50 Tips To Make You a Better Investor

Description

Here at the Motley Fool, our mission is to help the world invest – **better**.

And indeed, though our critical mass remains in the U.S., with outposts in the U.K., Australia, Germany, Singapore, and of course, right here in the Great White North, slowly but surely, Foolishness is spreading around the world.

While the bulk of our more intricate efforts to accomplish this mission are housed within our members-only advisory services, we're happy to provide one and all with a peak behind the curtain, so to speak, to catch a glimpse of our Foolish approach to investing any chance that we can.

Recently, my colleague Matt Koppenheffer (who's in the process of starting Motley Fool Germany) reached out to a vast collection of fellow Fools from the various global operations.

His question was simple, yet highly effective:

"What are the most important things that every investor should know?"

Fools, investing isn't just about picking stocks.

Unfortunately, most don't recognize this, which is why we make this point such a huge part of our ongoing narrative. Investing better has many layers, as will become evident as you read through the various answers to Matt's question. I promise, the more you take what you're about to read to heart and implement even a sampling of these tips, the better the investor you'll become.

Matt Argersinger
Portfolio Lead, **Million Dollar Portfolio**
Senior Analyst, **Motley Fool Aktienbuch**

1.Above all else, it's important to remember that stocks aren't pieces of paper to be traded about. They are real businesses, with people, assets and futures. The more you treat stocks as real businesses, the better investor you will be.

2. Reported earnings per share, or EPS, numbers can be misleading. So can fancier measures such as "adjusted operated earnings" or EBITDA. Focus instead on **operating cash flow** or, even better, **free cash flow**, if you want to understand the true health of a businesses.

3. A company's stock price is meaningless when it comes to understanding the size or value of the company. A company with a $20 stock price can be just as large, or larger, than a company with a $200 stock price. Multiply the stock price by the company's shares outstanding to determine the size of a company in comparison to others.

Bernd Schmid
***Investment Analyst,* Motley Fool Aktienbuch**

4. You don't need to invest in options or other derivatives as a beginner. You will already be better off by investing into common stocks and ETFs. Once you are more advanced, options may help you to achieve certain goals, but you don't need to worry about them at the beginning. No matter what: Remember that options and derivatives are *not* a get-rich-quick scheme.

5. Diversification can be a big advantage due to its ability to lower risk. There is, however, an optimal portfolio size for different people. For one person that may be 10 stocks, while for another it's 100. The key is that the portfolio is right-sized so you actually know and understand the companies behind the stocks.

Brian Richards
Motley Fool Head of Western Hemisphere International Operations

6. The longer you hold stocks, the less risky they become. Stocks are riskier than other asset classes. But the longer your time horizon, the less risky they actually are.

7. Trading is not investing. As Professors Brad Barber and Terrance Odean proved in their famous 2000 paper, "Trading is hazardous to your wealth."

8. Be a business-focused investor. We're fond of saying "Buy businesses, not tickers." A ticker moves around a lot during trading hours every day. A business does not (or at least, should not!). If your time horizon is measured in years or decades, your goal should be to find great businesses and watch them create shareholder value slowly and steadily.

9. Investment mistakes are vital to investment successes. Mistakes aren't an aberration. They're part of the game. Own them, learn from them, expect them, and move on. Here are two quotes to help you feel better about doing so: "More than 20% of Einstein's original papers contain mistakes of some sort," reported *The New York Times*. And remember the legendary Peter Lynch quip: "In this business, if you're good, you're right six times out of 10."

10. Emotions matter more than aptitude. As Warren Buffett has said, "Success in investing doesn't correlate with IQ … what you need is the temperament to control the urges that get other people into trouble in investing."

Morgan Housel
***Lead Analyst,* Motley Fool One**
Motley Fool and* The Wall Street Journal *columnist

11. Saying "I'll be greedy when others are fearful" is easier than actually doing it.

12. As Erik Falkenstein says: "In expert tennis, 80% of the points are won, while in amateur tennis, 80% are lost. The same is true for wrestling, chess, and investing: Beginners should focus on avoiding mistakes, experts on making great moves."

13. Investor Nick Murray once said, "Timing the market is a fool's game, whereas time in the market is

your greatest natural advantage.” Remember this the next time you’re compelled to cash out.

14. Napoleon’s definition of a military genius was, “the man who can do the average thing when all those around him are going crazy.” Same goes in investing.

15. James Grant says, “Successful investing is about having people agree with you … later.”

Buck Hartzell
Motley Fool Director, Investor Learning and Development

16. Humility trumps brains. Many stocks end up in my “too hard pile” very quickly. I encourage all analysts to avoid difficult problems when they can. As they say, there are no called strikes in investing. It turns out that humility is a rare, yet extremely valuable, commodity in the investment business.

17. Culture eats strategy for breakfast. A business school case can be just about strategy, internal rates of return, and breakeven analysis. In the real world, culture and people are really what you’re investing in though. With the explosion of the Internet, there are so many non-traditional ways to measure the power of culture at an organization, yet so many schools focus solely on strategy instead.

18. Being conservative in your assumptions can be very costly. This last piece of advice might actually violate Warren Buffett’s “rule number one,” which is to never lose money. The flip side of Buffett’s maxim is that the best investors in the world are wrong about 40% of the time. The analysts who use conservative assumptions when deploying their discounted cash flow models would have never bought great businesses like **Amazon** or **eBay**. If you’re looking for extraordinary businesses, you’ll need to be careful that you’re not too conservative in your assumptions.

Jeff Fischer
***Portfolio lead,* Motley Fool Pro *and* Motley Fool Options**

19. Everyone says think long term. You should, but it’s easier to think in terms of rolling three years. So, buy each stock with a rolling three-year outlook, and then end up owning them for much longer than that.

20. Focus on buying a quality business, and not on its moving share price, which is random in the short term.

21. You can only compound wealth by staying in the market for years and years. That’s it.

Tim Hanson
Motley Fool One Product Team Lead
former Co-Portfolio Manager and Director of Research, Motley Fool Asset Management

22. Holding winners matters a lot more than worrying about losers.

23. Bet big when probabilities are in your favor. Even if it seems uncomfortable.

24. Write down why you bought a stock. “Thesis creep” will kill your returns.

Ron Gross
***Portfolio Lead,* Motley Fool Deep Value**

25. Start early. Time is your best friend. Even if you can only start with a small amount. Do it.

26. Invest in companies you care about and would be proud to own 100% of.

27. Think of stock investing as ownership, not gambling or speculation.

Matt Joass
***Research Analyst,* Motley Fool Pro Australia**

28. Exponential growth is a key concept in investing, but the human brain did not evolve to be able to process exponential growth. So, here's a great trick to help us grasp the exponential power of compound growth: Imagine a chess board, which has 64 squares. You place one grain of rice on the first square, two grains of rice on the second, doubling the number of grains with each new square. After 32 squares there will be 100,000 kilos of rice on the board. By the 64th square there will be 461,168,602,000 metric tons — more than 1,000 times the world's total annual rice production.

29. Reported accounting earnings can be easily distorted by management, so we often need to make adjustments to determine a company's true underlying earnings. When in doubt, focus on the cash flows.

30. Return on equity can be distorted for companies with a lot debt and makes the business appear stronger than it really is — be sure to adjust for a company's borrowings.

Jim Royal
***Co-Portfolio Lead,* Motley Fool Special Ops**

31. You don't need to know a lot about investing to invest — just buy a low-cost index fund!

32. Investing isn't just for people with a lot of money. Everyone starts somewhere.

33. Waiting to invest risks missing out on the value of compounding returns.

34. Don't fall into the trap of buying only when the market is "safe." When the market is down, you can find some of the best opportunities.

35. The market isn't a rigged game only for insiders. Believing that will only leave you on the sidelines and missing out on the wealth-building power of the market.

36. Investing is *not* exciting like the scenes on TV and films. Good investing is often quite boring.

37. Investing as an ultra-risky endeavor where you can easily lose all of your money is another myth inspired by scenes in TV and movies.

Andrew Page
Advisor, Motley Fool Australia

38. There are no short cuts. Building wealth takes time, but if you can generate consistently decent returns, the power of compounding will ensure you get there sooner than you imagine. Remember the tortoise and the hare!

39. Shares are pieces of real businesses, not lottery tickets. If the business does well, the share price will eventually follow.

40. Ignore the madness of short term market prices. Take advantage of volatility, rather than be fearful of it.

Sara Hov
***Research Analyst,* Motley Fool Stock Advisor**

41. Just get started! The longer you wait, the more you can miss out on compounding returns.

42. Buy in thirds.

43. Keep a watch list. You never know when the market will give you a great opportunity to go on a buying spree.

Matt Koppenheffer
***Geschäftsführer, Motley Fool Deutschland and Senior Analyst,* Motley Fool Aktienbuch**

44. Stock price alone tells you nothing about whether a stock is cheap or expensive. For that, you need to learn about valuation.

45. There are great companies that you interact with every day. Many of them are available for you to invest in.

46. When you don't have a lot of time to devote to researching investments, a low-cost index fund is an easy and effective way to take part in stock market returns.

Iain Butler

***Chief Investment Advisor,* Motley Fool Canada**

47. Pay no attention to "target prices". They are meaningless guesses and seldom right. Those who produce such nonsense are only trying to provide an air of certainty to an entirely uncertain situation.

48. Dividends matter. When you consider that the average annual return of the stock market is about 8%, every percentage point of yield you can lock in is going to up your odds that much more that you're going to beat that bogey.

49. Size positions in your portfolio based on the risk/reward relationship offered. Typically, big positions should belong to relatively low risk/reward scenarios and smaller positions reserved for the higher risk/reward opportunities. These are not rules of thumb, mere generalities.

50. Follow our Foolish advice! Every day we put each and every one of these tips into action. If

you've been struggling to get on track with your own personal investments, give our members-only advisory service ***Stock Advisor Canada*** a shot.

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Date
2025/09/10
Date Created
2016/02/01
Author
motley-fool-staff