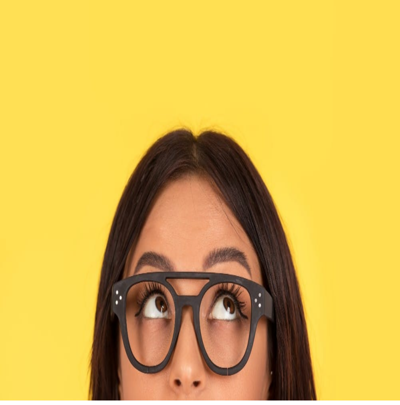

New to Investing? Be Sure You Avoid These 5 Newbie Mistakes

Description

Ever since the COVID-19 pandemic locked us in our homes and left us with very little to do — besides scrolling Instagram and watching **Netflix** — a new digital trend has emerged in Canada: self-directed investing.

Yes, according to a survey by **RBC**, nearly 48% of new investors started investing during the pandemic. And these new investors are surprisingly responsible, too. Around 77% said they take their time when making investing decisions, and 87% said investments were a part of their long-term savings goals.

That said, there are still *plenty* of mistakes new investors can make, and not all of them are easy to avoid when you're just starting out. If you're new to investing, here are five big mistakes you should watch out for.

1. Trying to time the market

On the surface, "timing the market" seems like common sense. Buy shares when the prices are low, then sell them when prices are high. What could go wrong with that?

Actually, a lot. For one, no one knows *when* to time the market — not your favourite financial guru; not your financial advisor; not even Reddit (*gasp*!). You may think a stock has hit its highest price, only to find out later it was only just getting started, and you sold too early. Or you may think you're buying at a historically low price, only to see the price go lower and lower with no signs of going higher.

Even if you *do* successfully time the market, there's no guarantee that you'll do it again — at least enough times to make your gains worth the effort.

Instead of timing the market, I recommend 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 couldchoose to invest $500 every two weeks. The idea is that you invest equal amounts at regular intervals— no matter what happens in the overall market.

2. Not knowing when to give up a bad stock

On one end of the spectrum, we have timing the market. But on the far end we have another extreme: stubbornly holding bad stocks that have no chance at a rebound. Yes, some people just don't know when to sell a bad stock, even if the stock continues to lose them money.

Imagine this: two months ago, you bought $5,000 of a company's stock, and now the stock is worth only $1,000. The company is going through some inner turmoil, and you're thinking about jumping ship. But you don't want to lock in your $4,000 loss, so you hold on and wait. Over the next two years, your shares move up and down, and they end up with a value of $1,200. You're still waiting for that stock to go back to $5,000, even though the company just announced it was straddled in debt.

However, if you had sold at $1,000, you would have $1,000 to invest. You could pick any number of great stocks that could possibly double or triple or return five times your initial investment. In other words, by giving up a bad stock, you could make up for what you lost with a *good* stock, one that has potential to grow.

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.

3. Investing in companies you don't understand

When you look at Peter Lynch, Warren Buffett, Ronald Reed, and, indeed, nearly all 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 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.

4. Not diversifying enough

Another disastrous mistake is having an investment portfolio that's *too* homogenous — that is, having an investment portfolio with only one type of stock, industry, or even country.

Instead, aim to diversify your holdings with a broad range of industries and securities. The idea is that by spreading your money across many different sectors, 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 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'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) that tracks 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.

5. Paying high fees to your broker

Finally, be sure you shop around for the right brokerage, especially one that charges low transaction fees, has great customer service, and 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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