Investing in the Stock Market Could Turn Your $10,000 Into $100,000: Here's How

Description

Many people enter the stock market with unrealistic expectations. Some take very high risks to double their money in a month or two. Did you buy a stock just because everyone was talking about it and it'd earned your friend a fortune? If so, you are playing the stock market wrong.

If you invest in the stock market with the right expectation and strategy, you can convert $10,000 into $100,000. Here are three simple rules you can follow, no matter what the stock.

Never buy a stock trading closer to its 52-week high

Never buy a share near its 52-week high. If it is constantly beating its records, there is a high possibility of the stock being in a bubble. If you buy such a share, sell it at the first instance of bearishness without hesitation. It is like a ticking time bomb.

For instance, **Shopify** (TSX:SHOP) surged significantly during the pandemic. But it got caught in a bubble, as it kept making new highs. And now, **Suncor Energy** (TSX:SU) and other oil stocks are closer to their 52-week highs. When a stock behaves like this, wait, as a correction is likely.

When the stock falls, see if the reason you were bullish on the stock still exists. If it does, buy the stock at the dip. For instance, Warren Buffett sold all his airline shares in April 2020 because his thesis on the airline (optimized cost per seat that increases cash flows per flight) changed when the pandemic grounded all planes. Not all shares that fall are value buys. Some might be value traps.

Suncor share is near its peak, but it is not a good time to buy it, no matter how bullish you are. A recession will pull down oil demand. Buying the stock at its current price is like booking a loss, as Suncor does not have a cost advantage over Saudi Arabia and Russia. If Saudi Arabia increases its oil supply, Suncor stock could dip in days. You can buy Suncor stock in the next market correction when it falls below $40 per share.

Do not hesitate to book profits from time to time

While it is important not to buy a stock at its 52-week high, smart investors book partial or complete profits depending on their stance on the stock. For instance, let's say you were bullish for the long term on Shopify, and you bought its 50 shares before the pandemic. If the stock makes a new 52-week high, sell only a portion (five shares) of your holding. And if the stock keeps making new highs keep selling some shares. A good technique could be to divide your 50 shares into three segments:

- 25% to book short-term profits
- 25% to book medium-term profits
- 50% to hold for the long term

The percentage can be whatever you deem fit. Those who actively booked some profits during the pandemic highs remain unaffected by the 2022 tech stock meltdown.

I recommend small profit booking for Suncor while the stock trades near its cyclical high of $50. The stock cannot sustain the current trading price for long and will correct. You can book partial profits and invest it in a dividend stock near its 52-week lows. You can book inflated dividend yields and protect your portfolio from downside risk.

Diversify your money across sectors and asset classes

Amid this buying and selling, never forget to diversify your portfolio across sectors and asset classes. Ensure you have exposure to utility and bank sectors, as they are the foundation of any economy. Such stocks give regular dividends. Then you can branch out into some of Canada's hottest sectors — telecom, real estate, tech, and retail. Also, have a small exposure to gold stocks, as they act as safe havens when everything falls apart. Gold stocks surged significantly during the 2007 financial crisis and the recession in the 1990s.

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2. TSX:SU (Suncor Energy Inc.)

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