2 Things All Investors Should Do (And 2 to Avoid!)

Description

Investing can be as risky or as safe as you want it to be. Ultimately, it comes down to your own particular strategy, which will determine whether you'll be successful or not. However, there are a couple of ways that you can protect yourself, minimize your overall risk, and maximize your overall returns. I'll go over those items below as well as two things to avoid.

Use multiples

Buying a stock because it's popular or because it is rising in value can be risky, and that's why using multiples can help ground you and guide you on what to buy. Whether it is price-to-earnings (P/E), price-to-book (P/B) or even price-to-sales (P/S), there are many options to help you gauge the relative appeal of a stock.

In the case of a stock like **Shopify**, which doesn't have any earnings, you won't be able to use P/E, but you can look at P/B and even P/S. Whether you think Shopify is worth a P/S ratio of more than 40 is up to you, but, at the very least, it gives you a chance to compare it against similar stocks and even look at what Shopify has typically traded at in the past. Ultimately, it gives you a reference point you can use in your analysis of whether to buy the stock or not.

Use a TFSA

A TFSA is one of the most useful tools that Canadians have for saving money. Since it can help you avoid paying taxes on both capital appreciation and dividend income, there's some serious savings potential there, especially if you can get it up to $1,000,000. Whether you choose to put Shopify shares in there or a dividend stock doesn't matter, since the income earned there will be tax-free as long as it's an eligible investment (e.g., it's on a major exchange).

In addition to doing the above, investors may be better off avoiding the following…

Trading too often

Not only will too much trading possibly make the Canada Revenue Agency (CRA) believe that you're a day trader and that any income you earn is fully taxable, whether it's in a TFSA or not, you'll also incur a lot of commission fees along the way.

You also expose yourself to a lot more risk. A buy-and-hold strategy can be a much safer approach, since you avoid the temptation of selling as soon as things go badly, potentially missing out on a rally that takes place later. Patience is important to have when it comes to investing, and being overly aggressive can do a lot of harm to your portfolio.

Giving too much importance to 52-week highs and lows

Just because a stock is trading at a 52-week low doesn't mean it is a good buy, nor does it trading at a high mean that it's a bad buy. These are moving averages, and even if a stock is at its 52-week low, a new one could be made the next day and the weeks and months after that. In Shopify's case, we've seen the stock continue to soar to new 52-week highs throughout the year.

Stocks trading near their highs or lows can help get your attention to do a further analysis to see why they're at those levels, but that's all they should encourage you to do. After all, there's no force of gravity that is going to pull a stock down from a 52-week high or do the opposite for one trading at a low.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Tech Stocks

Tags

1. Editor's Choice

Date
2025/08/26
Date Created
2019/08/29
Author
djagielski