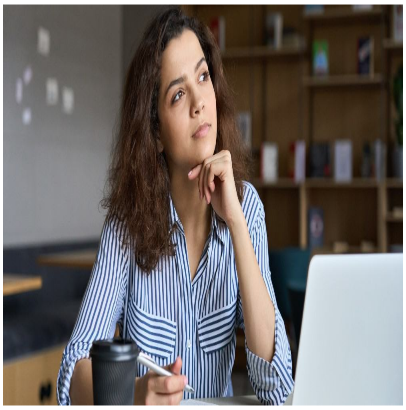

How to Invest in Stocks … Even if You Have No Idea Where to Begin

Description

Once reserved for the rich and well connected, stock investing is now easily the most common way for average Canadians to build wealth over long periods of time.

That's a comforting thought, especially if you don't make six figures a year. But here's a scary thought: how much (or how little) you earn on stocks depends entirely on what you choose to invest in — and what you choose to ignore.

Don't let that psyche you out. Being a successful stock investor boils down to understanding the stock market, learning to choose stocks wisely, and asking yourself fundamental questions at the get-go that help you start out on the right foot.

In regards to the latter, here are three questions that will help you start investing in stocks (yes, even if you have no idea where to begin).

1. How much time do you have?

First, let's decide how involved you'd like to be in your investments. You can take two routes here: passive or active investing.

An active investor is in complete control of their stock portfolio. They choose their own stocks. They balance and rebalance their holdings. They analyze the market, stay on top of news, research, read, and make choices based on what they know. It's tough work. But hey — if you've got the time and desire, it can pay off.

Not everyone wants to spend their Saturdays reading financial statements, however. And you don't have to. You can be a passive investor.

In the days of yore, passive investing basically meant entrusting your money to a financial advisor, someone who chose stocks for you. These days, you can buy shares in an ETF or index fund, or even entrust your portfolio to a robo-advisor. Don't be mistaken: passive investors can still build wealth.

They're just less likely to choose stocks that result in superior returns.

Whatever style fits your flavour, keep a long-term focus. Buy stocks you believe will be successful in five, 10, or even 15 years. One day, when you're more experienced and have money to play with, you could try advanced short-term strategies. For now, let's fill your portfolio with quality stocks that you're proud to own for the long term.

2. How much money do you have?

Contrary to what most people think, you don't need a tonne of cash to start investing. That said, you do need *some* cash. And how much cash you have could decide what investing approach you take.

For those with little cash to spare, you can buy fractional shares in stocks. But you might have trouble diversifying them (buying enough to reduce market risks). On top of that, you can get bogged down in trading fees or broker commissions.

One way around these problems is to buy shares in an ETF. An ETF is a basket of stock, meaning one share spreads your money across numerous companies. The fees are typically low, and you almost never need a minimum investment.

3. How much risk do you want to take on?

It's never easy losing money in the stock market. But how much (or how little) you're willing to lose is called your *risk tolerance.*

Those with a high risk tolerance are okay taking on high-risk stocks, such as micro-caps, small caps, and growth stocks. They might even engage in risky investing strategies, like day trading, buying on a margin, or short-selling (none of which I recommend). In short, investors with a high risk tolerance are okay taking on more risk if it means getting potentially higher returns.

On the opposite end of the spectrum are low-risk investors. Don't be mistaken: these aren't sheepish investors. They're simply less willing to risk losing money. They might buy more large caps or blue chips. Or they might buy ETFs and index funds, avoiding stock picking altogether.

Here's my suggestion: as a new stock investor, focus on building a portfolio that reduces market risks and maximizes returns. That might mean combining stocks with other assets, such as bonds. It will definitely involve diversification. Find a balance between high-risk investments and low-risk ones, and don't feel tempted to chase short gains through risky investment strategies.

Remember: more money doesn't make more money. *Smart* money makes money.

How to start investing in stocks

Practically speaking, the first step to stock investing is to open an account with a broker. Eager as you may be to start, don't rush this step. Look for a broker who charges low trading fees, offers free educational material, and has an app or website that's easy to navigate. This is a huge step for you: take a moment to look at the best online brokerages in Canada, and find one that fits your goals.

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