Millions of Investors Lose Money in Stocks: Don’t Be Them (Here’s How)

Description

Everyone comes into the stock market to make money, but according to a report from Finder, millions of Canadians are losing confidence in the stock market and are planning to cash out in 2022. Selling the dip and buying hyped stocks is why people lose money in stocks. This is not a time to sell but a time to buy stocks. Don’t make the mistake millions of Canadians are making.

How not to lose money in the stock market

Never buy a hyped stock trading near its 52-week high. Instead, diversify your portfolio across different sectors, asset classes, company sizes, and stock types. When choosing the stocks, look at three things:

- A large-cap stock that is a market leader in the sector
- A stock near its 52-week low or in the middle of the 52-week high and low range
- A stock that is either enjoying revenue growth or high-profit margins

Where should beginners begin with stocks?

I will tell you how to look at stocks before investing. For instance, Amy and Jack are college students beginning their investing journey. Amy is a conservative investor in the share market and is looking to grow money in the long term. Jack is an aggressive investor looking for short-term gains and is willing to risk losing a portion of his investment for a chance at higher returns.

Technology ETF

Amy can start by investing in a technology exchange-traded fund (ETF) like **iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT). The technology sector has undergone its biggest bubble burst since 2000, which pulled the XIT ETF down 44% to its pre-pandemic levels. The market will take time to absorb the blow and regain confidence in technology as an investment. But that won't stop companies from working on their long-term growth path. The secular growth trend of e-commerce, cloud, and artificial intelligence is here to stay. And Canadian tech companies like **Shopify** and **Constellation Software** are well placed to tap this secular growth.

The XIT ETF will give Amy exposure to the tech stock price momentum for less than $34 a unit and an annual management expense ratio of 0.61%. This ratio is expensive, but the tech ETF can give Amy double-digit growth while diversifying her risk. She can start with this ETF and gradually build a 15-20 stock portfolio that has dividends and growth and that's cyclical, speculative, and resilient.

Descartes stock

Jack can start by investing in a growth stock like **Descartes Systems** (TSX:DSG), which provides supply chain management and logistics solutions to a diverse client base. As a software business, it has low debt and growth depends on volumes, which means it needs more subscribers for its services to increase its profit. The supply chain issues and geopolitical tensions have slowed trade and pulled Descartes stock down.

But the company will be a beneficiary of the pent-up demand, as supply chain issues ease. The stock can give Jack double-digit growth in a healthy economy.

Why diversify your investment into gold stocks?

Jack and Amy have invested in growth stocks to make money. But they underperform in a macroeconomic crisis. They can mitigate this market risk by diversifying into asset classes and stocks that move in opposite directions. Gold stocks perform well in a macro crisis when the paper currency loses value, but they underperform in a growing economy. Hence, I recommend investing only 1-2% of your portfolio in gold stocks.

Barrick Gold (TSX:ABX) share price is down over 30% from its April high as the U.S. dollar is strengthening due to a surge in oil prices. How are they connected? After the Bretton Woods Agreement, the U.S. dollar replaced gold as a reserve for global central banks to print money. Hence, whenever the U.S. dollar falls gold price rises. The U.S. dollar rises in a strong economy. But it surged even in a weak 2022 economy because of the oil crisis. That is because all oil exports are settled in U.S. dollars.

Key takeaway

Buying shares that can grow in the long term at a dip is the right strategy. But you should also have exposure to other asset classes like gold, even if they underperform in the long term. Invest only a small amount in gold to hedge against inflation and crisis. Too much exposure to gold could put you on the losing end of a growing economy.

CATEGORY

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TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)
2. TSX:DSG (The Descartes Systems Group Inc)
3. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)

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