The 4 Biggest Mistakes New Investors Make (and How to Avoid Them)

Description

First off, congratulations. Choosing to invest money, whether for retirement or some future savings goal, is a big step. Done right, it can help you amass a tonne of wealth over a long period of time.

But that's the trick, right? It's investing money the right way. The stock market is notoriously volatile, and if you make the wrong moves, you can easily find your portfolio in the red.

While, lucky for you, millions — nay, billions — of investors have preceded you. They've made their first mistakes, and we can learn from their errors. If you want to start off on the right foot, here are four common investing mistakes you can avoid.

1. Investing in something you don't understand

When you look at Peter Lynch, Warren Buffett, Ronald Reed, and, indeed, the bulk of history's most successful investors, you'll see they built wealth on one simple idea: invest in companies you understand.

What does understanding a company look like? Well, among other things, choosing a company wisely involves answering the following questions:

- What products and services does the company sell?
- How does the company make money? (What's its business model?)
- What competitive advantages does a company have?
- What market sector does the company fall into?
- What's its competition like?
- Will the company be around in 10, 15, 20 years?

In addition to these questions, you should also use valuation metrics to analyze a company's stock. These metrics help you go below the surface price, helping you see if a stock is overvalued, undervalued, or valued just right.

2. Trying to time the market

On the surface, “timing the market” seems like common sense. Buy shares when they’re low and sell them when prices go up. How could you go wrong with that?

Well, it turns out, timing the market is much easier said than done. For one, you’ll never know how the market will sway, whether it will go up or down, and just when you think you have it figured out, something will upset your expectations. Secondly, even if you *do* successfully time the market, there’s no guarantee that you’ll do it again.

Instead of timing the market, try dollar-cost averaging. With this strategy, you invest a fixed amount of money over a certain period of time. For instance, if you get paid biweekly, you could choose to invest $200 every two weeks. The idea is that you invest equal amounts at regular intervals — no matter what happens in the stock market.

3. Failing to diversify

When it comes to investing, having more than one stock (or asset) in your portfolio is crucial to managing risk. The more companies, industries, and assets you invest in, the less likely a market crash will crack your nest egg.

If you’d rather not spend gobs of time handpicking stocks, you can always buy shares of an exchange-traded fund (ETF). An ETF is basically a basket of different investments (such as stocks), which track an index of the market. For instance, you could buy shares of an ETF that tracks the TSX, or you could buy shares in an ETF that tracks a set of tech stocks.

These funds are ideal for beginners, because they come with built-in diversification. With the purchase of one share, you’ll automatically spread your money across multiple companies, which can save you time. ETFs are typically more affordable than their more actively managed rival, the mutual fund, and over the long run, they often outperform mutual funds, too.

4. Picking the wrong brokerage

Finally, be sure you shop around for the right brokerage. You want to find a broker who will charge low transaction fees, who has great customer service, and who will trade the securities you want to trade. For instance, if you’d like to trade cryptocurrency sometime in the future, be sure to find a broker who will conduct those trades on your behalf, as not all do.

Canada has some of the best brokerages around, so it shouldn’t be too difficult to find one that’s the right fit for you. Compare the fees among different brokers and make a choice based on what you expect to trade.

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