



A Beginners Guide to Investing in TSX Stocks

Description

A stock market is a place where you can double or triple your money or reduce your savings to negative. The one who experiences early profits becomes over-confident and makes short-term bets, thereby losing money. The one who experiences losses exits the market, calling it a gamble. To [begin investing](#) in the stock market, you need to know how it works. You need to set the right expectation with the right share. Once you know the basics, you will realize that it is hard to lose money in shares if you stay invested in the right ones.

How the stock market works

By definition, a stock is a share in the ownership of the company. You can get the value of the company by adding up the stock price of all outstanding shares. A company issues equity shares to raise capital for its future endeavours. These stocks then trade on the stock exchange. The share price is affected by any news that affects the company's business and future earnings potential.

Famous investor Peter Lynch stated, "Behind every stock is a company. Find out what it's doing." Once you understand the company, its management, growth strategy, addressable market, and risk, you will know what the stock has to offer. I see many investors buy the stock because it is rising. They never ask why it is growing and what is the company's business. That is the biggest mistake most new investors make.

There is another quote of Peter Lynch that goes, "Know what you own and know why you own it." That is all it takes to do the much-hyped word called "research." You can even research the share by reading Motley Fool Canada articles. They tell you the company's business, risks and opportunities, and answer the most important question: *why?*

Beginners guide to stock picking

Now that you know how to research a stock, the next thing is where to begin. Which shares to choose? For that, you can start with the list of top stocks to buy. Here you can skim through the list and invest in companies that you are familiar with.

For instance, you are planning a vacation this winter and have booked an **Air Canada** ([TSX:AC](#)) flight. There are many others like you who are flying. This is a hint that demand for air travel has picking up. You have shelled out ticket money, which is revenue for Air Canada. The airline deducts all its expenses like airport fees, fuel, salaries, maintenance. What's left? The profits.

All of these expenses will be paid off as the airline fills more seats. The more planes it flies, especially business class, the better the airline business. That wasn't rocket science. Now the biggest problem with airlines is the capital intensive, which means profits are not high.

Don't expect AC to pay dividends because only companies with regular cash inflow can pay dividends. In the case of AC, it is a seasonal stock. The revenue is high during the holiday season as it sees an influx of seasonal travellers. If you know this, you would have not panicked when the stock fell 16% in the last two months. The stock could recover as travel restrictions ease. Its [earnings](#) paint a similar picture.

Food for thought

I just gave you a synopsis of how to understand a business. There are various types of shares, each with a different purpose. AC is a recovery stock, and all you can expect is an increase in share price. Then you have some high-growth stocks that benefit from revenue growth. These are the companies tapping a new market and looking to gain market share. It is a new company with enthusiastic management that aims to grow into a big company or an old company in the midst of a turnaround.

Then there are dividend, resilient, speculative, and [future growth stocks](#). We will cover each stock type in a separate article so that you don't get intimidated. Start investing and learn one stock at a time.

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