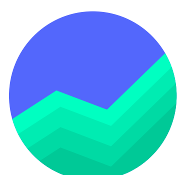
5 ~~mistakes~~ to avoid as a stock investor

Beginner edition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Investing with a trader mindset

If you are entering the market with the expectation of making quick gains within a few months, you may be disappointed. There are no quick gains in an equity market and profits take a long time to grow and accumulate. Analyze a company and if you truly believe in the potential of the company, don't relinquish the stocks due to short-term market volatility.

Buying based on recommendations

When it comes to stock investing, banking upon the advice of your friends and simply buying stocks that they bought is not the best way. This doesn't work because your risk profile and financial objectives may be starkly different from the other person. Soak in all the information and conduct your own due diligence about the company before you go ahead and invest.

#3

Emulating a successful stock investor's portfolio

This is one of the most common mistakes investors make—trying to copy the portfolio of a successful stock investor and invest in the same companies. This approach is faulty because of many reasons, one of which is that you probably don't have the complete information of their entry point or when they were bought or at what price they were bought.

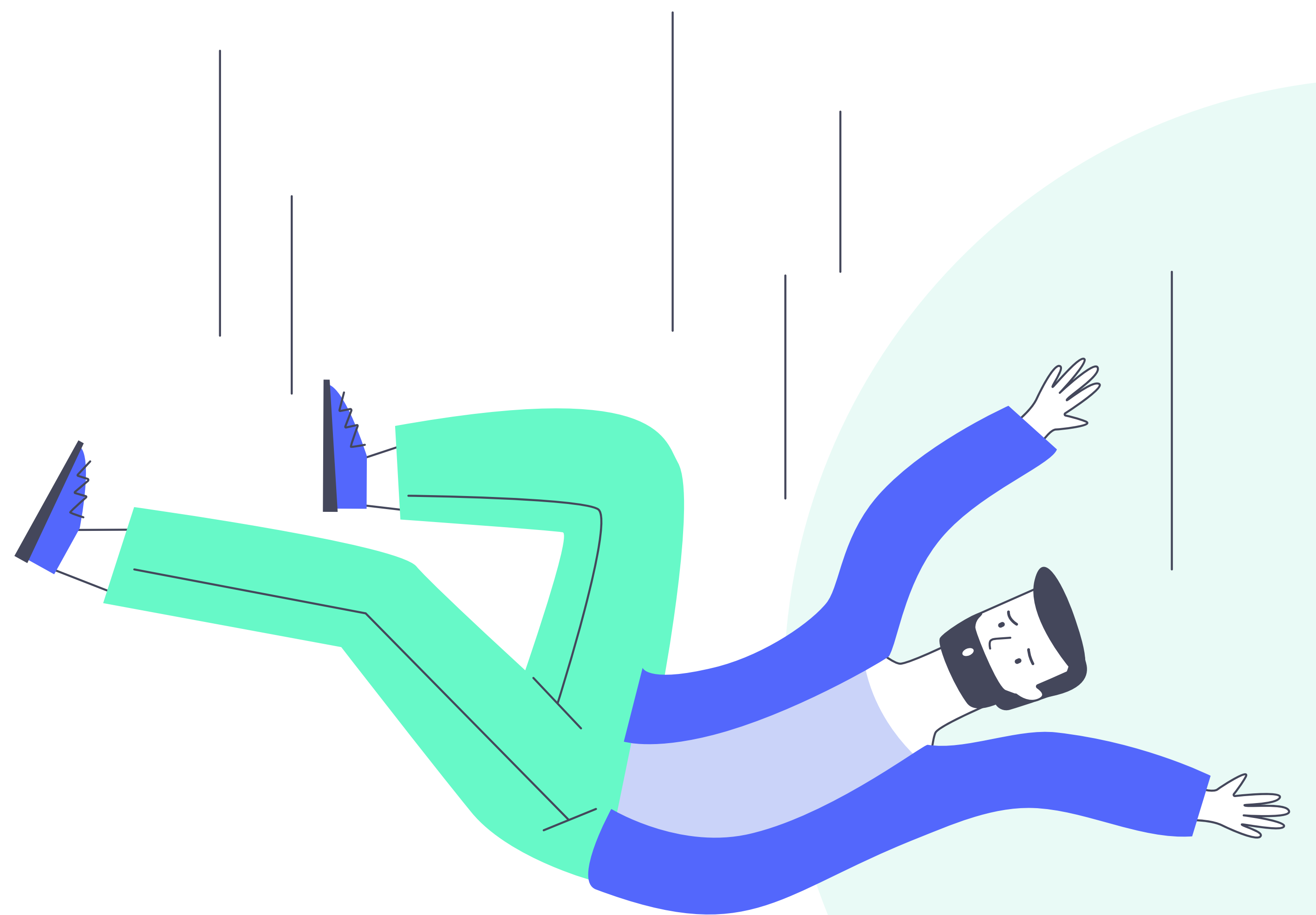
Not knowing when to sell

#4

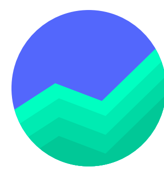
While it's good to stick to your guns when you have decided to invest in a company, a prudent investor also knows when to let go. Look out for obvious red flags such as sustained underperformance quarter-on-quarter, utilization of capacity going down, non-performing assets going up, sudden/abrupt exit of senior leadership, etc. In such a scenario, you may consider an exit.

Not diversifying enough

Another common mistake that investors make is to invest a large chunk of their capital in buying stocks of only one kind or of a single company and then incurring a loss when the portfolio goes down. Diversification spreads out your risk and makes sure that if some stocks are going down, others gain and nullify your loss. This way, your portfolio remains balanced.



Investing made easy.



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