Stocks for Beginners: Avoid These 3 Costly Rookie Mistakes!

Description

For many, investing is a lifelong pursuit that can not only help to provide more control over the direction of their retirement planning, but also teach valuable lessons about the nature of human emotion and how we come to conclusions about the decisions that oftentimes have far-reaching effects on our lives.

Yet learning how to invest successfully in the stock market takes time, and history is littered with examples of investors that, had they paid more attention to these three simple rules, would have avoided paying the price of what is affectionately referred to as “trader’s tuition,” or the loss of capital that can, in some cases, take years to replace.

Rule #1: Don’t try to “time the market”

Perhaps ironically, almost all new investors are subject to over-estimating their own abilities when it comes to having success in the markets.

For whatever reason, whether it’s because they’ve been influenced by the stories of others who have become self-made millionaires overnight, or the allure of getting out of the dregs of the 9-5 work-week, many believe that they too can strike it rich in the markets and that it will almost be easy.

One of the by-products of this type of overconfidence is that many new investors believes they will have success in trying to “time the markets”– in other words, getting in at the bottom of the market and getting back out right at the peak of the cycle.

However, as many a seasoned investor will attest — even the great Warren Buffett — trying to time the market is a “mug’s game,” and temptation to do so should be avoided at all costs, irrespective of what others have told you.

Investors want to consider the merits of a dollar-cost-averaging strategy instead.

Diversify, diversify, diversify…

In the real estate markets, agents will tell you it’s all about “location, location, location.” In the stock market, a similar axiom would be to “diversify, diversify, diversify.”

When you’re new to the markets, you’re going to make some mistakes — there’s simply no avoiding that.

However, over-concentrating your “bets” in only a small handful of ideas or even a single sector will inevitably exacerbate any losses you suffer if things unexpectedly go wrong.

When you’re just starting out, look to build your portfolio around high-quality companies that you can be sure will still be around in 10 or even 50 years.

Don’t “chase” the crowd

The stock market is, of course, infamous for its erratic “herd behaviour.”

The latest example of this is the hysteria around marijuana stocks today.

If you live in Canada, by now you’ve probably heard countless stories from friends or family members who have doubled, tripled, or quadrupled their money (or more!) thanks to being one of the early investors of companies like **Canopy Growth** (TSX:WEED)(NYSE:CGC).

But if it gets to point where your cab driver (no offence, cabbies!) is giving you tips on the latest hot pot stock, it might be time to pump the brakes and re-consider if maybe that opportunity might have already passed you by.

Fool’s with the benefit of short memories may have already forgotten how “crypto-mania” took the markets by storm a little under a year ago — at exactly the same time that the market reached its peak valuations.

Stay smart. Stay hungry. Stay Foolish.

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