3 Qualities That Help a Fool Beat the Stock Market

Description

The equity world can be intimidating with all those technical and fundamental analyses, numbers, and jargon. But as Peter Lynch said, “Behind every stock is a company. Find out what it’s doing.” Once you do that, the rest is market noise. In this article, I will take you through three qualities of a Fool that can help you beat the stock market.

Stock market decline: It’s normal and nothing to panic about

Many new investors enter stocks to make quick money. Sometimes they panic, book losses, and then leave the market, calling it a gamble. This happens because they enter the market thinking stocks are lottery tickets. Their friends doubled their money, so they think they can. The truth is, stocks are not lottery tickets but investments in a business. Every business faces ups and downs.

It’s important to set realistic expectations. No one can time the market, but some get lucky with their first-time bets. For instance, those who’d bought **Hive Blockchain Technologies** (TSXV:HIVE) in early 2020 saw their $1,000 become $30,000 in 18 months. John purchased the stock in February after looking at his friend’s portfolio. But his $1,000 became $575, because John invested in the stock without understanding Hive’s business.

Remember, stocks decline. It’s the way the stock market works. Hive is a cyclical stock, and earns its revenue from mining cryptocurrencies like Bitcoin and Ethereum. Bitcoin was in a cyclical upturn in February, as Elon Musk said that **Tesla** is considering accepting payments in Bitcoin. But a regulatory crackdown pulled BTC’s price down, and Hive’s stock fell over 40%.

But Hive is exploring new applications for blockchain technology. Moreover, many country’s regulators are gradually opening up to the idea of BTC. It will take time to build an ecosystem for crypto, as a global currency is the need of the digital world. Hive is an old player in blockchain and has a strong BTC reserve. If you learn this, you will be ready for the dip and won’t panic. Instead, you will buy the stock at the dip, hoping to make money in the next crypto cycle in three to five years.

Skim stock recommendations carefully to build a diversified portfolio

When you buy a stock, know its business. Here's an example of what I mean: when you hire an employee, you check their background, skill set, strengths, and weaknesses. A company needs a technical person, an accountant, and an operations person. A diversified skill set is what sets the company running. Not all employees are the best at their work, and some are even misfits.

Similarly, a portfolio needs diversified stocks with different skills. Some shares are good at growth, some at dividends, some are resilient, and some are future growth stocks. Skim through the stock recommendations and build a portfolio depending on your needs. For instance, a tech company will have more data scientists and fewer financial experts. Similarly, an investment bank will have more financial experts and fewer technical experts.

Analyze your needs and allocate your funds accordingly. A good dividend stock is **BCE** (TSX:BCE)(NYSE:BCE). This Canadian telecom giant earns regular cash flows from subscriptions and pays quarterly dividends. Don't expect much capital appreciation from this stock, as its skill is paying incremental dividends.

BCE has increased dividends at a compounded annual rate of 6.4% in the last 10 years. It is now accelerating its investment in broadband and 5G infrastructure to get more subscriptions and cash flow. This hints that BCE has the potential to grow its dividend per share in the coming years.

Invest regularly but don't invest all your savings in stocks

Once you have prepared yourself for investing, select the stocks and invest regularly. You can put in $500 a month in your Tax-Free Savings Account (TFSA) and buy the shares you have shortlisted. When the market dips, invest more in the shares of your choice to reduce your overall purchase cost. After all, profit is the selling price minus cost price.

Fool's advice

Don't panic when the stock dips, and don't buy when the stock is rallying significantly. This is how an efficient market should work, but markets are inefficient, and these inefficiencies are your window of opportunity to make a profit.

CATEGORY

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TICKERS GLOBAL

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2. TSX:BCE (BCE Inc.)
3. TSXV:HIVE (Hive Blockchain Technologies)

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