



## Beginners Beware: Avoid These Types of Stocks Like the Bubonic Plague

### Description

There are countless number of benefits to being a do-it-yourself investor.

Not only will you save a ton of money in management fees versus a mutual fund, but you'd be improving your personal financial literacy and gaining the ability to crush the markets (something few professionals can do) since nobody is breathing down your neck for consistent (and often implausible) market-beating results over the very short-term. And best of all, investing yourself can be fun! Rewards aside!

There are [major pitfalls](#) to be aware of, however. Especially if you're a new investor who's testing the investment waters without a guide. You're probably aware that there are many marvellous opportunities out there, but there are also a ton of value traps that could eat up your principal and spit you out, leaving you with a long-lasting bad taste for do-it-yourself investing.

If you get caught in these insidious plays, you may end up throwing the towel in on do-it-yourself investing for good, instead opting to go back to paying someone else to manage your investments for you.

There's nothing wrong with that, but as you're clearly interested in taking a proactive approach to managing your own money, it's in your best interest to stay in the game, as you'll have the ability to achieve outstanding long-term results over time as you gain more knowledge about which stocks are ripe to pick and which ones are poisonous. In this regard, choosing a stock selection is like picking wild mushrooms. If you don't have a guide, stick with the species that you know well or prepare to risk getting poisoned!

One insidious trend that's become prominent in Canada is the rise of televised conflict-of-interest-based penny stock promoters. You've probably seen or heard paid promotions on some pretty terrible penny stocks with essentially no fundamentals to back up the words of a promoter, often a CEO paying to pump up their own stock on television.

“It’s an incredible opportunity of a lifetime,” a CEO may claim in a televised ad as the TSXV ticker symbol is repeated to you ad nauseum.

If you looked up some of the stocks that are being pushed, you’ll find that most of the names are penny stocks that are lacking in coverage with zero credibility. In other words, they’re absolute rubbish, which may be a shell of a company that could be used to victimize vulnerable new investors to be on the losing end of a pump-and-dump scheme!

When it comes to such conflict-of-interest ridden promos, just say “No!”

Such firms could be pumping money into promoting their stocks to entice investors with “pie in the sky” forward-looking statements that may be very misleading to investors. Sure, there’s the occasional penny stock that could skyrocket, but there’s a high chance that you could be lured into a trap that’s set for inexperienced investors.

Of course, there are legitimate firms that offer investors a real opportunity like **Nutrien Ltd.** ([TSX:NTR](#))([NYSE:NTR](#)) that have paid for televised advertisements on BNN Bloomberg in order to shed light on the fact that the new company was formed under a recent merger of two well-known agricultural firms in **Potash Corp. of Saskatchewan** and **Agrium Inc.**

So, how does one differentiate rubbish from legitimate paid stock promotions?

It’s not easy and it’s not worthwhile.

Always look at full disclosures when it comes to micro-cap stocks being pushed to determine whether a conflict-of-interest scenario is playing out such that an analyst is incentivized (being paid by the underlying firm) to recommend something that they personally wouldn’t touch with a barge pole.

If you’ve got a penny stock and a promoter being paid by the underlying company to attract investor attention, be wary. Most such “opportunities” are not investment grade and will only serve as a ticking time bomb for your portfolio.

Should you be keen on owning high-upside [small-cap stocks](#), steer clear of televised stock promos on your favourite financial news channel. Such firms are paying up to inflate their own tires, so keep this in mind!

Stay hungry. Stay Foolish.

## CATEGORY

1. Investing
2. Stocks for Beginners

## TICKERS GLOBAL

1. NYSE:NTR (Nutrien)
2. TSX:NTR (Nutrien)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

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### **Author**

joefrenette

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