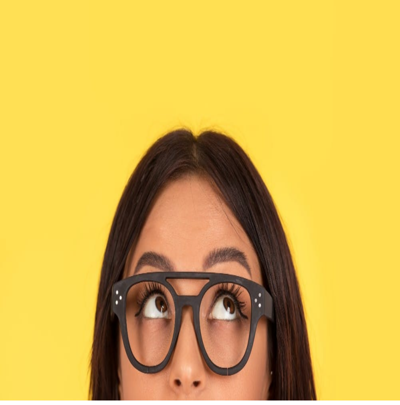

New Investors: Stock Investing Do’s and Don’ts

Description

Are you just starting investing? If so, here are some concepts to give you some general ideas about this fun activity.

Have a stock investing plan

Stocking investing can be exciting and fun, but don’t just jump into it. You should have at least a basic idea of what stock investing is about. By owning shares of a company, you are a part-owner in a business. If the business does well and earns greater profits, the underlying stock should also do well over time. On the contrary, if the business does poorly, such as during recessions, the underlying stock is bound to drop as well. Not knowing the nature of the businesses you own can lead to poor investment decisions, such as buying and selling at the wrong time.

> “If you fail to plan, you are planning to fail.”
> *Benjamin Franklin*

Your stock investing plan need not contain every little detail, but it should, at the very least, give you guidance and provide some answers to the following questions.

What are you saving and investing for? What’s your (monetary) investment goal? How much are you saving per month? What investment return are you aiming for to get there?

Let’s say you’re saving $30,000 for a 10% down payment. If you’re starting from scratch and saving and investing $800 per month for annualized returns of 7%, you’ll arrive at $30.863 in three years. The longer your investment horizon, the better because we never know when we’ll face a stock market crash. Typically, your investment horizon should be at least three years if you’re putting money in the stock market.

Know the valuation of stocks

Don’t pay any price for stocks! Other than the business doing well, the valuation you pay for a stock also plays a core role in the total returns of your investment. Some businesses, like **Magna International**, are subject to economic cycles. They would typically do well in an expanding economy. On the contrary, in a recession, they would typically be more devastated than the general stock market.

The most common way of checking the valuation of a stock is by looking at its price-to-earnings ratio (P/E) and comparing it to its historical P/E. You can also compare the P/E of similar companies. Typically, the low P/E of a stock suggests it’s cheap.

Alternatively, you can also use 12-month analyst consensus price targets as guidance. For example, Yahoo Finance provides this 12-month price target. You can aim to buy stocks on your watch list at a discount of at least 20% from the price target to get a better margin of safety.

Prepare for market corrections

Don’t buy and forget stocks in your portfolio. Prepare for market corrections psychologically and have a plan on what to do when that happens. If you picked your stocks correctly, the best thing to do is probably to hold through market volatility and buy more shares during market corrections. Write at least a paragraph in your stock investing plan on what to do during market corrections to give you some guidance when it actually occurs.

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