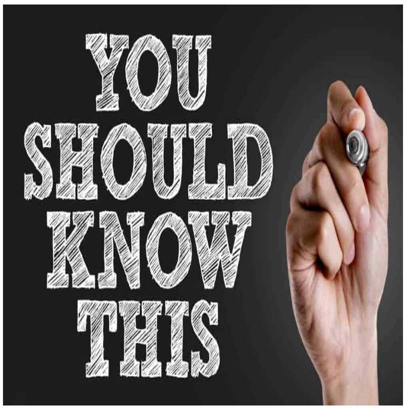

Stock Market Losses Are Your Winning Lottery Ticket

Description

The prospect of losing money in the stock market is terrifying, especially for those who don’t have a lot of savings. This year, I imagine there were many investors who did not walk away with a winning lottery ticket for retirement. That’s okay because these lucky people took away something even more important: knowledge.

It’s easy to focus on losses when you feel something negative has happened in your life. While it may seem like a platitude to say that every cloud has a silver lining, there’s truth to this adage. The knowledge you gain from loss can be even more valuable than anything you could have gained.

We all want to snap our fingers and have the world deliver to us blessings in all abundance. In the real world, however, we have to work for what we have. If anything, that’s a gift!

Take pride in the fact that the world is a giant school in which you can learn and improve yourself. If you lost money in the stock market this year, make a list of everything you learned. Rather than wishing you had done anything differently in the past, take note of how you will implement those lessons into your life in the future.

Lesson 1: Focus on winning stocks during a crash

Notice how there were winners after the initial March 2020 market sell-off. Technology stocks surged to almost unbelievable price-to-earnings ratios. These valuations might not even be sustainable yet the rally continues.

The lesson here is to not allow the overall market to control your investing behaviour. Even when the indexes are quickly falling, you can still identify stocks that might benefit from the current economic environment. In the case of the pandemic, the winners were technology.

So, when the next crisis happens, take inventory of what is actually going on and ask what stocksmight do well in the new playing field. If you aren't sure, do some research online and see if anyoneelse has a good argument for why a particular sector might succeed despite the chaos.

Lesson 2: Adopt a long-term mindset

Investing in the stock market is a long-term game that is best achieved through dollar-cost averaging. Thus, it is best to spread out your purchases in a stock over time to capture price differences across trading days. The trick is to not get carried away by unrealistic pessimism or optimism.

Be realistic with your investments and buy stock in stable companies that are going to be in existence when you retire. While it is okay to invest in up-and-coming players in a particular industry, be conservative with these bets. There's a difference between gambling and investing.

The next time you purchase shares in a company in the stock market. Ask yourself if you are gambling or investing. Take note of your feelings and ensure that your emotions aren't guiding the decision.

Lesson 3: Avoid stock market bubbles

I'm worried about the surge in stock market value in technology stocks. I don't want to be the greater fool when the market corrects itself and the losers become the winners. That likely means that today's winners will become the losers.

Then again, who's to say that **Tesla** can't sustain a PE ratio of 1,038.03 or the $164.24 billion **Shopify** market capitalization isn't unreasonable. These companies might be perfectly valued on the stock market today.

That's why it is important to maintain a diversified portfolio. Don't throw all your cash into technology or any other industry. Spread out your investments wisely.

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