New to Investing? Here’s How to Not Lose Money

Description

Are you new to investing?

If so, you’ve stumbled into the game at just the right time. Stocks are down this year, and history shows that the best time to buy stocks is when they’re down. The lower the price you buy in at, the greater your ultimate return.

There are some caveats here though. While “buying low” works well for the entire stock market, it doesn’t always work so well for individual stocks. Sometimes companies go bankrupt and get delisted. When that happens, their shares are worth $0.

In this article, I’ll explore how to not lose money in the stock market, starting with the most important principle: diversification.

Principle #1: Diversification

Diversification is key to not losing money in the stock market. Diversification means buying many stocks instead of just one. You may have heard people like Warren Buffett and Charlie Munger talking about how diversification is overrated, but they’re talking to professional investors like themselves, not regular people. If you aren’t a financial expert, you need to diversify.

How do you diversify?

It’s simple.

You can diversify by buying index funds like **iShares S&P/TSX Composite Index Fund** (TSX:XIC). These funds have diversification built into them, so you don't need to figure out 50 or 100 good stocks to buy. XIC has 240 stocks, so it's more diversification than you'll ever get buying individual stocks. Additionally, XIC is super cheap, with a mere 0.04% annual management fee. So, you get to pocket a huge percentage of the returns earned by the fund. If you're just starting with investing, funds like XIC are great assets to begin researching.

But don't stop there!

There are many more assets you can add to your portfolio that can increase your diversification way beyond what you'd get with Canadian stocks. For example, you can get U.S. stocks through the **Vanguard S&P 500 Index Fund,** global stocks through the **Vanguard Total World Stock Market Fund**, and so much more. In the end, you can build a portfolio as diversified as you want.

Principle #2: Don't check prices

Once you've got a portfolio of ETFs established, it's time to move on to the mental game of investing. This is mostly about avoiding panic selling. When you first buy a stock, you might think you'll be a stoic Warren Buffett type who'll never get the jitters. But if you're checking your stock prices all the time, you're quite likely to succumb to panic selling.

So, after you have built up your portfolio of ETFs, the next step is to cut out the noise. Don't log in to your brokerage accounts every day. Don't check quotes on the internet (unless it's with the intention of buying). Once a week is more than enough times to check your ETF prices. Remember: you're buying the least-risky equity funds imaginable. It's most likely you'll survive a little stock market turbulence.

Foolish takeaway

How do you avoid losing money in the stock market? The answer is mainly by not trying to outperform. The main way people lose money in stocks is by trying to beat the market with long-shot, small-cap plays that are extremely risky. The second is by succumbing to the temptation to stress over prices. By investing in diversified ETFs and not paying attention to daily price fluctuations, you have a chance of making money in the long term.

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1. Investing
2. Stocks for Beginners

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