New to Investing? Avoid These 5 “Rookie” Mistakes

Description

Investing can be a fun hobby, a lifelong pursuit of personal growth, or a do-it-yourself way of saving for your retirement. But no matter which way you look at it, there are valuable lessons to be learned along the way.

Unfortunately, for most investors, those mistakes come with a hefty price tag — one that many wish they didn’t have to endure.

Here are some examples of common investing pitfalls that you’ll want to avoid as you embark on your journey to become a successful investor.

Trading too much

They say the “perfect” investment is one you can make today and hold on to forever. In reality, that notion may seem a little farfetched, but the lesson is simple — avoid the temptation to “over trade.”

One factor that separates successful investors with established track records from those just starting out is that new investors tend to get “whipsawed” by the daily price action, or volatility, of the markets.

Know what you’re buying upfront and stick to the game plan.

Don’t overpay for growth

Another temptation that tends to befall many “newbie” investors is the allure of companies that hold promises of above-average growth potential.

And it’s easy to see why as a case can easily be made that **Shopify Inc** (TSX:SHOP)(NYSE:SHOP), which expanded sales by more than 72% last quarter, will “without a doubt” be some magnitude larger in five, or even ten years.

Yet, the stock market is a future discounting mechanism and while this sounds like jargon – and is – the point is that in most cases, the future growth of a company is already accounted for in the price you are paying for the shares today.

Avoid value traps

If overpaying for growth is the “tragic flaw” of growth investing; succumbing to “value traps” is the complement to that.

Stocks such as **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) seem to offer hard-to-pass-up value with low price-to-earnings (P/E) multiples; if only it were that easy.

There are no “free lunches” in investing. If a stock has an exceptionally low P/E multiple, odds are, there is probably good reason behind it.

Paying too much attention to dividend yield

Investing in dividend-paying stocks is certainly one of the tenants of a successful investing strategy, yet oftentimes investors will place undue focus on the “yield” a prospective stock is paying out of current earnings.

Today, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) shares trade at a yield of 5.25%, which is historically high for the company, yet the higher yield fails to account for reduced growth prospects at the firm.

Retirees or income investors may be willing to sacrifice future growth for income today, but those investing over the long haul will want to seek a balance of yield and growth in their dividend stocks.

Know when to sell

If you’re going to have a successful career in investing, you’re going need to a have a little help from Lady Luck along the way. But it’s true what they say: “Luck is preparation meeting opportunity.”

The best thing you can do is have a well-laid-out game plan before you decide to purchase shares in a company. This includes having a target price in mind that you intend to sell the shares at when they hit that price. You don’t need to set your target price in stone; acknowledge that circumstances often change.

But having a game plan will undoubtedly prove its worth when it comes time to part ways with your shares and move on to the next thing and will help to remove any emotional biases.

Bottom line

These are but a few of the lessons that will help you navigate the stock market in the early years.

Hopefully, Foolish investors will be wise and heed the advice of these five tips and use the savings from their “traders’ tuition” to put instead towards their next stock purchase.

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Date
2025/07/27
Date Created
2017/12/04
Author
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