prices.

Initially, matching sellers and buyers of stocks on an exchange was done manually, but computerized trading systems are now being used more often.

The open outcry system, in which dealers utilized verbal and hand signal communications to purchase and sell huge blocks of stocks in the trading pit or on the exchange floor, was the manual form of trading.

However, at most exchanges, the open outcry approach has been replaced by computerized trading platforms. These technologies can match buyers and sellers significantly more efficiently and quickly than people, leading to major advantages, including cheaper trading costs and speedier deal execution.

Individual stocks of high-quality, major firms tend to have the same features as high-quality stock markets, including narrow bid-ask spreads, strong liquidity, and decent depth.

High-quality stock markets tend to have high liquidity, good depth, and small bid-ask spreads, which means that individual stocks of high quality, large firms tend to have the same characteristics.

Individual stocks of high-quality, major firms tend to have the same features as high-quality stock markets, including narrow bid-ask spreads, strong liquidity, and decent depth.

The Benefits of a Stock Exchange Listing

Until recently, an entrepreneur's goal was to get his or her firm listed on a reputable stock market like the Nasdaq or NYSE because of the advantages, which include:

An exchange listing signifies that the company's stock has instant liquidity for its owners.

It enables the company to generate more funds by issuing new shares.

It is easier to set up stock option schemes that can attract talented personnel when publicly trading shares.

Listed firms have more market visibility; analyst coverage and institutional investor interest can push up the share price.

The corporation can utilize listed shares as currency to undertake purchases in which all or part of the purchase price is paid in stock.

Most major corporations are public rather than private because of these benefits. Food and agriculture giants are among the world's most valuable private corporations. Cargill, DIY furniture retailer Ikea, and industrial conglomerate Koch Industries, although they are the exception rather than the norm.

Problems of Stock Exchange Listing

However, there are a number of disadvantages to being listed on a stock market, including:

There are huge fees connected with listing on a stock market, including listing fees and greater compliance and reporting costs.

Regulative burdens that may limit a company's capacity to conduct business.

Most investors have a short-term focus, which drives firms to meet their quarterly profits expectations rather than having a long-term view of their business plan.

Many huge firms (also known as unicorns) opt to list on an exchange considerably later than startups from a decade or two ago. This is because startups valued at more than $1 billion used to be extremely unusual.

While the preceding disadvantages may play a role, the fundamental reason for the delay might be that well-managed businesses with an effective business plan have unparalleled access to financing from sovereign wealth funds, venture capitalists, and private equity. An IPO and exchange listing would be considerably less pressing concern for a firm with such seemingly limitless money.

In the United States, publicly traded firms are similarly decreasing, from over 8,000 in 1996 to roughly 4,300 in 2017.

Investing in Stocks

Stock Investing is a way of accumulating wealth via the purchase of stocks.

Several studies have demonstrated that stocks outperform all other asset classes in terms of investment returns over lengthy periods. Stock returns arise from dividends and capital gains.

You have a capital gain when you sell a stock for a higher price than when you bought it. A dividend is a payment made to shareholders from a company's profits. Dividends account for a large share of stock returns. They've contributed around a third of total equity return since 1956, with capital gains accounting for the remaining two-thirds.

While holding a company like Meta, Netflix (NFLX), Apple (AAPL), Google parent Alphabet (GOOGL), and Amazon (AMZN) at an early stage is one of the more appealing aspects of stock investing, such home runs are uncommon.

Investors who wish to take a riskier approach to their stock portfolios should have higher risk tolerance. Most of these investors' profits will come from capital gains rather than dividends. Investors who are conservative and want an income from their portfolios, on the other hand, may choose stocks with a lengthy history of providing high dividends.

Market Cap and Sector

While there are other ways to categorize stocks, two of the most prevalent are market capitalization and sector.

A market cap is derived by multiplying the entire market value of a company's outstanding shares by the present market price of one share. Large-cap companies have a market value of $10 billion or more, however the precise definition varies by market. Small-cap corporations, on the other hand, have a market value of $300 million to $2 billion, while mid-cap firms have a market capitalization of $2 billion to $10 billion.

The Global Industrial Categorization Standard (GICS), created by MSCI and S&P Dow Jones Indices in 1999 as an efficient strategy to capture the industry sector's breadth, depth, and change, is the industry standard for stock classification by sector. The Global Industry Categorization System (GICS) is a four-tiered industrial classification system with 11 sectors and 24 industry groupings. The 11 sectors are as follows:

- Energy
- Consumer Discretionary
- Materials
- Industrial
- Financial
- Consumer Staples
- Communication Services
- Health Care
- Utilities
- Information Technology
- Real Estate

According to this sector classification, investors can easily modify their portfolios based on their risk tolerance and investing preferences. Conservative investors seeking income, for instance, may allocate their portfolios to sectors whose component companies have superior price stability and provide appealing dividends, such as health care, consumer staples, and utilities. More volatile industries, such as financial, energy, and information technology, may appeal to aggressive investors.

Stock Market Indices

Many investors are worried about stock indices, which are sometimes known as indexes, in addition to specific companies. An index movement is the net effect of the movements of each component. Indices reflect aggregated prices of several distinct stocks, and the movement of an index is the overall impact of the movements of each component. When people discuss the stock market, they usually mention one of the major indexes, such as the the S&P 500 or the Dow Jones Industrial Average (DJIA).

The DJIA is a 30 big American firm price-weighted index. It isn’t a good indication of how the stock market is performing because of its weighting system and the fact that it only has 30 stocks. The S&P 500 is a market capitalization-weighted index of the 500 biggest firms in the United States, and it is a significantly more dependable indicator.

Index can be wide, like the Dow Jones or the S&P 500, or particular, like the Dow Jones or the SP 500. Investors can trade indices in various ways, including futures markets and exchange-traded funds (ETFs), which behave similarly to stocks on stock exchanges.

A market index is a common way to track the stock market's performance. Most market indices are market-cap weighted, meaning that each index constituent's weight is proportionate to its market cap. Some of them are price-weighted, like DJIA. Other widely followed indices in the United States and globally, in addition to the DJIA, are:

S&P 500

Russell Indices (Russell 1000, Russell 2000)

Nasdaq Composite

Sensex (India)

FTSE Index (UK)

TSX Composite (Canada)

Dax Index (Germany)

Nikkei 225 (Japan)

CSI 300 Index (China)

CAC 40 Index (France)

Largest Stock Exchanges

Stock exchanges have been in existence for more than two centuries. NYSE dates back to 1792 when two dozen brokers assembled in Lower Manhattan and agreed to trade securities on commission. In 1817, the New York stockbrokers operating under the agreement made major adjustments and reorganized the Exchange Board and New York Stock.

Based on the total market value of all the companies listed on the exchange, the NYSE and Nasdaq are the biggest exchanges in the world. The Securities and Exchange Commission has registered about two dozen stock exchanges in the United States, with CBOE, Nasdaq, and NYSE controlling the bulk of them.

WHEN TO BUY A STOCK AND WHEN TO SELL

Finding a stock to buy may be a pleasant and rewarding exercise for investors. It may also be highly profitable if you end up purchasing a stock that appreciates. However, when are you supposed to buy stock? Here are ideas to help you figure out when to buy stocks so that you have a decent chance of profiting from them.

- Time is crucial in investment, as it is with many things.
- It might be challenging to figure out when to buy a stock, but getting in when the getting is good will help you maximize your profits.
- We'll go through a few typical tactics for buying a stock at the right time to increase your chances of capturing a winner.

When a Stock Goes on Sale

When it comes to buying, consumers are constantly searching for a good deal. Low prices stoke insatiable demand for Cyber Monday, Black Friday, and the Christmas season. However, investors don't seem to become nearly as excited when stocks go on sale. A herd mentality prevails in the stock market, and investors prefer to shun stocks when prices are low.

The end of 2008 and the beginning of 2009 were times of overwhelming pessimism. Still, they were also moments of enormous opportunity for investors who might have bought numerous stocks at discount rates. Historically, the period following a correction or crash has been a wonderful opportunity for investors to buy at a discount.

When prices of stocks are oversold, investors can decide whether they're "on-sale" and likely to rise in the future. It isn't necessary to set a single stock price goal. Establishing a price range at which you would buy a stock is a better option.

Analyst reports and consensus price targets, averages of all analyst opinions, are ideal places to start. These statistics may be found on most financial websites. Without a price target range, investors would struggle to decide when to buy a stock. Without a price target range, investors would struggle to decide when to buy a stock.

When It Is Undervalued

A lot of information is required when determining a price target range, such as undervalued stock. Estimating a company's future development and profit possibilities is one of the finest techniques to measure the extent of overvaluation or undervaluation.

A discounted cash flow analysis is a crucial valuation approach that takes a company's future predicted cash flows and discounted them back to the present using an acceptable risk factor. The theoretical price objective is the total of these discounted future cash flows. If the present stock price is less than this number, it is certainly a smart investment.

Comparing a stock's price-to-earnings (P/E) ratio to competitors' and Looking at a company's dividend growth are two other valuation strategies. Other indicators, such as price to sales and price to cash flow, might help an investor determine if a company appears to be undervalued compared to its major competitors.

When You've Completed Your Homework

While relying on analyst price estimates or financial newsletter advice is a good start, excellent investors conduct their research and diligence when investigating a stock.

Reading a company's most recent news releases, reading its annual report, and going online to look at some of its recent investor or industry trade show presentations are all examples of this research. This can be found on a company's official website under the investor relations section.

When to Patiently Hold the Stock

If you've done your homework, discovered a stock's price objective, and calculated if it's cheap, don't expect to see the stock you bought improve in value right soon. Patience is required. It might take a long time for a stock to reach its full worth. Analysts who forecast prices for the following month or quarter are just speculating on how rapidly the stock will grow in value.

A stock may take several years to appreciate close to a price target range. Holding a stock for three to five years would be even better, especially if you are confident in its propensity to expand.

Peter Lynch, the legendary stock picker, advises investors to buy what they are familiar with, such as their favorite merchant at their local shopping mall. Others can learn about a firm by doing research online or speaking with other investors.

Combined with the above tips, using your common sense in deciding when to buy a stock can yield the most rewarding outcomes. You'll need a broker if you want to get into stock trading or investing.

CHAPTER 3:

HOW CAN YOU MAKE MONEY OUT OF YOUR STOCK INVESTMENT

According to any financial expert, stocks are one of the keys to developing long-term wealth. The issue with stocks is that, while they can rise in value enormously over time, their day-to-day movement is hard to predict with 100% precision.

This raises the question of how to profit from stocks.

It isn't difficult if you follow some proven procedures and exercise patience.

1. Buy and Hold

One typical technique to earn money in stocks is to use a buy-and-hold strategy, which involves holding stocks for a long period instead of purchasing and selling often (a.k.a. trading).

This is significant because investors who trade in and out of the market monthly, weekly, and daily basis miss out on possibilities to earn high yearly returns.

Consider the following: Individuals who remained entirely invested in the stock market for the 15 years preceding up to 2017 earned a 9.9% annual return, according to Putnam Investments. However, if you hopped in and out of the market, your chances of achieving those profits were threatened.

The yearly return for investors who missed just the ten best days throughout that period was only 5%.

For those who missed the twenty best days, the yearly return was only 2%.

Missing the best thirty days resulted in a yearly loss of -0.4 percent on average.

Missing out on the market's best days results in much lesser returns. While the simple approach may be to constantly make sure you're invested on those days, it's hard to know when they'll occur. Days of excellent performance can occasionally follow days of significant drops.

That means if you want to take advantage of the stock market's finest possibilities, you'll have to remain in it for the long haul. A buy-and-hold strategy can assist you in achieving this aim. (Plus, it helps you save money on taxes by qualifying you for lesser capital gains taxes.)

2. Opt for Funds Over Individual Stocks

Diversification, a tried-and-true investment strategy for lowering risk and potentially increasing returns over time, is well-known among seasoned investors. Consider it an investing equivalent of not placing all of your eggs in one basket.

Although most investors choose stock funds or individual stocks, experts normally advocate the former to maximize diversification.

While you can buy various individual stocks to emulate the diversity found in mutual funds, doing so successfully takes time, a fair amount of investing expertise, and large capital investment. A single share of stock can be worth hundreds of dollars.

On the other hand, funds allow you to acquire a single share of exposure to hundreds (or thousands) of individual investments. While everybody wants to invest their entire portfolio in the next Tesla (TSLA) or Apple (AAPL), the truth is that most investors, including experts, have a poor track record of correctly forecasting which firms will provide large returns.

That's why most experts advise consumers to put their money in funds that track large indexes like the Nasdaq or the S&P 500. This puts you in the perfect position to profit from the stock market's around 10 percent average yearly returns as readily (and inexpensively) as possible.

3. Reinvest Your Dividends

Many companies give their shareholders a dividend, a recurring payment depending on their profits.

While the little sums you get in dividends may appear insignificant at first, they are responsible for a significant share of the stock market's historic growth. The S&P 500 had an average yearly return of 6.7 percent from September 1921 to September 2021. However, the proportion increased to over 11% when dividends were reinvested! That's because reinvesting your dividends buys you additional stock, allowing your earnings to compound even faster.

Because of the increased compounding, many financial consultants advise long-term investors to reinvest their earnings rather than spending them as soon as they are received. By enrolling in a dividend reinvestment program, or DRIP, most brokerage firms allow you to reinvest your dividends automatically.

4. Choose the Appropriate Investment Account

Though the assets you choose are unquestionably significant to your long-term investing success, the account in which you keep them is equally critical.

This is because certain investment accounts provide you with tax benefits such as immediate tax deductions (conventional retirement accounts) or tax-free withdrawals later (Roth). You will be able to avoid paying taxes on any gains or income you generate while the money are in the account, regardless of which option you choose. You may increase your retirement funds by deferring taxes on favorable returns for decades.

These benefits, however, come at a cost. You can't withdraw money out of 401(k)s or individual retirement accounts (IRAs) before reaching the age of 59 59 59 ½ without paying a 10% penalty plus any taxes payable.

However, under certain circumstances, such as substantial medical expenditures or coping with the economic effects of the Covid-19 epidemic, you may be able to utilize that money sooner and without penalty. It's best not to touch money that's been placed into a tax-advantaged retirement account until you've reached retirement age.

Traditional taxable investment accounts, on the other hand, may not provide the same tax advantages, but they do enable you to withdraw cash at any time for any reason. This allows you to use methods like tax-loss harvesting, which involves turning losing stocks into winners by selling them at a loss and collecting a tax credit on a portion of your earnings. You can also contribute an unlimited amount to taxable accounts each year, although 401(k)s and IRAs have annual restrictions.

To summarize, you must invest in the "right" account to maximize your profits. Taxable accounts might be a good place to keep assets that lose less of their returns to taxes or money you may need in the next years. On the other hand, investing in tax-advantaged accounts may be better suited for investments that tend to lose more of their returns to taxes or that you want to retain for a long period.

Most brokerages offer both types of investing accounts, so check whether the one you want is available. If yours doesn't, or if you're just getting started with investing, Forbes Advisor's list of the finest brokerages will help you find the appropriate fit.

If you want to make money in stocks, you do not have to spend your days betting on whether specific firms' stocks will rise or fall in the short term. Even the most successful investors, like Warren Buffett, advise people to put their money in low-cost index funds and keep them for years until they need it.

Unfortunately, the tried-and-true approach to successful investment is a little boring. Instead of chasing the current hot stock, have trust and patience that diversified investments, like index funds, will pay off in the long run.

CHAPTER 4:

HOW TO START INVESTING IN STOCKS

Investing is a method to put money away while you're busy with other things and have it work for you so that you may reap the full benefits of your labor in the future. Investing is a strategy for getting a positive result. The famed investor Warren Buffett describes investing as "the act of putting money out now in the intention of receiving more money later." Investing is the act of putting money into one or more kinds of investment vehicles with the goal of raising their value over time.

Imagine you've saved aside $1,000 and are ready to dive into the world of investing. Perhaps you only have $10 extra each week and want to start investing. We'll guide you through the steps of becoming an investor and teach you how to optimize your profits while lowering your expenses.

Investing is the act of committing capital (money) to an undertaking in the hopes of gaining further revenue or profit.

Investing, unlike consuming, reserve money for the future in the hopes of seeing it increase over time.

However, investing entails the risk of losing money.

The most frequent option for novices to get financial expertise is to invest in the stock market.

What Kind of Investor Do Are You?

Before you invest your money, you must first determine your type of investor. When you create a brokerage account, an online broker like

Fidelity or Charles Schwab will question you about your investing goals and the level of risk you're ready and willing to take.

Some investors want to actively manage the growth of their money, while others prefer to "set it and forget it." Stocks, exchange-traded funds (ETFs), index funds, bonds, and mutual funds are all available through more traditional online brokers, such as the two described above.

Online Brokers

Brokers are either discount or full-service. As the name indicates, full-service brokers provide the complete spectrum of conventional brokerage services, including financial counseling for retirement, healthcare, and all things monetary. They normally work with high-net-worth individuals and can demand significant fees, such as a percentage of your transactions, a proportion of your assets they manage, and a yearly membership fee. Minimum account sizes of $25,000 and higher are standard at full-service brokerages. On the other hand, traditional brokers justify their high fees by providing extensive advice tailored to your specific circumstances.

Discount brokers were once the exception, but today they are the norm. Many discount online brokers also provide a set-it-and-forget-it Robo-advisory service, which allows you to choose and place your trades. As the financial services sector has evolved in the twenty-first century, online brokers have added additional features to their websites and mobile apps, such as instructional content.

Furthermore, while some discount brokers have no (or extremely low) minimum deposit requirements, you may be subject to additional limitations, and accounts without a minimum deposit may be subject to fees. If you are thinking about stock investment, this is something you should consider.

Robo-Advisors

Following the financial crisis of 2008, a new type of investment advisor emerged: the Robo-advisor. Eli Broverman and Jon Stein of Betterment are widely acknowledged as pioneers in the field. Their goal was to utilize technology to reduce investment costs and to streamline financial advice for investors.

Other Robo-first firms have sprung up since Betterment's inception, and even major online brokers like Charles Schwab have introduced Robo-like advising services. According to a poll conducted by Charles Schwab, 58 percent of Americans will get some type of Robo advise by 2025. If you want an algorithm to make financial decisions for you, such as tax-loss harvesting and rebalancing, a Robo-advisor may be perfect for you. Also, if you aim to develop long-term wealth, you could perform better with a Robo-advisor, as index investing has proven.

Investing Through Your Employer

If you are on a limited budget, put 1 percent of your income towards your company's retirement plan. The reality is, you're unlikely to notice a contribution that small.

Work-based retirement plan contributions are withdrawn from your paycheck before taxes are calculated, making the payment even easier. If a 1% contribution is sufficient for you, you may progressively increase it when you get yearly increases. It's unlikely that the additional contributions will be overlooked. If you have a 401(k) plan at work, you may already be investing in your future via mutual fund allocations and even company stock.

Minimums to Open an Account

Many financial organizations require a minimum deposit. Unless you deposit a specific amount of money, they’ll not approve your account application. Some companies won't even let you create an account with a deposit of $1,000.

Before determining where you want to establish an account, do some research. Each review begins with a list of required deposits. Some businesses may not demand a minimum deposit. If your balance hits a certain level, others may typically reduce expenses, such as trading and account maintenance fees. Others may provide you with a specific amount of commission-free deals just for signing up.

Fees and Commissions

As economists will say, there is no such thing as a free lunch. Despite the fact that many brokers have lately raced to cut or eliminate trading charges, and ETFs enable index investing to everyone with a basic brokerage account, all brokers must generate money from their clients in some way.

Your broker will charge you a commission each time you buy or sell stock in most circumstances. Trading commissions start at 2 per trade and go up to $10 for some bargain brokers. Some brokers do not charge any trading commissions, but they compensate in other ways. Any charity organizations do not provide brokerage services.

Depending on how often you trade, these charges may rapidly add up and have an influence on your profitability. Stock investment may be costly if you constantly switch positions, especially if you just have a little amount of money to invest.

Trade is an order to purchase or sell shares in a single firm. If you wish to buy five different stocks at once, this is considered five separate trades, and you will be charged separately for each one.

Assume you decide to put $1,000 into the stocks of those five companies. You will have to pay $50 in trading costs (if the amount is $10) to do so, which is 5% of your $1,000. If you invested the whole $1,000, your account would be reduced to $950 after trading charges. This amounts to a 5% loss before your investments have even started to pay off.

You will have to pay the trading expenses again if you sell these 5 stocks, which will be another $50. It would cost you $100 to complete the round trip (buying and selling) on these five stocks or 10 percent of your $1,000 original deposit. If your investments do not generate enough to cover this, you have lost money just by joining and exiting positions.

Mutual Fund Loads

There are various fees associated with this kind of investment in addition to the trading cost for acquiring a mutual fund. Mutual funds are professionally managed collections of client money that invest in a specific market segment, such as large-cap US stocks.

When investing in mutual funds, an investor will pay a lot of fees. One of the most important fees to consider is the management expense ratio, which the management team sets each year based on the number of assets in the fund. The management expense ratio varies by fund type and may range from 0.05 percent to 0.7 percent. The MER, on the other hand, has a bigger influence on the fund's overall performance the higher it is.

When acquiring mutual funds, you may be faced with a number of sales charges known as loads. Some are front-end loads, but there are also no-load and back-end load funds. Before you purchase a fund, make sure you know whether it has a sales load. Look for no-load and no-transaction-fee funds on your broker's list if you want to avoid these costs.

Mutual fund fees, as opposed to stock commissions, benefit novice investors. This is the case because the expenses are the same regardless of the amount spent. So, as long as you complete the minimum account opening criteria, you may invest as little as $50 or $100 each month in a mutual fund. Dollar-cost averaging (DCA) is a term for this approach, and it might be a wonderful way to get started investing.

Diversify and Reduce Risks

In investing, diversification is said to be the only free lunch. In a nutshell, diversifying your assets reduces the chance of a single investment's poor performance negatively impacting your entire investment return. It is financially means "don't put all your eggs in one basket."

In terms of diversification, it’ll be most challenging to achieve through stock investing. The costs of investing in a high number of stocks, as previously said, may be damaging to the portfolio. It's very hard to create a well-diversified portfolio with a $1,000 investment, so be aware that you may only need to invest in one or two firms (at most) initially. This will put you at greater risk.

The major benefit of exchange-traded funds or mutual funds becomes obvious at this point. Both types of securities often contain many equities and other assets, making them more diversified than a single stock.

Even if you are just starting and have a small amount of money, you can still invest. It's more complicated than just choosing the right investment, and you must be aware of the constraints you have as a beginning investor.

You'll need to do some research to find out how much of a deposit is required, and then compare commissions with other brokers. You won't be able to diversify your portfolio when investing a little quantity of money in individual stocks. You must also choose a broker with whom you want to open an account.

CHAPTER 5:

HOW TO AVOID COMMON MISTAKES BEGINNER INVESTORS MAKE

It's easy for a novice investor to make mistakes out of impatience, exuberance, or ignorance. However, those errors may be costly, so it's best to prevent them.

It's critical to get some knowledge before you begin investing to maximize your profits and minimize your losses. By the end of this chapter, you'll have a better understanding of what temperament you will need, what expectations are fair, and which techniques will work best for you. The more you know, the better you will be able to perform.

Here are 20 frequent beginner investing mistakes, along with tips on preventing them.

No. 1: Investing before you're ready

First and foremost, never invest unless you're ready, both financially and psychologically.

Before you begin investing, pay off your high-interest debt. If you're in debt and paying 18 percent interest per year (which isn't uncommon), any money you put into stocks has to yield more than 18 percent merely to keep you from losing ground. The stock market's yearly returns have averaged close to 10 percent, not 18 percent, over lengthy periods, with many periods showing much lower returns.

It is also a good idea to have a well-stocked emergency fund in place. Ideally, you should have six to twelve months' worth of living expenditures on hand. A pricey vehicle repair or unexpected medical bill might compel you to sell your stocks at a terrible moment, such as when they've temporarily dipped in value, leading you to miss out on future profits if you don't have an emergency fund.

No. 2: Having unrealistic expectations

The stock market may take a long time to build wealth, and aspirations of immediate profits can be abruptly disappointed. Consider the following scenario:

Never invest money in stocks you will need in the next five years because the stock market might fall and take years to recover.

Have realistic expectations when it comes to stock market investment. For example, the market's long-term average yearly return is close to 10 percent, but it can spike by 25% or more in certain years and decline by 25 percent or more in others. Expect a lot of volatility, and keep in mind that just a few stocks will provide long-term average returns of more than 20 percent.

No. 3: Putting your faith in the wrong persons or sources.

Many new investors place much too much trust in financial TV talk show hosts or hot stock advice from a friend or coworker. Anyone may recommend a stock, but you rarely know the recommender's track record — and even the best investors make mistakes. Cold callers who interrupt an evening with an urgent pitch to put money into a unique, can't-lose investment, perhaps a firm supposedly on the verge of curing disease or hitting gold or oil, can also defraud investors. If anything seems too good to be true, it probably is.

No. 4: Investing in what you don't comprehend.

You're surely aware that Amazon.com runs the large e-commerce site that bears its name and that it also sells products that use its Alexa artificial intelligence technology. You might not know, though, that its cloud-computing business is its fastest-growing sector, that it's working on a game-streaming service, or that it plans to establish 3,000 cashier-free convenience shops around the country. If you want to invest in Amazon (or any other business), you need to know how it makes money, its competitive benefits and risks, how financially sound it is (in terms of cash vs. debt), and how bright its future appears to be.

Like retail and transportation, some businesses are simpler to grasp than others, like financial services and biotechnology.

No. 5: Overpaying in commissions

Once you begin investing, be careful not to overspend on trading commissions, which are the costs charged by your brokerage for each buy or sell order you submit. Aim to pay fees of no more than 2% of the total value of your deal. For example, if you make a $1,000 deal, commissions would cost you no more than $20. Many decent brokerages now charge $7 or less per trade, allowing you to make relatively minor trades while staying under 2%.

A $7 fee would be 2% of a $350 transaction. However, if you placed a $100 purchase, a $7 fee would equal 7%, and you'd need your investment to rise by the same amount to break even.

No. 6: Buying and selling too frequently

When you're first starting, it's easy to get into the habit of trading too much. Maybe you'll invest in a few fantastic firms... but then you'll see some others that are even more exciting, so you sell part of the first batch's shares and invest in the others. This is an excellent strategy to build trade commissions (see No. 5). Also, if you sell your stocks within a year after purchasing them, you may be subject to the short-term capital-gains rate, which is higher than the long-term rate.

Beyond that, excellent investments require time to mature — ideally, many years. And if you're losing faith in the stocks you're buying, it might be an indication you're not researching them well enough before you buy.

Still not convinced? According to a 1992-2006 academic survey of frequent traders, approximately 80% of active traders lost money, and "just 1% of them could be described as dependably lucrative."

If you trade many times each hour or day, you're a day trader, which is highly dangerous. The Securities and Exchange Commission has issued a warning against day trading, stating: "Prepare yourself to lose a lot of money. In their first few months of trading, most day traders lose a large amount of money, and many never earn a profit."

No. 7: Investing in penny stocks.

Penny stocks are stocks that trade for less than $5 a share, with many of them selling for less than $1. Beginners may be attracted to the notion that they may buy thousands of shares for a few hundred dollars (or less). That's a problem since penny stocks are sometimes associated with untested, unsuccessful, and even unethical companies. They're also prone to being very volatile and readily misled by con artists.

Scammers acquire stock, hype it up newsletters or online so that others buy in and drive up the price, then sell their shares, causing the price to plummet and leaving other investors with significant losses. It's known as a "pump-and-dump" strategy.

A stock that is only $1 per share is not always a bargain; it is more likely to collapse to $0.50 or $0.10 per share rather than double or treble in value. Meanwhile, a $300 stock can be a steal if it doubles or triples in value within a few years.

No. 8: Not diversifying sufficiently

Another typical investing misstep is not diversifying sufficiently, which isn't always solved by holding 20 different stocks. You're not very diverse if ten of them are energy firms and ten are manufacturing enterprises. A quick reduction in the price of oil or gas, as well as a recession that causes manufacturers to slow down, might transform the fortunes of half your portfolio.

Aim to be involved in a variety of industries and, preferably, a variety of countries. Focus on U.S. stocks, but consider adding some overseas holdings as well — or any large U.S. corporations with significant worldwide activities.

No. 8: Putting too many eggs in one basket

If you put all of your money into a few stocks, you'll have less room for error if something goes wrong. Of course, there is an upside to what you are doing: if you put all of your money in one stock and it doubles your portfolio doubles! However, if the stock falls by 40%, your whole portfolio falls with it. Although there are no ideal amount of stocks to purchase, owning fewer than 15 or so might put you at risk.

You shouldn't necessarily strive to buy 50 or 100 stocks, as this might lead to a situation where a single stock's performance has little influence on your whole portfolio. And the more you own, the more difficult it will be to keep track of each position. Many individuals consider 10 to 20 stocks to be a decent number.

No. 10: Buying, holding, or selling stocks based on emotions

Too many rookie investors (and many seasoned investors) will buy stocks based on excitement and even greed, with little regard for whether the stocks are inexpensive or overpriced. This is dangerous because overpriced stocks are more likely to incur significant losses than undervalued stocks.

Many investors will sell in a panic if the market as a whole or one or more of their stocks fall in value. Recognize that the stock market and individual stocks will constantly fluctuate. Expect the market to be fairly volatile, and be prepared for a slump every few years, understanding that the market has always recovered. (This is why you should never invest money you will need in the next several years.)

Investigate why a certain stock is falling in value. Consider holding on if the reason is temporary, such as temporarily high raw material prices or a fire at a manufacturing factory. Consider selling if the firm appears to be facing long-term issues, such as a formidable new rival, a major accounting scandal, or unfavorable regulations.

Keep your emotions out of your investment and try to be as reasonable as possible.

No. 11: Expecting past results to be repeated

If you're searching for stocks or mutual funds to invest in, it might be difficult to pass up those that have had a very good year, possibly increasing by 60% or more or even doubling in value. However, keep in mind that outstanding results don't often repeat themselves year after year, especially in the case of mutual funds. A rapidly developing company's stock may rise for several years in a row, but this isn't guaranteed. And a high gain in a mutual fund might be an exception.

It's fine to hope for strong returns from your investments, but don't bank on them or expect them every year.

No. 12: Failing to evaluate your performance.

When it comes to outperforming benchmarks, we investors should evaluate our performance regularly. If we're investing in individual equities, it makes sense to beat the S&P 500 index, especially because we can all buy a decent low-fee S&P 500 index fund. If we don't do so over a long period, we'd be better off just keeping our money in the index fund.

Don't give up after a single year (or maybe two) of underperformance; instead, look back over a few years to see how well you've done. If you continue to study and learn about investing, you may improve your tactics over time.

No. 12: Not making use of index funds

Building a good track record of choosing terrific individual stocks and holding them for long periods takes a lot of effort. It necessitates a great deal of reading, studying, deliberation, and luck. Many of us don't have the time or aren't interested in doing all of that.

Investing in a low-cost, broad-market index fund, such as one based on the S&P 500, is the best option for most consumers. This will provide you with nearly the same returns as the stock market as a whole. Take a look at index funds like:

The SPDR S&P 500 ETF (NYSEMKT: SPY) spreads your assets over about 80 percent of the stock market in the United States.

The Vanguard Total Stock Market ETF (VTI) invests in the whole stock market in the United States.

The Vanguard Total World Stock ETF (VT) invests in virtually every stock market worldwide.

Investing most or all of your money in index funds is a good idea, partly because index funds beat most managed mutual funds. According to Standard & Poor's, 84 percent of all domestic stock mutual funds underperformed the S&P 1500 Composite Index during the last fifteen years as of the middle of 2018, while 92% of large-cap stock funds underperformed the S&P 500.

No. 14: You aren't keeping track of your investments.

If you have invested in stocks, even if you aim to be a buy-and-hold investor, you shouldn't forget about them. Keep track of them for the best outcomes in your investment — at least quarterly for most. Look up what management has said about its performance and strategy in their quarterly financial reports. As time passes, evaluate how successful management has carried out its strategy.

Look up the firm in the news to see what you can find out. You'll want to be aware of any major events, such as new product releases or declining sales.

No. 15: Not rebalancing your portfolio

This issue often occurs without your knowledge. First, you purchase assets in the proportions you desire for your portfolio. Perhaps you have 75 percent of your portfolio invested in stocks and 25 percent in bonds. However, five years later, your stocks may have grown to account for 85 percent or 90 percent of your portfolio, which is more than you intended to keep. A rebalance of your portfolio is long overdue. To re-establish the stock-bond proportions you want, you'll need to sell some stocks and acquire more bonds.

Stocks aren't the only thing that may go wrong. If you own 15 different stocks and one of them has gone risen in value, it may now account for 20% of the total value of your portfolio. If that's the case, that's a lot of money for one stock; therefore, you should sell part of those shares and disperse the proceeds. (Keep in mind, though, that tremendous wealth is typically produced by allowing outstanding stocks to continue to grow — so stay invested with a significant amount as long as the firm is healthy and expanding and you have faith in it.)

No. 16: Buying more of a fallen stock

It's true that if the broader stock market swoons, it's a perfect opportunity to buy shares of great companies. That does not mean that if the price of a certain stock falls, you should buy more of it.

Stocks often fall for a good cause. Investigate what's going on before buying any additional stocks. You could even decide that selling the stock is a good idea. Don't acquire more stock until you're confident that the company's current difficulty — such as the resignation of its CEO or a poor earnings report — is just temporary.

No. 17: Holding on to a bad stock.

In this case, what would you do: You acquired stock shares a while ago, and their value has decreased. Let's assume you paid $4,000 for 50 shares at $80 each, and now the stock is at $60, and your investment is only worth $3,000. You're considering selling the shares since you've lost faith in the company, but doing so will result in a $1,000 loss.

Many investors would steadfastly hold on in this circumstance, unwilling to risk a $1,000 loss. They'll opt to hold off until the shares have gained enough to cover their losses, at which point they'll sell and move the money elsewhere. That's not a wise decision, though, because they don't have much trust in the company right now. Why wait for the improbable to happen if it doesn't appear to be likely to increase in value anytime soon or by a significant amount?

Instead, sell the stock, accept the loss, and invest the remaining $3,000 in a stock in which you have greater faith. Your money is more likely to appreciate there, and you might be able to recoup the $1,000 you lost in this more promising venture.

No. 18: Borrowing money to invest

You may get enthralled by the prospect of investing using borrowed funds, i.e., utilizing "margin." The following are some of the reasons why it's exciting: Assume you put $10,000 into a stock, and it doubles in value to $15,000 after a 50% gain. Isn't it fantastic? But what if you took out a $10,000 loan and put $20,000 into the stock? Then you'd have $30,000 in your pocket!

Margin is entirely legal and may considerably increase your profits — but it can also greatly increase your losses. If the stock you borrowed money to buy falls 50% in value, your $20,000 investment will be worth $10,000 — the amount you borrowed. You'll be left with $0 once you've paid it back, implying that your 50% loss has now become a 100% loss due to margin.

In addition, the equity in your account serves as security for the loan. Suppose the value of your margined investments begins to decline dramatically. In that case, your broker will issue a "margin call," requesting that you sell certain assets to produce cash or deposit additional cash into your account. If you don't, the brokerage may sell part of your assets on your behalf.

Meanwhile, brokerages charge you interest to utilize margin. For instance, at one major brokerage, recent rates varied from 8.075 percent for loans of $250,000 to $499,999 to 9.825 percent for loans of less than $25,000. To make the loan profitable, you'll need to achieve a high rate of return. Margin is best avoided for most investors.

No. 19: Trying to time the market

Another classic investing error is market timing, which involves entering and exiting the market based on whether you believe it is going up or down. This may appear sensible, especially if you believe the investment experts who claim to predict where the market will go in the near future. However, predicting the best or worst days in advance is more difficult than it appears, and guessing incorrectly may be costly. Morningstar.com concluded that the market grew at an annual rate of 7.8 percent on average over the 20 years from 1992 to 2011. If you were out of the market on the ten worst days over that period, you would have lost 12%, but if you were out on the ten best days, you would have lost 4.1 percent.

"Sure, it'd be fantastic to get out of stocks at the high and get back in at the low," index-fund pioneer John Bogle said, "but in 55 years in the industry, I not only have never encountered anybody who knew how to do it, but I've also never seen anybody who had met anybody who knew how to do it."

No. 20: Failure to continue learning

The more you know, the less likely you are to make mistakes. Your reading and thinking may also lead to improved investing techniques and performance.

Learn about successful investors. Learn about successful firms. It's also a good idea to read about business failures because they may be quite instructive. Learn about effective management styles because the most successful organizations will have excellent management. Learn about the difficulties, prospects, and which players are the weakest and strongest in sectors that interest you.

CHAPTER 6:

EXCHANGE TRADED FUND (ETF)

An ETF is a kind of security that tracks an commodity, sector, index, or other asset and may be sold and bought like a conventional stock on a stock exchange. An ETF may be set up to follow anything from the price of a single commodity to a broad range of assets. ETFs may be designed to follow certain investment strategies.

An example is the SPDR S&P 500 ETF (SPY), which replicates the S&P 500 Index. ETFs may hold various investments, including commodities, stocks, bonds, or a mix of them. An exchange-traded fund (ETF) is a marketable investment, meaning it has a price that can be readily bought and sold.

An ETF is a collection of assets that trade like stocks on a stock market.

ETF share values fluctuate throughout the day as the ETF is bought and sold, unlike mutual funds, which trade only once a day after the market closes.

ETFs can hold various assets, including stocks, commodities, and bonds; some are exclusive to the United States, while others are global.

ETFs have lower broker commissions and lower expense ratios compared to buying stocks separately.

An ETF is termed an exchange-traded fund because it is exchanged like stocks. As shares are sold and bought on the market, the price of an ETF's shares will fluctuate during the trading day. On the other hand, mutual funds are not traded on a stock exchange and only trade once a day after the markets close. Furthermore, compared to mutual funds, ETFs are more cost-effective and liquid.

An ETF is a type of investment that, unlike a stock, owns numerous underlying assets rather than just one. ETFs are a popular alternative for diversification since they contain a variety of assets.

An ETF might own hundreds or thousands of stocks from various industries, or it can be focused on a single area or industry. Some funds only focus on the United States, while others have a worldwide vision. Banking-focused ETFs, for instance, would own stocks from various banks throughout the industry.

Types of ETFs

Investors can choose from various ETFs to generate income, speculate on price gains, and hedge or partly offset risk in their portfolios. Here is a list of some of the most popular exchange-traded funds (ETFs) on the market right now.

Bond ETFs

This type of ETFs are used to offer investors a regular stream of income. The performance of the underlying bonds determines the distribution of their earnings. They might include corporate bonds, government bonds, and local and state bonds—called municipal bonds. Bond ETFs, unlike their underlying assets, have no defined maturity date. They often trade at a discount or a premium to the price of an actual bond.

Stock ETFs

Stock ETFs are a collection of stocks that track a certain industry or sector. A stock ETF could, for example, track automotive or international stocks. The goal is to give diverse exposure to a particular industry, comprising both high-performing companies and newcomers with growth potential.

Unlike stock mutual funds, Stock ETFs have cheaper costs and do not require actual stock ownership.

Industry ETFs

Industry or sector ETFs are ETFs that concentrate on a specific industry or area. An energy sector ETF, for example, will include companies involved in the energy business. Industry exchange-traded funds (ETFs) are meant to provide investors exposure to an industry's upside potential by tracking the performance of companies within that sector. One example is the IT industry, which has seen a recent flood of capital. At the same time, because ETFs do not entail direct ownership of shares, the downside of erratic stock performance is also limited. Industry ETFs can also be used to move in and out of sectors during economic cycles.

Commodity ETFs

As their name suggests, Commodity ETFs invest in commodities such as crude oil or gold. Commodity ETFs provide several advantages. They start by diversifying a portfolio, which makes it simpler to protect against market downturns. Commodity ETFs, for instance, can provide a safety net in the event of a stock market downturn. Second, owning shares in a commodities ETF is less expensive than owning the commodity itself. This is because the former does not require insurance or storage.

Currency ETFs

Currency ETFs are pooled investment vehicles that track the performance of currency pairs that include both foreign and local currencies. Currency ETFs have a wide range of applications. They may be used to speculate on currency prices based on political and economic developments in a nation. Exporters and importers use them to diversify their portfolios or hedge against the volatility of the foreign exchange markets. Bitcoin has its exchange-traded fund.

Inverse ETFs

Inverse ETFs are exchange-traded funds that attempt to profit from stock price declines by shorting stocks. Shorting is the practice of selling a stock and then buying it back at a lower price in the hopes of a price decline. An inverse ETF uses derivatives to short a stock. They are, after all, wagers on the market's collapse. When the stock market declines, the value of an inverse ETF rises in lockstep. Many inverse ETFs are exchange-traded notes (ETNs), not actual ETFs, as investors should be aware. An ETN like is a bond, yet it trades like a bank-backed stock. o evaluate whether an ETN is a suitable match for your investing plan.

Unless subsequent legislation have amended their regulatory requirements, most ETFs are started up as open-ended funds in the United States and are supervised by the Investment Company Act of 1940. An open-end fund has no restrictions on the number of investors who may invest.

How to Get Started with ETF Investing

Because of the many platforms accessible to traders, investing in ETFs has become relatively straightforward. Follow the steps outlined below to begin investing in ETFs.

ETFs are available on most retirement account provider websites, online investment platforms, investing applications such as Robinhood. The majority of these platforms provide commission-free trading, so you won't have to pay any fees to buy or sell ETFs. A commission-free purchase or sale does not, however, indicate that the ETF provider would also offer free access to their product. Platform services may distinguish themselves from the competition by offering convenience, services, and a wide range of products. Investing applications on smartphones, for example, make it simple to acquire ETF shares with a single click. This may not be the case with all brokerages, as some may need more documentation or a more challenging situation from investors. Several well-known brokerages, on the other hand, provide extensive educational resources to assist new investors learn about and research ETFs.

Research ETFs: Conducting research is the second and most important step of ETF investing. Today's markets provide a diverse selection of ETFs. One thing to remember during your research is that ETFs are not the same as individual products like stocks or bonds. When purchasing an ETF, you must consider the larger picture—the sector or industry. Consider the questions below as you do your research:

What is the time frame for your investment?

Do you want to invest for growth or income?

Do you have any favorite financial instruments or industries?

For new ETF investors, dollar-cost averaging, or spreading out your investing expenses over time, is a wise trading strategy. This is because it guarantees a disciplined (rather than erratic or haphazard) approach to investing by smoothing out returns over time. It also helps novice investors comprehend the complexities of ETF investing. As traders acquire expertise, they might graduate to more complex strategies such as swing trading and sector rotation.

How to Buy and Sell ETFs

ETFs trade through traditional broker-dealers and online brokers. Robo-advisors like Betterment and Wealthfront, who employ ETFs in their investment products, offer an alternative to traditional brokers.

Real-World Examples of ETFs

Some of the most popular ETFs on the market are listed below.

Some ETFs track a stock index to build a diversified portfolio, while others specialize on a certain sector.

The SPDR S&P 500 (SPY) is the most popular and oldest exchange-traded fund (ETF) that tracks the S&P 500 Index.

The Invesco QQQ (QQQ) indexes the Nasdaq 100, containing technology stocks.

The Russell 2000 small-cap index is tracked by the iShares Russell 2000 (IWM).

The SPDR Dow Jones Industrial Average represents the 30 Dow Jones Industrial Average stocks.

Sector ETFs track individual industries such as energy (XLE), oil (OIH), financial services (XLF), Biotech (BBH), and REITs (IYR).

Commodity exchange-traded funds track commodity markets such as natural gas (UNG) and crude oil (USO).

Physically backed ETFs: The iShares Silver Trust (SLV) and the SPDR Gold Shares (GLD) are physically backed ETFs that hold physical gold and silver bullion in the fund.

Pros and Cons of ETFs

Because investors make a few trades, they only need to complete one transaction to purchase and sell, resulting in lower broker commissions. The broker usually charges each trade a commission. Some brokers provide no-commission trading on some low-cost ETFs, lowering investor costs significantly.

The expense ratio of an ETF is the cost of managing and operating the fund. Because they track an index, ETFs often have low expenses. For instance, if an ETF tracks the S&P 500 Index, it may own all 500 stocks in the index, making it a passively managed fund that requires less time. Not all ETFs, however, passively follow an index.

Pros

You get access to various stocks from various sectors.

Diversification helps to manage risk.

Broker commissions are low, and expense ratios are low.

ETFs exist that focus on certain industries

Cons

Fees for actively managed ETFs are higher

Single-industry-focus Diversification is limited with ETFs.

The lack of liquidity hinders transactions.

Actively managed ETFs

There are also actively managed ETFs, in which portfolio managers are more involved in buying and selling stock and modifying the fund's holdings. A more actively managed fund will have a higher cost ratio than a passively managed ETF. To ensure the fund is worth retaining, investors should look at how it is managed, whether it is actively or passively managed, the resultant expense ratio, and the expenses vs. the rate of return.

Indexed-stock ETFs

Because there are no minimum deposit restrictions, an indexed-stock ETF gives investors the diversification of an index fund and the option to sell short, buy on margin, and buy as few as one share. Not all ETFs, however, are similarly diversified. Some may have a high concentration in one industry, a limited number of stocks, or highly correlated assets.

ETFs and dividends

Though ETFs allow investors to profit from rising and falling stock prices, they also benefit from firms that pay dividends. Dividends are a percentage of a company's earnings distributed or given to investors in exchange for holding their shares. ETF investors are entitled to a portion of the fund's earnings, such as interest or dividends, as well as a residual value if the fund is liquidated.

ETFs and taxes

Because most buying and selling happens via an exchange, an ETF is more tax-efficient than a mutual fund since the ETF sponsor doesn't have to redeem shares every time an investor want to issue or sell new shares.

Because redeeming a fund's shares might result in a tax burden, listing the shares on an exchange can help keep tax expenses down. When investors sell their shares in a mutual fund, they sell them back to the fund and incur a tax burden that the fund's shareholders must pay.

ETFs market impact

As ETFs have risen in popularity among investors, several new funds have been established, resulting in low trading volumes for some of them. As a result, it may be difficult for investors to buy and sell shares of a low-volume ETF.

Concerns have been expressed about ETFs' influence on the market, with some speculating that their popularity might inflate stock values and lead to fragile bubbles. Some ETFs utilize portfolio models that haven't been proven in a variety of market scenarios, which might lead to significant inflows and outflows, jeopardizing market stability.

ETFs have played a big influence in market volatility and flash collapses since the financial crisis. The flash crashes and market declines in May 2010, August 2015, and February 2018 were all caused by ETF issues.

ETF Creation and Redemption

The creation and redemption mechanism, which comprises big specialized investors known as authorized participants, regulates the supply of ETF shares (APs).

ETF creation

When an ETF wishes to issue additional shares, the AP purchases shares of the fund's index—for example, the S&P 500—and swaps or sells them for new ETF shares of equal value. As a result, the AP sells ETF shares on the open market for a profit. A creation unit is a block of shares used in the transaction in which an AP sells stocks to the ETF sponsor in return for ETF shares.

Creation when shares trade at a premium

Consider an ETF that invests in S&P 500 stocks and has a closing share price of $101. The fund's price of $101 would be trading at a premium over its net asset value if the stock value of the ETF's holdings was only worth $100 per share (NAV).The NAV determines the entire worth of an ETF's assets or stocks.

ETF redemption

An AP, on the other hand, buys ETF shares on the open market. After that, the AP sells these shares back to the ETF sponsor in exchange for individual stock shares, which they may then sell on the open market. Therefore, the number of ETF shares is reduced via a method called as redemption.

The amount of creation and redemption activity is being determined by the demand in the market and whether the ETF is trading at a discount or premium to the value of the fund's assets determine.

Redemption when shares trade at a discount

Take, for example, an ETF that owns the Russell 2000 small-cap index and is now trading at $99 a share. If the value of the stocks held in the ETF is $100 per share, the ETF is trading at a discount to its NAV.

To restore the ETF's share price to its NAV, an AP will acquire shares of the ETF on the open market and sell them to the ETF in return for shares of the underlying stock portfolio. The AP can buy $100 worth of stock in exchange for $99 worth of ETF shares in this situation. This is referred to as redemption, and it lowers the amount of ETF shares on the market. When the supply of ETF shares is decreased the ETF price should rise and approach its NAV.

CHAPTER 7:

WHAT IS STOCK PRICE?

Stock price refers to the current market price of a share of stock.

When a publicly-traded company's shares are issued, they are given a price — a value assignment that ideally represents the company's worth. A stock's price will fluctuate in response to various causes, including changes in the overall economy, political events, war, changes within industries, and environmental issues.

Understanding the Values and Prices of Stocks

"Don't judge a book by its cover," as the phrase goes. "Don't judge a stock by its share price" is another equally accurate adage for investors. Many individuals mistakenly believe that a stock with a low dollar price is inexpensive, whereas a higher price is costly.

The price of a stock reveals very little about its value. More importantly, it indicates nothing about whether the stock is going up or down in price.

Stock Price vs. Stock Value

Penny stocks are the cheapest, but they're also the riskiest. A stock that has gone from $40 to $4 might easily finish up at $0, yet a stock that has risen from $10 to $20 could easily double to $40.

The share price of a stock is only meaningful when numerous other aspects are considered.

The stock price tells buyers and sellers how much it is currently worth.

The intrinsic value of the stock might be greater or lower.

The purpose of a stock investor is to find stocks that are undervalued by the market at the moment.

Some of these characteristics appear to be self-evident, at least on the surface. A business has developed a game-changing product, service, or technology.

To save expenses, another corporation is laying off employees and closing departments. Which stock would you want to invest in?

You could be pleasantly surprised. It pays to go a little deeper. That game-changing business could or might not have a strategy for building on its early success. The value of that game-changing product has already been factored into the markets. It had better have something worthwhile in the pipeline.

The company that is cutting costs may be simplifying its operations, and if it succeeds, it may be able to re-establish its profitability. Perhaps the herd has abandoned it too soon.

The idea is to find undervalued stocks or those whose prices do not represent their underlying value.

What Price Tells You

Most individuals believe that a stock's value is determined by its price. To some extent, this is correct. There is a significant distinction between the two. The price of a stock only reveals a company's current or market worth.

As a result, the price is when the stock trades—or the price agreed upon by a buyer and a seller. The stock's price will rise if there are more buyers than sellers. The price will drop if there are more sellers than buyers.

On the other hand, the inherent value is a company's actual dollar worth. This encompasses both tangible and intangible variables and basic analysis insights.

An investor can look into a company to see how valuable it is. The company's published financial statements provide all of the necessary information. Online brokerages provide summaries and analyses of those findings from various sources. Take a look at the facts for yourself.

When Price Matters

Companies raise funds by selling stock or issuing debt. A company's weighted average cost of capital (WACC) is the sum of its cost of debt and cost of equity.

Only the growth potential determines whether a stock is cheap or costly (or lack of it).

When a company's stock price falls, its cost of equity rises, increasing the WACC. A sharp increase in the cost of capital, particularly for capital-intensive businesses like banks, can force a company to shut its doors.

This issue should constantly be on investors' thoughts following a sharp stock collapse.

Don't Jump on Price

Because it is the most prominent metric in the financial news, investors frequently mistake focusing just on the stock price. It only makes sense in context.

Suppose Company A has a market capitalization of $100 billion and 10 billion shares, and Company B has a market capitalization of $1 billion and 100 million shares. In that case, both businesses will have a share price of $10. However, Company A is worth a hundred times as much as Company B.

To some retail investors, a stock with a $100 share price may appear to be too costly. They may believe a $5 stock has a better probability of tripling in value than a $100 stock.

However, the $5 stock may be overpriced, while the $100 stock may be undervalued. The opposite might also be true, but the share price isn't a reliable indicator of value.

Market capitalization provides a more accurate picture of how a firm is valued and a better estimate of the stock's value. It's also known as market cap, and it's included in every stock's price quote.

Understanding Market Cap and Share Price

Stocks are split into shares to provide distinct units of a company. Investors then purchase a share in the company equal to a percentage of the total shares.

The number of outstanding shares for publicly traded corporations varies greatly.

Stock splits and reverses stock splits are one technique for corporations to regulate the number of accessible shares and how investors feel about their stock price. Stock pricing may have a psychological influence, and corporations occasionally use stock splits to appeal to investor psychology.

Many investors, for example, like to buy stocks in 100-share round lots. A share price greater than $50 may deter the ordinary investor because buying 100 shares costs at least $5,000 cash. Making such a huge financial commitment to a single investment is extremely risky.

A company that has had a terrific run and seen its stock climb from $20 to $60 may decide to perform a stock split. To new investors, the stock now appears to be a bargain. But its intrinsic value didn't change.

How Stock Splits Work

A two-for-one split indicates that the firm will simply divide the existing price of its shares in half, resulting in each present shareholder owning twice as many shares. One old share will be equal to two new shares.

A new investor could feel more at ease buying the shares for $30 per share, for a total investment of $3,000 for 100 shares. For the same $3,000 investment, the investor could have purchased 50 shares before the split and had the same percentage ownership in the firm.

The present shareholder is thrilled because that interest from new investors will push up the stock price.

It is for this reason that market capitalization is so crucial. The company's market capitalization will remain unchanged as a result of the split. Before the split, a $3,000 investment equaled 0.001% ownership in the company; it will equal the same after the split.

How Reverse Splits Work

A reverse split is the total opposite of a stock split, and it has its own set of psychological implications. Those with a market cap of less than $10 are considered riskier by some investors than stocks with market capitalization in the double digits.

If a company's stock price falls to $6, it can consider a one-for-two reverse stock split to counteract this perception. In this example, the corporation will convert every two outstanding shares of stock into one $12 share (2 x $6).

The basics are the same. This can be done in any order, such as three-for-one, one-for-five, and so on. But the point is that this adds no real value to the stock and does not make an investment in the firm either safer or riskier.

It just affects the share price.

Be careful if a company does a reverse split. That stock's price has plunged to single digits for a reason.

Microsoft vs. Berkshire Hathaway

Warren Buffett's Berkshire Hathaway is an example of a high price that may cause investors to stop (BRK.A). Berkshire Hathaway stock sold for $340.1

in 1980. Many investors would have been hesitant to buy at a price in the triple digits.

Berkshire Class A shares are valued at $411,230 each as of September 30, 2021.

The stock reached those heights due to the company's and Buffett's efforts to increase shareholder value.

Would you consider the stock to be overpriced at that price per share? The answer to that question, as usual, is independent of the stock's cash value.

Microsoft is another firm that has created extraordinary shareholder value (MSFT). Since its initial public offering in March 1986, its shares have split at least nine times.

On its first day of trading, Microsoft opened at $21.

As of September 30, 2021, it was worth $281.92 per share. More than three decades later, it appears to be a fair return, but when all the splits are taken into account, a $21 investment in 1986 would be worth substantially more now. Furthermore, due to the stock split, each share now represents a significantly smaller portion of the corporation.

Both Microsoft and Berkshire gave investors fantastic profits, yet the former split multiple times while the latter didn't.

Does this make one more expensive than the other now? No. If either should be regarded as cheap or expensive, it should be determined by the underlying fundamentals rather than the share prices.

Factors Affecting Price and Value

Fundamental considerations can also influence the price and value of a company. Each of the below is important.

Financial Health

The financial health of a corporation has an impact on its stock price. Stocks with good profits and financial statements are more likely to perform favorably.

This financial data, together with the stock price, is used by investors to determine whether a company is financially sound. The stock price will fluctuate depending on whether investors are optimistic or pessimistic about the company's financial prospects.

Company, Industry and Economy News

Any positive news regarding a company's stock will impact its price. It may be a good financial report, a new product release, or a plan to expand into a new market.

Similarly, relevant economic data, such as a favorable monthly jobs report, may also aid in the rise of company share prices. The stock price tends to fall when the news is bad.

CHAPTER 8:

HOW TO CHOOSE A BROKER, SET UP A STRATEGY, AND YOUR INCOME GOALS

Selecting a stockbroker is similar to that selecting a stock. Knowing your investing style—and, of course, setting some investment goals—is the first step (beyond making money, of course).

Today, you now have more broker possibilities than previous generations had. However, although having a range of options is beneficial, it may also make choosing more difficult. Let's take a look at the many sorts of brokers available, how they function, and how they charge, as well as some general advice on what questions to ask and what research to conduct, regardless of whatever style of financial adviser you choose.

As previously mentioned, retail brokers fall into 2 basic categories: discount brokers and full-service brokers.

Whether you prefer a buy-and-hold approach or active trading or a more passive approach, your broker should mirror your investment style.

Always check that your broker is properly licensed by state regulatory agencies and FINRA, as well as registered with the SEC (individually or via their firm).

"Do you hold a suitability or fiduciary standard?" and "How do you charge for your services?" are important questions to ask a broker.

Robo-advisors are less expensive to human brokers, but they don't allow for your opinion or involvement.

Research Robo-advisors because some are designed for certain groups, such as a Robo-advisor for women.

What is a broker?

Regular brokers interact directly with their clients, whereas broker-resellers function as middlemen between them and a more notable broker.

Broker-resellers are often considered in lower regard than regular brokers. That's not to argue that all resellers are terrible; it just means that you should research them before signing up. Regular brokers at TD Ameritrade, Fidelity, and Capital One Investing are organizations such as the Securities Investor Protection Corporation (SIPC) and the Financial Industry Regulatory Authority (FINRA).

A broker acts as a link between an investor and a securities exchange, a market for buying and selling financial assets. Because securities exchanges only accept orders from members, you'll need a broker to trade on your behalf—that is, execute buy and sell orders. Brokers perform this service and are reimbursed in three ways: commissions, fees, or compensation from the exchange.

A broker might simply act as an order taker, carrying out the deals that you, the customer, desire. However, many brokers currently call themselves "financial counselors" or "financial representatives," and they do a lot more than that. Brokers may assist investors with research, investment planning and suggestions, and market knowledge in addition to executing client orders.

Discount Brokers vs. Full-Service Brokers

There is a distinction to be made between full-service and discount brokers. As the name implies, full-service brokers provide individualized advice and recommendations regularly, and these services aren't cheap. A full-service broker does most of the legwork for the investor.

Discount brokers often leave you to make your own decisions, while many do provide the option of paying a fee to have a broker advise you on a specific deal. For beginning investors, some advocate using a full-service broker. However, going with a more expensive full-service broker is generally out of reach for a young individual.

Today's online discount brokers often offer a diverse set of tools to investors of various levels of expertise. If you conduct your research, you'll learn more about investing.

Costs and Fees

If you're under 30, your budget is likely to be a constraint. There are other brokerage costs to consider in addition to trade execution fees. It's essential to understand the fees and other charges that may apply to you if you want to get the most out of your investment. Here are some expenses to think about:

Minimums: To open an account with most brokers, you'll need to have a certain amount of money in your account. The lowest minimums are usually found with online brokers, ranging from $500 to $1,000.

Margin accounts: While a rookie investor may not want to open one right now, it is something to consider in the future. Standard brokerage accounts often have lower minimum balance requirements than margin accounts. When trading on margin, you should also verify the interest rate your broker charges.

Withdrawal fees: Some brokers impose a fee or refuse to allow you to withdraw if your balance falls below the minimum. On the other hand, some enable you to draw checks against your account, although they usually have a high minimum balance requirement. Ensure you understand the requirements for withdrawing funds from a bank account.

Fee Structures, Pricing, and the Fine Print

A per-trade commission is a standard charge structure for a broker. This can range from absolutely nothing to more than $100 per trade, depending on how the transaction is placed (with a human broker or online), the amount of the order, and how accessible or liquid the security in question is.

Some brokers have complicated fee structures that make determining how much you'll spend more difficult. This is especially prevalent among broker-resellers, who may utilize a fee structure as a selling point to attract clients.

If the fee structure appears to be odd, it's even more crucial to ensure that a broker's fee structure is lawful, will serve your best interests, and compliments your investment style.

If the rates appear too good to be true, read the fine print in the account agreement and fee summary. There may be other charges hidden there.

These may include custodial fees, fees for withdrawing or wiring funds, transferring assets, margin fees, closing accounts, and so on.

Zero-Commission Trading

Many online brokers now offer zero-commission trading in most publicly traded stocks and ETFs. This has dramatically decreased the cost of investing and trading for most people. So, how do these brokerage firms make money? Specifically through a procedure known as "paying for order flow." Customers' transactions are routed straight to specialist trading businesses known as market makers, who pay the broker for the right to be on the other side of your deal.

While this has resulted in free stock trading, some investors and authorities are worried that this practice is unfair and might lead to lower customer pricing. SEC Chairman Gary Gensler has stated that the Securities and Exchange Commission will investigate paying for order flow as a conflict of interest and might eventually prohibit it.

Investment Styles

Your investment style should influence your choice of broker. Are you a day trader or a long-term investor? Traders don't keep stocks for lengthy periods. They're looking for rapid gains over the market average based on short-term price volatility, and they may execute a large number of trades in a short period.

If you want to be a trader, you'll want to choose a broker with extremely low execution fees because trading expenses may eat into your profits. Also, keep in mind that aggressive trading necessitates experience, and combining an unskilled investor with frequent trading often results in negative returns.

A buy-and-hold investor, also known as a passive investor, invests in stocks for the long run. Buy-and-hold investors are content to wait for their investments to increase value over time. Many investors may discover that their investment style falls somewhere between active trading and buy-and-hold, in which case other factors will play a role in selecting the best broker.

Vet Your Broker

Of course, you want to work with a broker that you get along with. However, there are several requirements that every broker must satisfy. The broker or the business with which they are associated must be a registered investment advisor (RIA). This implies they are registered with the Securities and Exchange Commission (SEC) and are subject to its regulations. The individual broker should be registered with FINRA, the trade association which governs the financial industry on behalf of the government.

Before a broker can purchase or sell stocks with you, they must pass specified qualifying tests and be licensed by your state securities authority.

The broker should have completed the Securities Industry Essentials (SIE) Exam (if they began the field after 2018) and the Series 7 General

Securities Representative Exam, which permits them to sell most types of bonds, stocks, and exchange-traded funds (ETFs).

Most brokers also pass the Series 6 Investment Company and Variable Contracts Products Representative Exam, which qualifies them to sell packaged investment products, including mutual funds, unit investment trusts (UITs), and variable annuities.

You may search up a broker's background information on FINRA BrokerCheck, including their registration, work history, license, and disciplinary actions.

Questions to Ask Your Broker

Aside from particular conversations about your goals, individual investments, and risk appetite, ask your broker these questions before you start:

How are you compensated? Commissions, fees, or a combination of both?

What additional expenses does your company or you have—transaction fees, account maintenance fees, and so on?

Do you or your company have any connections to the firms whose financial products you could recommend?

Will I be able to access my account over the internet?

How often will I receive statements?

How often will you evaluate my portfolio and investing strategy?

Do you subscribe to the suitability standard or the fiduciary standard?

Robo-advisors

It's worth looking at the benefits and drawbacks of utilizing a roboadvisor as an alternative to a human broker or broker-reseller. Robo-advisors are systems for automated trading and investing. They choose and manage investment portfolios using computer algorithms with little to no human engagement beyond the original programming—though some services provide live help from actual humans.

Typically, an investor registers with a roboadvisor using the internet. They disclose their investment objectives, risk tolerance, and time horizon. Some platforms will merely ask basic inquiries, while others will ask more detailed questions. The Robo creates a portfolio based on such data and updates it regularly.

Pros and Cons of Robo-advisors

Affordability is one of the biggest advantages of rob-advisors. Algorithms don't eat very much. As a result, roboadvisors are far less expensive than human advisers: Robo-advisors may charge between 0.02 percent and 1 percent of investing money yearly, compared to 1 percent to 2 percent or greater for traditional financial managers. Compared to traditional investment managers, roboadvisor platforms often offer lower account requirements few hundred or thousands, vs. five or six figures. And they are easy to enroll in.

On the downside, there isn't much customization or option. Robo-advisors primarily invest in exchange-traded funds (ETFs), which is one of the reasons their services are so inexpensive, and they tend to place you in pre-determined model portfolios based on basic needs (income, appreciation, etc.), and your risk tolerance based on passive index investing and modern portfolio theory (MPT). Of course, you can't have a conversation with an algorithm (although many Robo-advisory organizations now have human advisors on staff for just this purpose).

It's worth noting that a platform like this isn't necessarily the best solution for more in-depth financial planning or advice on preparing for a house or retirement. Most of them also won't allow you to buy specific stocks or bonds independently. Despite the word "advisor" in their name, robots are more like money managers with control over your portfolio.

When selecting your first broker, there are various factors to consider.

Your first broker isn't always going to be your last. Your life will change, and your investment requirements may alter as well. However, if you start with the appropriate broker, you may have a higher chance of succeeding as an investor.

Is it possible for me to have more than one broker?

Yes, although having your money invested in many areas where they may overlap or contradict each other may not be desirable. You could choose to use one broker for long-term investments and another for more speculative or short-term trades.

Is it difficult to switch brokers?

Changing brokerage companies is now quite simple and maybe completed online with a few clicks and digital signatures. You can electronically move funds and complete portfolios from your old broker to your new one in a few days.

Is it Hard to Change Brokers?

PFOF (payment for order flow) appears to be a two-edged sword. On the one hand, it enables commission-free trading, making trading and investing far more accessible and cost-effective for regular people. Simultaneously, it entails sending orders to certain financial organizations as your counterpart. This can lead to inferior fills, conflicts of interest, and the possibility of front-running orders, all to the client's prejudice.

SET UP A STRATEGY

Your Investment strategy is like a game plan to building your portfolio. However, you must pick one appropriate for your goals and situation. It should differ from a 65-year-old.

We spend a lot of time preparing for our workdays, vacations, and vehicle purchases, but we frequently overlook the most crucial plan of all: laying out our investment strategy and retirement strategy.

Investing without a plan is like a football team going into a game without a playbook. Although investing methods are not essential, they greatly increase your chances of winning. After you've learned the fundamentals of stock market investing, such as how to read stock quotes and buy stocks and other "getting started" information, you should go on to creating an investment plan.

The Importance of Having a Well-Defined Investment Strategy

The following are the first stages to a successful investing strategy, according to most financial planners:

1. Pay off your credit cards and other debts with high-interest rates.

2. Try to save aside 10% of your earnings.

3. Have at least three months' worth of expenses saved in cash

4. Invest a set amount of money in the stock market each month.

5. Plan on investing in stocks for at least five years

What stocks should you buy if you've reached stage 3 and are ready to invest in the stock market?

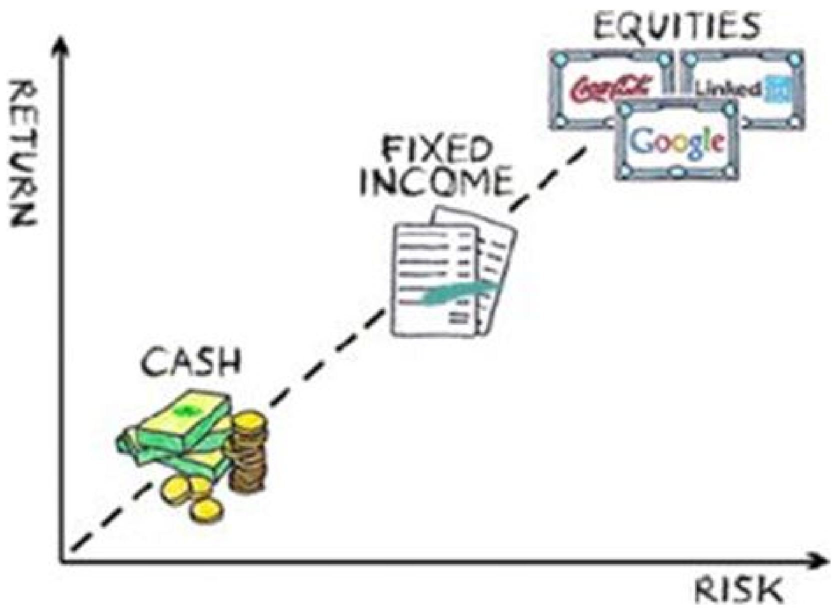
Having an investment plan is similar to having an instruction manual that walks you through the process of investing. It will assist you in eliminating numerous prospective investments that may underperform over time or are not appropriate for your investing objectives.

When developing an investment strategy, it's crucial to figure out what you want to achieve numerically. It's not helpful to say you only want to make money or get wealthy. "I aim to attain an 8% average annual return on my investment contributions over the following 10 years to create a $200,000 portfolio that will be utilized to purchase a second house" might be a better goal. The more precise the goal, the better. It doesn't end there, either. An investment strategy is pointless without a thorough grasp of it. There are a variety of stock investment strategies that may be used to achieve various investment goals; the key is to match the proper approach with the right goal.

How Choose the Best Investment Strategy for You

Setting up your investing plan is similar to shopping for a new car in that you must first decide which style fits you best before looking at the various models. When it comes to investing, there are various kinds of investments to choose from, just as there are many different types of vehicles. Before choosing on the optimal investment strategy, a number of questions must be addressed. What is your time horizon for investing? What type of outcomes are you hoping to achieve? What is the maximum amount of risk you are prepared to take? What will the proceeds from this investment be used for? Finally, the answers to these questions will help you construct your portfolio.

Determining your cash, fixed-income securities, and stock allocation is a great place to start when building your investing plan. How your asset allocation is divided down will ultimately be determined by your risk tolerance. A conservative investor may decide to hold 80 percent of his portfolio in fixed-income and 20 percent in stocks. An aggressive investor would do the opposite, whereas a balanced investor would follow a 50-50 split.



If you're a high-risk investor with a long time horizon, you might wish to incorporate small-cap and growth investing in your asset allocation. Value and income investing may be more beneficial for you if you have a moderate risk tolerance and a shorter investment horizon. If you have a low-risk tolerance and a short investment horizon, income investing may be the best option for you. You can easily add socially responsible assets to your portfolio if you're seeking firms that aim not to harm. It's also important to adjust to the investing approach you're most comfortable with. If you have a knack for picking growth stocks, you might choose to prioritize that approach in your portfolio.

Setting Investment Objectives That Aid Portfolio Success

What motivates you to invest? Investment objectives are personal, but it's vital to take an objective look ahead no matter what you're trying to accomplish. When you lack foresight, it's far more difficult to achieve your goals; thus, now is the time to write down your financial goals.

What Exactly Are Investment Objectives?

They take various forms, but they should be more concrete than abstract ideas. Even if you intended to profit from your stock investment, you would benefit by answering more precise questions like how big of a return you wanted to see and how long you wanted it to last. Other important goals for investing might include :

• Generating income that can be used to supplement your working lifestyle,

• Capital preservation, or making prudent decisions that retain your net worth

• Maintaining liquidity, or being able to transfer your money around and having access to it at all times

• Achieving alpha, or raising the amount of active return your portfolio or investment generates compared to a standard benchmark, such as a market index.

• Reducing outlay or the amount of money required to purchase investment prospects, and

• Speculating or gaining quick profits to build wealth without worrying about incurring losses.

While it is tempting to set broad objectives, specificity has its benefits. Instead of simply telling yourself that you want to attain financial security or put your children through college, convert these goals into numerical terms to keep a more realistic perspective.

Why bother with investment goals?

Household earnings grew from 2013 to 2016, according to the triennial Federal Survey of Consumer Finances. Around 51% of households held stock at the end of that period, indicating that more individuals invested their money.

Setting investment goals is just as essential as setting savings goals, whether you are a newcomer to the market or a seasoned pro at financial planning. Money doesn’t manage itself, so it is essential to create a strategy that keeps your portfolio on track and allows you to check in as frequently as you like.

Defining Your Investment Objectives and Goals

How can you choose investment objectives that are right for you? It is easier to get started when you are in the appropriate state of mind. To put it another way, you need to be more proactive with the financial aspects of your life.

Practice Setting Goals for Investing

Big goals, such as retirement, might be overwhelming. Make things easier by dividing your investing goals into sections:

• Determine short-term investing objectives based on your present spending habits. For example, you could wish to upgrade your old furniture, make a home repair, or divert some money toward a vehicle down payment.

• Set long-term investment goals that reflect your ideal future. This is where you start thinking about saving for a comfortable retirement, a college fund for your children, or purchasing a new home.

Don't worry if your investment portfolio goals appear to be in contradiction at first. Diversified portfolio methods that allow you to attain numerous goals are common in effective financial planning. In other words, not every stock, retirement plan, mutual fund, or bond you invest in has to perform the same thing.

What are your investment goals?

When financial planners talk about defining investing goals, what exactly do they mean? Most investors describe their investing goals in specific financial demands and benchmarks.

Brokers and Robo-advisers alike base their portfolio decisions, trading recommendations, and hot suggestions on the potential financial consequences of certain investment plans. Whether they're selecting asset types to bulk up your portfolio or just aiming to maintain your money's growth up with inflation, experts define goals as numerical values that they can easily:

• Track,

• Compare, and

• Use to inform decision-making strategies.

Choosing Investment Objectives

When you're starting, deciding on acceptable investment objectives might be difficult. Although each investor is entitled to the tools and freedom to design their path, there is nothing wrong with following in the footsteps of others. Here are some frequent investment objectives are broken down by age:

Goals for Investing in Your Twenties

Now is the time to start saving for the unexpected, so start putting money aside now. You should also endeavor to pay off or settle your debts because they eat up money that could be put to better use. Being proactive now, when you have little to lose, is encouraged.

Investment Goals In Your Thirties

Make a detailed budget. Stick to your budget while paying off debts and saving for retirement. When using savings vehicles like 401(k)s and Roth IRAs, contribute the maximum allowed amounts to make the most of the tax benefits.

Exercising your willpower by eliminating needless spending is a good way to start. Invest as much of your after-tax earnings as you can.

Investment Goals In Your forties, what are your investment objectives?

Continue to pay off your debt. Most individuals begin saving for their houses and their children's college funds if they haven't already.

Investment Goals In Your fifties

You are now entitled to make catch-up contributions to your retirement plans. When it comes to other portfolio assets, like stock investments, focus on the long term. This is also a good time to invest in your Roth plans.

Investment Goals In Your Sixties

One of your main investment objectives should be to save for retirement. To save your wealth, prepare more conservatively now that you're nearing the finish line.

Gradually shift your portfolio allocation to more reliable investments. Although estate planning questions might be difficult to answer, there is no better time than now to consider how you want to handle your estate's disposition, life or disability insurance, and prospective long-term care requirements. Because your investing strategy will be used to fund all of these retirement goals, it's vital to develop a strategy that will last.

CHAPTER 9:

STOCK INVESTMENT STRATEGIES

The nice thing about investment strategies is that they can be changed at any time. You can easily change your mind if one doesn't suit your risk tolerance or timetable. However, be aware that doing so might be costly. Every purchase is subject to a fee. Selling assets can also result in a realized capital gain. These profits are taxed, making them costly.

We'll look at some popular investment strategies that most people can use. By taking the time to learn about the differences between them, you'll be in a better position to pick one that's good for you in the long run without changing your course.

FUNDAMENTAL ANALYSIS

Fundamental analysis (FA) is a technique for identifying a security's fundamental worth by examining related economic and financial elements. Fundamental analysts consider everything that might affect a security's value, from macroeconomic factors like the state of the industry conditions and economy to microeconomic factors like the company's management performance.

The ultimate aim is to arrive at a figure that can be compared to the present price of an asset to determine whether it is undervalued or overpriced.

Technical analysis, which anticipates the direction of prices by analyzing previous market data such as price and volume, is believed to be in opposition to this stock analysis approach.

- FA is a method of assessing a stock's real or "fair market" value.

- FA is a method of assessing a stock's real or "fair market" value.
- If the stock's fair market value is higher than its current price, it's considered undervalued, issuing a purchase recommendation.
- On the other hand, technical analysts overlook the fundamentals in favor of analyzing the stock's previous price movements.

Understanding Fundamental Analysis

All stock analysis aim to evaluate whether the value of a security in the larger market is right. Fundamental analysis is typically conducted from a macro to micro viewpoint to find assets that the market has not valued appropriately.

To arrive at a fair market valuation for a stock, analysts often look at the overall status of the economy, then the strength of the specific industry, before focusing on individual business performance.

FA evaluates the value of a stock or any other form of investment using publicly available data. An investor, for example, might undertake fundamental analysis on a bond's value by looking at economic variables like interest rates and the overall status of the economy, then reviewing information about the bond issuer, such as probable changes in its credit rating.

FA determines a company's potential for future growth and underlying value by looking at its profits, return on equity, revenues, profit margins, future growth, and other statistics. The financial statements contain all of this information (more on that below).

Fundamental analysis is most often associated with stocks, although it may be used for any investment, from a bond to a derivative.

Investing and Fundamental Analysis

Based on publicly accessible data, an analyst tries to develop a model for estimating the projected worth of a company's share price. Based on the analyst's expert view, this is merely an estimate of what the company's stock should be worth compared to the present market price. The intrinsic value is a term used by certain analysts to describe their predicted price.

If an analyst believes a stock's value should be significantly higher than the present market price, they may give it a buy or overweight recommendation. This will be seen as a recommendation by investors who follow that expert. If the analyst calculates a lower intrinsic value than the current market price, the stock is deemed overvalued, and a sell or underweight recommendation is issued.

Investors who follow these recommendations should expect to acquire positive recommendations, as these stocks should have a better chance of gaining in value over time. On the other hand, stocks with unfavorable ratings are predicted to decrease price more frequently. These stocks should be removed from current portfolios or "short" positions.

Technical analysis, which anticipates the direction of prices by analyzing previous market data such as price and volume, is the opposite of this stock analysis approach.

Quantitative and Qualitative Fundamental Analysis

The difficulty with defining the term "fundamentals" may refer to everything that has to do with a company's financial health. They include income and profit, but they may also cover everything from its market share to its managerial competence.

Quantitative and qualitative factors can be used to classify the many basic factors. These words' financial meanings aren't all that different from their ordinary definitions. The words are defined as follows in a dictionary:

• Quantitative - "knowledge that can be represented in terms of numbers and amounts."

• Qualitative - "referring to something's standard or nature rather than its ."

In this context, quantitative fundamentals are concrete numbers. They are a company's observable qualities. Financial statements are the most well-known source of quantitative data. Revenue, assets, profit, and other factors may be precisely measured.

The qualitative principles, on the other hand, are a bit more difficult to pin down. They might include the quality of its top executives, brand recognition, patents, and exclusive technology.

Neither qualitative nor quantitative analysis is superior inherently. Many analysts consider them to be a single entity.

Qualitative Fundamentals to Consider

When it comes to a corporation, experts usually evaluate four important fundamentals. Rather than being quantitative, they are all qualitative. They are as follows:

• The business strategy: What does the firm do? This isn't as easy as it looks. I If a company's business plan is based on selling fast-food chicken, is it earning money? Is it only reliant on franchise fees and royalties?

• Competitive advantage: A company's long-term success depends on its ability to maintain a competitive edge. A moat around a company, such as Coca-brand Cola's name or Microsoft's dominance of the personal computer operating system, enables it to develop and profit while keeping competitors at bay. When a business can gain a competitive edge, its shareholders can benefit for decades.

• Management: Some people feel that the most significant factor for investing in a company is managed. Even the strongest business idea will fail if its management fails to execute it correctly. While it is challenging for ordinary investors to meet and evaluate management, you can look at its website and review the top executives' and board members' backgrounds.

• Corporate Governance: This refers to the policies in place inside a company that defines management's, directors', and stakeholders' relationships and duties. The business charter and bylaws and corporate laws and regulations establish and regulate these policies. You want to work with a firm that operates with integrity, fairness, transparency, and efficiency. Take special attention to whether management adheres to shareholder rights and interests. Ensure that their shareholder communications are transparent, straightforward, and understanding. Likely, you won't get it because they don't want you to.

It is also essential to consider a company's industry: market share among firms, customer base, industry-wide growth, competition, regulation, and business cycles. An investor might better grasp a company's financial health by learning how the industry works.

Financial Statements: Quantitative Fundamentals to Consider

Financial statements are the means through which a company conveys data about its financial performance. Fundamental analysts give investment advice based on financial statement quantitative data. The 3 most vital financial statements are balance sheets, cash flow statements, and income statements.

The Balance Sheet

A balance sheet is a document that details the assets, liabilities, and equity of a corporation at a certain moment in time. The term "balance sheet" comes from the fact that a company's financial structure balances out like this:

Assets = Liabilities + Shareholders' Equity

Assets reflect the company's resources or controls. This includes items such as inventory, machinery, cash, and buildings. The entire value of the corporation's funding to buy such assets is shown on the opposite side of the equation. Equity or liabilities provide the basis for financing. Liabilities are debts that must be repaid, while equity is the entire amount of money spent by the owners in the company, including retained earnings (profit earned in past years).

The Income Statement

The income statement analyses a firm's performance over time, while the balance sheet assesses a company in a single snapshot. A balance sheet may technically be for a month or even a day, but public companies only report quarterly and annually.

The income statement illustrates how much money was earned, spent, and profit was made owing to the company's activities during a certain time.

Statement of Cash Flows

This is a graph that shows how a company saves and spends money. A cash flow statement looks at the following cash-related activities:

• Cash from investing (CFI): Money used to buy assets, as well as money earned through the sale of other firms, equipment, or long-term assets.

• Cash from financing (CFF): Money paid or received due to issuing or borrowing money.

• Operating Cash Flow (OCF): Money generated by day-to-day activities.

The cash flow statement is crucial because it's difficult for a corporation to alter its financial status. Aggressive accountants can do many things to change results, but it's difficult to fabricate cash in the bank. So, some investors consider the cash flow statement a more cautious indicator of a business's performance.

AVERAGE DOWN

Averaging down is an investment method in which a stock owner buys more shares of a previously initiated investment as the price drops. The average price at which the investor acquired the shares decreased due to this second transaction. It can be compared to averaging up.

For example, if the price of a company drops to $40 per share, an investor who bought 100 shares at $50 per share may buy another 100 shares at $40 per share, bringing their average price (or cost basis) down to $45 per share. Averaging down with stocks or funds that investors plan to buy and keep or as part of a dollar-cost averaging (DCA) strategy is recommended by certain financial advisers.

Averaging down is an investing approach that entails adding to an existing position when its price falls.

This technique can be beneficial when combined with other elements of a smart investing plan.

When share prices fall, however, adding more to a stake increases total risk exposure, and new investors may not be able to recognize the difference between a value and a warning sign.

The Average Down Strategy: An Overview

The primary premise behind the down averaging technique is that when prices rise, they don't have to rise as much for the investor to start making money on their investment.

Consider this: if an investor bought 100 shares of stock at $60 per share and the stock plummeted to $40 per share, the investor would have to wait for the stock to recover from a 33 percent price decrease. However, the increased price of $40 does not represent a 33 percent increase. Before the position shows a profit, the stock must grow by 50%. (from 40 to 60).

This mathematical reality can be addressed by averaging down. If the investor buys another 100 shares of stock at $40 each, the price needs to only rise to $50 (a 25% increase) before the investment becomes profitable. If the stock reverts to its original price and continues to rise, the investor will see a 16 percent profit if it reaches $60.

Averaging down provides certain characteristics of a strategy, but it is incomplete. Averaging down is more of a mentality than a smart financial technique. An investor can cope with numerous cognitive or emotional biases by averaging them down. It serves as a safety net rather than a reasonable policy.

Special Considerations

The difficulty with averaging down is that the ordinary investor can only tell the difference between a warning indication that prices are likely to fall dramatically and a momentary price decrease.

While there may be unrecognized underlying value, increasing the amount of an investor's portfolio exposed to the price movement of that one company solely to decrease an average cost of ownership may not be an acceptable argument. Averaging down is viewed as a cost-effective approach of wealth building by proponents, while opponents view it as a recipe for disaster.

Investors with a long-term investment perspective and a value-driven attitude to investing like this strategy. Using appropriate risk-management strategies, investors who follow carefully constructed models they trust may discover that additional exposure to an undervalued stock might offer a valuable opportunity over time.

Averaging down has been utilized successfully by several professional investors who pursue value-oriented methods, notably Warren Buffett, as part of a bigger plan carefully executed over time.

Advantages of Averaging Down

The major benefit of averaging down is that it allows an investor to reduce the average cost of stock ownership significantly. This provides a lower break-even point for the stock position and bigger gains in dollar terms, assuming the stock turns around (compared to the gains if the position was not averaged down).

In the preceding Widget Co. example, the investor can lower the position's break-even point (or average price) to $45 by averaging down by purchasing an additional 100 shares at $40 on top of the 100 shares at $50:

• 100 shares x $(45-50) = -$500

• 100 shares x $(45-40) = $500

• $500 + (-$500) = $0

The investor now has a potential gain of $800 if Widget Co. stock trades at $49 in another six months (despite the fact that the stock is still selling below the initial entry price of $50):

• 100 shares x $(49-50) = -$100

• 100 shares x $(49-40) = $900

• $900 + (-$100) = $800

If Widget Co. continues to increase and reaches $55, it might earn $2,000 in value. The investor has essentially "doubled up" the Widget Co. holding by averaging down:

• 100 shares x $(55-50) = $500

• 100 shares x $(55-40) = $1500

• $500 + $1500 = $2,000

If this investor hadn’t averaged down when the stock fell to $40, the potential profit on the investment (now at $55) would only be $500.

Disadvantages of Averaging Down

Because averaging down has the effect of amplifying gains, it is only useful if the stock finally recovers. However, if the stock continues to fall, the losses will become much more pronounced. When a stock's price continues to fall, an investor may come to regret their decision to average down rather than quit the investment.

As a result, investors must accurately analyze the averaged-down stock's risk profile. However, this is easier said than done, and it is made even more difficult during stock market downturns or bear markets. During the 2008 financial crisis, for example, well-known companies like Fannie Mae, AIG, Lehman Brothers, and Freddie Mac lost the majority of their market value in a matter of months. Even the most experienced investor would have struggled to assess the risk of these stocks before their fall appropriately.

Another downside of averaging down is that it may result in a company or industrial sector in an investing portfolio having a bigger weighting. Consider the instance of an investor who has a 25% weighting in US bank stocks in his or her portfolio at the beginning of 2008. If the investor had averaged down their bank holdings following the year's steep loss in most bank stocks, these stocks might have accounted for 35 percent of the investor's whole portfolio. This percentage shows a higher level of bank stock exposure than the investor had hoped for.

DAY TRADING

Years ago, the only persons who could actively trade in the stock market were those employed by huge financial institutions, brokerage firms, and trading houses. However, developments such as the advent of cheap brokerages and internet trading, rapid worldwide distribution of news and very low commissions have leveled the trading field during the last 25 years. The rise in popularity of trading platforms like Robinhood and zero fees have made it easier than ever for individual investors to try their hand at trading like the experts.

Day trading may be a lucrative career (as long as you do it properly). However, it might be hard for beginners, especially if they don't have the right tools or a well-thought-out plan. People who have been in the business of day trading for a long time may still have trouble and lose money.

So, what is day trading and how does it work?

The Fundamentals of Day Trading

The activity of buying and selling securities in a single trading day is known as day trading. It may happen in any market, but the foreign exchange (FX) and stock markets are the most prevalent. Most day traders are well-funded and well-educated. They take advantage of small price swings in highly liquid stocks or currencies by using high leverage and short-term trading strategies.

Day traders know very well what causes short-term market changes. Trading based on news is a common way to make money. Market expectations and psychology influence scheduled releases such as business earnings, interest rates, and economic statistics. When these expectations are not met or exceeded, the markets move quickly and decisively, which may be good for day traders.

Day traders use numerous intraday strategies. These are some of the strategies:

Scalping: This trading method aims to generate a series of modest profits based on small price fluctuations throughout the day.

Range Trading: This strategy uses resistance and support levels to determine buy and sell decisions.

News-based trading: This approach takes advantage of the increased volatility in the aftermath of major news events.

High-frequency trading (HFT): These strategies use complex algorithms to exploit short-term market inefficiencies.

A Controversial Practice

On Wall Street, the profit potential of day trading is a hot issue. Day-trading scams on the internet have enticed novices by promising huge profits in a short amount of time. Regrettably, the notion that this type of trading is a get-rich-quick scam prevails. Some people engage in day trading without having the necessary expertise. On the other hand, day traders make a living despite—or possibly because of—the risks.

Day trading is shunned by many experienced money managers and financial consultants. They contend that the gain does not always outweigh the risk. On the other hand, those who day trade argue that gains may be made. It is possible to make money day trading, but the success rate is lower because it is inherently dangerous and needs substantial skill. Furthermore, financial practitioners and economists claim that active trading tactics underperform a more basic passive index approach over lengthy periods of time, especially if fees and taxes are included.

Day trading isn’t for everyone, and it carries a lot of risks. Furthermore, it necessitates a thorough grasp of how markets operate and various short-term profit strategies. Day traders who make money in the stock market get a lot of attention, but don't forget that most of them don't do so well. Many will fail, and many will barely make it. Furthermore, don't overlook the importance of luck and timing—while expertise is important, even the most experienced day trader can sink by a stroke of bad luck.

Characteristics of a Day Trader

Professional day traders, or people who trade for a living rather than for fun, are usually well-known in their field.

They usually know a lot about the market as well. These are some of the things you need to do to be a good day trader.

In-depth market knowledge and experience

Day trading is a risky business for people who don't know how the market works. If you want to be a day trader, you should be able to do technical analysis and analyze charts. On the other hand, charts might be deceptive if you don't have a thorough grasp of the industry you're in and the distinct risks that exist there. Make sure you have done your assignment and know all there is to know about the products you're dealing with.

Sufficient Capital

Day traders only invest money they can afford to lose. This not only shields them from financial ruin, but it also allows them to trade without being affected by emotions. A considerable amount of cash is usually needed to profit efficiently from intraday market swings. Having a large amount of capital is critical. Most day trading involves a high degree of leverage in margin accounts, and dramatic market movements can trigger large margin calls on short notice.

Strategy

A trader need a competitive advantage over the rest of the market. Day traders employ various strategies, including swing trading, arbitrage, and trading news. These tactics are fine-tuned until they consistently provide profits while successfully limiting losses.

Strategy Breakdown

Type	Risk	Reward
Swing Trading	High	High
Arbitrage	Low	Medium
Trading News	Medium	Medium
Mergers/Acquisitions	Medium	High

Discipline

A profitable strategy is useless without discipline. Many day traders lose a lot of money because they are unable to make deals that meet their requirements. As the saying goes, "plan the trade and trade the plan." Without discipline, success is impossible.

Day traders depend heavily on market volatility to earn money. A day trader may be interested in a stock that fluctuates a lot during the day. This might happen due to various factors, such as investor sentiment, earnings reports, company news, or general economic.

Day traders also like highly liquid stocks because they allow them to change their positions without affecting their prices. Traders may take a buy position if the price of a stock rises. If the price decreases, a trader may decide to short sell to benefit from the fall.

A day trader, regardless of strategy, is usually trying to trade a stock that moves (a lot).

Risks of Day Trading

Day trading may be intimidating for the typical investor due to the numerous risks involved. The Securities and Exchange Commission of the United States has identified some of the risks associated with day trading:

Be prepared to lose a lot of money: Because day traders often lose a lot of money in their first few weeks of trading, and many of them never make a profit, they should only risk money they can afford to lose.

Day trading is a full-time career that is both demanding and costly: Day trading is challenging and requires a high level of focus to recognize market patterns while watching dozens of ticker quotes and price swings. Day traders also have a lot of expenditures because they have to pay a lot of money to their firms for commissions, training, and computers.

Day traders are mainly reliant on borrowed funds: Day-trading strategies rely on leverage to earn money, which is why many day traders lose all of their money and end up in debt.

Do not be fooled by promises of quick profits: Be wary of "hot tips" and "professional advice" from day trading newsletters and websites, and keep in mind that educational seminars and classes on day trading may not be objective.

Should You Get Involved in Day Trading?

As previously said, day trading as a career may be extremely difficult and demanding.

First, you must have some background in trading and a clear understanding of your risk tolerance, capital, and objectives.

Day trading is a time-consuming profession as well. If you want to refine your strategies—after you've practiced, of course—and generate money, then you will have to put in a lot of time. This is not something you can do on the side or whenever you feel like it. You must be completely committed to it.

If you decide that trading is for you, keep in mind that you should start modestly. Concentrate on a few stocks instead of diving directly into the market and tiring yourself out. Going all-in on trade will only complicate your approach and maybe result in significant losses.

Finally, maintain your composure and avoid trading with emotion. You'll be able to keep to your strategy more easily if you do this. Maintaining a level head helps you stay focused while remaining on the path you've chosen.

If you follow these recommendations, you can be on your way to a long-term career in day trading.

Day trading is a feasible technique to make money, although it has become contentious. Day traders, both institutional and individual, are essential to the market's efficiency and liquidity. While day trading is still popular among beginner traders, it should be reserved for those with the necessary skills and resources.

Advantages of Day Trading

You Can Quickly Make A Lot Of Money.

Discipline and continuously executing a profitable plan may significantly increase the size of your trading account. Day traders also have access to leverage. Leverage is the process of borrowing money from a brokerage firm to buy more shares of a company's stock. If you have a $20,000 account and your brokerage account allows for a 4:1 leverage, you may buy up to $80,000 worth of stock. On the other hand, leverage trading is risky because the stock might swiftly decline in value. Even if you don't utilize leverage, you may still make money, which is good for your trading account.

No Overnight Risk.

The trader benefits from not having to worry about huge variations in a company's stock price due to various factors. Quarterly earnings announcements, merger news, and other important developments might all be contributing factors. For example, a disappointing earnings release on Apple stock after post-market hours might cause the stock price to plummet, severely impacting your portfolio. Long-term investors lose money, whereas day traders are protected from losses. This is one of the most important benefit of day trading.

It's Easy To Become A Day Trader.

You can start with a modest account if you are new to trading. You may open a brokerage account with a $500 deposit or less and begin trading stocks almost immediately. Find a trading strategy that works for you and concentrate on improving your skills regularly. To prevent yourself from severe losses, I recommend starting with as little money as possible.

You Can Set Your Hours During Market Hours.

You don't have to trade for the entire day when the market is open. You can take the rest of the day off if you are entirely happy with your performance that day. Before developing a good trading technique, a trader must understand the markets early in their trading career. Trading a few hours a day is possible for day trading.

Day Traders Can Trade From Anywhere On The Planet.

On a wireless internet connection or at a local Starbucks, you may trade from Spain. Traders aren't confined to a desk or an office. Day trading allows you to live a more independent and free lifestyle. Day trading attracts many people from all around the world to partake in this lifestyle. However, 90% of stock traders lose money or stop trading as the adage goes.

There are undoubtedly more benefits and drawbacks to day trading than those listed above. You can use alternative types of investment that appeal to you more, especially if you have a longer time horizon. Learn to become a consistent and risk-averse trader by figuring out what works for you.

Disadvantages Of Day Trading

Day Trading Is Stressful.

The learning curve is one of the most challenging aspects of day trading. Learning the financial markets takes time, and the lack of rapid rewards may be disheartening. Furthermore, in the process, your trading capital may begin to shrink. When losses start to pile, day traders may be tempted to deviate from their trading plan. The ability to control one's emotions is crucial to a trader's success. This implies you shouldn't let past mistakes influence your trading decisions in the future.

Day Trading Requires More Discipline.

Day trading, as previously said, needs more discipline and attention. This is because day traders trade more often than ordinary investors. The day trader must keep a close eye on his trading strategy and make sure that his or her deals are in line with his or her trading regulations. It's easy to hop in and out of a stock that piques your attention, but you shouldn't do so if the trade doesn't fit into your trading plan.

You Are At A Disadvantage.

Traders are at a disadvantage against corporations that engage in high-frequency trading in the age of algorithmic trading. High-frequency trading is a form of algorithmic trading in which many shares are purchased and sold at extremely fast rates, frequently in milliseconds. Day traders must compete against the machines, who we all know always win.

Pattern Day Trader Rule.

A "pattern day trader" is someone who has a margin account of less than $25,000 who buys and sells four or more equities on the same day in five days. Stock options and short sells are examples of these securities. I advocate opening a second brokerage account, adding additional funds to exceed the $25,000 barrier, or holding a stake overnight to escape the pattern day trading regulation. A day trade is defined as holding a position overnight and selling it the next day. Being conscious of the number of deals also helps avoid breaching this guideline. The regulation was put in place to prevent novice traders from overtrading and blowing up their accounts.

You Can Lose A Lot Of Money Quickly.

Overtrading, not diversifying their portfolio, failing to reduce losses regularly, and failing to execute their trading plan are all reasons why most traders lose money in the financial markets. Investing in stocks is a business, not gambling, and a trader must approach it as such. Risk management is essential in a trader's strategy, as is constant portfolio monitoring for protection against huge losses. The truth is that most traders lose money in the markets. I believe traders would be more successful if they focused more on risk management.

DIVIDEND STOCK

Companies that regularly pay out a percentage of their earnings to a class of shareholders are known as dividend stocks. These businesses are often well-established, with consistent profitability and a history of returning a portion of those earnings to shareholders. Dividends are paid out in cash or more stock and are known as distributions. Most dividends are paid out quarterly, although others are paid out monthly, yearly, or even once as a special dividend. While dividend stocks are noted for their consistent dividend payments, payouts may be reduced in adverse economic times to conserve cash.

The dividend payout ratio is a valuable metric for investors to determine the long-term viability of a company's dividend payments. The ratio is calculated by dividing total dividends by net income. It shows investors how much of the firm's net income is returned as dividends versus investing in future development. If the ratio is more than 100 percent or negative (i.e., net income is negative), the company is likely to borrow to pay dividends. The dividends in these two cases are at a higher risk of being cut.

Advantages of Dividend Stock

The obvious benefit of dividend stocks is that they pay actual money to owners in real time. You don't have to wait for a claimed new product to show itself in the market, which would then theoretically push up the stock price. Rain or sunny, dividend stocks pay you every three months. Every year, Southern Company, an electric utility, pays a 4.7 percent dividend. AT&T, for example, has a 5.2 percent market share. An oil company like Conoco gushes 4 percent, and e Even old-line drug corporations like Lilly and Bristol Myers pump out a 3.5 percent dividend, as00 business like Conoco. That's far better than a bank CD, which pays less than 1%.

While firms occasionally do lower dividends (particularly those that pay a big payout but also have a lot of debt), it's much more typical for them to raise their dividend. Chevron, for example, paid a $0.68 quarterly dividend at the end of 2009 but increased it to $1 by the end of 2013. In the first quarter of 2014, more than half of the S&P 500 corporations increased their dividends.

Dividend-paying companies have been proved to offer returns equivalent to the market over time, and they have done so with substantially less volatility. To put it another way, dividend stocks are more secure. Dividend stocks tend to lag on the way up, but they also hold up better when the market falls.

They are tax-efficient because dividends are taxed at a lower rate than bonds or other regular income. Dividends are tax-free for people in lower-income groups. Dividends are taxed at only 15% for anybody with less than 35 percent income tax bracket. Although there's no certainty that this tax-favored condition will persist indefinitely, dividend investors should take advantage of it.

Many experts advise investing in high-dividend mutual funds or exchange-traded funds (ETFs) rather than picking individual stocks. Fidelity's Fidelity Strategic Dividend & Income Fund (FSDIX) has a 2.4 percent yield. The Vanguard High Dividend Yield Fund (VHDYX) provides a 2.8 percent yield. There are various high-dividend ETFs, such as the Vanguard High Dividend (VYM) and iShares Select Dividend (DVY), which yield around 3%.

Disadvantages of Dividend Stock

Utilities and old-line industrial industries are among the companies that offer significant dividends. These stocks do not provide investors with adequate diversification. The vast majority of fast-growing small-cap firms do not pay dividends, and many high-tech businesses do not pay dividends as well. By concentrating on dividend stocks, you may lose out on the occasional huge profits given by the next big thing from Silicon Valley, a new trend from a hot retailer, or a miracle treatment or cure from a biotechnology company.

The government insures a bank savings account. However, no regulation prohibits a firm from reducing or eliminating its dividend. Dividend payments are payments made to shareholders from a company's profits. If earnings fall, dividends are likely to fall as well. Many banks, for example, paid large dividends in the early to mid-2000s, only to significantly reduce them when the financial markets collapsed. Several other corporations have also reduced their dividends. According to Fidelity, 9 percent of stocks with the highest yields decreased or discontinued dividends within a year on average during the last two decades. That percentage jumped to 40% in 2009, during the Great Recession.

On the other hand, dividend-paying stocks cannot be considered a substitute for bonds by investors. While bonds do not come without risk, dividend stocks are riskier than high-quality bonds, particularly high-quality short-term bonds. Dividend stocks can and will fall in value, especially if a bear market emerges on Wall Street.

VALUE INVESTING

This is the process of buying stocks that seem to be selling for less than their intrinsic or book value. Value investors actively search for companies that they feel are undervalued by the market. They believe the market reacts too quickly to both good and bad news, which causes stock prices to move in ways that don't make sense for long-term investors. The overreaction offers a chance to profit by buying stocks at a discount—on sale.

Warren Buffett is the most well-known value investor today. Still, many more, including David Dodd, Charlie Munger, Benjamin Graham (Buffett's professor and mentor), Seth Klarman, a billionaire hedge-fund manager, and Christopher Browne (another Graham student).

Understanding Value Investing

The underlying idea behind daily value investing is simple: if you know what something is worth, you can save a lot of money by buying it on sale. Most people would agree that you receive the same screen size and visual quality whether you purchase a new TV on sale or at full price.

Stocks behave in a similar way, which means that even if the company's worth or value stays the same, the stock price might change. Stocks, like TVs, go through cycles of high and low demand, which causes prices to change. This doesn't change what you get for your money, though.

Value investors believe stocks function in the same way that savvy shoppers believe it makes no sense to spend full price for a TV since TVs go on sale multiple times a year. Unlike televisions, stock do not go on sale at regular intervals throughout the year, such as on Black Friday, and their discount prices are not advertised.

Value investing is the technique of conducting research to uncover hidden stock sales and acquiring them at a cheaper price than the market value. Investors might be handsomely rewarded for purchasing and keeping these value stocks for the long term.

In 1934, Columbia Business School professors David Dodd and Benjamin Graham devised a concept popularized in Graham's 1949 book, "The Intelligent Investor."

Value Investing and Intrinsic Value

When a stock's shares are undervalued, it's referred to be "cheap" or "discounted" in the stock market. Value investors seek to benefit from shares that they believe are undervalued.

Investors use various indicators to determine a stock's valuation or intrinsic value. Financial analysis, such as evaluating a company's financial performance, sales, earnings, profit, cash flow, and fundamental factors, such as the business model, company's brand, competitive advantage, and target market are all used to determine intrinsic value. Below are some of the measures used to value a company's stock:

Price-to-book (P/B), often known as book value, is a ratio that compares the worth of a company's assets to its stock price. If the stock price is less than the value of the assets, the stock is undervalued, provided the firm is not in financial distress.

Price-to-earnings (P/E) indicates a company's earnings history to see if the stock price is cheap or not reflecting all earnings.

The cash earned from a company's income or activities after all costs and expenditures have been deducted is known as free cash flow. Free cash flow is the money left over after all expenses have been paid, such as operational expenses and substantial purchases known as capital expenditures, such as upgrading a manufacturing plant or purchasing equipment. If a company generates free cash flow, it will have money left over to invest in its future, pay down debt, pay dividends or incentives to shareholders, and buy back stock.

Of course, the analysis includes a variety of additional measures, such as debt, sales, equity, and revenue growth. Following a review of these criteria, a value investor may decide if the stock's present price is attractive enough in comparison to its company's underlying value.

Risks with Value Investing

Despite being a low-to-medium-risk approach, value investing has the risk of loss that every investment plan does. We've highlighted a handful of these risks and why they lead to losses.

The figures are crucial.

When it comes to value investing, many investors rely on financial figures. If you rely on your research, ensure sure you have the most up-to-date data and that your calculations are correct. You risk making a bad investment or missing out on a good one if you don't. Continue to study these subjects if you aren't sure in your ability to understand and interpret financial documents and reports, and don't make any trades until you are.

Reading the footnotes is one strategy. These are the notes in a company's 10-K or 10-Q that explain its financial statements in greater depth. Following the statements are notes that describe the company's accounting practices and expand on the stated results. You'll have a better notion of whether to pass on the stock if the footnotes are incomprehensible or the information they give seems unreasonable.

Extraordinary Gains or Losses

Some events that appear on a company's income statement should be considered extraordinary or exceptions. These are referred to as exceptional items—gain or extraordinary item—loss because they are often beyond the company's control. Some examples include restructuring, lawsuits, or even a natural disaster. You can probably obtain a sense of the company's future success if you omit these from your study.

However, consider these issues critically and use your best judgment. It's possible that a company's reporting of the same remarkable item year after year isn't all that extraordinary. Also, if the firm has unanticipated losses year after year, it may signify that the organization is experiencing financial difficulties. Extraordinary products are meant to be unusual and nonrecurring.

Ignoring Ratio Analysis Flaws

The computation of numerous financial ratios that help investors analyze a company's financial health was covered earlier. There isn't a single technique to calculate financial ratios, which can be difficult. The following factors could have an impact on how the ratios are interpreted:

Ratios can be calculated using either pre-tax or post-tax figures.

Some ratios give estimates rather than actual outcomes.

A company's earnings per share (EPS) may fluctuate depending on how the word earnings are defined.

Comparing companies based on their ratios, even if the ratios are the same, can be challenging due to differences in accounting processes.

Buying Overvalued Stock

One of the most significant risks for value investors is overpaying for a stock. If you overspend, you risk losing some or all of your money. The same is true if you purchase a stock at or near its fair market value. When you buy a cheap stock, you risk losing money is minimized, even if the firm performs poorly.

Remember that one of the cornerstones of value investing is to include a margin of safety in all of your investments. This entails buying stocks at about two-thirds of their true value or less. Value investors aim not to overpay for investments to risk as little money as possible in possibly overvalued assets.

Not Diversifying

According to conventional investment wisdom, individual stock investing is a high-risk technique. Instead, we are taught to invest in several stocks or stock indexes to have exposure to a diverse range of firms and economic sectors. On the other hand, some value investors feel that you can have a diverse portfolio even if you just hold a few stocks, as long as you select stocks from various businesses and areas of the economy. In his "Little Book of Value Investing," value investor and investment manager Christopher H. Browne advocate holding a minimum of 10 stocks. Benjamin Graham, a well-known value investor, recommends picking 10 to 30 stocks if you wish to diversify your assets.

However, another group of scientists disagrees. According to the writers of the second edition of "Value Investing for Dummies," if you want to make significant returns, pick just a few stocks. According to popular belief, owning more stocks in your portfolio would likely result in a higher average return. Of course, this advice is based on the assumption that you are an expert at picking winners, which may not be the case, especially if you are new to value investing.

Listening to Your Emotions

It's difficult to disregard your emotions when making investing decisions.

Even if you are capable of evaluating data objectively and critically, exhilaration and fear may occur when it is time to invest part of your hard-earned money.

More importantly, if the stock's price declines after you buy it, you may be inclined to sell it. Keep in mind that value investing aims to avoid panicking and following the crowd. So avoid the temptation of purchasing when stock prices are rising and selling when they are falling. Your profits will be obliterated if you behave in this way.

Value investing is a long-term strategy. For example, Warren Buffett buys stocks intending to keep them for a long time. He once said, "I never try to make money on the stock market." I buy with the assumption that the market would shut the following day and not open again for another five years. "You'll definitely want to sell your stocks when it's time to make a large purchase or retire, but by diversifying your portfolio and maintaining a long-term perspective, you'll be able to sell your stocks only when their price exceeds their fair market value" (and the price you paid for them).

Advantages Of Value Investing

Fat profits. Value investment can result in a huge profit. Stocks are bought at a discount and sold at a premium to their intrinsic value. An undervalued item displays its actual value and bears fruit as time passes because market participants are no longer bearish on it.

Low risks, high reward. A value stock's risk/reward ratio is favorable if the stock is appropriately appraised. An undervalued investment is traded at a large discount to its market value, lowering the risk of a loss. At the same time, if a stock flips around in an investor's favor, he or she may be able to earn a lot of money.

Cool approach. Successful value investment is based on a thorough basic analysis rather than emotions. An investor must consider a variety of indicators, such as P/E, P/B, D/E, and others, to determine a stock's safety margin. The margin of safety states that a stock is worth buying if its fair value is significantly lower than its intrinsic value.

The power of compounding. Compounding's magnifying strength is put to good use in value investing. Your investments will grow considerably if you reinvest dividends and returns from value companies. As a result, you get the benefits of compound interest over time. Warren Buffett is a strong believer in this, and we have reason to trust him.

Reliable blue chips. Value investors look at its entire potential rather than its stock price or market sentiment. They want to be a part of a well-established firm that can make money and pay well. Proponents of value investing prefer reliable and safe blue chips to small caps.

Disadvantages of Value Investing

Value companies hide. It's difficult to find undervalued stocks that are worth investing in. Estimating intrinsic value necessitates a particular level of knowledge, which not every investor possesses. Even if they do, there are many factors outside the control of investors, such as changes in management and behaviour of peers. You can examine all of the essentials, but that doesn't mean you'll make the best decision.

Patience. Not everyone is a good fit for value investment. Those who wish to see results quickly may find it difficult. This strategy's proponents may have to maintain their positions for years until market sentiment shifts in their favor. But, in the end, patience may pay off handsomely.

The pitfalls of waiting. Investing in a value company can be rewarding, but it can also end. Stocks can be held for a lifetime by value traders, but they will never see them turn around. Investors are obliged to exit with a loss in such a no-win situation.

Rowing against the stream. Value investing necessitates self-assurance, which means you'll have to go against the flow. Value investors are very similar to contrarians in a sense. At the very least, both approaches are based on spotting pricing differences and acting against popular opinion. In any case, it's frustrating to see your investments yielding little or no profit.

Poor diversification. Value traders can invest in an industry that is now underperforming but is expected to improve in the future. Value investors saw bank stocks in this light in 2009. On the other hand, committing funds to particular industries results in an inadequately diversified portfolio and hence vulnerable to significant risks.

PRICE-TO-EARNINGS (P/E) RATIO

The price-to-earnings ratio (P/E ratio) is a valuation ratio that compares a company's current share price to its earnings per share (EPS). The price-to-earnings ratio is also called the earnings multiple or the price multiple.

In an apples-to-apples comparison, analysts and investors use P/E ratios to estimate the relative worth of a company's shares. It can also be used to compare a company's past performance to its own and aggregate markets to one another or over time.

The P/E ratio can be calculated in two ways: trailing (backward-looking) or forward (projected).

The price-to-earnings (P/E) ratio compares the share price to the earnings per share.

A high P/E ratio might indicate that a company's stock is expensive or that investors anticipate strong future growth rates.

Companies with no profits or are losing money don't have a P/E ratio Because there is nothing to put in the denominator.

In practice, two P/E ratios are used: forward and trailing P/E.

Formula and Calculation for the P/E Ratio

The following is the formula and calculation utilized in this process.

$$\text{P/E Ratio} = \frac{\text{Market value per share}}{\text{Earnings per share}}$$

Simply divide the current stock price by the earnings per share to obtain the P/E figure (EPS).

The current stock price (P) may be determined by plugging a stock's ticker symbol into any finance website. Although this value reflects what investors must pay for a stock, the EPS is a bit more ethereal.

There are two primary types of EPS. TTM is a Wall Street acronym for "trailing 12 months". This figure represents the company's performance over the previous year. The second type of EPS may be seen in a company's earnings announcement, which often includes EPS guidance. This is the company's best-informed forecast for how much money it will make in the future. The trailing and forward P/E ratios are based on these distinct values of EPS.

Understanding the P/E Ratio

The P/E is one of the most extensively used measures for determining a stock's relative valuation by analysts and investors. The P/E ratio is a tool that can be used to assess whether a company is overpriced or undervalued. The P/E ratio can also be compared to other companies in the same industry or the broader market, such as the S&P 500 Index.

Analysts interested in long-term valuation patterns may use the P/E 10 or P/E 30 measures, which average earnings over the previous 10 or 30 years, respectively. Because these longer-term measurements may compensate for fluctuations in the business cycle, they are frequently employed to judge the overall worth of a stock index, such as the S&P 500.

The S&P 500's P/E ratio has ranged from roughly 5x in 1917 to over 120x now (in 2009, right before the financial crisis). The S&P 500's long-term average P/E is roughly 16x, implying that the stock that makes up the index collectively command a premium 16 times larger than their weighted average earnings.

Analysts and investors look at its P/E ratio when determining if its share price appropriately represents predicted profits per share.

Forward Price-to-Earnings

These 2 types of EPS metrics factor into the most prevalent types of P/E ratios: the trailing P/E and the forward P/E. A third and less common variation utilizes the sum of the last 2 actual quarters and the estimates of the next two quarters.

Instead of trailing figures, the forward (or leading) P/E employs future earnings forecast. This forward-looking measure, also known as "estimated price to earnings," is useful for comparing current profits to future earnings and providing a clearer image of what earnings will look like—without modifications or other accounting adjustments.

However, the forward P/E metric has inherent flaws, such as firms underestimating earnings to surpass the estimated P/E when the next quarter's results are released. Other companies may overestimate their forecast and modify it in their next earnings report. Furthermore, external analysts may make forecasts that differ from the company's, confusing.

Trailing Price-to-Earnings

The trailing P/E is calculated by dividing the current share price by total EPS earnings over the last 12 months. It is the most often used P/E ratio because it's the most objective—assuming the firm accurately reported earnings. Some investors prefer to look at the trailing P/E because they don't believe other people's profits projections. However, the trailing P/E has certain flaws, one of which is that previous performance does not always predict future behavior.

As a result, investors should make investments based on future profit potential rather than historical performance. It's also a concern that the EPS number remains constant while stock values change. The trailing P/E will be less representative of such changes if a major company event sends the stock price much higher or lower.

The trailing P/E ratio will change when the price of a company's stock moves because earnings are only released each quarter while stocks trade daily. So, the forward P/E is preferred by certain investors. Analysts anticipate profits to rise if the forward P/E ratio is lower than the trailing P/E ratio; if the forward P/E is greater than the current P/E ratio, analysts expect earnings to fall.

Valuation From P/E

The P/E is one of the most extensively used stock analysis tools for determining stock value by investors and analysts. In addition to identifying whether a company is undervalued or overpriced, the P/E ratio can show how a firm's valuation compares to that of its industry group or a benchmark such as the S&P 500 Index.

In essence, the price-to-earnings ratio shows how much money an investor will have to put into a firm to obtain $1 in earnings. Because it reflects how much investors are ready to pay per dollar of profits, the P/E is frequently referred to as the price multiple. If a firm is now selling at a 20x P/E multiple, an investor is ready to pay $20 for $1 in current earnings.

The P/E ratio helps investors determine a stock's market value in relation to its earnings. In a nutshell, the P/E ratio indicates how much the market is ready to pay for a company today based on its previous or projected profits. A high P/E ratio indicates that a stock's price is high compared to its earnings and may be overpriced. While, a low P/E, a low P/E might imply that the present stock price is cheap compared to earnings.

Advantages of Using P/E

The P/E ratio's primary advantage is that it's simple to understand and utilize. Even individuals without a background in finance can grasp it, and while it is merely a basic tool and technique for determining the value of a company's shares, it may be used to make rapid choices.

The P/E ratio is a far more accurate indicator of a stock's true value than the price alone. I'll use an example to help you see what I'm talking about. A stock with a price of USD100 and a P/E of 10 is much "cheaper" than one with a price of USD10 and a P/E of 100. (given that the two shares are from the same industry). This implies that P/E is a great measure for comparing a company's performance to the industry average and its competitors. The P/E ratio is another method of benchmarking that reveals the company's real expectations. If it is predicted to continue to perform well, its share price will rise, boosting the P/E ratio.

The current P/E of the company's stocks can be compared to the company's prior performance. For example, if the company's EPS has been steadily increasing (meaning that each share generates a growing amount of profit), but the P/E has remained constant or similar, this indicates that the price of the share has not kept pace with the growth of the company's profitability, indicating that the company is undervalued and will receive a buy recommendation from stock market analysts.

Disadvantages of Using P/E

Although the P/E ratio offers several distinct advantages, it also has several drawbacks that should be considered.

The first issue is that P/E is inherently subjective, and that "we have no knowledge what price earnings ratio we can sell at." This can be attributed in part to the erratic nature of stock values. The volatile nature can be best described by the result of a study conducted by Jonathan W. Witter and Kevin P. Coyne, which said, and this is also suitable for large company stocks in the S&P500, index, that the 40-100 most active investors of a specific company account for more than 50 percentage of all changes in stock prices. When the broader business and economic climate is optimistic, investors tend to overprice stocks, pushing P/E to levels that the company's financial records do not justify. This might lead to a so-called bubble, in which prices and P/E ratios are so high that they could bust or collapse at any time. This was the situation with IT, particularly internet security. There are also instances when the economy and business world are seen to be worse than they are, such as during economic recessions, and securities, particularly shares, are undervalued in terms of their P/Es. Compared to the real financial statements of the region's top performing firms, there are also undervalued regions in terms of P/E. Eastern and Central Europe is such an under-P/E-d region.

If a company's earnings are lower than market expectations, the company's EPS will fluctuate dramatically, as the earnings per share will fall. As a result, the P/E quickly rises, and the share price (at least based on P/E valuation) becomes too high, resulting in an overvaluation of the company.

If a company's image is generally negative, its stock price reflects it. This may be the case even if the company's real financial data and condition do not warrant the lower (also known as a discounted stock price), and this financial ratio is likewise too low. This is especially true if you're comparing yourself to a direct competitor in the same field who has a great reputation and is consequently overvalued. In this instance, determining any of those companies (at least based on the P/E ratio alone) is rather challenging.

The next drawback is inflation. The country's currency where the share observation takes place during periods of excessive inflation. The difficulty with this is that converting the company's earnings to a foreign currency, such as USD to EUR, devalues the company's earnings, which, given the formula, boosts P/E.

GROWTH STOCK

This is a stock expected to increase at a much higher pace than the market average. Most of these stocks do not pay dividends. This is because growth stock issuers often seek to reinvest any profits to increase growth in the short term. When investors buy growth stocks, they expect to profit from capital gains when they sell their shares in the future.

Growth stocks are predicted to outperform the market in sales and profits growth.

Growth stocks often appear costly, with a high P/E ratio, but they might be undervalued if the firm continues to develop fast, causing the share price to rise.

Since investors pay a premium price for a growth stock based on expectations, growth stocks might decline if those expectations aren't met.

Growth stocks aren't known for paying dividends.

Growth stocks are often pitted against value stocks.

The Basics of Growth Stocks

Growth stocks may be found in any industry or sector, and they often have a high price-to-earnings (P/E) ratio. They may not be making money right now, but they are expected to in the future.

Growth stocks might be risky to invest in. Because they rarely pay dividends, the only way for an investor to profit from their investment is to sell it later. Investors face a loss when it's time to sell if the firm does not do well.

Growth stocks share some common traits. Growth stocks, for example, are more likely to have distinct product lines. They could have patents or access to technology that put them ahead of the competition in their field. They reinvest money to create even newer technologies and patents to stay ahead of competition and secure long-term success.

Due to their innovation patterns, they often have a devoted consumer base or a high market share in their field. A company that develops computer apps and is the first to offer a new service, for example, may become a growth stock due to acquiring market share as the only company offering the service. If additional app businesses enter the market with their service versions, the company that attracts and retains the most customers has a higher chance of becoming a growth stock.

A lot of small-cap stocks are sometimes considered growth stocks. However, some bigger companies may also be growth companies.

Growth stocks can be found on any market and industry area, although they're more commonly found in fast-growing industries and on more innovative exchanges like the Nasdaq.

Value Stocks vs. Growth Stocks

Growth stocks are not the same as value stocks. As a result of the underlying company's rapid growth, investors anticipate growth stocks to generate significant capital gains. Many stocks might appear overvalued as a result of this expectation.

On the other hand, value stocks are frequently undervalued or overlooked by the market, yet they may eventually gain value. Investors also hope to profit from the dividends they give out regularly. The price-to-earnings (P/E) ratio of value stocks is often low.

Some investors may strive to include both growth and value stocks in their portfolios for diversity. On the other hand, others may decide to specialize by concentrating on value or growth.

Some value stocks are undervalued due to negative media attention or poor earnings report. They do, however, tend to have good dividend-payout records. Investors can rely on a value stock with a great dividend track record to offer consistent income. Many value stocks are older companies that can be relied upon to continue operating, even if they aren't very creative or growth-oriented.

Example of a Growth Stock

Amazon Inc. (AMZN) has long been regarded as a high-growth company. For some time, it will be one of the world's largest enterprises in 2021. Amazon is the fourth most valuable stock in the United States as of September 24, 2021.

Amazon's stock has had a high price-to-earnings (P/E) ratio in the past. The stock's P/E fluctuated from roughly 58 to 106.3 between June 2020 and September 2021. Despite its size, the company's earnings per share (EPS) growth forecast for 2022 is above 67.4 percent.

When a company is projected to grow, Investors are prepared to invest (even at a high P/E ratio). This is because, in the long run, the present stock price may appear to be undervalued. The danger is that growth will not proceed as planned. Investors have paid a hefty price expecting one thing but not getting it. A growth stock's price might drop in such cases.

Advantages Of Growth Stock

Investing in growth stocks may be a lucrative experience.

A growth stock is one whose stock is predicted to increase at a quicker rate than the market average. Because they are in an emerging industry, they often do not pay dividends and prefer to reinvest to keep the firm developing. This reinvestment, in theory, maintains the company's growth stimulated, increasing the value of the stock exponentially. While there is no way of knowing how long — or even if — such stocks will continue to thrive, their appeal is undeniable.

Rapid Growth

A growth stock investment strategy seeks firms that are already growing rapidly and are projected to continue doing so in the near future. Rapid growth indicates a rapid and persistent increase in the stock price, which leads to a faster accumulation of wealth for investors anxious to cash in on this trend. The Internet industry in the late 1990s—the so-called dot-com boom and bust—is an excellent illustration of growth stocks. Many firms saw their fortunes rise and fall quickly, but a few stayed the course and became long-term actors on the scene, such as Amazon.com and eBay. A seasoned investor would have spotted the quick price increase and rushed in for the ride, only to be out of his position when the downturn began. There will be a correction in the stock price of all growth stocks. The only question is when.

Long-Term Dominance

General Electric, Wal-Mart, and Microsoft are blue-chip value companies that haven't always been industry leaders. They were up-and-comers with growth stock ambitions at first. By finding firms that have the potential to dominate their market in the future, the growth stock investor positions himself to ride a rocket that, although it might experience some corrections, is poised to become a strong corporation for the next 50 or 100 years, if not longer.

Transcend the Trend

A dynamic company has grown at a rate of 10% to 12% each year for the past five years. A high-growth stock company has a product or service that exceeds the prevailing trend, even if the entire market is stagnating or even falling. The consumer market wants and will pay for what the growth stock business produces. This is an important benefit to keep in mind.

Disadvantages of Growth Stock

High Volatility

This sort of investing has such a high level of volatility is one of its main advantages. Most organizations that look to be on the rise might rapidly lose a significant amount of value. When you look at these businesses, you'll notice that they have a high price-to-earnings ratio. As an investor, you must have a high-risk tolerance and be aware that the value of your stock might drop dramatically due to nothing more than market sentiment. This is not an investment for the faint of heart.

Thorough Research

Another major issue with growth investing is conducting extensive research on stocks before investing in them. You could make a lot of money if you can correctly identify a firm that is primed for expansion. On the other hand, identifying lucrative firms is easier said than done. To do so, you'll need to conduct extensive studies and have a solid knowledge of valuation multiples. Various signs may be used to determine growth trends in a corporation. This will necessitate you learning how to do this sort of research and make the necessary computations. Many people believe they are conducting appropriate studies when deceiving themselves.

Long Term

Another downside of this investing approach is unquestionably a long-term investment strategy. This approach is not for you to make quick money and day trade. To genuinely profit from a growth stock, you'll need to be willing to hold on to it for the long haul. Experts often advocate holding growth stocks for at least five years before selling them. If you don't, you risk timing the market incorrectly and selling at the wrong moment.

4. Choosing the Wrong Company

Another issue with this form of investment arises when you invest in the wrong company. You might believe that a company is primed for expansion when, in fact, it is going to be run out of business. The issue emerges when the stock's price begins to decrease. You might believe that you should keep it for the next five years before selling because this is a growth stock. The problem is that distinguishing between a firm that is going out of business and a growing one that is simply incredibly unpredictable can be difficult.

HOW TO DEVELOP YOUR STRATEGY

There are a lot of good trading methods out there. Many traders spend hundreds of dollars or even thousands of dollars on trading strategies; however, trading may also be a "do it yourself" job. Building your own may be a lot of fun, simple, and quick.

You'll need access to charts that represent the time range you'll be trading, an objective and curious mind, and a pad of paper to scribble down your ideas to create a strategy. After that, you codify your thoughts into a strategy and "visually backtest" it on other charts.

Making your trading strategy may help you save time and money while being fun and simple.

The first step in developing your trading strategy is determining what sort of trader you are, your trading period, and the products you will trade.

When developing a trading strategy, it's useful to look at historical data to determine how an asset has done in the past.

Creating access and exit points and other regulations can aid in the effectiveness of a strategy.

Testing a strategy using several indicators and periods will help you determine how and when the strategy will perform and the best strategies to benefit and minimize losses.

Do not rely on strategies that work 100 percent of the time, as this is impossible.

Time and Place

You must narrow the chart options before you can design a strategy. Are you an investor, a day trader, or a swing trader? Will you trade on a minute-by-minute basis or a monthly basis? Make sure to pick a time frame that works for you.

Then you must decide which market you will trade: stocks, futures, forex, options, or commodities? Decide what trading style you want to undertake after you've picked a period and market.

Let's imagine you want to look for stocks on a one-minute time frame for day trading, and you only want to look at stocks that move in a range. You may use a stock screener to find stocks presently trading within a certain range and fulfill additional minimum volume and price criteria.

Because stocks change over time, run new screens as needed to locate stocks that meet your criteria for trading whenever previous stocks no longer trade in a way that corresponds with your approach.

Creating and Testing Strategies

It is much simpler to stick to your trading plan when you develop a winning strategy because the strategy is your work (rather than someone else's). Consider the case of a day trader who wants to look at stocks in five minutes. They've chosen stock from a list of stocks generated by a stock screen they conducted for certain criteria. They'll seek money-making opportunities on this five-minute chart.

The trader will examine price increases and decreases to discover if anything caused the changes. Time of day, chart patterns, candlestick patterns, mini-cycles, volume, and other patterns are all considered. Once you've identified a probable technique, check whether the same thing happened for other moves on the chart. Could this strategy have yielded a profit in the recent day, week, or month? If you're trading on a five-minute time frame, stick to that, but go back in time and at other stocks with similar criteria to see if it would have worked there as well.

After you've come up with a set of guidelines that would have allowed you to profitably enter the market, examine the same cases to discover what your risk would have been. Determine what your future trade stops will need to benefit without being stopped out. Analyze price movement following entry to determine where a stop should be set on your charts. Look for favorable exit points when analyzing the moves. What indication or approach might be employed to capture most of this movement, and where was the best exit point?

When looking at exits, use indicators, chart patterns, candlestick patterns, trailing stops, Fibonacci levels, percentage retracements, and other strategies to help you benefit from the opportunities you see.

Depending on how often you want to look for strategies, you can look for methods that perform over short periods. Short-term anomalies frequently occur, allowing you to extract regular returns. These strategies may only survive a few days, but they can also be utilized again in the future.

Keep track of all the tactics you utilize and incorporate them into your trading strategy. When situations become unfavorable for a certain strategy, you can avoid it. When market circumstances suit a strategy, you can capitalize on it.

You are not required to seek out strategies that are 100 percent effective. If you do, you're likely to develop no viable strategies.

Additional Trading Tips to Consider

Using past data and devising a winning strategy will not guarantee profits in every market. As a result, many traders do not backtest their methods, which is testing a strategy using past data. Instead, they like to make impromptu trades. This is an example of a lack of due diligence. Understanding a strategy's success rate is critical because if it's never worked before, it's unlikely to start working now. That's why visual backtesting is so important: it involves examining charts and applying new approaches to the data you have on your chosen period.

Many strategies don't last forever. They come and go in terms of profitability, so take advantage of those still working. If something has worked for a few months or several decades, it will likely work tomorrow. However, if you have never tested that strategy in the past, you may not even realize it existed, or you may lack the confidence to use it in the markets tomorrow to earn money. Knowing what has worked in the past can provide you with a psychological boost to your trading.

Trading requires confidence (not arrogance), and pulling the trigger on a position when there is a set-up to earn money will necessitate the confidence that comes from looking back in time and knowing that this method has worked more often than not.

Remember this; you don't have to look for strategies that work every time. If you do, you're likely to develop no viable strategies. Depending on your time frame, look for strategies that generate profit at the end of the day, week, or year(s).

Backtesting is an important part of any strategy because it helps a trader examines how trade has performed and is likely to perform in the future.

Strategies will fall in and out of popularity, and you may need to make adjustments to match the current market and your specific position. Create your approach or borrow someone else's and put it to the test over a period that suits you.

Looking back can provide you with some excellent starting points for making more money and avoiding losses as you gain experience. Keep track of all the strategies you utilize so you can apply them again when the circumstances are right.

CHAPTER 10:

HOW TO PICK THE RIGHT STOCK

So you've decided to begin investing. You already know that a low P/E ratio is preferable to a high P/E ratio, a firm with a large cash balance sheet is preferable to one with debt. That analyst recommendations should be taken with a grain of salt. You're also aware of the clever investor's cardinal rule: a portfolio should be diversified across several sectors.

Whether you've plowed through the more advanced principles of technical analysis or not, that pretty well covers the fundamentals. You're all set to pick stocks.

But hold on! How can you pick a few stocks worth investing in when tens of thousands to choose from? Whatever some experts claim, going through every balance sheet to find companies with a good net debt position and growing net margins is just not possible.

KEY TAKEAWAYS

Make a plan for what you want your portfolio to accomplish and stick to it.

Choose an industry that interests you and research the news and trends that affect it daily.

Determine which firms or companies are at the top of the industry and focus on the numbers.

If you use a stock screener, be aware that it is prone to mistakes. It's possible to ride the institutional investors' coattails, but keep in mind that they tend to choose safe blue-chip stocks that may or may not deliver the highest returns.

Smart stock pickers have three things in common:

They've chosen what they want their portfolios to do ahead of time, and they're sticking to it.

They stay up to date on the latest news, trends, and events that affect the economy and the firms that operate inside it.

They base their stock-buying and selling decisions on these goals and information.

Determine Your Goals

The first step in investing is figuring out your portfolio's goal. Everyone wants to earn money when they invest, but some investors are more concerned with producing an income supplement during retirement, safeguarding their wealth, or capital appreciation.

Each of these objectives necessitates a distinct technique.

The clever investor has a 'story' that explains his decision to buy a stock

Three Types of Investors

Investors looking for a steady stream of income focus on buying (and holding) stocks in firms that pay out regular dividends. These are usually stable but slow-growing enterprises in industries like energy. Other options include highly-rated bonds, real estate investment trusts (REITs), and master limited partnerships.

Investors who seek to preserve their capital have a low-risk tolerance by nature or circumstance. They like to put their money into well-established blue-chip companies. They could focus on consumer staples, firms that thrive in both good and bad times. They don't go for first public offerings (IPOs) (IPOs).

Investors seeking capital appreciation should choose stocks of companies that are still in their early stages of growth. They are prepared to face a higher level of risk in exchange for the possibility of large gains.

The Diversified Portfolio

Any of these investment categories might utilize a mix of the aforementioned tactics. That is, in fact, one of the primary motivations for diversification. Growth stocks might make up a small part of a conservative investor's portfolio. A more aggressive investor might put aside a percentage of their portfolio for reliable blue-chip stocks to counter any losses.

The simple step is figuring out which category you belong in. Choosing which stocks to invest in might be difficult.

How to Pick A Stock

Keep Your Eyes Open

It's crucial to keep up with market news and views. Passive research includes keeping up with industry blogs written by authors whose opinions you find intriguing and reading financial news. A news article or a blog post might serve as the basis for an investment thesis.

A common-sense observation might serve as the fundamental argument. You could notice, for example, that emerging market countries are generating new middle classes made up of individuals who want a wider range of consumer products. Therefore, demand for particular commodities will increase.

The "Story" Behind a Stock Pick

Taking the logic a step further, the investor might argue that when demand for a product rises, so will the profits of some of the manufacturers of that commodity.

This fundamental analysis creates the "story" behind the investment, which justifies buying a stock.

Simultaneously, it's crucial to question your preconceptions and theories. You may enjoy doughnuts and fast vehicles, but that doesn't imply the newly affluent in Southeast Asia do as well.

After you've been convinced and acquainted with the overall argument resulting from this type of qualitative study, you may go on to corporate press releases and investor presentation reports for further in-depth analysis.

Find Companies

Identifying firms is the next step in the stock-picking process. There are three easy ways to do it:

Look for ETFs that follow the industry's performance you're interested in and investigate the stocks they own. It is as simple as looking up "Industry X ETF." The fund's top holdings will be displayed on the official ETF website.

Filter stocks using a screener based on particular criteria like sector and industry. Screeners provide customers with more options, such as sorting firms by market capitalization, dividend yield, and other important investing criteria.

For news and opinion on firms in the investing arena you've selected, search the blogosphere, financial press releases, and stock analysis articles. Remember to be careful of what you read and consider both sides of an issue.

These three strategies are by no means the only ways to choose a company, but they are a good place to start. There are advantages and disadvantages to each method that investors should evaluate.

Finding expert viewpoints through news sources takes time, but it may be fruitful. It will help you have a better knowledge of the principles of the industry. It may also alert you to intriguing smaller companies that aren't included in screeners or ETF holdings.

Pay attention to corporate presentations.

Once you've determined that the industry you're interested in is a sound investment and you've familiarized yourself with the top players, it's time to focus on investor presentations. They are less detailed than financial statements, but they offer a basic summary of how companies generate money and are easier to comprehend than 10-Q and 10-K reports.

These reports will also include information on the company's and industry's predicted future directions. You may narrow down your search by looking at company websites and presentations.

The method is a more in-depth study of a given firm to see whether it can surpass its industry competitors.

The Next Step

You may end up with a single investment prospect or a list of 10 or more firms after your research.

Alternatively, you may decide that this is not the industry for you. That's all right. All of your research may have saved you from making a poor decision.

Knowing when to say no is crucial when it comes to stock choosing. You may be ready to pull the trigger, or you could do an in-depth financial statement analysis like a financial industry pro.

CHAPTER 11:

THE BEST VALUE STOCKS TO BUY FOR 2022

Value stocks may appeal to investors seeking consistency in the new year. Here are 15 of the highest-rated ones for 2022.

Overall, 2021 was a terrific year for investors. As of this writing, the S&P 500 Index is up sharply again, with an annual return of nearly 21%. However, as we enter into 2022 proper, there are some troubling signals that many investors reconsider value stocks.

For starters, inflation continues to chip away at profit margins for some enterprises and consumer confidence in the United States. Parts of Europe are also shutting down due to the danger of COVID-19's omicron variant. Then there are company structural concerns, such as a tight labor market and the possibility of increasing interest rates and borrowing costs.

If you've done well in the past but are apprehensive about the future, value stocks may be worth investigating.

We looked for the following to determine the top bargain stocks for investors moving into the new year:

Companies having a market cap of at least $1 billion

Those whose forward price-to-earnings (P/E) ratios are lower than the broader market (the S&P 500's forward P/E is now 21.3).

Strong analyst support, with at least ten Wall Street analysts covering the stock and the great majority offering Buy or Strong Buy ratings.

Below are 15 of the greatest value stocks to purchase in 2022.

The 22 Most Valuable Stocks to Buy in 2022

1. Lowe's

$165.5 billion in market value

1.3 percent dividend yield

P/E ratio (forward): 20.6

Analysts' consensus recommendation: 1.81 (Buy)

Analysts' ratings: 5 Buy, 17 Strong Buy, 8 Hold, 0 Sell, 0 Strong Sell

Lowe's (LOW, $245.62) is not the biggest kid on the block, with a market capitalization of "only" $165 billion, compared to the larger peer Home Depot (HD), which is worth more than twice as much. On the other hand, value investors are aware that investing in firms with a lesser profile can have significant benefits.

Take a look at the value metrics for both: HD trades for about 3x 2022's revenue projection and has a forward price-to-earnings ratio of approximately 25. On the other hand, Lowe's has a forward P/E of around 20 and is only worth roughly 2x revenue expectations for 2022. In other words, Home Depot's stock may be worth more on Wall Street, but that's partly because investors are paying a hefty premium for its stock.

Let's be clear: Lowe's isn't underpriced because it's going out of business. Last year, revenue increased by around 7%, while profits per share (EPS) increased by about 35% over 2020 levels.

While supply-chain interruptions and the pandemic's residual effects have posed some immediate obstacles, the underlying truth is that a thriving property market in the United States is usually excellent for home improvement. People may use the equity in their homes to fund large improvements, or at the very least, feel more confident in spending on smaller ones because they know they'll get a good return when it's time to sell.

LOW stock's value argument is strong right now, and it isn't going away anytime soon. If you're looking for a value investment, it's worth looking in 2022.

2. KKR & Co.

$41.3 billion in market value

0.8 percent dividend yield

17.7 P/E ratio (forward)

Analysts' consensus recommendation: 1.76 (Buy)

Analysts' ratings: 7 Buy, 7 Strong Buy, 3 Hold, 0 Sell, 0 Strong Sell

KKR & Co. (KKR, $70.58) is a private equity. It is one of those financial behemoths that performs well while the economy is doing well but can frequently do even better when the economy is in difficulty. This is due to KKR's expertise in acquisitions, credit "special circumstances," troubled company turnarounds, and leveraged buyouts.

KKR's investments pay off when things are going well. When the economy takes a turn for the worst, though, the expertise of this investment giant allows it to snap up deals — and then reap even greater returns when things improve.

These investments are limitless, spanning the world and affecting many businesses, including cybersecurity, real estate, natural resources, and healthcare. KKR typically spends $30 million to $500 million in each company, making them big enough to matter but not so huge that the KKR portfolio is jeopardized if its biggest stake fails.

KKR does not provide a high dividend, unlike several other publicly traded investment vehicles. But you'll receive good fundamentals in return, including earnings that are expected to treble this fiscal year and then rise even more in 2022.

You'll also have a track record of great outperformance, with the stock up 330 percent in the previous five years to triple the S&P 500 in the same period.

3. Comcast

$221.1 billion in market value

2.1 percent dividend yield

15.2 forward P/E ratio

15.2 forward P/E ratio

Analysts' consensus recommendation: 1.75 (Buy)

Analysts' ratings: 9 Buy, 19 Strong Buy, 7 Hold, 0 Sell, 1 Strong Sell

While the rise of streaming video and cell phones has eroded landline telephone and traditional cable lines, there's one major reason why Comcast (CMCSA, $48.40) isn't going away. Ironically, the internet is the same thing that powers both streaming and cell use.

Comcast provides high-speed internet connection to both households and companies, making it as much of a provider of basic services as a power or water utility these days. This has been especially true in many areas where remote employment and learning have become the norm owing to the coronavirus. And, with a near-monopoly in many places, the $220 billion Comcast is difficult to dethrone.

Investors may take this low-risk investment to the bank with quarterly dividend payments that now yield more than 2%. Furthermore, the quarterly dividends of 25 cents per share represent just roughly 30% of overall earnings, with lots of room for growth in the future.

Comcast's stock has been underperforming recently, partly due to the company's guidance down in September 2021 and subsequent warnings to investors in December about slowing subscriber growth. However, now that the bad news is out, value investors may want to watch CMCSA because of its long-term potential and stability.

4. FedEx

$65.2 billion in market value

1.2 percent dividend yield

P/E ratio (forward): 12.0

P/E ratio (forward): 12.0 Analysts' consensus recommendation: 1.73 (Buy)

Analysts' ratings: 4 Buy, 17 Strong Buy, 9 Hold, 0 Sell, 0 Strong Sell

If you've been doing a lot of online shopping like many of your fellow Americans over the last few weeks, you've probably had your fair share of FedEx (FDX, $245.55) boxes appear on your doorstep. While many individuals only use this shipping service on occasion, the real fact is that many businesses must write checks to FedEx for shipping services daily if they want to compete in today's retail environment.

FedEx is a vital element of the global economy, with about $100 billion in yearly revenue and a run rate of roughly 3 billion packages delivered each fiscal year. That makes it one of the greatest value stocks to buy in 2022 and beyond because while the mix of sales may fluctuate depending on consumer preferences, the fundamental requirement to get things from point A to point B will never go away.

Although delivery is a low-margin business, profits are far from static. Last year, FDX earned $20.37 per share, representing more than double-digit growth. Furthermore, EPS are expected to increase by another 11 percent in the coming fiscal year.

There's a lot to appreciate about this dominant delivery company in 2022, especially with a $1.5 billion accelerated stock repurchase plan to offer a tailwind for share prices.

5. Electronic Arts

$36.7 billion in market value

0.5 percent dividend yield

P/E ratio (forward): 18.7

Analysts' consensus recommendation: 1.67 (Buy)

Analysts' ratings: 6 Buy, 17 Strong Buy, 7 Hold, 0 Sell, 0 Strong Sell

The days of video game stocks being viewed as kid's toys are long gone, with about $180 billion in yearly sales for worldwide gaming platforms, according to analytics firm Newzoo. Electronic Arts (EA, $129.92) remains the world leader in major studios in the industry.

To start with, it is the gold standard for any sports game, with titles like FIFA Soccer and Madden NFL raking in consistent revenue from annual editions featuring the current year's athletes.

These brands also generate consistent online services income as gamers log on to play with friends despite COVID-19 limitations. When you add in popular shoot-em-up games like Battlefield and Apex Legends, you've got a massive fan following waiting for sequels regardless of what new products EA releases in the future.

The success of the past 12-24 months may not be repeatable, given the social isolation and at-home gaming increase EA experienced during the epidemic. This fiscal year, revenue was expected to increase by more than 20%. However, it's crucial to remember that EA's current video games rely just as much on in-game purchases as they do on original launch revenues, so having a built-in user base now guarantees a solid foundation in the future.

For example, earnings will increase by 20% this year and roughly 10% the next year. With a market value of over $36 billion and yearly revenues of over $8 billion, this value stock is a gaming giant that is not going anywhere anytime soon.

6. Huntsman

$6.9 billion in market value

2.3 percent dividend yield

9.2 forward P/E ratio

Analysts' consensus recommendation: 1.63 (Buy)

Analysts' ratings: 4 Buy, 11 Strong Buy, 4 Hold, 0 Sell, 0 Strong Sell

Huntsman (HUN, $31.48), a diversified chemicals firm, is an excellent example of the type of value stock that many investors seek. That's because it exposes investors to a sleepy but dependable business that generates consistent income, even though shares are unlikely to rise in value anytime soon.

Huntsman generates more than $8 billion in yearly sales by providing polyurethane, resins, epoxies, dyes, and insulation to a diverse range of clients. This results in an above-average dividend yield of 2.3 percent, which is extremely sustainable at only roughly 20% of total profits per share next year.

To top it off, shares are trading at a discount compared to other Wall Street selections. HUN has a forward price-to-earnings ratio of less than 10, which is substantially below the S&P 500 Index's projected P/E of 12 and significantly lower than peers like Dupont de Nemours (DD), which has a P/E of 18.

In the age of artificial intelligence and self-driving cars, some investors may find it difficult to get enthused about a midsized chemicals firm. On the other hand, Huntsman's lack of flashiness might appeal to investors seeking the finest value companies to complete out a low-risk portfolio in 2022.

7. United Therapeutics

$9.1 billion in market value

Yield on dividends: N/A

P/E ratio (forward): 13.4

Analysts' consensus recommendation: 1.60 (Buy)

Analysts' ratings: 3 Buy, 6 Strong Buy, 0 Hold, 1 Sell, 0 Strong Sell

United Therapeutics (UTHR, $202.22), based in Maryland, is a biotechnology company focused on the development of "orphan drugs," a special treatment that the Food and Drug Administration has prioritized to meet the medical needs of patients with chronic and life-threatening conditions. The neurological and cardiovascular disorders, as well as transplant-related therapies, are UTHR's expertise.

Anyone familiar with high-octane biotechnology companies might be asking how such a business can be considered a "value" investment. Many stocks in this industry, after all, may be quite volatile as they rocket up on new medication approvals or crash and burn when research doesn't go as planned.

UTHR, on the other hand, isn't a startup burning cash while it waits for its first hit. It has already commercialized medicines and is reaping the benefits. It generates about $2 billion in yearly income, with a 14 percent increase last fiscal year. Furthermore, EPS is expected to increase by more than 30% in 2022.

The unfortunate fact is that many of these patients have little choice but to rely on United Therapeutics for specialty pharmaceuticals that fill key gaps in treatment plans. This leads to a steady and consistent supply of cash, making this a good bargain stock to buy for the future year.

8. Global Payments

$35.9 billion in market value

0.8 percent dividend yield

P/E ratio (forward): 15.

Analysts' consensus recommendation: 1.58 (Buy)

Analysts' ratings: 8 Buy, 18 Strong Buy, 5 Hold, 0 Sell, 0 Strong Sell

Global Payments (GPN, $123.67) is a company that specializes in payment technology and software. There's a "merchant solutions" arm that offers security services and digital accounting and reporting, as well as authorization, transfers, and terminal rentals for more than 140 different types of payments.

The firm may not be well-known, but it has a market value of about $36 billion and was started in 1967, so it has a lot of expertise and strong roots with clients. It also knows how to adapt and evolve in the face of high-tech disruption, having gone with the flow during banking globalization in the late twentieth century, the e-commerce revolution in the 2000s, and the mobile payment transformation in the 2010s.

But it was a long time ago. What matters most to investors is that GPN's payment volumes and its profitability and sales continue to grow. Analysts predict a 15% increase in top-line revenue this fiscal year, followed by a 10% increase the following year. Earnings per share are expected to increase even higher this year, by roughly 27% this year and about 20% next year. There's a lot to enjoy here, especially after a huge dividend raise of 28 percent last August.

In terms of share price, things haven't been looking so bright for GPN lately. Following a pair of dismal guidance issues, the stock has been progressively declining all year. Many investors may perceive this as a ridiculous overreaction – and a fantastic chance to stake out a position in one of the greatest value companies for 2022 – since the outlook for profitability and sales is still far higher.

9. General Motors

$78.5 billion in market value

Yield on dividends: N/A

P/E ratio (forward): 8.0

Analysts' consensus recommendation: 1.57 (Buy)

Analysts' ratings: 9 Buy, 12 Strong Buy, 2 Hold, 0 Sell, 0 Strong Sell

General Motors (GM, $54.04) shares have recovered back to mid-$50 range after bottoming out at $20 a share amid the pandemic-related lows in early 2020. While it may not have the same name recognition as electric vehicle (EV) companies like Tesla (TSLA), it is still a major carmaker.

True, following a run from 2017 to 2019, when about 17 million units were sold yearly, vehicle sales in the United States have slowed in recent years. Due to the first COVID-19 difficulties, that number fell to just under 15 million in 2020 and will fall to just over 13 million this year as global supply-chain concerns persist.

However, consider this: During that strong 2017-19 run, GM produced roughly $145 billion in total sales per year. And according to analyst estimates, top-line revenues would exceed $150 billion next fiscal year. What's more amazing is that profitability has improved significantly as the automaker changes its operations, with fiscal 2021 earnings expected to exceed $6.75 per share, up 38% from last year despite revenue challenges.

With EV upstarts and supply-chain difficulties, there's no doubt a lot of uncertainty in the automobile sector right now. However, GM is a stock that knows how to survive. There are reasons to anticipate General Motors to be competitive in the long run, with an ambitious lineup of plug-in automobiles that includes a Silverado truck and Cadillac luxury sedan.

10. Graphic Packaging

$5.8 billion in market value

1.6 percent dividend yield

16.9 forward P/E ratio

Analysts' consensus recommendation: 1.53 (Buy)

Analysts' ratings: 2 Buy, 10 Strong Buy, 3 Hold, 0 Sell, 0 Strong Sell

Graphic Packaging (GPK, $18.73) is the winner of the award for stocks on this list that do precisely what they claim they do. This is a holding company that develops graphics-based packaging.

GPK is a supplier to various sectors, including specialized beverage providers, restaurants, packaged food businesses, and consumer goods producers, for those who want a bit extra color. Are you looking for a cardboard cup for your café? Disposable foil trays to make baked goods? How about machinery systems or a bulk paperboard to figure out your custom packaging solutions? GPK has you covered.

While margins aren't especially great, and growth may never set the world on fire, the value proposition here speaks for itself. There will always be a demand for cardboard packaging in today's market.

Graphic Packaging is also in a unique position to profit from near-term tailwinds expected to emerge in 2022. This includes raising commodity prices, allowing it to charge higher rates for its packaging solutions, as well as a fast growing environmental sector, where it offers recycled materials to end-users looking to reduce their carbon impact.

If all goes according to plan, the company will see a 20 percent increase in sales and a 60 percent increase in earnings per share next year. That's not sustainable in the long run, but it's a terrific reason to get into GPK as soon as possible.

11. Columbus McKinnon

$1.2 billion in market value

0.5 percent dividend yield

16.3 forward P/E ratio

Analysts' consensus recommendation: 1.44 (Strong Buy)

Analysts' ratings: 4 Buy, 5 Strong Buy, 0 Hold, 0 Sell, 0 Strong Sell

This low-profile company has a market capitalization of little over $1 billion and is in the industry of "intelligent motion solutions." That is a fancy way to refer to rigging, hoists, and cranes that lift things and move them somewhere else.

Let's get one thing straight before you scoff at the verbiage: lifting objects is vital! It can be not very easy when loads shift easily, things are heavy, or you are in a factory that optimizes output.

Consider CMCO's traction drives for mining applications, which enable enterprises to transport materials that have been mined from the earth. This isn't the most attractive aspect of iron or gold mining, but it's an important step in the supply chain.

At this point, old-school value investors are undoubtedly salivating since they know that a firm that is highly specialized and appreciated by its tiny list of clients is the type of slow-and-steady play that makes for a fantastic long-term investment.

But here's the thing: Wall Street misread COVID-related disruptions and sold CMCO too soon at the pandemic's lows. After realizing their mistake, investors bought this stock up thrice from its March 2020 lows!

Shares have cooled off a bit in the latter months of the year and expecting another 200 percent increase in 2022 from here may be unreasonable. On the other hand, short-term volatility can't hold a specialty stock like Columbus McKinnon down. That's the type of low-risk value stock to consider in a portfolio that's going through a rough patch.

12. MasTec

$6.5 billion in market value

Yield on dividends: N/A

16.1 forward P/E ratio

Analysts' consensus recommendation: 1.42 (Strong Buy)

Analysts' ratings: 3 Buy, 8 Strong Buy, 1 Hold, 0 Sell, 0 Strong Sell

MasTec (MTZ, $87.70) has lately attracted the attention of some swing traders, but it's crucial to remember that the fundamental investing thesis behind this engineering company is inherently value-driven. MTZ is a $6.5 billion corporation that provides engineering services to various businesses. This includes oil and gas energy infrastructure, underground cable, water and wastewater systems, and even environmental initiatives to shore upstreams and conserve wetlands.

It's easy to see why MTZ has been on a purchasing frenzy recently, especially after a $1 trillion bipartisan infrastructure bill was passed into law in November. After all, a corporation like MasTec has its fingers in many pies related to the government's spending spree. However, the surge was short-lived, as shares rose from $80 to $100 before plummeting in recent weeks.

Long-term value stock investors should ignore the hubbub and instead depend on MTZ's rock-solid operations. Income marched up steadily each of the 4 years before the pandemic. While it will be rolled down in 2020, MasTec's top line is expected to surpass $8 billion in fiscal 2021, up from $7.2 billion in sales in 2019 before the coronavirus. It's also worth noting that any government stimulus, which is only a few weeks old and hasn't yet filtered down to local initiatives, is lacking in rebound.

There is a lot of volatility right now, thanks to swing traders. However, investors who are ready to take the long view on one of the top value stocks for 2022 may want to look past the recent few weeks and consider this engineering leader's long-term prospects, which include unequaled competence and a wide range of operations.

13. East West Bancorp

$10.4 billion in market value

1.7 percent dividend yield

P/E ratio (forward): 12.3

Analysts' consensus recommendation: 1.36 (Strong Buy)

Analysts' ratings:, 2 Buy, 8 Strong Buy, 1 Hold, 0 Sell, 0 Strong Sell

East-West Bancorp (EWBC, $73.54) is a bank-holding corporation that services companies and people in the United States and Greater China. That makes it a highly interesting investment because it is exposed to the unique development potential created by economic links on both sides, but it also has the solid basis you'd expect from a $10 billion financial giant.

To be clear, this isn't some high-risk investment bank that invests $50 million in unproven Asian firms regularly. This is a standard bank that offers mortgages, lines of credit to industrial businesses, and heavy equipment financing, among other services. Its headquarter is in Pasadena, California, but it operates out of around 120 branches throughout the world, including Hong Kong and Shanghai, as well as the normal internet banking services you'd expect from a contemporary bank.

East West's stock has soared in recent months, with shares up more than 50% in the previous year, more than double the return of the S&P500 Index. This is partly because revenue is expected to increase by 10% this year and more than 7% next year. What's more noteworthy is EWBC's growing profitability, with profits per share expected to approach $6.15 after this fiscal year, up from $3.97 the previous year.

There are risks associated with any exposure to a country like China, but East West Bancorp has a robust foundation in place with more than $60 billion in total assets, which will provide a buffer against any short-term political or economic difficulty in 2022.

14. Encompass Health's

Encompass Health's

1.8 percent dividend yield

P/E ratio (forward): 14.7

Analysts' consensus recommendation: 1.31 (Strong Buy)

Analysts' ratings: 4 Buy, 9 Strong Buy, 0 Hold, 0 Sell, 0 Strong Sell

In an unpredictable atmosphere on Wall Street, the fact that we all grow old and watch our bodies break down is one of the few definite things that investors can rely on. Encompass Health (EHC, $62.23) capitalizes on this trend by providing home health, rehab, and hospice services in hundreds of sites across the United States and Puerto Rico.

The Home Health section of COVID-19 has been especially important in the era of COVID-19 since it strives to keep patients on the path to recovery in their own homes, rather than in hospitals or assisted living facilities. Not only have many hospitals recently lacked the capacity, but the fear of contracting a highly contagious disease in a confined medical setting has encouraged many Americans with resources to seek out home treatment for their loved ones.

As a result of this trend, revenue is expected to increase. What's more surprising is that earnings per share are expected to increase by about 50% as demand for these services grows, allowing for greater prices to be paid. And that's only the beginning, with substantial top-line and bottom-line growth expected again in fiscal 2022.

EHC has a lot to offer bargain investors with a dividend yield of 1.8 percent and a payout ratio of around 25% of total profits.

15. MKS Instruments

$8.7 billion in market value.

0.6 percent dividend yield

P/E ratio (forward): 14.7

Analysts' consensus recommendation: 1.30 (Strong Buy)

Analysts' ratings: 1 Buy, 8 Strong Buy, 1 Hold, 0 Sell, 0 Strong Sell

Despite its unflashy business lines, MKS Instruments (MKSI, $156.25) is one of those plodding and steady industrial firms that value investors frequently flock to. This top value stock for 2022 develops and manufactures instruments for vacuum sealing, microwave and radiofrequency tools, flow and valve technologies, and light and motion controllers, to mention a few. Its products are employed in various industries, including printed circuit board production, life sciences, and traditional manufacturing.

MKSI also represents the "goldilocks" sized company that many value investors gravitate to – not so small to be upset by a single bad quarter, but not too huge to be incapable of continuous growth from current levels. For example, the improving global economy aided exceptional revenue growth in 2021, which is expected to complete the year up more than 26% if current estimates remain true.

Given some of the payouts from other value companies on our list and the current average yield of roughly 1.3 percent for the S&P 500 Index, the dividend is certainly less than outstanding. However, considering that the current 88 cents per share paid yearly is just around 7% of MKSI's estimated $12 in earnings next fiscal year, the dividend is very guaranteed to rise.

With its $1.5 billion acquisition of high-tech equipment producer Atotech, MKSI has a lot of reasons to be optimistic that it will not only survive in 2022 but will also offer great results to investors regardless of the economic condition.

INVESTING IN FAMILIAR COMPANIES

There are several compelling reasons to invest in well-known businesses whose products and services you are familiar with.

According to Warren Buffett, Investors should stick to simple businesses that they understand. Warren Buffett is regarded as the best investor of all time. Therefore, it makes sense to follow his recommendations. It's easier to comprehend consumer-oriented firms that we interact with regularly than it is to comprehend many businesses that we never interact with.

In his renowned book, One Up On Wall Street, another extraordinarily successful investor, Peter Lynch, advised that regular investors may beat Wall Street by investing in companies that create some of the hottest new things they see in shops. If you've seen that Cabbage Patch dolls are flying off the shelves, consider finding out who creates them and investing in that firm. Perhaps we should invest in Sony if it becomes the gold standard in electronics.

Consider how many individuals invested in JDS Uniphase, Yahoo, Nortel, ENRON, and a slew of other firms without understanding what they did or how they made money.

I've just started investing in several thriving businesses that are either local or have stores and offices in my city. These firms were chosen because they were profitable and available at a decent price-to-earnings ratio, and I have earned good returns on them in general. I also discovered that because I was familiar with these firms' products and services, I was better to evaluate them as investments.

I'm finding that owning these companies gives me a sense of satisfaction. I hold stock in the corporation that owns Tim Hortons, and I like watching how busy, and numerous their locations are. Similarly, I hold stock in a local real estate developer, and it’s fun to stroll through their construction near my home and watch the new houses being built, knowing that I'm a part of it. I used to buy Sleeman's beer when I held stock in the company. It's not like my purchase would make me money, but it's still fun to buy from the companies that I own. I just purchased stock in the company that owns the MACs convenience shops. So now, if my kids want to stop there for a "Slurrpy," I might prefer it if there is a large queue ahead of me. The list could go on and on. Because I own shares in a restaurant franchise named "Le Cage Aux Sports," I'll make a point of visiting it the next time I'm in Quebec.

There are several examples of well-known businesses that are profitable. Canadian Tire, the major banks, Loblaws, the major petroleum stores, Shoppers Drug Mart, and many others are among them. At their present stock levels, it's unclear if these firms are suitable investments. However, because you are familiar with these businesses, it will be easier to do your study or evaluate a report or advice from someone else. In contrast, analyzing Nortel, a mining firm, a forestry company, any commodity-based company, a biotech company, an aircraft company, and many more will be considerably more difficult for you or anybody else. Most of these organizations offer the goods or services of a company. Most investors aren't familiar with their products' pricing or any criteria that determine whether or not they generate money.

Being familiar with companies may also help you avoid the bad ones. The Bay has never impressed me throughout the years. My experiences as a client helped me avoid investing in a firm that had a poor stock market performance. I'm not sure who owns Arby's, but I wouldn't want to invest in it because it appears to have a small customer base (and I know I never go there). As a client, I avoided airline stocks because I can see that prices are significantly lower now than they were 10 years ago, and it's difficult to believe that expenses would be lower. In terms of private enterprises, my experience as a consumer has taught me that investing in a single-location private firm is quite risky. For decades, diverse chains have taken over nearly every retail company that services customers. Competing against the chains is quite difficult.

In conclusion, focusing on basic businesses that you patronize as a consumer might be an excellent investment approach. You'll still need to examine their financial statements yourself or hire someone to do it for you. However, you will be ahead of the game since these firms are easier to comprehend than all those unknown enterprises you have had no prior experience with. As a bonus, becoming a part-owner of these enterprises that you come across frequently in your everyday life would bring you a sense of satisfaction. This is what I refer to as "psychic income." It will also give you the impression that you control your investing portfolio.

CHAPTER 12:

HOW TO ANALYZE CHARTS

If you plan to actively trade stocks as a stock market investor, you must be able to read stock charts. Even traders who primarily employ fundamental research to choose companies to invest in utilize technical analysis of stock price movement to establish particular buy, or entry, and sell, or exit points.

Stock charts are publicly available on websites like Yahoo Finance, and Google Finance and stock brokerages make stock charts available to their customers at all times. To summarize, you shouldn’t have any difficulty finding stock charts to analyze.

Stock Chart Construction – Bars, Lines, Candlesticks

Stock charts varies in their construction from candlestick charts to line charts to bar charts to figure and point charts. Almost all stock charts allow you to move between several styles of charts as well as overlay different technical indicators on the chart. You can also change the time window that a chart displays. While daily charts are the most popular, intraday, monthly, weekly, year-to-date (YTD), 10-year, 5-year, and a stock's whole historical lifespan are also available.

Using different chart construction methodologies and different time periods for analysis has relative benefits and downsides. The only way to figure out what method and time period will work best for you as an individual analyst or investor is to practice stock chart analysis. You can glean valuable indications of possible stock price movement from any stock chart. You should select a chart style that allows you to read and analyze the chart quickly and profitably.

Observing a Stock Chart

Stockcharts.com has provided a year-to-date daily chart of Apple Inc. (AAPL). This is a candlestick chart, with white candles representing up days and red candles representing down days for the stock. A 50-period moving average and a 200-period moving average, which appear as blue and red lines on the chart, respectively; the relative strength indicator (RSI), which appears in a separate window above the main chart window; and the moving average convergence divergence indicator (MACD), which appears in a separate window below the chart, have also been added to this chart.

The daily trade volume is displayed at the bottom of the main chart window. Take note of the significant volume surge on February 1st, when the stock gapped higher and launched a sustained uptrend that lasted until early June. Also, observe the large amount of selling volume (shown by red volume bars, which indicate days with more selling volume than purchasing volume) that happens around June 12th when the price drops rapidly.

The Importance of Volume

Almost every stock chart you'll come across shows volume. This is because practically every stock investor considers trade volume a significant technical indication. Days with more purchasing volume are represented with blue bars, while days with greater selling volume are displayed with red bars on the chart above, in addition to showing the overall amount of trading activity for each day.

The reason volume is regarded as a critical technical indicator is simple. Large institutional traders, such as investment banks, and fund managers, such as exchange-traded fund (ETF) or mutual fund managers, account for the great majority of stock market buying and selling. High trading volume is generated when significant investors make huge purchases or sell a stock, and it is this type of major buying and selling often moves a stock higher or lower.

As a result, individual or other institutional traders watch volume numbers for signs of large buying or selling by huge institutions. This data can be used to predict the stock's future price trend or to identify important price support and resistance levels.

In reality, many individual investors make their purchasing and selling choices nearly entirely based on what large institutional traders do. When volume and price movement indicate that significant institutions are buying, they purchase, and when there are signals of major institutional selling, they sell or avoid purchasing.

This method is most effective when used on major stocks that are widely traded. Even when the stock is more extensively traded than normal, it will likely be less effective when used to stocks of small firms that are not yet on the radar screens of major institutional investors and have relatively small trading volumes.

Basic Volume Patterns

There are 4 basic volume patterns that traders watch as indicators.

Low volume trading on down days — This is a bullish signal as it implies that when the stock's price drops a little, not many people are trading. Such down days in a bull market are usually seen as transitory retracements or corrections rather than indications of major future price movement.

Low Volume Trading on Up Days – This is not as powerful as high volume trading on down days, but it’s another bearish indication. The low volume tends to peg the trading action on such days as less noteworthy, indicating only a short-term counter-trend retracement higher in an overall, long-term bearish trend.

High Volume Trading on Up Days - This is also a bullish signal that a stock's price will continue to increase.

On down days, high volume trading is considered a negative indication since large institutional traders are selling the stock.

Using Technical Indicators

Investors employ a range of technical indicators when evaluating stock charts for stock market investing to help them better predict price movement, identify trends, and forecast market reversals from bullish to bearish trends and vice versa.

A moving average is one of the most often used technical indicators. The 200-day, 50-day, 20-day, 50-day moving averages are often used on daily stock charts. A stock is regarded as an overall uptrend as long as a shorter period moving average is above a longer period moving average. On the other hand, shorter-term moving averages below longer-term ones imply a general downward tendency.

The Importance of the 200-Day Moving Average

Most analysts regard the 200-day moving average as a significant indication on a stock chart. Traders that are bullish on a stock want to see the price of the stock stay above its 200-day moving average. Short sellers selling a stock short want the price to stay below the 200-day moving average. When a stock's price moves from below to above its 200-day moving average, it's considered a bullish market reversal. A bearish indicator for the stock is a downward price cross from above the 200-day moving average.

The interaction of the 50-day and 200-day moving averages is also seen to be a good predictor of price movement in the future. When the 50-day moving average crosses from below to above the 200-day moving average, analysts refer to this event as a "golden cross." A golden cross is essentially a sign that the stock is "gold" and is expected to trade at significantly higher prices.

When the 50-day moving average crosses from above to below the 200-day moving average, analysts refer to a "death cross." You probably already know that a "death cross" isn't a good sign for a stock's price movement in the future.

Trend and Momentum Indicators

When evaluating a chart, traders can pick from an almost infinite number of technical indicators. Experiment with several indicators to find the ones that work best for your trading style and the stocks you trade. You'll probably discover that some indicators perform very well in anticipating price movement for some companies but not others.

Technical analysts frequently use indicators of different sorts in combination with each other.

Momentum indicators, such as the MACD or the average directional index, and trend indicators, such as moving averages, are the two categories of technical indicators (ADX). Trend indicators are used to determine if a stock's price is moving up or down, while momentum indicators are used to determine the strength of price movement.

Analyzing Trends

While analyzing a stock chart, in addition to evaluating the stock's general trend, up or down, it's also useful to check for aspects of a trend such as the following:

• How long has a pattern existed? Uptrends and downtrends in stocks do not last permanently. Eventually, there will be a shift in the trend. If a trend has been in place for a long time without any big corrective retracement moves in the other direction, you should be on the lookout for indicators of an oncoming market reversal. Some stocks follow well-defined, slow-moving patterns. Other stocks have a higher level of volatility regularly, with price swings up and down even when there is a long-term trend. If you're trading stock with a high level of volatility, you already know not to put too much weight on a single day's trading action.

• Are there any indicators of a reversal in the trend? Stock price movement can often provide signals of impending trend reversals when analyzed carefully. Momentum indicators frequently signal when a trend is running out of steam before the stock price reaches its peak, allowing attentive traders to exit a stock at a decent price before it reverses to the downside. Major market reversals are frequently identified using a variety of candlestick or other chart patterns.

Identifying Support and Resistance Levels

Stock charts are very useful for spotting stock support and resistance levels. Fresh purchasing is frequently seen at support levels, which helps support a stock's price and turn it back upward. On the other hand, resistance levels are values at which a stock has a history of failing to advance higher and reversing to the downside.

Identifying support and resistance levels is very useful when trading a stock that tends to trade within a defined trading range over time. After identifying such a stock, some stock traders may try to purchase it at support levels and sell it at resistance levels over and over again, making more and more profit as the stock moves through the same area several times.

For stocks with well-defined resistance and support levels, price breakouts beyond well-defined support and resistance levels can be crucial indications of future price movement. For instance, if a stock has previously failed to break over $50 a share but now does, it might indicate that the stock will rise from there to a much higher price level.

The chart below illustrates that General Electric's (GE) stock moved in a tight range between $29 and $30 per share for several months, but once it broke below the $29 support level, it continued to go much lower.

Using Stock Chart Analysis

Stock chart interpretation is not perfect, even in the hands of the most experienced technical analyst. Every stock investor would be a multi-millionaire if it were the case. Learning to read a stock chart, on the other hand, will significantly increase your chances of becoming a successful stock market investor.

Stock chart analysis is a skill that can only be honed by practice, just like any other. The good news is that practically anyone who is willing to put in the effort to learn how to analyze stock charts can become, if not an expert, at least competent enough to increase their overall stock market trading profitability. As a result, it's in your best interest as an investor to start or continue your stock chart analysis education.

CHAPTER 13:

ROBO-ADVISOR AND HOW ROBO-ADVISORS MAKE MONEY

Robo-advisors (sometimes called robo-adviser or roboadvisor) are digital platforms that offer automated, algorithm-driven financial management with little to no human oversight. A typical robo-advisor employs an online survey to gather information from clients about their financial position and future aspirations and then uses the information to provide recommendations and automatically invest client funds.

The finest Robo-advisors offer easy account setup, account services, robust goal planning, portfolio management, attentive customer service, security features, comprehensive education, and low fees.

Robo-advisors are digital platforms that offer algorithmic financial services with no human oversight.

They frequently use mean-variance optimization to automate and optimize passive indexing systems.

Because Robo-advisors are frequently affordable and have low minimum initial balances, practically anyone can profit from one if they choose.

They're ideal for simple investment and aren't the best choice for more complicated issues like estate planning.

The lack of empathy and complexity of Robo-advisors has been questioned.

Understanding Robo-Advisors

Betterment, the first robo-advisor, was established in 2008 and began accepting investor funds in 2010, at the height of the Great Recession. Its original goal was to rebalance assets inside target-date funds so that investors could manage passive, buy-and-hold investments using a simple internet interface.

The technology was not novel in and of itself. Since the early 2000s, human wealth managers have used automated portfolio allocation tools. They were the only ones who could acquire the technology until 2008; thus, clients had to hire a financial advisor to use the innovation.

Most robo-advisors now utilize passive indexing techniques optimized using some kind of contemporary portfolio theory (MPT). Some robo-advisors provide portfolios geared for socially responsible investment (SRI), Halal investing, or tactical hedge fund tactics.

Modern robo-advisors have fundamentally transformed that narrative by bringing the service directly to the customer. Robo-advisors have advanced to the point where they can handle far more complex duties, including investment selection, tax-loss harvesting, and retirement planning after years of development.

With $231 billion in assets under management in 2021, Vanguard Personal Advisor Services was the largest Robo-advisor in terms of assets (AUM).

The sector has seen tremendous growth, with client assets managed by robo-advisors approaching $1 trillion in 2020 and expected to reach $2.9 trillion globally by 2025.

Other popular designations for robo-advisors include "digital advice platforms," " automated investment management," and "automated investment advisor." They're all referring to the same trend of people utilizing fintech (financial technology) apps to manage their money.

Portfolio Rebalancing

To design passive, indexed portfolios for their clients, robo-advisors employ contemporary portfolio theory (or a derivative of it).

Once such portfolios are put up, robo-advisors watch them maintain the ideal asset class weightings even when markets fluctuate. Robo-advisors do this by utilizing rebalancing bands.

A target weight and a tolerance range are assigned to each asset class or individual security. For example, an allocation plan might mandate that 30% of equities be held in developing market stocks, 40% in government bonds, 30% in domestic blue chips, with a corridor of ±5% for each asset class.

In general, emerging market and domestic blue-chip holdings should be between 25 and 35 percent of the portfolio, while government bonds should be between 35 and 45 percent. When any holding's weight exceeds the permitted range, the entire portfolio is rebalanced to match the original target composition.

This form of rebalancing was previously frowned upon because it was time-consuming and resulted in transaction fees. With robo-advisors, however, this is both automated and nearly free.

Tax-loss harvesting is another sort of rebalancing that is widely found in Robo-advisors and is made cost-effective via algorithms. Selling stocks at a loss to offset a capital gains tax liability in a similar investment is known as tax-loss harvesting.

This is a common method for limiting the recognition of short-term capital gains. To do so, Robo-advisors will keep a stable of two or more exchange-traded funds (ETFs) for each asset class. So, if the S&P 500 drops in value, it will sell one ETF to lock in a capital loss while simultaneously buying another S&P 500 ETF. Robo-advisors must carefully choose suitable and backup ETFs to prevent a wash-sale violation.

The Advantages of Robo-Advisors

The main benefit of Robo-advisors is that they are less expensive than conventional financial advisors. Online platforms can provide the same services at a fraction of the cost by eliminating human labor. Most Robo-advisors charge a 0.2 percent to 0.5 percent yearly flat fee on a client's entire account balance. In comparison, a human, financial advisor often charges 1% to 2% for their services (and potentially more for commission-based accounts).

Robo-advisors are also easier to find. They are accessible anytime as long as the user has access to the Internet. Furthermore, it takes far less money to get started, as the minimum assets necessary to open an account often range from hundreds to thousands of dollars ($5,000 is a common starting point). One of the most well-known Robo-advisors, Betterment has no account minimum for its regular service.

On the other hand, human advisors seldom take on clients with less than $100,000 in investable assets, even if they are well-known in the sector. They choose high-net-worth people who need a wide range of wealth management services and have the financial means to pay for them.

Another key advantage of these online platforms is their efficiency. For example, before Robo-advisors, if a customer wanted to make a transaction, they had to phone or meet with a financial advisor, explain their needs, complete paperwork, and wait. All of this may now be done from the comfort of one's own home with the click of a few buttons.

Using a Robo-advisor will limit your possibilities as an individual investor. You can't pick and choose which mutual funds or exchange-traded funds (ETFs) you want to invest in, and you can't buy individual stocks or bonds in your account. However, choosing stocks or attempting to outperform the market has been shown repeatedly to deliver poor outcomes, and regular investors are frequently better off using an indexing approach.

Hiring a Robo-Advisor

Opening an account with a Robo-advisor usually entails filling out a brief risk-profiling questionnaire as well as an assessment of your financial condition, time horizon, and subjective investing goals. In many circumstances, you will be able to link your bank account straight to your Robo-advisory account for quick and easy financing.

The simplicity of use of automated advising services is its defining feature. However, certain demographics are more attracted to and targeted by digital platforms than others, such as the younger generation of millennial and Generation X investors who are technology-dependent and continue building their investable assets.

This population is significantly more comfortable revealing personal information online and handing key duties like wealth management to technology. Indeed, much of the marketing efforts of Robo-advisory firms utilize social media to reach these investors. Still, the market attracts more attention from older generations and high-net-worth investors, particularly as technology improves.

Robo-Advisors and the SEC

The legal standing of Robo-advisers is the same as that of human advisors. They must register with the SEC (Securities and Exchange Commission) to do business in the United States and are thus subject to the same securities rules and regulations as traditional broker-dealers.

The official designation is RIA, meaning "Registered Investment Advisor," in full. Most Robo-advisors are also members of the FINRA (Financial Industry Regulatory Authority), an independent regulator. Investors may research Robo-advisors using BrokerCheck as they would a human advisor.

The Federal Deposit Insurance Corporation (FDIC) does not insure Robo-advisors handle assets because they are securities kept for investment rather than bank deposits. This does not necessarily imply that clients are unprotected, as broker-dealers can insure assets through various methods. The Securities Investor Protection Corporation (SIPC), for instance, insures Wealthfront, one of the largest Robo-advisors in the United States.

How Robo-Advisors Make Money

Most Robo-advisors make money primarily through a wrap fee based on assets under management (AUM). Traditional (human) financial advisers often charge 1% or more per year of AUM, but most Robo-advisors charge less than 0.25 percent.

They can offer lower fees because they employ algorithms to automate trades and indexing strategies that leverage commission-free and low-cost ETFs. However, because Robo-advisors offer lower fees, they must attract a larger number of smaller accounts to make the same income as a more expensive advisor.

Robo-advisors can generate money in a variety of ways in addition to the management fee. One way is the interest gained on cash balances ("cash management") attributed to the Robo-advisor rather than the client. Many Robo-advised accounts have just a small cash allocation in their portfolios; this can only become a substantial source of revenue if they have a large number of customers.

You are better off not utilizing a Robo-advisor if the returns on your assets do not surpass the entire costs involved with using one, such as fees.

Payment for order flow is another source of revenue. Typically, Robo-advisors will amass funds from deposits, dividends, and interest and then combine them into massive block orders executed just once or twice a day.

Because of the large order sizes, they can execute fewer deals and earn better terms. In exchange for rebates provided to the Robo-advisor, these blocks are frequently steered to specific liquidity providers like high-frequency trading shops or hedge funds.

Finally, Robo-advisors can make money by selling their consumer's specific financial goods and services, such as credit cards, insurance policies, and mortgages. This is often accomplished through strategic partnerships instead of using advertising networks.

The Best-in-Class Robo-Advisors

Hundreds of Robo-advisors are currently accessible in the United States and worldwide, and more are being introduced every year. They all provide a mix of investment management, retirement planning, and general financial advising.

The most competitive Robo offers with the greatest market shares are listed below.

Standalone Robo-Advisors

These companies were among the first to use digital advising technology. They have the lowest costs and the smallest account minimums. Clients who do not currently have any funds invested can start using these platforms.

Legacy Offerings of Robo-Advisors

A growing number of financial services and asset management companies are creating robo-advisors of their own. These platforms are more aimed toward sophisticated investors, with higher fees and account minimums. Clients who currently utilize these organizations as asset custodians will find them convenient options.

Shortcomings of Robo-Advisors

The introduction of robo-advisors has shattered some of the conventional barriers between the financial services industry and the general public. Thanks to these internet platforms, sound financial planning is now available to everyone, not just high-net-worth individuals.

However, many businesses are skeptical about Robo advisors as a one-size-fits-all approach to wealth management. Robo-advisors have been chastised for their lack of empathy and complexity, owing to their technical infancy and lack of human presence.

They are good entry-level tools for persons with small accounts and little financial knowledge, such as millennials, but they are far from adequate for those who want sophisticated services such as estate planning, complex tax management, retirement planning, and trust fund administration.

Keep an eye on what a robo-advisor invests in, as many are shifting away from passive index methods and towards riskier sectors that may underperform the market.

Automated services are also ill-equipped to handle unanticipated crises or unusual circumstances. For example, if a young person's parents die and they inherit money, going online to a robo-advisor to manage the money is probably not the best option.

According to a survey, consumers prefer a combination of human and technical guidance, especially when circumstances are tough. According to the survey, 40% of respondents stated they would be hesitant to use an automated investing platform during periods of significant market volatility.

Furthermore, Robo-advisors work under the presumption that customers have well-defined goals and a thorough awareness of their financial situation. That is not the case for many people. Answering questions like "Is your risk tolerance high, moderate, or low?" assumes the user has a basic understanding of financial principles as well as the real-world implications of each option chosen.

CHAPTER 14:

HOW TO PROTECT YOUR STOCK INVESTMENT

What are some smart ways to protect your portfolio?

1. “Insure” that portfolio

For others, situations like this need standard off-the-shelf equipment and approaches. They advise buying market-shorting ETFs, buying puts, or selling covered calls.

To be fair, this technique does not appeal to all advisers. "There are clearly 'portfolio insurance' approaches that involve the utilization of various types of options—buying and selling index options may be used to mitigate the downside risk of a diversified portfolio," said Dave Yeske, managing director of Yeske Buie. "However, we feel that these approaches are excessively costly and do not offer long-term benefit."

According to Yeske, the usage of the phrase "portfolio insurance" is a bit of a misnomer. "This isn't insurance in the sense of life or homes insurance," Yeske explained. "This type of insurance protects you against irreversible loss." A person who dies too soon does not come back to life. A home that has burned down does not regrow on its own. On the other hand, a portfolio will recover itself after a cyclical slump."

According to Yeske, purchasing options as "insurance" is an expense, not an investment. "After all, options are a wasting asset and a zero-sum game," Yeske explained. "It's better to add resilience to your portfolio in other ways, such as allocating enough cash and short-duration, high-quality bonds." Any potential loss in return from owning bonds and cash will be smaller than the cost of 'insurance,' allowing you to keep your equities unaffected during a cyclical downturn."

Yeske does, however, employ portfolio insurance occasionally. "For example, if a client has a significant, undiversified holding in restricted employer stock, we will utilize options to protect them from the short-term downside risk until the limitations are released, and they can liquidate the position in favor of a more diversified portfolio," he explained.

2. Seek return of capital

Searching for safe havens is another method to generate some downside protection. In nominal terms, according to Rob Schmansky of Clear Financial Advisors, U.S. Treasuries, cash, or income annuities give short-term downside protection. “If there is one place investors run to, it is a guaranteed return of capital,” Schmansky.

Investing Insights with Global Context

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Meanwhile, the vice president at Noesis Capital Management, known as Stephen Smith, takes a different approach with his customers base, customers who, he says, "place a premium on capital preservation to expand their assets over time within realistic risk parameters."

3. Don’t stay fully invested

"We don't have a mandate to be fully invested all of the time," Smith, who oversees many accounts, explained. "There’ll be times when it is wise not to be fully invested.”

The trick, according to Smith, is to manage risk first and foremost. He also pointed out that one significant distinction between separate accounts and mutual funds is that mutual funds are required to stay fully invested, but separate accounts are not.

4. You should sell even if you don't have anything to purchase.

Because you don’t have anything else to buy does not mean you should not sell. Move on if a stock, ETF, or mutual fund has reached your price objective. "We will never hold off on selling a stock that has to be sold because we don't have a suitable replacement," Smith added. "The decisions to buy and sell are different and distinct."

5. Stop losses

For all holdings, Smith's business employs a trailing stop-loss strategy. "This method is both fundamental and technical; not a defined percentage decrease from a high-water mark," Smith said. "The I avoid letting a little loss turn into a significant one."

6. Take a wide view of the situation.

Some investors work from the top down, while others work from the bottom up. Instead, consider employing both a top-down and bottom-up approach. "We attempt to keep an eye on macro trends while relying on basic and technical research of business and industry dynamics," Smith explained. "As a result, we may have no exposure to a particular business or area at any one moment."

Smith presented the following example: In March 2007, his business sold all bank stocks and all but one financial stock. And this was back when the banking sector accounted for 22% of the S&P 500's weighting. This was the case until mid-2009.

7. Use common sense

Smith also stated that while analyzing fresh ideas and current holdings, his business strives to utilize common sense. "We don't hold ourselves out as market timers since we don't have a timing model that mandates cash levels or assesses market volatility," Smith explained. "We do use quantitative screens to filter down a vast universe of stocks to a smaller list of firms that we then investigate further." We try to buy when the opportunity arises, and we cut positions when they grow to be significant holdings in the portfolios."

8. Diversify, diversify, diversify

"We believe that the greatest way to protect against downside risk is to maintain an appropriate and broad level of diversification across asset classes, within asset classes, internationally, and across multiple currencies," Yeske added.

Diversification, according to Schmansky, may have certain advantages, but it isn't bulletproof. "We observed in the 'lost decade' of the stock market that allocating to bonds, real estate, and a varied portfolio of stocks gave a decent yearly return when compared to the S&P 500's 0% return," he stated.

HOW TO CHECK UP YOUR STOCKS

Do you want to become a more knowledgeable stockholder? Yes, you do. Stocks demand more attention than fund investors, which can get away with monitoring their holdings twice a year. Here are ways to keep track of your stock investments:

1. Create a free portfolio tracking system. You may modify trackers with a list of your fund, stock, and ETF holdings on several websites. For instance, Yahoo Finance and Google Finance both include rudimentary features that allow you to enter the number of shares you purchased and at what price. The trackers also provide access to stock information such as historical

share prices, recent news, and SEC filings. In the case of Yahoo, you'll also see blog posts on your stock.

2. Sign up for automatic alerts. Check to see whether your portfolio tracker can send you notifications. If one of your stocks—or your entire portfolio—falls below a set level, Yahoo and MSN will send you an email or text alert.

3. Stay on top of market trends. Log on to a financial news website (or read it in print) at least once a week to obtain a breakdown of market developments that might affect your portfolio holdings. The idea here is to understand the overall picture or the trend and then make changes to your portfolio appropriately. Another wonderful source of financial information is investing podcasts.

4. Check in every three months. If you invest in individual stocks, do not miss the company's quarterly earnings call. During this teleconference, you can hear corporate executives discuss the quarter's financial performance and fill in details not contained in the earnings statement, which is normally televised live several hours following the earnings announcement. Individual investors can sometimes call in and ask questions during the call's question-and-answer phase. If you missed any of the calls, complete transcripts are available at Seeking Alpha.

5. Take a look at the yearly report. The firm's annual report, which is usually released in April, is an excellent research tool for stock investors. The firm president's letter, which is normally featured at the opening of the report, is very useful, according to Bob Auer, manager of the Auer Growth Fund: "Sometimes it provides you a sneak peek into what's in store for the future year, and many times it discloses a tidbit that has never been revealed before and isn't in the news," says Auer, whose Indianapolis-based firm invests in businesses of all kinds.

PORTFOLIO MANAGEMENT STRATEGIES

Portfolio Management Strategies relate to the methods used to manage a portfolio efficiently to get the best potential returns with the least amount of risk. Passive Portfolio Management Strategy and Active Portfolio Management Strategy are the two most common approaches to portfolio management.

Active Portfolio Management Strategy

This is based on the belief that a specific type of analysis or management may provide returns that outperform the market. It entails higher-than-average costs and a focus on capitalizing on market inefficiencies. It is executed based on the recommendations of analysts and managers who examine and evaluate the market for inefficiencies.

The following stock selection strategies are part of the active management approach to portfolio management.

Top-down Approach: Managers use a top-down strategy to look at the market as a whole and assess which industries and sectors are projected to perform well in the current economic cycle. Following the decision on the sectors, the specific stocks are chosen based on firms that are predicted to perform well in that area.

Bottom-up: In this method, market circumstances and predicted trends are ignored, and firms are evaluated based on their product pipelines, financial statements, or any other criterion. It emphasizes that strong businesses do well regardless of market or economic difficulties.

Passive Portfolio Management Strategy

This is based on the assumption that markets are efficient, that it is impossible to outperform the market over time consistently, and that the highest returns are achieved through low-cost assets held for the long term.

The following stock selection styles are used in the passive management approach to portfolio management.

Efficient market theory: This idea assumes that all investors have instant access to and processing market information. As a result, such information is usually considered when evaluating market pricing. The portfolio managers who believe in this idea are convinced that market averages cannot be regularly beaten.

Indexing: According to this theory, index funds take advantage of the efficient market theory and create a portfolio that imitates a certain index. Index funds can be more beneficial over actively managed funds because they have lower than average expense ratios and transaction costs.

In addition to Passive and Active Portfolio Management Strategies, there are three portfolios: Aggressive Portfolio, Conservative Portfolio, and Patient Portfolio.

Aggressive Portfolio: This type entails investing in "expensive stocks" that offer high returns and large rewards while posing a significant risk. This portfolio consists of stocks from various firms of different sizes that are fast developing and likely to create strong annual profits growth in the next years.

Conservative Portfolio: This portfolio consists of firms that have been carefully chosen based on market returns, earnings growth, and a track record of consistent dividend payments.

Patient Portfolio: This type of portfolio entails investing in popular stocks.

Investors purchase and hold stocks for longer periods. Most of the stocks in this portfolio are traditional growth firms that are projected to create greater earnings consistently regardless of financial conditions.