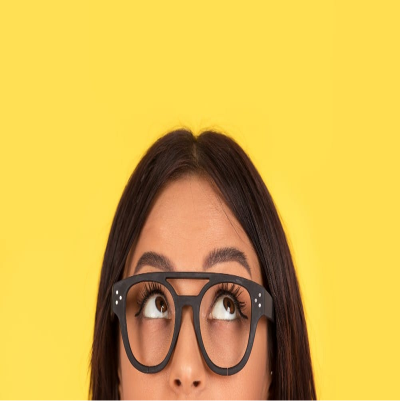

The Biggest Newbie Mistakes a Stock Investor Can Make (and How to Avoid Them)

Description

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Everyone makes mistakes, true. But when it comes to investing, mistakes can be costly. Buy a bad stock, for instance, and it will come back to haunt you. Or sell off a great stock under the banner of "market timing," and you could kick yourself later when the stock's price grows.

So, to help you get off on the right foot, here are five common newbie mistakes you should avoid at all costs.

1. Chasing short-term gains

Stocks aren't a "get-rich-quick" scheme. They're not the lottery, nor are they a game show that rewards you with a metal suitcase of cash if you win. Building wealth through the stock market can take years — decades, in fact — and you may not see significant gains until you've invested a hefty sum of money.

That said, investors have gotten rich off a handful of stocks. But it's not by any means common. You're better off investing in stocks for the long run, as you're more likely to see higher returns when you invest your money over long periods of time.

2. Not diversifying enough

Perhaps the most disastrous mistake an investor can make is creating an investment portfolio that isn't diversified enough.

With a well-diversified portfolio, you have stocks in a broad range of industries (and countries, too). The idea is that by spreading your money across many different industries, you can limit your downside if a market crash hurts a specific part of the economy. The last two years of pandemic-induced economic slowdowns, for instance, affected retail stores heavily, while some tech companies, such as **Shopify**, thrived. With a diversified portfolio, one that isn't all invested in retailers, you could have used the earnings from your tech stocks to tamper the losses from retail stocks.

If you don't have a lot of money to invest with, try an exchange-traded fund (ETF). Like other funds, ETFs are baskets of different stocks. When you buy a share of an ETF, you automatically spread your money across different companies, helping you diversify instantly. The fees on ETFs are relatively low, too — much less expensive than mutual funds.

3. Trying to time the market

Another fairly hollow investing strategy is market timing — buying and selling stocks based on whether you think the stocks will go up or down.

It's easy to get wrapped into this strategy. After all, it seems like common sense: you buy stocks on their worst days and sell them on their best. What could possibly go wrong?

A lot, actually. For one, no one knows where the stock market will go — not your favourite financial guru, not your financial advisor, not even Reddit. You may think a stock has hit its highest price, only to find out you sold too early, and the stock was hitting unbelievable highs. The same goes for buying when the price is "low." You could buy a stock when it's at historically low prices, only to see the price go lower and lower and lower, with no signs of going higher.

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4. Knowing when "enough is enough"

A common newbie mistake is to stubbornly hold on to a bad stock, even when a rebound is nowhere in sight.

Imagine this. Two months ago, you bought $1,000 of a company's stock, and now the stock is worth only $700. The company is going through some inner turmoil, and you're thinking about jumping ship. But you don't want to lock in your $300 loss, so you hold on and wait.

If you've lost confidence in the stock, you should trust your valuation and sell your shares. You can take your $700 and buy stock in a company with a more lucrative future, hopefully helping you earn back your losses, plus some.

But be careful here. You don't want to sell stocks just because you lose money. Perfectly great stocks can lose value in a single day. If the company still has potential, then the stock may not be bad. I'd only sell stocks if you're sure the company is no longer worth your investment.

5. Paying high fees to your broker

Finally, be sure you're not overspending on broker fees or commissions. While broker fees may seem small at first sight, they can add up over time. Many of Canada's best online brokers will charge low fees (or none at all). If you're overpaying on fees right now, consider switching to one of these. Less money that you pay to your broker means more money to invest.

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