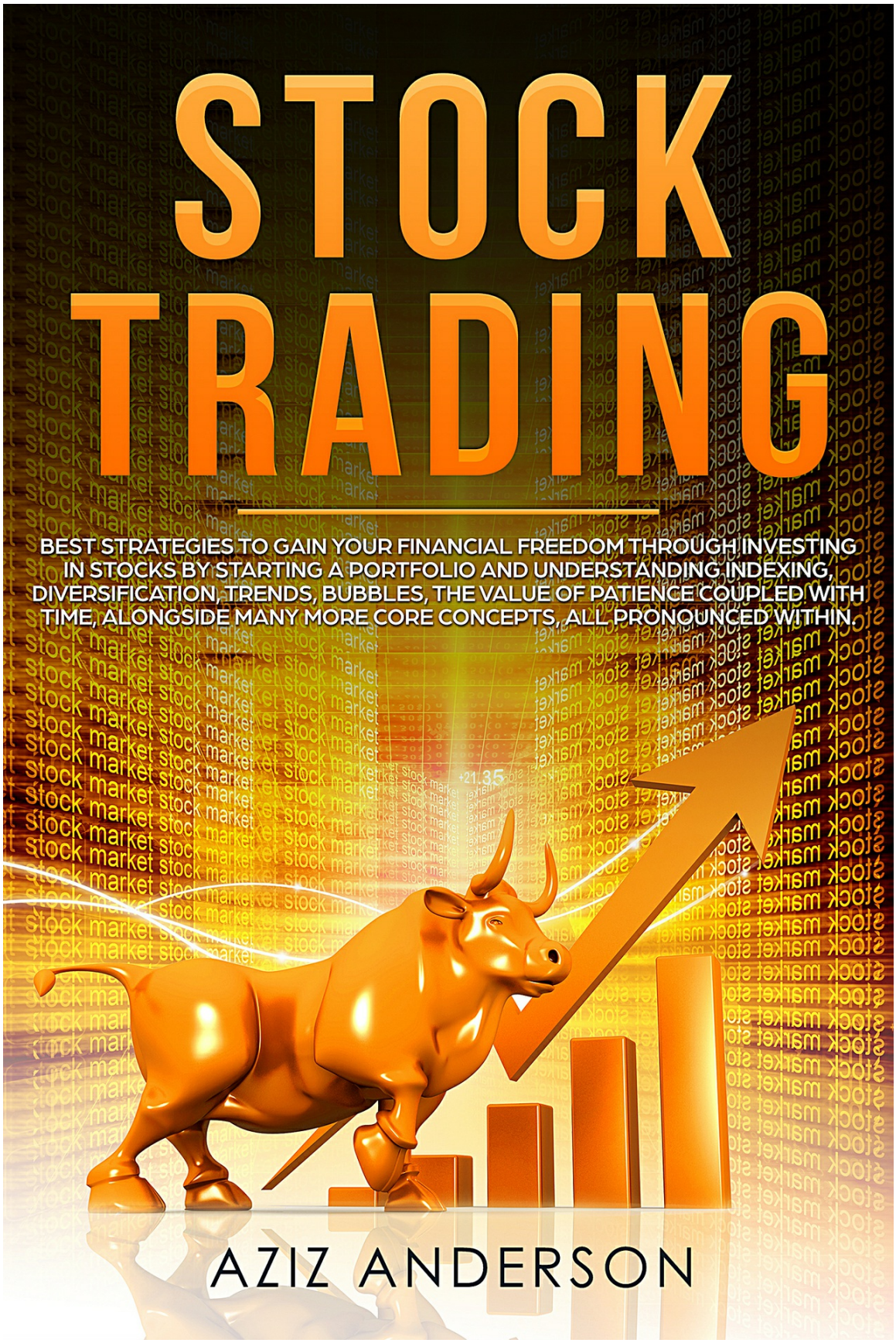
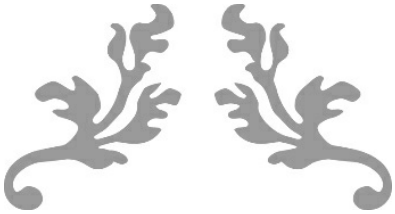
STOCK TRADING

BEST STRATEGIES TO GAIN YOUR FINANCIAL FREEDOM THROUGH INVESTING IN STOCKS BY STARTING A PORTFOLIO AND UNDERSTANDING INDEXING, DIVERSIFICATION, TRENDS, BUBBLES, THE VALUE OF PATIENCE COUPLED WITH TIME, ALONGSIDE MANY MORE CORE CONCEPTS, ALL PRONOUNCED WITHIN.



AZIZ ANDERSON


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STOCK TRADING STRATEGIES

Best strategies to gain your financial freedom through investing in stocks by starting a portfolio and understanding indexing, diversification, trends, bubbles, the value of patience coupled with time, alongside many more core concepts, all pronounced within.

2019



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ABOUT THIS BOOK

The investment jungle is a dangerous place where only the fittest survive and thrive. The average investor who tries to make a profit without the assistance of a professional or competent advisor or a financial manager is very often a reason for the installation. The big investment machines feed the merchant without mercy, who ventures so easily into the desert, defenceless and without a clue.

This book will help new investors find a place of refuge and knowledge that will give them the skills they require to survive and benefit from the brutal world of investment. Armed with the information, tools, skills, knowledge, techniques, and methods provided in this book, the new investor or small investor can compete with lions, often beating them at their own pace.

Stock Trading Strategies offers all investors, experienced or new to the market, powerful tools of success, all presented realistically, often humorous but always clear and concise.

In this book, you'll learn why stocks are the best investment asset among the many assets available and, most importantly, what they are, how the stock market works, and how to trade or invest wisely in stocks. And to help you do that, I also touched on the basics of the investment principles.

So, if you're ready, turn the page and start your new journey towards success!

CHAPTER 1 – BASIC PRINCIPLES OF INVESTING

To get a good grasp of what stock trading's all about, it's important to first get some basic investing principles down to pat. If you know the basics well, you'll more easily understand the nuances of investing or trading in stocks. Let's begin with the word investing.

If you were asked what investing is, how would you answer? The most basic - and accurate - definition is this: committing resources (in this case, financial resources) to a certain activity or endeavor with a reasonable expectation of a significant enough return or profit. In other words, investing makes it possible for you to earn a meaningful enough return on your financial assets or resources.

I've always looked at investments the same way I looked at gardening. To make plants in the garden blossom and grow, some need a lot of attention from the gardener (like orchids) while some hardly need any attention at all to grow and spread like wildfire (take weeds for example). When it comes to investments, some require a good amount of "attention" (or work) from you while some are like weeds that you can leave alone to grow by themselves.

WHY INVEST?

The most important reason for investing your money well is so that you'll be able to maximize your chances of achieving your life's most important goals, most of which will require money. Retiring in comfort, sending kids to college, moving into your own home, traveling around the world, staying in optimal health, being generous to the poor, putting up a business - all of those require money and investing wisely can help you achieve them.

But you may argue that you can do that simply by saving money. Unless you're earning a lot of money and can save a lot of money regularly, chances are the money you'll save up won't be enough for your financial goals. Why? Because of inflation or the general increase in the cost of living. An inflation rate of 5% means that, on average, the cost of living has risen by 5% in the last 12 months. And if you don't invest wisely, inflation can keep you from having enough funds for your future goals. How?

Let's say you're saving up for a brand-new home of your own, which right

now costs around $250,000. Further, let's say you plan to save up for it for the next ten years, which means you'll need to save at least $25,000 annually so you can buy your dream home after ten years. But if the average inflation rate is 5%, the $250,000 home you're gunning for would no longer be $250,000 after ten years.

But why should you have a sense of urgency to start investing now? The primary reason is the effect of time on returns on your investments, which is this:

Given the same amount of money to be invested, and the same rate of return, the longer the investment period, the higher the return.

If that one sounded kind of Yoda-ish, allow me to make it clearer through an example. Say you have $10,000 to invest today for the next two years. If the 10-year average rate of return on stock investments is 10%, then your potential return on the $10,000 would be $2,100. But let say you didn't feel now was the right time, and you waited for a year before investing in stocks, which leaves you with just one year to invest. At a 10% average or expected rate of return, your potential return on your $10,000 would only be $1,000.

Clear? Good.

CHAPTER 2 – STOCK

Stocks is just the nickname for "shares of stock" or equities, which represents units of ownership of a certain corporation. So, if you held even just ten shares out of the tens of millions of shares of Intel, Inc., you wouldn't be lying if you said you're one of the owners of Intel, Inc. Seriously, you are! The only issues left for discussion is how much of the company you own, which judging by having on ten shares isn't much. But still, you can have bragging rights.

There's a really good reason why corporations issue shares of stock to the general investing public. And that reason is to raise more capital. The other option is to borrow money, which puts companies under an obligation to pay back the money they borrowed at a specific time and with a specific interest rate. By raising capital through the issuance of shares of stock to the public, corporations aren't saddled with financial obligations and interest expenses. There are some advantages to borrowing money over issuing shares of stock, but for purposes of this book, those aren't relevant. I just wanted you to understand what stocks are from the perspective of both you as the investor and that of the issuing company.

TYPES OF STOCKS

There are two general types of stocks issued by corporations: common and preferred stocks. Let's start with the preferred stocks.

Preferred shares of stocks are - as the name implies - a kind of stock that has certain "privileges" over common shares. One is that in most cases, they're entitled to dividends every year. Another advantage is that in case of liquidation of the company, proceeds of the assets will first be distributed to preferred holders before common shareholders. But such privileges have a cost: voting rights.

In most companies, only common shareholders have the right to vote. That being said, common shareholders hold power in terms of appointing the board of directors of a company and voting on crucial matters that might affect the going concern of a company, such as a change in name, change in business, etc.

LISTED VS. UN-LISTED

Another way that shares of stocks are classified is being publicly listed. Stocks that are publicly listed can be bought and sold on major stock exchanges such as the NASDAQ in the United States and the New York Stock Exchange (NYSE). Un-listed shares of stocks are those that aren't traded in exchanges and can be very hard to transact in because you will have to personally look for buyers and sellers of a specific share of stock at the right price and your desired volume. So, for purposes of investing or trading in stocks, we will be referring to publicly listed shares of stock, i.e., those that are traded on major exchanges.

THE STOCK MARKET

When you hear the word market, what comes to your mind? The website businessdictionary.com defines the word as:

A nominal or actual place where forces of demand and supply functions, and where sellers and buyers interact (through intermediaries or directly) to trade goods, services, or instruments or contracts, for money or barter.

Markets include means or mechanisms for (1) determining the price of the traded goods, (2) facilitating deals and transactions, (3) communicating the price information, and (4) affecting distribution. The market for a particular good is made up of potential and existing customers who need it and have the willingness and ability to pay for it.

Thus, we can say that a stock market is a place where all buyers and sellers of publicly listed shares of stocks come together to buy and sell such stocks. It's also a place that has all the necessary infrastructure to make huge amounts of trades in a very fast and secure manner from just about anywhere in the world, whether on the actual physical location of the market or anywhere in the world via the Internet.

When we talk about the stock market, we're talking of specific stock exchanges, which are platforms or systems where shares of stocks are allowed to be traded regularly. Examples of stock exchanges include the New York Stock Exchange (NYSE) and the NASDAQ. Through their platforms, buyers and sellers of shares of stocks of many of the world's biggest companies can go to transact easily and securely.

HOW THE STOCK MARKET WORKS

Corporations that need to raise new capital for expansion to open themselves for investment by the general investing public. This means these corporations open their doors and let thousands or millions of new investors become part owners of the company in exchange for shares of stock of the company. And they do it through what's called as initial public offerings or IPOs, where they sell new shares of their stock to anybody eligible to do so. And once they go public, they list their shares on major stock exchanges like the NYSE and NASDAQ for fast, reliable, and safe facilitation of buying and selling transactions of their shares of stock.

Why are stock exchanges very important? First, they offer convenience in looking for and dealing with counterparties. Let me illustrate.

Let’s say you have 12 shares of Apple stock. You bought them at $100 per share, and now you want to sell them at a profit, probably $110 at the minimum. To be able to realize your profit, you'll need to find a buyer for your ten shares of Apple stock. In particular, you'll need to find a buyer who'll be willing to agree with you on two terms: the price you're asking for and the number of shares you're selling. If I ask you right now, do you have any people in mind that you think would want to buy the exact number of Apple shares at the price you want? If you're honest with me, you'd probably answer me with a resounding "no." If that were the case, you still have an option: post an ad - online or offline - hoping that someone would be interested enough to buy your shares. Even then, the odds of that happening exactly the way you want it to would be very low, and if ever you do find such a buyer, it would probably take days or even weeks. That's what happens when there are no stock exchanges.

The other option is, of course, the stock exchange on which Apple's shares are listed. You log on to your online account with a stockbroker through which you can directly access the stock market, which in the case of Apple, Inc. is NASDAQ. Once you're there, you can easily see how much buyers and sellers are willing to buy shares of Apple's stocks on the spot. When you look at the current quotes for Apple's shares (or any other listed share for that matter), you will see two sets of prices: bids and offers (or in some cases, also called "ask"). Bid prices - located on the left side - represent the top 3 prices at which investors are willing to buy Apple's shares and are arranged from the highest bid price to the 3rd highest one, with the number of shares investors are willing to buy. On the right side are the top 3 offers or ask prices, which

are the prices that current Apple shareholders are willing to sell their shares on the spot, with the number of shares shareholders are willing to sell. They're arranged from the lowest offer price to the 3rd lowest offer price. The best bid price is the highest price while the best offer price is the lowest offer price and the two are matched directly. If you want to buy shares immediately, you should buy at the best current offer price and if you want to sell immediately, sell at the best or highest current bid price.

Another important reason for trading through an exchange is fast, reliable, and secure payment for and delivery of traded stocks. An exchange's system facilitates the settlement, i.e., delivery of shares bought and remittance of proceeds of shares sold through its member brokers. Brokerage companies often require their clients to deposit a minimum amount of money to ensure payment to your counterparties when you buy. Brokerage companies also require you to have actual shares of stock lodged under your account before you can sell in the market through them to ensure delivery to the counterparties you sell to. Otherwise, they'll be penalized by the exchange, which they'll eventually pass on to you.

Lastly, exchanges are important because it allows both buyers and sellers to get the best possible price on their trades. Because exchanges allow all buyers and sellers to come together under one virtual roof virtually, everybody's aware of how much buyers and sellers are willing to transact. As a result of such transparency, competition becomes pretty stiff among buyers and sellers jostling to get their transactions done as soon as possible, resulting in the lowest possible buying prices and the highest possible selling prices. Without an exchange, it's possible to pay so much for a stock that you can buy at a much lower price or sell shares of stock at an absurdly low price than what you can sell them for because of lack of knowledge of who are willing to transact at the best possible prices.

Trading in stocks involves costs, which you'll need to factor into computing for your desire and actual investment returns. The primary cost involved is the commissions charged by stock brokerage companies through which you'll be able to transact in the exchanges of your choice. Commissions increase your purchase cost and reduce the proceeds from selling your stocks. Therefore, when computing for estimated returns or price targets, don't forget to factor commissions in your computations. $25,000 annually, you'd be short by at least $157,224! But if you invested the money you saved

at a substantially higher rate than inflation, then your money can grow enough to more than keep up with the annual increase in the average prices of homes.

THE BEST TIME TO START INVESTING

Yesterday is the worst time to start investing because it has already gone. Tomorrow is the next worst time to invest because, often, tomorrow never comes, and that leaves us with today!

HOW TO PLAY HIGH MOMENTUM STOCKS

Highly dynamic stocks are those that can grow very quickly in a short time. In most cases, these stocks may also fail unexpectedly and carry significant risks. However, when handled correctly, momentum can be a rewarding method to profit from the stock market.

Definition and risks

Stocks are like humans because they tend to have a relatively consistent specific arrangement. Some actions move slowly and steadily over time, while others move quickly uphill and collapse in difficult times. Stocks that move irregularly are considered very dynamic. Such actions can yield a lot of money, but the losses can also be huge.

In most cases, the business prospects of the issuing company are uncertain. Inventories of start-ups experiencing an untested business model or established businesses that are experiencing turbulence tend to be strongly up or down. Because of the inherent risks, you should only commit a small portion of your portfolio to these stocks.

Identify opportunities

There are two main ways to benefit from high-dynamic stocks. You can act quickly or identify a failed action that is about to recover. Momentum traders are looking for a large number of stocks and are looking more closely at stocks that have grown rapidly or lost much of their value in recent years, perhaps last week. When you choose stocks that have made rapid progress and can continue to do so because they have attracted many new interests, compare your recent results with historical trends. If this stock tends to decline after a 40% to 50% increase, for example and has reached nearly 40% in recent weeks, it may be too late to embark. When you're trying to catch up, move away from companies facing insurmountable problems such as debt

crises, legal problems, or major scandals.

Reduce your losses

If a momentary trade opposes you, leave. When trading high dynamics, it is especially important to close a losing position to limit the damage. Almost without exception, actions that can generate impressive jumps can fail at the same speed. The most effective way to reduce your losses is to use a stop loss. Before you buy an action, decide how much you will end the agony if the stock price falls and sets a mental limit on the date you want to sell the stock or place an order in your broker's database for automatic execution. Usually, a loss of about 20% is the maximum you should tolerate in any specific trading.

Know the Issuer

Although traders focus primarily on recent share price movements, it is essential to know what is causing them. Once you have identified an action as a potential impulse, study the business and understand the origin of upward or downward fluctuations before committing capital. Make sure the recent earnings are not due to an unfounded rumor or that a major ongoing problem did not cause the accident. After buying shares, keep a close eye on the headlines and feel free to sell if the news suggests an imminent change in the trend.

TREND FOLLOWING STRATEGY

Trend tracking strategies have been popularized over the years with many successes, decent long-term performance, and the ability to capture explosive moves without being an expert in all markets. In the trend of the 1990s, the following systems were sold as packaged products for thousands of dollars to investors seeking an advantage in the futures markets, and CTA's managed accounts were starting to gain ground.

Over the years, better trading software packages have evolved, and platforms such as Trading Blox, TradeStation, and TradersStudio have been created to help traders create and test all kinds of trends and systems ideas. This has given individual traders the power to create hedge fund portfolios without having to pay excessive management fees while allowing them to control the operations on their account better.

Today, trend tracking strategies are more popular than ever and are perhaps

the most widely used strategy in commodity futures and currency trading. Trend The following strategies offer a disciplined approach to entering and leaving the market, as well as eliminating the fear and greed of the equation, which can destroy a trader's account. Trend tracking strategies typically involve a predetermined amount of risk in each transaction and unlimited profit potential. The adage "reduce your losses and let your profits count" is what trend strategies follow. Such an approach may offer some interesting opportunities to take advantage of supply/demand imbalances that tend to surprise market participants.

Following trend strategies from the design stage will not choose a market peak or a market context. Trend The following strategies are designed to buy a rising market with the hope that it will continue to increase. On the other hand, a trend following the strategy will sell short in a market that expects to continue to depreciate. The ability to trade long and short positions provides an opportunity for trend trackers to take advantage of supply/demand imbalances in commodity trends that may persist for months or even years. Here is an example of a trend after cotton trading:

The gain/loss ratio for trend tracking strategies is quite low, but the ratio of earnings to loss tends to be quite high.

For this reason, strategies that follow trends require a lot of patience and discipline to master all trades and can be difficult for some traders to follow. Taking consecutive losses on a parallel market, waiting for the next big trend can be frustrating. Here's an example of a strategy for tracking trends in Sugar with failing to break a short circuit with exchanges, and then failing another long entry.

For the patient investor strategy, the following strategies can offer reasonable returns and the ability to participate in some major trends that can be overlooked. With a simple trend tracking strategy and a diversified basket of markets, traders can take advantage of market movements they would not normally follow, such as this palladium trade.

From there, we will use the dialogue between the successful trader and the beginner to explain the principles more easily.

- **B: I want to adopt the trend following method. How do I do it?**

ST: You must first choose to use fundamental or technical analysis for your method or a combination of both.

- **B: Do these methods differ?**

ST: Yes, fundamental analysis can provide information to predict the strength and duration of a trend, while technical analysis can show its evolution. It's possible to base your strategy on one by excluding the other, and you can still enjoy it if you're lucky, but our principle has always been to minimize the role of luck. Fundamental analysis is more profitable and reliable than technical analysis in defining a trend with long-term potential, but without technical analysis, it would not be easy to decide when and how to trade. Technical analysis may suggest the beginning of a trend, but it is unlikely to say much about its duration or strength. Therefore, I suggest that you use fundamental and technical methods for your trend tracking strategy, with key factors eliminating the erroneous signals of technical analysis and technical tools providing a delay for the determination of entry points.

- **B: How do I decide on the availability of a trend?**

ST: Many technical tools can signal the phenomenon, but they generate an equal number of false signals. Be aware that there are only three types of trends at once: simple, upward or downward, and you can talk about trends between two points in a price chart. Just take two random points on a graph, draw a moving average, and the pattern that appears can be analyzed as a trend. It is therefore always necessary to have at least a basic understanding of the economic factors which can create trends before deciding on the validity of a chart model.

- **B: And how do I do it?**

ST: Familiarize yourself with relevant things; understand what motivates market players; recognize the stage of the business cycle.

- **B: What kind of price model will create a trend?**

ST: The trend we are seeking to negotiate is different from random fluctuations, similar price movements, and range patterns, in that the price itself, in the absence of any technical indicator, can always be recognized as

indicating a trend. In other words, the price action allows the trader to identify it visually. Depending on the type of trend (upward or downward trend), successive ups and downs should be upward or downward with relatively few irregularities. But such a case is often rare, and the trader will have to support his technical standards with a conviction that can only be acquired through fundamental analysis.

- **B: If you can identify the trend visually, why use technical tools?**

ST: Even if we notice a trend, we still need technical tools to negotiate and program it.

- **B: Are you going to try to time the market? I was told that it never works.**

ST: Market timing never works when you're trying to predict turning points on a technical basis. However, the synchronization of the market in the context of a trend, to choose counter-trend extremes and use them to enter a business, is necessary and profitable. And that's where the basic premise of a trend following the strategy lies: recognizing the trend, identifying counter-trend movements and using them to enter a trend-oriented business.

- **B: In a way, then, you behave as a contrarian of the small-scale movement and a long-term trend follower**

ST: Yes, indeed, lies the soul and spirit of each profession. Using short-term, irrational market behavior to enter long-term positions positively aligned with fundamentals (or sometimes just the trend) is at the heart of any successful trading.

- **B: How long should the trend follower stay in his position?**

ST: Forever, or to be exact, while the basic reasons for the trend are dominant. If the trader cannot identify these reasons, if he does not want to do so or if he does not believe, for some unfathomable reason, that they are useful, he can use technical standards to time his exit point. Even if the seller is aware of the fundamental factors and can evaluate them correctly, technical analysis can still give him a very useful early warning system. If price action

strongly suggests that there is some error in the trader's fundamental perspective, he may use technical signals as an opportunity to re-evaluate and re-examine his fundamental framework.

- **B: How can I devote my time to technical analysis?**

ST: Moving averages and simple price charts provide the best trend tracking tools. Candlesticks, bar charts, and many others can be just as useful if they are used with moving averages. For instance, between October 2007 and April-May 2008, the USD / SGD share price remained below the 100-day moving average. When the trend collapsed in June of the same year, the trend also broke, the price exceeded the 200-day average, and a medium-term upward trend was established. It's also possible to use moving average crosses and a multitude of other methods, but you have to make sure that it does not make the main part of your strategy, which is the following, more complicated.

- **B: Which period do you recommend for the moving average?**

ST: If you wish to trade on a daily or weekly basis, the 100 days GA can capture most of the trends important to you. It is unlikely that anything that has a longer period makes sense because of too much data being ignored, and any period well below the 100 days can be very price sensitive. But, as usual, it is possible to use other periods less than 100, provided you do not cross the screen with many indicators, graphics, and tools.

- **B: When the trend following, where should I place my stop loss and take profit orders?**

ST: It depends in part on the length and nature of your trend tracking method. A stop-loss order may be placed a short distance below or above the trend line, whether it is provided by a simple line drawn on the graph or the moving average. In our opinion, the trend follower must not make a profit before having a good reason to do so. The objective of this strategy is to focus on the underlying price dynamics, eliminating volatility and short-term movements, and it makes little sense to make profits in response to fluctuations that are not relevant to the main action of the trend.

- **B: But I still have to make a profit at some point. Where should I do it?**

ST: You can go as far as the trend goes and stop later. There you can have profits.

- **B: How do you know how far it's going?**

ST: As we just discussed, you can use the MAs to decide on this, but it is much better to identify the root causes of a trend and then leave the trade when these causes are eliminated.

In short, we can repeat that following the trend is the simplest and most direct way to make money on the foreign exchange market. However, to succeed in trade, one must be provident through the analysis and patience required. Those of us that like instant gratification and quick profits will find the method uninteresting, but it is dependable and will work wonders if you try it.

CHAPTER 3 - SIZING YOUR POSITION AND MANAGING RISK

Determining the amount of money, stocks, or commodities to accumulate in a transaction is an often overlooked aspect of trading. Traders often assume a random position size. They can take more if they feel "really safe" in a business or less if they feel a little suspicious. These are not valid ways to determine the size of the position. A trader should also not have a defined position size in all circumstances, regardless of how the trading is established, and this type of trading is likely to lead to long-term underperformance. Let's see how to determine the size of the position.

FACTORS THAT AFFECT THE POSITION SIZE

The first thing we must know before determining the size of our position is the level of unavailability of the company. The stops should not be set at random levels. A stop must be placed at a logical level allowing the operator to err on the direction of the company. We do not want to stop where normal market movements could easily trigger it.

Once we secure a stop level, we now know the risk. For instance, if we know that our stop is 50 pips from the entry price for a forex trade (or that we assume 50 cents in a stock or commodities trade), we can now start determining the size of our position. The next thing to look at is the size of our account. If you have a small account, you must risk at most 1% to 3% of your account in one transaction.

Suppose a trader has a trading account of $ 5,000. If the merchant risks 1% of this account in a transaction, it means he may lose $ 50 in a transaction, which means he can take a mini lot. If the trader's stop level is reached, the trader will have lost 50 pips in a mini-lot, or $ 50. If the trader uses a risk level of 3%, he risks losing $ 150 (3% of the account). This means that with a stop level of 50 pip, three mini-batches may be needed. If the merchant is stopped, he will have lost 50 pips in three mini lots, $ 150.

Within the stock market, risking 1% of your trading account would mean that a trader could receive 100 shares with a 50 cent stop level. If the judgment is reached, it would mean that $ 50, or 1% of the total account, was lost in the trade. In this case, the business risk was contained in a small percentage of

the account, and the size of the position was optimized for this risk.

ALTERNATIVE POSITION SIZING TECHNIQUES

For larger accounts, some alternative methods can be used to determine the size of the position. A person negotiating a $ 500,000 or $ 1 million account may not always want to risk $ 6,000 or more (1% of $ 600,000) on each transaction. They can have many positions in the market, do not use all their capital or significant positions can lead to liquidity problems. In this case, a fixed dollar stop can also be used.

Suppose a merchant with such an account wants to risk only $ 1,000 in a trade. He or she can always use the method mentioned above. If the distance to the entry point of the entry price is 50 pips, the trader may take 20 mini lots or 2 standard lots.

On the stock market, the trader could take 2,000 shares with a stop at 50 cents of the entry price. If the stop is reached, the trader will have lost only the $ 1,000 he was willing to risk before trading.

DAILY STOP LEVELS

Another option for active or full-time traders is to make use of a daily stop level. A daily stop enables traders who need to judge in a split second and require flexibility in their sizing decisions. A daily stop means that the merchant sets a maximum amount of money he can lose in a day, a week, or a month. If traders lose this predetermined capital or more, they will immediately exit all positions and stop trading for the rest of the day, or week. A trader who makes use of this method must have a positive balance sheet.

For expert traders, a daily stop loss can be roughly equal to your average daily return. For example, if an average trader earns $ 1,000 a day, he should set a daily stop-loss close to that figure. This implies that a losing day will not eliminate the benefits of more than an average trading day. This process can also be adapted to reflect several days, a week or a month of commercial results.

For traders who have a lucrative trading history or who are extremely active throughout the day, the daily stop level gives them the freedom to make position-size decisions throughout the day while controlling their risk. Most

traders who use a daily stop will, however, limit the risk to a very small percentage of their account in each transaction, monitoring the size of positions and the risk exposure a position creates.

A novice trader who has a limited trading history can also adapt a daily stop-loss method to the use of an appropriate position sizing, determined by the transaction risk and the overall balance of your account.

To get the right position size, we must first know our stop level and the percentage or dollar value of our account that we are willing to risk in the business. Once we have determined this, we can calculate the size of our ideal position.

DETERMINING YOUR POSITION SIZE

Follow these steps to get the optimal position size regardless of market conditions;

Step 1: Correct your account risk limit per trade.
Set aside the value percentage of your account that you are willing to risk for each transaction. Many traders and traders choose to risk 1% or less of their total account for each transaction. It depends on their ability to take risks (here they can handle 1% loss and the remaining 99%).

Risk 1% or less is optimal, but if you have a high-risk capacity and you have a track record which has been proven, risking 2% is also manageable. More than 2% is not recommended.

For example, on an INR trading account of 1.00000, the risk does not exceed 1000 INR (1% of the account) in an individual transaction. This is your business risk and is controlled using a stop loss.

Step 2: Determine the pip risk in each transaction
Once your business risk is set, establishing a stop loss is your next step for that particular business. It is how long in pips between your stop-loss order and your entry price. This is the number of glitches you have in danger. Based on volatility or strategy, each transaction is different.

Sometimes we put five risk pips in our business, and sometimes we put 15 risk pips. Suppose you have an INR account and a risk limit of INR 1000 for each transaction (1% of the account). You buy USD / INR at 66.5000 and stop at 66.2500. The risk in this trade is 50 pips.

Step 3: Determine the size of your Forex position
You can determine the size of your ideal position with this formula -

Pips at risk * PIP value * Lots exchanged = INR at risk

It is possible to exchange batches of different sizes in forex trading. A lot of 1,000 (called micro) is worth $ 0.1 per pip movement, a lot of 10,000 (mini) is worth $ 1, and a lot of $ 100,000 (default) is $ 10 per move. This applies to all pairs where the dollar is listed second (base currency).

Consider that you have a $ 10,000 account; The commercial risk is 1% (100 USD per transaction).

- Ideal size of the position = [100 $ / (61 * 1 $)] = 1.6 mini-lot or 16 micro-lots

EVALUATING YOUR FINANCIAL SITUATION

Assessing your investment portfolio is a crucial task for independent investors. This is especially true if you have an investment advisor to manage your money and now consider taking the reins. This is exactly the situation with a reader named Dave, who recently sent me an email.

He has been retired for five or ten years. Your investments are managed by a consultant who charges 1.2% of the assets under management. Most of your investments are inexpensive and actively managed funds. Dave plans to transfer his portfolio to Vanguard Consulting Services. However, he asked what I thought about his current portfolio.

Although he does not offer specific investment advice, Dave's question allows us to evaluate how to evaluate our investments. The goal is not to provide specific advice. The objectives are to arm yourself so that you can do your analysis.

It is even important that you hire a consultant to manage your investments. The more apprised you are, the better you can protect yourself against bad advice. That said, here's Dave's portfolio:

Name	Ticker	% Weight
American Century Global Gold A	ACGGX	9.32
American Express Co	AXP	4.53
Boeing Co	BA	1.94
Caterpillar Inc	CAT	2.07
Fidelity® Government Cash Reserves	FDRXX	10.45
Fidelity® Select Transportation	FSRFX	1.91
SPDR® Gold Shares	GLD	0.95
Invesco Dividend Income A	IAUTX	0.23
Loomis Sayles Small Cap Value Retail	LSCRX	15.35
PIMCO High Yield Admin	PHYAX	19.31
T. Rowe Price New Era	PRNEX	7.84
T. Rowe Price US Treasury Money	PRTXX	14.77
AQR Long-Short Equity N	QLENX	4.83
Rydex Real Estate H	RYHRX	1.83
Rydex Utilities Inv	RYUIX	1.92
ProShares Russell 2000 Dividend Gro...	SMDV	0.97
iShares 20+ Year Treasury Bond	TLT	1.79

Step 1: Upload your portfolio into an investment tracking tool

The first step is to insert your portfolio into an investment analysis tool. A popular option is a personal capital. They provide a free financial dashboard that can import all your investment accounts (retired and non-retired), and then provides a detailed analysis of your portfolio.

The analysis is part of the "Investment Audit" of personal capital. The balance sheet has many aspects, including an analysis of the asset allocation of your portfolio. Here is what it looks like:



The tool is very fast and easy to use, and the data analysis is excellent.

Not having access to Dave's investments to use Personal Capital, I used the Morningstar Portfolio tool. This is a great alternative that provides a lot of data. The disadvantage is that the wallet must be entered manually.

Step 2: Evaluate your bond and stock allocation

An essential investment decision to make is how much capital to invest and how much it will cost. For those who are ten years or older before retiring, a highly weighted equity portfolio is ideal, for example, between 70 and 90%. Yes, this portfolio may drop significantly in a declining market, but with a decade or more before retirement, an investor has time to overcome the bad market.

Things get complicated as we approach retirement. And that leads us back to Dave, who is planning to retire in five years. Thanks to Dave's portfolio at Morningstar, it is easy to evaluate his allocations of stocks and bonds. Here is a visual overview of Morningstar:



We can see that it has about 55% equities, 30% bonds, and the rest in cash. In general, a 55/45 bonus allowance stock for a retiree is within a reasonable range. In the case of Dave, however, he is still at least five years old until retirement. And once retired, he will not spend all his money the first year

(hopefully!). As a result, a good question for your current or future consultant is to know why your allocation represents only 55% of the shares.

Tip: One way to evaluate your stock/bonus allocation is to compare it to the pension fund on the scheduled date. For instance, the Vanguard Target Retirement 2020 Fund (VTWNX) has an equity allocation of approximately 57%. The 2025 fund has about 66% of capital. Although these allowances should not be considered as gospel, they are a good starting point for evaluating your portfolio.

When assessing the distribution of shares/bonds to those who are about to retire, it is important to understand the relationship between this distribution and your withdrawal rate (the percentage of the next egg you spend each year). Although a 4% withdrawal rate is a general rule, this does not guarantee that you will never run out of money.

If we assume a 30-year retirement, a 4% withdrawal rate offers an 85% chance that your money will be sustainable, but only if your equity/bond allocation is at least 50/50.

Step 3: Evaluate Stock Allocation

At the very least, you want a good mix of US and international stocks. This result can be achieved in several ways, including:

- Investor Shares in the Vanguard Total World Index Fund (VTWSX):
- Vanguard Total Shares Fund Admiral Shares (VTSAX) and Vanguard International Shares Fund Admiral Shares (VTIAX):

Other common fund companies, such as Fidelity, offer almost identical options.

In Dave's case, his portfolio brings about several critical questions:

- Why is your international exhibition limited almost exclusively to North America? Although it's not obvious at first, it's clear that you're viewing your portfolio on Morningstar.

World Regions | Holdings Detail ▸▸

Greater Asia **Americas** **Greater Europe**



0-10 10-20 20-50 50-90 >90%

	Total Exposure (% of Stocks)
North America	**87.62**
Latin America	**0.59**
United Kingdom	**2.92**
Europe Developed	**4.84**
Europe Emerging	**0.00**
Africa/Middle East	**0.94**
Japan	**1.00**
Australasia	**1.62**
Asia Developed	**0.21**
Asia Emerging	**0.25**
Not Classified	**0.00**

- Why put so much emphasis on small and medium enterprises? According to Morningstar, Dave owns nearly 35% of his small-cap stocks and nearly 30% in mid-caps.
- Why individual actions? Its portfolio includes shares in American Express, Caterpillar and Boeing. While it's good to own these companies, what's the point? It exposes its portfolio to the risk that these companies significantly underperform the market. At the same time, he does not have enough of these stocks compared to his overall portfolio to see a much more positive side.
- Why about 10% of your gold portfolio? There is no point in investing in gold at all. It is not a productive asset, its long-term performance is bleak, and its protection against inflation has a dubious balance sheet at best.

Step 4: Evaluate Bond Allocation

Bonds are intended to give stability to a portfolio. A simple allocation to a full Vanguard bonus fund or even a fund limited to US government bonds will do the trick. In the case of Dave, however, his advisor holds him in a high yield fund. Your advisor has put 20% of your portfolio in a high yield fund.

Also known as "high-risk securities," the high-yield funds invest in securities of companies issued by companies with a credit rating below investment grade. These funds may be a perfectly suitable investment in certain circumstances. From my perspective, however, they have no place in the portfolio of a retired person, where stability is essential. Admittedly, allocating 20% of a retiree's portfolio to high-risk bonds is indefensible.

Dave also has more than 20% in cash. Since he has not been retired for at least five years, it is difficult to understand why his counselor made this choice. Although money is essential for an emergency fund, it is not a productive asset for long-term investments.

John Bogle has specifically identified the "cash trail" as an "expense" often incurred with actively managed funds. He refers to the fact that many managed funds will hold a significant portion of the cash. A typical index fund does not do it. In the case of Dave, he has more than 20% money, most

of them (or his consultant).

Step 5: Evaluate specific funds

We now move to specific funds. Here we look at two things. First, are index funds or the funds actively managed. For actively managed funds, we will understand the purpose of choosing such a fund rather than an index fund. Second, we look at the costs.

Here, in my opinion, Dave's portfolio raises several questions:

- Why does Dave have 14 funds plus three individual stocks? Three to six funds should be ample. Remember that the goals are low-cost diversification. The addition of more and more funds does not necessarily increase diversification. This only increases the maintenance of the portfolio.
- Why most of your funds are actively managed at high costs. Its weighted average expense ratio is 72 basis points. It is bigger if you delete the three individual actions. The reason for this choice is well thought out.
- Why does it have a long, short bottom (QLENX)? Does a fund that protects certain stocks help you meet your investment objectives, and is it worth the cost (management expense ratio of 1.53%)?

Step 6: Evaluate the consultant's fees

As mentioned above, the weighted average cost of this portfolio is 72 basis points. Add to that the 1.2% investment advisory fee and Dave spends nearly 2% of his fortune each year. Also, 20% of the portfolio is in cash. Why pay a 1.2% advisor to keep the cash. A high-yield savings account is a better option if such a large cash position is needed.

Investment and asset allocation are not difficult. This can be daunting if you are starting. One way to start is to look at standard asset allocation plans that are easy to implement.

CHAPTER 4 – HOW CAN YOU MAKE MONEY FROM STOCK

You can make money from stocks in two ways, which are dividends and capital appreciation. Let's start with dividends first.

Dividends refer to the portion of a corporation's net income for the year that the Board of Directors decides to distribute to the owners, i.e., the shareholders. Dividends may or may not be declared every year because it will depend on whether the corporation earned a good income for the past year and if there are no upcoming projects or activities that need to be funded by retained income or earnings. The only exception to this is cumulative preferred shares, which is a breed of preferred shares that are guaranteed dividend payments every year. If a corporation's Board of Directors doesn't declare dividends for a specific year, the dividends due to such preferred shares are accumulated or treated as dividends payable to be settled as soon as dividends are declared.

There are two reasons why you shouldn't look to dividends for successful stock market investing. The first one is that often, dividends represent a minuscule amount of the market price of stocks. You'd be lucky to get a dividend that's about 10% of the price at which you bought your stocks. The second reason is dividends are very contingent on the financial plans and performance of a company. In other words, they're not even guaranteed, unless you invest in cumulative preferred shares. And given the relatively low number of dividends you may expect, it's just not worth it.

Capital appreciation is where the money's at. This is also referred to as the buy-low-sell-high strategy for making money in stocks. Capital appreciation refers to an increase in the market price of stocks that you buy, and you will surely hit the mark when you sell them later on at a much higher price than which you bought them for. For example, you can buy shares of stock of a publicly listed company for $2 a share, and if after five years its price goes up to $4 per share, you'd have doubled your money in just five years! Many people - especially during very good times for the stock market - go agog over initial public offerings or IPOs, which is when shares of stock of corporations are first offered for investing to the general public via the major stock exchanges. Often, the prices of such stocks skyrocket within the first

trading day or two especially if the general market sentiment is very good. It's not unheard of for investors to nearly double their money buying stocks through IPOs and selling them immediately when they start to trade on exchanges.

And speaking of buying stocks at a low price and selling them later at much higher ones.

FACTORS THAT DETERMINE STOCK PRICES

Many factors can affect the prices of stocks in general but all of those factors converge into one, single biggest factor: investor sentiment. Keep in mind the primary economic law of supply and demand, i.e., the higher the demand vis-a-vis the supply, the higher the price and the lower the demand vis-a-vis the supply, the lower the price. That's why all serious stock market investors tend to be anal about the news on networks such as CNBC, Bloomberg, or Reuters. Sometimes, even a piece of news that most of the general public doesn't even care about can seriously affect the prices of shares of stock.

Shares of stocks of relatively young companies that belong to industries that are growing relatively faster than others (i.e., growth stocks) often tend to register the biggest increases in stock prices in short to medium term. Why? It's because such companies have more room for growth both in terms of size and earnings, the latter being the primary factor that most serious stock market investors tend to consider when choosing which stocks to invest in.

It's for the same reason why the average annual rates of return on shares of stocks of the biggest and most established companies (i.e., blue-chip stocks) aren't as prolific as the younger and less-established ones. By being very big already and in relatively mature industries whose average annual growths aren't as exciting, there's not as much room for substantial growth in both asset size and income compared to much younger industries. But because they're already established, they tend to be less risky compared to growth stocks. So, if you're after much higher returns and are comfortable taking on higher risks, growth stocks are the way to go. If your risk tolerance is a bit lower, then blue-chip stocks are the way to go.

FACTORS THAT DETERMINE A STOCK'S VALUE

Now, that's not to say that there's no way to objectively determine the true

value of a particular share of stock. You must bear in mind that there's a difference between current market price and value. Often, current market price and value don't see eye to eye. The current market price is what investors, in general, are willing to pay and sell shares of stock for, which may or may not be a stock's objective value.

Since we're on the topic of value, how can you estimate a particular share of stock's actual value? Well, there are many ways to go about it, but most of them involve financial data like earnings, capitalization, and average growth in assets and income. But the primary financial data that affect the valuation of stocks is a company's earnings.

And speaking of earnings, some of the most common measures used to value shares of stocks include earnings-per-share (or EPS), return on equity (ROE) or investment (ROI), and price-earnings ratio (PE Ratio), which are determined as follows:

- EPS is computed by dividing net income after tax by the total number of shares outstanding and is expressed in dollar-terms, e.g., $0.50 per share;
- ROE or ROI is computed by dividing a company's net income after tax over average shareholder equity (ROE) or the average, or current market price of a stock and is expressed in percent, e.g., 10% ROE or ROI; and
- PE Ratio is generated by dividing the current market price of a stock over its latest EPS and is expressed as several times, e.g., ten times or 10X. This means that in general, the stock is selling at a price that's ten times more than its annual earnings per share or that investors are willing to pay $10 for the opportunity to earn about $1 per share.

Later, we'll talk about how to relate price and value to choose stocks that have a relatively higher chance of performing well, i.e., provide a meaningful capital appreciation for you.

ACTIVE AND PASSIVE STOCK INVESTING

When it comes to making money from stocks, there are two ways to do it: actively and passively. And it's by understanding the difference between the two that you'll have a better idea of what investing and trading mean.

Active Investing

As you could infer from the term itself, active investing means a relatively high degree of activity. In other words, you'll need to be more active or involved in managing your stock investments. This means that on top of doing your homework in terms of choosing your stocks wisely, you'll also need to monitor its performance regularly, depending on your investment time frame, i.e., short or long term. These are the things you'll need to do regularly if you choose the active investing route:

- **Research and Evaluate:** What makes investing in the stock market much different from gambling in a casino, which some "geniuses" think is a very apt comparison, is that you don't just pick random stocks to trade or invest in and expect success. No, you'll need to research and evaluate stocks based on the information you're able to gather to come up with a candidates' shortlist. And from such a shortlist you'll pick the stocks in which to trade or invest.
- **Take Positions:** All the research and evaluation in the world will be for naught if that's where you'll end your journey. You'll need to take action based on the information you've gathered and evaluated by taking a position on any or all of the stocks in your shortlist, i.e., buy stocks. Unless you take actual positions, you will not earn anything from stocks. When you buy stocks, you're taking a LONG position. When you're selling stocks that you own, you're taking a SQUARE position. And when you sell shares of stocks that you do not own, you're taking a SHORT position. We'll deal with short positions or short selling later in the book.
- **Monitoring:** When you're after a very quick buck with every stock purchase you make, the more important it is for you to keep track of the price of your stocks frequently. It's because there's a very good chance that you might miss the quick profits boat if you don't check market prices every few hours. And even if you're in it for the long haul, you will still need to monitor stock prices to make sure your investments are performing as desired, albeit less frequently say every week or every month.

At this point, I'd like to bring to your attention the words "trading" and "investment," in case you're wondering why I'm using them both or interchangeably. Here's the reason: trading is the term often used to refer to very short investment periods. When stock market veterans say they're "trading" stocks, what they're saying is that their investment horizons are very, very short. How short? The longest would probably be a couple of days to a week, while many trades are daily. This means that after they buy, they wait for the price to go up several points within the day or the week and they quickly sell their shares to cash in on the profits. People who "trade" stocks this way have to do it frequently so that over a month or a year, their small profits accumulate into a much bigger total.

On the other hand, "investing" is often taken to mean as holding on to shares of stocks or any financial asset for a relatively long period. In many instances, investing is taken to mean as a minimum investment holding period of about three months and is often referred to as a "buy-and-hold" approach. Just buy stocks and leave it be.

However, there's no official barometer for considering whether or not a specific investment holding period's considered as trading or investing so pardon me if I interchangeably use the two terms throughout the book. It's because when you look at the grand scheme of things, trading and investing are practically the same and the only difference, albeit an arbitrary one, is the time frame. You see, the ultimate goal of trading is the same as buying-and-holding, which is to earn a profit. And either way, that's what investing is! And when you talk about the primary way you will successfully earn money via stock market investing, which is capital appreciation, it involves buying stocks at a low price and selling them at a higher one. And that's the real definition of trading, i.e., buying and selling. So, you see, it's perfectly alright to use the two terms interchangeably in the context of this book.

Managing Emotions

One of the secrets of the most successful stock market traders is the ability to rein their emotions in. In the exciting and frenzied world of the stock market, it can be very easy to be carried away by very strong - and often irrational - emotions such as excitement, anxiety, and greed. Too much excitement can make you buy stocks that are already considered by experts as "expensive." Being too anxious or fearful of incurring losses can cause you to miss out on opportunities to earn very good returns by not buying stocks

when appropriate. And lastly, being too greedy can cause you to turn an already profitable trade or investment into a potentially losing one when you refuse to sell your stocks even when all the signs point toward the need to do so. While you will never be able to time the market perfectly, i.e., take the right positions at the right times all the time, investing in stocks by using your emotions as a "guide" can significantly increase your risks for a lot of losing trades.

So, what does it mean to trade more objectively? By using specific metrics and two types of stock analysis methods, which are fundamental analysis and technical analysis.

Passive Investing

Passive investments are very popular these days, sometimes for the right reasons but mostly for the wrong ones. For one, many personal finance "gurus" have painted passive investing to be the financial savior of every individual on earth who's living in poverty today. For others, many such gurus also make it appear - albeit not purposefully - as if building passive income streams that generate enough passive income is easy. And lastly, the same so-called gurus make it appear that passive investing is passive, i.e., a perfectly inactive form of investing where you do nothing, and riches will continue flowing to you. But is passive investing all that? Let's find out, shall we?

Passive investing is taken from the word "passive," which means, among other things, inactive. Therefore, many people have the impression that passive investing means practically waiting for money to just come in. Now, this is where I'll have to shed a bit more light on passive investing.

In reality, passive investing means very little work or effort is needed to generate money. By inactive, what we're trying to say here is much less work. There's no such thing as a free - or inactive - lunch. You will always have to do something, even if it's very little.

When it comes to making money in the stock market, the general passive investing approach taken by many is the buy-and-hold approach. It's considered as "passive" because other than doing some research before buying stocks and holding on to them for a considerable period with a bit of price monitoring now and then; there's nothing much to do. And by considerable I'm talking about at least one year.

Compared to the active trading approach where you have to monitor the market prices of your stocks very frequently and transact much more frequently, passively investing in stocks allows you to do other things during the day like work on a day job or enjoy life. It's also way less stressful. But still, it's not a completely inactive activity. And you can earn much more via trading. So, there's your tradeoff: less work, fewer earnings vs. more work, more earnings.

Another reality about passive investing, you'll need to be aware of is that earning a significant enough amount of income to live on and to become rich from is neither easy nor cheap! What do I mean by this?

Let's say your goal is to live off passive income from stocks and that your average annual living expenses amount to $36,000. If the average annual rate of return on stock investments is 10%, that means you'll need to have at least $360,000 passively invested in stocks to make $36,000 annually off them. I don't know about you but to have at least $360,000 in cash for investments alone means that you're already rich, to begin with. And if you're in dire financial straits, it means you really can't rely on passive income to get you out of poverty or your current state of need. The only passive source of income that can do that for you is winning the lottery!

Active versus Passive Investments

Now that you're aware of what active and passive stock market investing generally looks like, which do you think will be more advantageous to you? Right off the bat, there's no outright winner here because each approach has its share of advantages and disadvantages. What will determine the best approach for you will be your goals and current personal circumstances.

For example, if you don't have much time to spare to monitor your stock market investments on an hourly or even bi-hourly basis because of your day job - that pays for your bills and living expenses - and other responsibilities, then passive stock market investing's the appropriate one for you. It's also the more appropriate type of stock market investing for you if you want to keep things simple and uncomplicated and if your risk tolerance is relatively low.

But if you're the type who has all the time in the world to do practically nothing else but watch the stock market throughout the day, are an adrenaline junkie, and have a high tolerance, then active stock trading may be the better approach for you!

But what about in terms of profitability? Which of the two are generally more profitable? I'll give this round to active trading. Why? It's because it's highly unlikely to make money in stocks during times when the markets are down. Not impossible but highly unlikely. But with active trading, you can still make money even when the markets are crashing down! How? Through short selling, which I'll explain in detail in Chapter 8 on trading strategies.

Keep in mind that I'm not saying passive investing isn't profitable, only that per my experience, an active trading approach to stock market investing's normally the more lucrative or profitable one.

RISKS

While investing in the stock market is undoubtedly one of the best ways to create wealth, whether it's in the long or short term, it's not a sure thing. If you don't do it well, you can lose money. So why should you even bother investing in the stock market?

Consider again one of the biggest reasons why you should be investing your money that we talked about in Chapter 1: inflation. You must be able to consistently make your money grow at a much faster rate than the average annual inflation rate if you want to achieve your financial goals down the line.

But here's the thing about earning potentially higher returns, which is best explained by one of the foundational principles of financial management:

"The higher the expected return, the higher the risk."

Stated another way, with higher expected or potential returns come higher financial risks. And to put it in a more declarative way, if you want to earn higher returns, you must be ready to take on higher financial risks. You can't have your cake and eat it too. If you prioritize safety, you'll have to settle for less than stellar returns on your investment. If safety's your priority, you should just put your money in bank deposits or Federal Government securities like Treasury Bonds and Treasury Bills. However, the tradeoff is that your money will earn less than the average inflation rate, which means your money's value can shrink over time.

So, what is a risk? Well, risk refers to the possibility that something you don't want to happen will happen. Financial or investment risks, therefore, refer to

the possibility of something financially undesirable happening. As mentioned earlier, risk can never be eliminated, but it can be managed very well.

There are two general types of investment risks: market risk, liquidity risk, and credit risk. And when it comes to trading stocks on major exchanges like the NYSE and NASDAQ, only two are applicable: market and liquidity risk.

Market Risk

This refers to the possibility of suffering losses as a result of changes in the market prices of stocks that you hold. Since market prices are determined by - well - the market, which is primarily the collective thinking of all investors, it means there's no guarantee that the prices of the stocks you buy will always go up or down.

For example, if you bought Apple's stock at $90/share, there's a chance that it could go up to $91/share during the day or down to $89/share during the same period, the latter being a clear example of market risk. If the stock price does go down to $89/share, then you suffer a market or paper loss of $1.00/share.

You may be wondering: "What is a paper or market loss?" This is a theoretical type of loss because you haven't incurred it yet as you still have yet to sell your Apple stock in this example. If the price goes up to $91/share later on, then your paper or market loss would be wiped out, and you'd have a market or paper gain of $1.00/share instead. You will only realize the loss if you sold your Apple shares at a lower price and once you realized that loss, it's permanent. You'll need to buy stocks again to make up for that loss.

Diversification is among the best ways to manage your market risk, i.e., invest in different stocks and don't put all your proverbial eggs in just one basket. And by different stocks, I mean different stocks from different industries because if you diversify your stock investments in different companies from the same industry, the chances are high that their prices will behave the same way especially if something industry-wide or specific happens. But if you diversify in companies from different sectors, the chances of them being affected by the same industry developments are very low. As such, market losses from one stock can be offset by gains in others.

Another way to manage market risks is by investing only an amount that you're comfortable losing. That way, your finances won't be significantly

affected in the event of severe price drops in your stock investments, which are quite rare. If it's money you're comfortable losing or you won't need to use soon, you can afford to wait for prices to recover before unloading. If you invest an amount of money you're not comfortable losing or you may be needing soon, you'll be forced to liquidate at a substantial loss when prices drop.

Liquidity Risk

Liquidity refers to the ability to convert a non-cash or a near-cash asset into cash. In stock market investing, liquidity risk refers to the speed at which you can liquidate or convert your stocks into cash, i.e., sell them. While the stock market is a generally liquid one, not all stocks are very liquid because, over time, investors have lost interest in them.

Liquidity risk is important if you invest an amount of money that you think you'll need anytime soon. If the money you invested won't be needed anytime soon, liquidity risk shouldn't matter much. If your circumstances make liquidity risk an important consideration in choosing stocks, then you must have the ability to estimate with a high degree of accuracy, which stocks are highly liquid, and which aren't.

Fortunately, doing so isn't rocket science, and the information is readily available in newspapers and on the Internet. The most relevant pieces of information you'll need to get an accurate estimation of a particular share of stocks is the liquidity in average daily trading volume, i.e., the number of shares traded, and average daily volume. Suffice to say that if the average daily trading volume and value are in terms of millions of shares and dollars, you're looking at a low liquidity risk stock, i.e., very easy to convert into cash.

Risk Is Your Friend

While it may seem that risk is a fairly negative term, the fact is when it comes to investments, it is your friend. Why?

Remember that to achieve your financial goals; you'll need to be able to invest your money consistently in assets (in this case, it's stocked) that can earn substantially higher returns than the average inflation rate. And if you remember one of the most foundational principles of financial management concerning the relationship of returns and risk, it says that you'll need to take on higher financial risks if you want to earn potentially higher

returns. Therefore, you'll need to be friends with risk and manage it well to maximize your chances of being able to earn returns that are much higher than inflation consistently.

And just like with any friend, the key to a beautiful and harmonious relationship is actively managing the relationship. If you also put boundaries when it comes to your friends, it should be the same with risk, i.e., you should know up to what extent you can tolerate it. For example, one limitation to any friendship is keeping off the other's spouse or lover. In the same way, risk - being your friend - should also have limits such as not investing an amount that you know you can't afford to lose and not putting all your investible money in just one asset.

CHAPTER 5 – FUNDAMENTALS

WHAT BEGINNER INVESTORS SHOULD KNOW

The stock market does not look like your supermarket: to buy and sell stocks, you need to use a licensed broker who does business on your behalf.

If you are unfamiliar with the basic principles of the stock market, the information on stock market transactions published by CNBC or the market section of your favorite newspaper can be confusing.

Expressions such as "profit motions" and "intraday peaks" mean little to the average investor and, in many cases, should not. If you are long-term - with, for example, a portfolio of retirement-focused mutual funds - you will not have to worry about the meanings of those words or the bursts of green or red that cross the bottom of your television screen. You can look great without understanding the stock market.

If, on the contrary, you wish to learn how to trade stocks, you must understand how the stock market works and at least some basic information about the operation of stock trading.

Stock market basics

The stock market includes stock exchanges such as the New York Stock Exchange and the Nasdaq. The shares are listed on a specific stock exchange, which brings together buyers and sellers and constitutes a market for the shares of these shares. Trading follows the supply and demand - and directly related, price - of each stock.

Your stock trade is placed through the broker, who then processes the trades on your behalf.

But this is not your usual market, and you cannot bring up your stock on a shelf in the way you choose to produce at the grocery store. Brokers usually represent individual traders - currently, this is usually an online broker. Your stock trade is placed through the broker, who then processes the trades on your behalf.

The NYSE and Nasdaq are open from 9:30 to 16:00. Oriental, with pre-market and after-hours trading sessions also available, depending on your broker.

Understand the stock market

When people refer to the bull or bear market, they usually refer to one of the major market indices.

A market index keeps track of the performance of a group of stocks which represent a specific sector of the market or the market as a whole, such as technology or retail companies. You will probably hear more about the S & P 500, the Nasdaq compound and the Dow Jones Industrial Average; They are occasionally used as proxies for the performance of the global market.

Investors use ratios to evaluate the performance of their portfolios and, in some cases, to inform their stock trading decisions. You can also invest in a complete index through index funds and ETFs, which follow a specific index or market sector.

Stock trading information

Most investors would be well advised to build a diversified portfolio of equities or equity index funds and hold it during a crisis. But investors who love a few more shares engage in stock trading. Stock trading means to buy and sell stocks frequently as part of a race against the clock in the market.

The goal of traders is to capitalize on short-term market events to sell shares for profit or to buy stocks. Some traders are day traders, which means they buy and sell several times a day. Others are just active traders, performing a dozen or more trades a month.

Investors who are involved in trading of stocks do extensive research, often spending hours a day tracking the market. They rely on technical analysis and use tools to map the movements of stock to look for business opportunities and trends. Many online brokers offer stock market trading information, including analyst reports, stock research, and graphing tools.

Bull markets vs. Bear markets

This is not an animal you would like to meet during a walk, but the market has chosen the bear as a real symbol of fear: a bear market means that stock prices are falling - limits vary, but generally around 20% more. - in many of the previously referenced indexes.

The youngest investors may be familiar with the term "bear market," but do not know the experience: we are in a bull market - with bullish prices, in contrast to a bear market - since March 2009. It is the longest bull run in

history.

This, however, came out of the Great Recession, and that is how the bullish trend tends: bear markets follow bull markets, and conversely, both are often marking the beginning of stronger economic growth. In other words, a bull market usually means investors are confident, indicating economic growth. A bear market shows that investors are falling, indicating that the economy can do it too.

The good news about the bull market is that the average bull market far exceeds the average bear market because, in the long run, you can increase your money by investing inequities.

The S & P 500, which holds about 500 of the largest US stocks, has historically averaged an average return of 7% per annum, taking into account reinvested dividends and inflation. That means that if you invested $ 1,000 30 years ago, you could get about $ 7,600 today.

Stock Market Crash Vs. Correction

The stock market correction occurs when the stock market falls by 10% or more. A stock market crash is a sudden and very sharp drop in stock prices, as in October 1987, when stocks had fallen 23% in a single day.

While collisions may signal a bear market, keep in mind what we mentioned above: most bull markets last longer than bear markets, which means the value of the stock markets tend to rise with time.

THE IMPORTANCE OF DIVERSIFICATION

You cannot avoid bear markets as an investor. What you can avoid is the risk of an undiversified portfolio.

Diversification helps protect your portfolio from the inevitable setbacks of the market. If you invest all your money in a business, you are banking on a success that can be quickly disrupted by regulatory problems, inadequate leadership, or an outbreak of E. Coli.

To mitigate the risks of each business, investors diversify by combining different types of securities, balancing the inevitable losers and eradicating the risk that a company's contaminated meat will destroy its entire portfolio.

However, building a diversified portfolio of individual stocks takes a lot of

time, patience, and research. The alternative is a mutual fund, the ETF mentioned above, or an index fund. They keep a basket of investments, and you are automatically diversified. An S & P 500 ETF, for instance, would aim to reflect the performance of the S & P 500 by investing in the 500 firms in this index.

The good news is that you can combine stocks and individual funds into a single portfolio. A tip: spend 10% or less of your portfolio on the selection of securities you believe in and, moreover, on index funds.

WHAT IS A BROKERAGE ACCOUNT, AND HOW CAN I OPEN ONE?

A brokerage account is an investment account that you open with a broker. You can make use of a brokerage account to purchase investments.

A brokerage account is a link between an investor and the stock market. If you like to invest, you must open a brokerage account with a broker, such as an online broker or investment dealer. Let's take a closer peep at what a brokerage account is, how it works, and how to open one.

Definition of the brokerage account

This is a taxable investment account that you can open with an investment firm or broker. Opening a brokerage account is usually free. Once you have opened and funded your brokerage account, you can use the money you have deposited to buy investments, such as stocks or mutual funds. The brokerage firm helps you make investment requests and usually charges you a commission.

Brokerage accounts provide access to different types of investments, including stocks, bonds, mutual funds, index funds, and exchange-traded funds. Many brokers also offer more complex investments such as options, forex or futures, as well as safer investments such as CDs, bonds, and cash management accounts.

HOW DOES A BROKAGE ACCOUNT WORK?

Many brokers let you open an account quickly online. You can finance your brokerage account by transferring money from your checking account or savings account, a procedure that takes a few days to a week. Money can also be transferred from one brokerage account to another if you decide to change

broker.

You own the investments and money in your brokerage account and can sell investments and withdraw that money at any time. The broker maintains your account and acts as an intermediary between you and the investments you want to buy. Most brokers allow you to buy investments on their websites by filling out an order ticket.

The total amount of cash you can deposit into a brokerage account or the number of brokerage accounts you can have each year has no limit.

WHICH INVESTMENT ACCOUNT IS RIGHT FOR YOU?

There are several types of brokerage accounts. What suits you depends on your investment objectives, the type of investment you plan to buy, and the amount you want to choose and manage.

A discount or an online brokerage account
This is an account of investment with an online broker such as E-Trade or Merrill Edge. These companies allow investors to buy and trade investments themselves through online trading platforms. If you want to purchase and manage your investments, an online brokerage account is for you.

Managed or full-service brokerage account
It's a brokerage account that tracks investment management, whether it's a human investment advisor or a robotics advisor. A robot advisor is an inexpensive alternative to a human manager. These services make use of computers to manage and choose your investments based on your goals.

Retirement account
This is a tax-efficient investment account, specifically designed for your retirement savings, such as a traditional Roth or an IRA. As a result, unlike taxable brokerage accounts, retirement accounts set restrictions on when and how to withdraw money.

If you wish to invest for retirement (and you already contribute enough to win a 401 (k) match if your employer provides one), you must open an IRA. You can open an IRA at an online broker or robot consultant. Here are our choices for the best IRA providers.

HOW TO CHOOSE A BROKERAGE ACCOUNT

Once you have decided on the type of investment account you want, choose an account provider. Many brokers today do not require a minimum investment to open an account, and no fees should be charged.

When comparing brokerage account providers, you should look at the fees charged by the broker for the investments you are interested in: If you want to trade stocks, look for a broker with a low trading fee. If you are a mutual fund investor, select a broker offering no-transaction mutual funds and trade exchange-traded funds with no commission.

HOW TO OPEN A BROKERAGE ACCOUNT

It is very simple to set up a brokerage account: you can usually complete an online application in less than 15 minutes. (In most states, you must be 18 to open your account).

Once you have opened the investment account, you will need to initiate a deposit or transfer of funds. The broker will guide you through the steps. Once the transfer is successful, and your brokerage account is funded, you can start investing.

You may be asked if you want a margin account or a cash account. A margin account lets you borrow money from the broker to do business, but you pay interest, and it's risky. As a common rule, it is advisable to have an account at the beginning.

HOW TO BUY SHARES

Many investors buy shares online through an investment account with an online broker. You can also buy shares through a full-service broker. Some companies allow investors to buy shares directly.

Buying a stock - especially the first time you become a legitimate business owner - deserves its celebration ritual.

But before choosing share hats and renting a confetti cannon, let's take a look at the steps specific to the stock purchase procedure.

Step 1: Open an online brokerage account

Want to know where to buy shares? Movies love to show frantic traders orders shouting on the floor of the New York Stock Exchange, but few stock trades take place this way. Today, the simplest option is to buy shares online

via an online broker.

Online brokerage account opening is as easy as creating a bank account: you fill out an account application, provide proof of identity, and choose how to finance your account. You can fund your account by sending a check or by transferring funds electronically.

How do you find a broker worthy of your mass? It's not just about finding the one who offers the cheapest bargaining fees. Paying a few extra dollars per transaction at a brokerage firm offering quality customer service is well worth it, especially when you are new to buying stocks.

Some other factors to consider when opening an account to buy shares:

How much money do you have? Many online brokers require a minimum of $ 0 to create a traditional individual retirement account or Roth IRA. For a typical brokerage account, the minimums can range from $ 0 to $ 2,000 or more.

How often do you intend to trade? In most brokers geared to new investors, online stock trading fees range from $ 5 to $ 10. The low cost of commissions will be greater for active traders, those who trade 10 or more transactions per month. (Learn more about the intricacies of stock trading.) Infrequent operators should avoid brokers who charge for downtime charges.

How much support do you want? Consider offering educational tools, investment advice, stock research, and access to real people via phone, email, chat, or affiliates.

Step 2: Select the stocks you wish to purchase

Once you have set up and funded your brokerage account, it's time to get into the stock-picking business. The best place to begin is to look for companies you already know from your consumer experiences.

Do not let the flow of data and market fluctuations in real-time overwhelm you as you search. Keep it simple: you are looking for companies for which you wish to become co-owners.

Warren Buffett said, "Buy a business because you want to own, not because you want the stock to go up." He followed this rule very well.

Start with the company's annual report, particularly the annual letter from

management to shareholders. The letter will provide a general account of what is happening in the business and provide context for the figures in the report.

After that, most of the analytical tools and information needed to evaluate the company will be available on your dealer's website, such as SEC filings, teleconference transcripts, quarterly earnings updates, and news. Most online brokers also offer tutorials on how to use their tools and even basic stock selection seminars.

Step 3: Determine the number of shares to buy
You should have no pressure when it comes to buying a certain number of shares or to fill your entire portfolio with one stock at a time. Consider starting small - very small - by buying a single action to get an idea of what an individual action is, and if you dare to deal with reduced sleep loss. You may add to your position over time while mastering the arrogance of shareholders.

Step 4: Choose your type of stock order
Do not worry about all these absurd numbers and word combinations on your broker's online ordering page.

There are many more sophisticated trading movements and complex order types. Do not bother now - or maybe never. Investors built a successful career by buying stocks with only two types of orders: market orders and limit orders.

MARKET ORDERS

With a market order, you indicate that you will buy or sell stocks at the best market price. Because a market order does not set pricing parameters in trading, your order will be executed immediately and fully executed unless you attempt to buy a million shares and attempt a control.

Do not be surprised if the price you pay - or receive if you sell - is not the exact price you indicated a few seconds ago. The prices of offers and requests constantly fluctuate during the day. That's why it's better to use a market order to buy stocks that do not experience significant price fluctuations: large, stable, blue-chip stocks as opposed to smaller, more volatile ones.

Good to know:

- A market order is preferable for long-term investors, for whom small price differences are less important than ensuring that the transaction is fully executed.
- If you place a market order after closed market times, your order will be charged at the price prevailing at the opening of the exchanges.
- Check the broker's commercial performance warning. Some low-cost brokerages consolidate all trading requests from customers so that they all run at the same time for the current price, either at the end of the trading day or at a particular time of the week.

LIMIT ORDERS

This gives you absolute control over the price at which your transaction is executed. If XYZ shares are trading at $ 100 per share and you think a price of $ 95 per share is more relevant to the valuation of the company, your limit order tells your dealer to keep it. Close it and run the level of your order. On the sales side, a limit order tells your broker to split into stocks when the bid reaches the level you set.

Small orders are a good tool for investors who buy and sell shares of small businesses, whose spreads are generally larger, depending on the activity of investors. They are also useful for investing during periods of short-term volatility in equity markets or when stock prices are more important than order execution.

You can define other conditions in a threshold order to control how long the order will remain open. An "all or nothing" order (AON) will only be executed when all the stocks you want to trade are obtainable at your price limit. A Good Demand for the Day (GFD) will expire at the end of the trading day, even if the application has not been fully completed. A "Canceled" (CG) order remains in effect until the customer removes the jack or the order expires; It's 60 to 120 days or more.

Good to know:

- Although a limit order will guarantee the price, you will get if the order is executed, no guarantee that the order will be fully or partially filled. Limit orders are awarded on a first-come, first-

served basis and only after the market orders have been executed, and only if the shares remain in the defined parameters long enough for the broker to complete the transaction.

- Limited orders can cost commission investors more than market orders. A limited order that cannot be executed in full at one time or on a single trading day may continue to be executed on the following days, with transaction fees being charged each day a transaction is made. If the action never reaches the level of its threshold order before its expiration, the transaction will not be executed.

Step 5: Optimize your stock portfolio

We hope that your first purchase of shares will mark the beginning of a successful investment life. But if things get complicated, remember that all investors, even Warren Buffett, are going through a difficult time. The key to long-term progress is to keep your perspective and focus on the things you can control. Market fluctuations are not among them. What you can do is:

- Ensure you own the appropriate tools for the job.
- Be aware of investment rates. These can significantly erode your statements.
- Still unsure about choosing individual stocks? Consider the best mutual fund dealers.

More guidelines to help you choose the right broker online;

Here are more NerdWallet resources to answer your questions about online brokerage accounts.

How much do I need to start investing? Not a lot. Note that many brokers above do not have a minimum account for taxable brokerage accounts and IRAs. Once you have opened an account, you only need enough money to cover the cost of an action and the trading commission.

Shouldn’t I choose the cheapest broker? Transaction costs are important for active and high-volume traders. If you are a pro - buy for example 100 to 500 shares at a time, Interactive Brokers and TradeStation offer profitable options. Ally Invest offers trades of $ 3.95 ($ 1 of the total price) to investors making more than 30 trades per quarter. Commissions are a minor factor for

investors who buy back and forth, a strategy that we recommend to most people. Most online brokers charge between $ 5 and $ 7 per transaction. But other factors - access to a variety of investments or training tools - may be more valuable than saving a few dollars when you buy stocks.

How can I build a diversified portfolio for little money? An easy way is to invest in exchange-traded funds. ETFs are essentially small mutual funds bought and sold as individual shares on the stock market. Like mutual funds, each ETF contains a basket of stocks (sometimes hundreds) that meet specific criteria (for example, stocks of companies that are part of a stock index such as the S & P 500). Unlike mutual funds, which may have high minimum investments, investors can only buy part of one ETF at a time.

We love the diverse and low-cost nature of ETFs. And because they are an essential tool for creating portfolios, we rank brokers in their ETF offers, especially the number of commission-free ETFs they offer. TD Ameritrade, which offers more than 300, Charles Schwab (265) and E-Trade (250) are among the highlights.

Is my money safe? What kind of account? How long can I start trading? The short answers are:

Your money is safe, but only against the unlikely event that a broker or investment firm collapses. Investor Protection Corporation (SIPC) investment dealer coverage does not cover any impairment of your investments.

Once you open your account, you will need to make a deposit or transfer of funds to the broker, which can take a few days to a week. When that's over, it's for investment races! And by that, we mean a thoughtful and disciplined approach to investing your money in the long run.

How can I determine if a broker is suitable for me before opening an account? Some important criteria to consider when evaluating an investment firm are the amount of your money, the type of assets you plan to buy, your trading style and your technical needs, the frequency with which you plan to negotiate and the number of services you need.

CHAPTER 6 - COMMON APPROACHES TO INVESTING

There are many ways to approach investing in equities, but most of them fall into one of three basic styles: index investing, value investing, or growth investing. These equity investment strategies follow the investor's mindset, and the strategy he uses to invest is affected by several factors such as the financial position, investment objectives, and risk tolerance of the investor.

Below, we will discuss the three basic styles or investment strategies in stocks that investors often use to approach investing in stocks.

FUNDAMENTALS OF VALUE INVESTING

In simple terms, the value investing strategy is to buy stocks of companies that the market underestimates. The goal is not to invest in unnamed companies whose potential is not recognized - which is more suitable for speculative investments on stock markets or equities. Value investors typically buy from strong companies that trade at low prices but do not, in their view, reflect the true value of the company. Value investing is about getting the best deal, similar to getting a big discount on a designer brand.

When we say that security is undervalued, it means that an analysis of its financial statements indicates that the price at which the security is traded is lower than it should be based on the intrinsic value of the company. This may be indicated by factors such as a low price-to-book ratio and a high dividend yield, which represents the number of dividends a company pays each year relative to the price of each share.

Market valuations are not always correct and, as a result, equities are generally traded at less than their real value, at least for a given period. If you pursue a valuable investment strategy, the goal is to continue these undervalued stocks and accumulate them at a favorable price.

VALUE INVESTING LONG-TERM

The value investing strategy is simple, but the practice of this method is more complicated than you think, especially if you use it as a long-term strategy. It is important to avoid the temptation to make quick money based on market trends. A value investing strategy is about buying strong companies that will

maintain their success and see their intrinsic value recognized by the markets.

Warren Buffet, one of the largest and most prolific value investors of the century, said, "In the short term, the market is a challenge of popularity. In the long run, a market is a weighing machine. Buffet bases stock choices on the real potential and stability of a company, looking at each company as a whole, rather than simply looking for an undervalued price attributed by the market to each company's stock. However, he still prefers to buy shares he perceives as "for sale."

UNDERSTANDING INVESTMENT STRATEGIES IN GROWTH STOCKS

For decades, investment in growth has been considered as the yin to value yang investment. Although growth investing is, in the most basic terms, the opposite of value investing, many value investors also have a growth investor mentality when choosing stocks. Investment in growth is very similar in the long term to the valuation of equity investment strategies. If you invest in stocks based on the intrinsic value of a company and its potential for future growth, you are using a growth investment strategy.

Growth investors are distinguished from value investors by their focus on young companies that have shown their significant, above-average growth potential. Growing investors are interested in companies that have repeatedly shown signs of growth and substantial or rapid increases in their business and profits.

The typical theory behind growth investing is that an increase in stock prices will then reflect the growth of profits or revenues generated by a business. Unlike value investors, growth-oriented investors can buy equities that are equal to or greater than the company's current intrinsic value, based on the belief that a high growth rate will significantly increase the intrinsic value of society growth well above the current share price of the stock.

Preferred financial indicators used by growing investors include EPS, profit margin, and ROE.

A FUSION OF VALUE AND GROWTH

If you are considering a long-term investment approach, a value-building and growth investment, such as the Buffet uses so effectively, can be worth your

attention. There are good reasons to back up these equity investment strategies.

Historically, value stocks are generally shares of companies in cyclical industries, largely comprised of companies producing goods and services for which individuals use their discretionary income. The airline industry is a good example. People steal more when the business cycle is on the rise and less so when they change because they have larger and less discretionary incomes, respectively. Due to seasonality, value stocks generally perform well in the market during periods of economic recovery and prosperity but are likely to lag when a bull market is sustained over a long period.

Growth stocks often perform better when interest rates fall, and business profits take off. They are also generally stocks that continue to grow even in the final stages of a long-term bull market. On the other hand, they are usually the first stocks to be affected by the slowdown in the economy.

A merger of growth and value investing allows you to achieve higher returns while significantly reducing your risk. Theoretically, if you use a value-oriented investment strategy to buy stocks while using a growth investment strategy to buy other stocks, you can generate optimal earnings during virtually any business cycle, and fluctuations in returns are more likely to balance out favor over time.

PASSIVE INDEX INVESTING

Index investing is a much more passive way of investing than investing in value or growth. As a result, this involves much less work and strategy on the part of the investor. Index investing broadly diversifies investor money among various types of stocks, in the hope of generating the same returns as the general stock market. One of the main benefits of index investing is that many studies have shown that few individual stock selection strategies outperform long-term index investments.

An investment usually follows an index investment strategy in mutual funds or exchange-traded funds designed to reflect the performance of a large stock market index such as the S & P 500 or the FTSE 100.

FIND YOUR PATH

Each investor must discover his investment strategies in own shares that best

fit his individual needs, as well as his investment of "personality." You may find that the combination of the three approaches discussed here is the one that suits you best.

The investment strategy or strategies you use often change throughout your life, as your financial situation and goals change. Do not be afraid to upset and diversify your investment patterns, but always try to understand what your investment approach is and how it will affect your portfolio and finances.

INVESTMENT STRATEGIES TO LEARN BEFORE TRADING

The greatest thing about investment strategies is that they are flexible. If you choose one and it does not suit your tolerance or risk program, you can certainly make changes. But be warned: it can be expensive. Each purchase carries a fee. More importantly, the sale of assets can create a realized capital gain. These gains are taxable and therefore, expensive.

We examine here four common investment strategies that are suitable for most investors. By taking your time to understand the characteristics of all, you will be in a better position to choose the one that suits you best in the long term without having to incur course change fees.

Before you start

Before you start researching your investment strategy, it is important to gather basic information about your financial situation. Ask yourself these key questions:

- What is your current financial situation?
- What is your cost of living, including your monthly expenses and your debt?
- How much can you invest - both initially and continuously?

You do not require much money to start, but do not start if you cannot do it.

Then set your goals. Everyone has different needs, so you need to determine which ones are yours. Do you intend to save for retirement? Do you want to make big purchases, like a house or a car, in the future? Or do you save for your education or that of your children? This will help you refine a strategy.

Find out what your risk tolerance is. This is usually determined by several key factors, including your age, income, and years of retirement. Technically, the older you are, the less the risk you can take. Lower risk means that gains will not be realized as quickly, while more risk means higher returns. But keep in mind that high-risk investments also mean that the potential for loss is also greater.

Finally, learn the fundamentals. It's better to have a fundamental understanding of what you are engaging in, so you do not invest blindly. Ask and continue reading to learn about some of the best strategies.

Strategy 1: Value Investing

Value investors are privileged buyers. They are looking for actions they consider undervalued. They are looking for prices that, in their view, do not fully reflect the intrinsic value of the security. Value investing is partly based on the idea that there is some degree of irrationality in the market. This irrationality, in theory, offers the possibility to act at a reduced price and to earn money.

Valuable investors do not need to search through volumes of financial data to find bids. Thousands of "valuable" mutual funds offer investors the opportunity to own a basket of stocks that are considered undervalued. The Russell 1000 Value Index, for instance, is a popular benchmark for value investors, and many mutual funds mimic this index.

As noted above, investors can change their strategy at any time, but it can be expensive, especially as a value investor. Nevertheless, many investors have abandoned this strategy after a few years of underperformance. In 2014, for instance, as Wall Street Journal reporter Jason Zweig said, "Over the decade ending December 31, high-value equity funds earned an average of 6.7% a year. But the typical investor in these funds earned only 5.5% a year." Why did this happen? Because many have decided to cut and run. To make the investment profitable, you have to play for a long time.

But if you are one of the true value investors, you should not be persuaded to stay in the long run because this strategy is intended around the idea of buying companies - not stocks. This means that the investor should consider the situation as a whole, not a temporary stun performance. The legendary investor Warren Buffet is often cited as the embodiment of a value investor. He does his assignment - sometimes for years - but when he does, he gets

involved and makes a long-term commitment.

Take, for example, Buffett's remarks when he made a substantial investment in the airline industry. He explained that airlines "have had a bad first century." So, he said, "And I hope the century is over." This reflection largely illustrates the value investing approach. The choices are based on decades of trends and decades of future performance.

For those who do not have the time to conduct exhaustive surveys, the price-earnings ratio (P / E) has become the main tool for quickly identifying undervalued or cheap stocks. This is a unique number resulting from dividing the price of a share by its earnings per share. A lower P / E ratio means you pay less for $ 1 of current earnings. Value investors look for companies with a low P / L ratio.

Although the use of the P / E ratio is a good start, some experts warned that this measure alone was not enough to make the strategy work. A study in the Financial Analysts Journal found that "quantitative investment strategies based on such ratios do not replace value-oriented investment strategies that use a comprehensive approach to identify undervalued securities." The reason is that investors are attracted by low P / L stocks based on temporarily inflated accounting numbers. These low numbers often result from a falsely high earnings value (the denominator). When actual earnings are reported (not just expected), they are usually smaller. This translates into a "reversal of the average." The ratio P / E increases, and the value sought by the investor is gone.

If the use of the P / E ratio alone is imperfect, what should an investor do to find stocks with real value? The researchers suggest that "quantitative approaches to detecting such distortions, such as the combination of stereotyped value with measures of momentum, quality, and cost-effectiveness - can help avoid these" value traps."

The message here implies that value investing can work as long as the investor (a) invests in it over the long term and (b) is willing to put serious effort and research into selecting securities.

Those who are willing to work and stay can win. A Dodge & Cox study found that value strategies almost always outperform growth strategies "over a decade or more." The study explains that value strategies outperform

growth strategies for ten years in just three periods. Last 90 years. These periods are the Great Depression (1929-1939 / 40), the technology exchange bubble (1989-1999) and the period 2004-2014 / 15.

Strategy 2: Growth Investing

Instead of looking for low-cost offers, growing investors want investments with the high-profit potential for future earnings. It can be said that a growing investor is always looking for the "next step." Growth investments, however, are not an imprudent adoption of speculative investments. Rather, it is a question of assessing the current health of action as well as its growth potential.

A growing investor will look at the outlook for the sector in which stocks thrive. For example, you might ask if there is a future for electric vehicles before investing in Tesla. You may also wonder if A.I. will become an everyday accessory before investing in a technology firm. There must be evidence of a robust and widespread appetite for the services or products of society if it wishes to grow. Investors can answer this question based on recent history. In simple terms: a growth stock must be growing. The company must have a consistent upward trend in earnings and revenues, which means a capacity to meet growth expectations.

The lack of dividends is a disadvantage of investing in growth. If a firm is in growth mode, it often needs capital to continue its expansion. This does not leave much (or no) money for dividend payments. Also, with faster earnings growth, more valuations are, for most investors, a riskier proposition.

Does investment in growth work? As the research above indicates, long-term value investments tend to outweigh growth investments. These results do not mean that a growth investor cannot profit from the strategy; it simply means that a growth strategy does not generally generate the level of return observed with the value investment. However, according to a study by the Stern School of Business at New York University, "even if growth investments exceed value investments, especially over long periods, it is also true that there are - periods growth dominates. ", determines when these" sub-periods "will occur.

Interestingly, determining the periods in which a growth strategy is ready to be implemented may involve observing gross domestic product (GDP). Take time between 2000 and 2015, when a growth strategy outperformed a seven-year value strategy (2007-2009, 2011 and 2013-2015). In five of these years,

the GDP growth rate was less than 2%. In the meantime, a value strategy has been won in nine years, and, in seven of those years, GDP has exceeded 2%. It is therefore logical that a growth strategy can be more effective in times of declining GDP.

Some critics of the growth sector believe that "growth at any cost" is a dangerous approach. This dynamic gave birth to the technology bubble that sprayed millions of portfolios. We are currently in a period of growth. "Over the past decade, mid-growth stocks have returned 159% versus only 89% of the value," according to Money Magazine's Investor's Guide 2018.

Although there is no definitive list of strict parameters to guide a growth strategy, an investor should consider certain factors. A Merrill Lynch study, for example, found that growth stocks outnumbered periods of falling interest rates. It is essential to be aware that, at the first sign of a slowdown in the economy, growth stocks are occasionally the first to be affected.

Growing investors must also carefully consider the prowess of the management team of a company at the management level. Growth is among the most difficult issues for a business. Therefore, a stellar management team is required. Investors should consider how the team works and how it will grow. Growth is of little value if it is made with large loans. At the same time, investors must evaluate the competition. A company may be experiencing stellar growth, but if its main product is easily replicated, the long-term outlook is slim.

GoPro has been a great example of this phenomenon. Already, high-quality stocks have seen a steady decline in their annual revenues since 2015. "In the months following the first, equities more than tripled the IPO price from $ 24 to $ 87," reported the Wall Street Journal. But in recent months, stocks have traded well below the IPO price. Much of this is attributed to the easily reproduced design. After all, GoPro is a small camera in a box. The growing popularity and quality of smartphone cameras offer an inexpensive alternative at the US $ 400-600 for essentially single-use equipment. Also, the company has failed to design and launch new products, an essential step to support its growth.

Strategy 3: Momentum Investing

Impulsive investors are riding the wave. They believe winners will continue to win, and losers will continue to lose. As a result, they are looking to buy

stocks with an uptrend. Because they believe losers will continue to fall, they can choose to sell these securities short. However, short selling is an extremely risky practice - we'll talk about it later.

Impulse investors can be considered "technical analysts." This means they use a strictly data-based trading approach and look for stock price models to guide their buying decisions. As a result, momentary investors challenge the market efficiency assumption. This hypothesis asserts that asset prices fully reflect all information available to the public. It is difficult to believe this statement and to be an investor at the moment, as the strategy seeks to capitalize undervalued and overvalued stocks.

Does it work? The answer is complicated, as is the case with so many other investment styles. Let's take a closer look.

Rob Arnott, president and founder of Research Affiliates, has studied this problem. His discovery: "No US mutual fund that bears his name since its inception has exceeded its benchmark."

It is interesting to note that Arnott's research has also shown that simulated portfolios implementing a dynamic investment strategy in theory "bring outstanding value in most periods and across most asset classes." In a real scenario, the results are bad. Why In two words: transaction costs. All these purchases and sales result in many brokerage and commission fees.

Merchants who adhere to a momentum strategy must be available and ready to buy and sell at any time. Profits accumulate over months, not years. This contrasts with simple buying and holding strategies that take a "define and forget" approach.

For those who take their lunch breaks or have no interest in watching the market every day, there are momentum-style exchange-traded funds. These shares give the investor access to a basket of shares that are considered characteristic of the momentum bonds.

Despite some of its weaknesses, momentary investment has its appeal. Consider, for instance, that "the MSCI World momentum index has recorded average annual earnings of 7.3% over the past two decades, almost double the broader benchmark." However, it is unlikely that this return will take into account costs and trading time required for the execution.

Recent research proved that it is possible to actively negotiate an impulse strategy without resorting to full-time negotiation and research. Using US data from the New York Stock Exchange (NYSE) between 1991 and 2010, a 2015 study found that a simplified momentum strategy outperformed the benchmark even after accounting for transaction costs. Also, a minimum investment of $ 5,000 was enough to realize the benefits.

The same study found that comparing this basic strategy with one of the most common and smaller occupations showed that it outperformed, but only to a certain extent. Sooner or later, the costs of trading of a fast approach have increased returns. Better yet, the researchers determined that "the optimal frequency of current transactions varies from biennale to monthly," a surprisingly reasonable pace.

As mentioned earlier, dynamic traders can also use short selling to increase their returns. This technique allows an investor to benefit from lowering the price of an asset. For example, the seller - believing that security will fall in price - borrows 50 shares for a total of 100 USD. The short seller immediately sells these shares to the market for $ 100 and then waits for the shares to fall. When that happens, they buy back the 50 shares (to give back to the lender), for example, at $ 25. The short-term seller, therefore, earned $ 100 on the initial sale and then spent $ 25 to obtain the shares back for a $ 75 profit.

The issue with this strategy is that there is a risk of an unlimited drop. In normal investments, the risk is the total value of your investment. If you invest 100 USD, the maximum you can lose is 100 USD. However, with short selling, your highest possible loss is unlimited. In the scenario above, for instance, you borrow 50 stocks and sell them for 100 USD. However, the action may not fall as expected. Instead, he goes up.

The 50 shares are valued at $ 150, then $ 200, and so on. Sooner or later, the short seller must redeem the shares to return them to the lender. If stock prices continue to rise, it will be an expensive proposition.

In summary, a momentum strategy can be profitable, but it is not about the risk of unlimited downside associated with short selling.

Strategy 4: Dollar-Cost Averaging

The average dollar cost (DCA) - or the practice of making regular

investments in the market over time - is not mutually exclusive of the methods described above. Rather, it is a way to execute the strategy you have chosen. With DCA, for example, you can choose to put $ 300 into an investment account every month. This disciplined approach becomes especially powerful when you use automated resources that invest for you. It is easy to engage in a plan when the process requires almost no supervision.

The advantage of DCA is to avoid a painful and failing market timing strategy. Even seasoned investors are sometimes tempted to buy when they think the prices are low to know, to their astonishment, that they still have a long way to go.

When investments are made in regular increments, the investor records prices at all levels, from top to bottom. These periodic investments effectively reduce the average cost per unit of purchases. The implementation of DCA involves choosing three parameters: the total amount to invest, the time window during which the investments will be acquired, and the frequency of purchases.

The average dollar cost is a wise choice for most investors. It let you save money by reducing the risks and the effects of volatility. But for those who can invest a lump sum, DCA may not be the best approach.

According to a 2012 study by Vanguard, "On average, we found that an LSI (Fixed Investment) approach outperformed the DCA approach about two-thirds of the time, even when the results are adjusted for higher volatility of an equity/bond portfolio compared to cash investments. "

But most investors are not able to make a single large investment. Therefore, DCA is suitable for the most part. Also, a DCA approach is an effective countermeasure to the cognitive bias inherent in humans. New investors and experienced investors are subject to errors in judgment. The "loss aversion bias," for example, allows us to see the gain or loss of a sum of money asymmetrically. Also, the "confirmation bias" leads us to focus on information that confirms our old beliefs and to ignore conflicting information that may be important.

The average cost of the dollar eliminates these human weaknesses by eliminating human weaknesses. Regular and automated investments prevent spontaneous and illogical behavior. The same Vanguard study revealed: "If

the investor is primarily looking to minimize the risk of loss and possible feelings of regret (resulting from an immediate investment just before a market downturn), then DCA can be helpful."

ONCE YOU HAVE IDENTIFIED YOUR STRATEGY

So, you have reduced your strategy - great! However, you still have a few things to do before making the first deposit on your investment account.

Start by calculating the amount you will need to cover your investments. This includes how much you can deposit early and how much you can continue to invest in the future.

You will then have to decide the best way to invest. Do you intend to use a financial advisor or a traditional broker or is a passive and worry-free approach more appropriate for you? If you choose the latter, consider a robot advisor. This will help you determine the cost of commission management fees that you will pay to your dealer or consultant. Do not forget the 401ks sponsored by the employer; it's a great way to start investing. Most companies will allow you to invest a portion of your salary and protect it without taxes, and many will match your contributions. You will not even notice why you should not do anything.

Consider your investment vehicles. Remember that it is not helpful to keep your eggs in one basket. So be sure to spread your money between different diversified investment vehicles - stocks, bonds, mutual funds, ETFs. If you are a socially conscious individual, you can consider a responsible investment. Now is the time to determine how your investment portfolio should be composed and what it will look like.

Lastly, investing is a roller coaster, so keep your emotions under control. It may seem incredible when your investments yield money, but when they suffer a loss, they can be difficult to manage. That's why it's important to step back, take your emotions out of the equation, and regularly review your investments with your advisor to make sure they're on the right track.

The decision to select a strategy is more important than the strategy itself. Each of these strategies can generate significant returns as long as the investor chooses and commits to doing so. The reason why it is important to choose is that the sooner you start, the more important the effects of composition are.

Remember, do not focus solely on annual returns when choosing a strategy. Take the right approach for your schedule and risk tolerance. Disregarding these aspects can lead to a high dropout rate and frequently modified strategies. And, as noted above, many changes generate costs that affect your annual rate of return.

CHAPTER 7- BEFORE BUYING STOCKS

Before we get into actual stock market trading, whether actively or passively, there are some things we'll need to tackle to make it much easier for you to learn how to trade stocks much easier. By learning the following, you can greatly accelerate your stock trading learning curve.

TERMINOLOGIES

Unless you familiarize yourself with the terminologies used in stock trading, you might have a harder than usual time learning the ropes of the trade. Some of these terminologies include buy and hold, long, short, bid, offer, resistance, support, etc. A good website to learn some of the most important terminologies you need to know as a beginner can be found at http://www.visualcapitalist.com/40-stock-market-terms-every-beginner-know/ .

FEEL THE TRADE

There's a reason why basketball players warm up at least 30 minutes before an actual game by doing round robins and shooting hoops: to be able to hit the ground running once game time starts. It's the same with learning to trade stocks regardless if actively or passively. But how can you do it in a way that won't cost you money?

By simulating trades. What I mean by this is by choosing stocks to include in your theoretical portfolio and pretending to actively or passively trade or invest in them. For example, you chose to get Apple stocks for your portfolio today. Use the previous day's closing price as your buying price to make it more objective. If at some point you choose to sell your theoretical portfolio, use the closing price from the last trading day before the day you want to sell as your selling price. That way, you get an actual feel of the market without having to put in the money.

CHOOSE YOUR TIME FRAME

The clearer your investment time frame is, the better you can choose between an active and a passive approach to stock market trading. If you want to invest in the long-term, a passive investment approach can work better for you. If shorter, then a trading one may work better. And more than just

choosing your time frame, you must stick to it. An always-changing time frame will not work.

DIVERSIFICATION

We have talked about this already, but the fact that I'm repeating it means it's that important. Therefore, by diversification, I'd say go for at least three stocks from 3 different industries to start. As mentioned earlier, diversifying across different companies in the same industry is pretty much not diversifying at all.

LEARN FROM OTHERS

While this book will certainly help you go a long way in terms of learning how to make money from the stock market, nothing else can help you cut your learning curve by being under the direct tutelage of someone who's already a veteran in the art of stock market investing. Why? Unlike this book or other learning materials, you can directly ask questions from a personal mentor and get answers in real-time! As a result, if you know someone who is already adept at this thing, consider being under his or her mentoring to fast-track your stock market investing success.

KNOW YOUR LIMITS

Every person is different, and that goes for risk tolerance as well. Risk tolerance refers to how much risk you're comfortably able to take and can take. It's no different from buying a brand-new smartphone: you buy only what you can afford. With investments, invest only an amount that you're comfortable losing or not having access to for the duration of your investment time frame. By sticking to your limits, your chances of being able to earn good returns on your investment are much higher.

For example, if halfway through your investment time frame the prices of the stocks you bought go below your acquisition cost, and you register paper losses, you can wait for prices to recover during the second half of your investment time frame. And if by then they still haven't recovered, your finances won't be significantly affected if you limited your investment amount to that which you're comfortable losing.

MONITOR THE MARKET

Whether you opt for a passive or an active approach to stock market trading,

you'd be best served to monitor the prices of your stocks and the market in general regularly. Doing so can help you make informed decisions much better, regardless if frequently or sparingly. Hence, when opportunities and threats arise, you can take advantage of them and avoid them, respectively at the soonest possible times.

CHAPTER 8 – PICKING YOUR BROKER

To be able to trade, i.e., buy and sell, shares of publicly traded stocks over major stock exchanges such as the NASDAQ and the NYSE, you will have to engage the services of an exchange-accredited stockbroking company. To do so, you'll need to open an account with them. With so many brokerage companies to choose from, it may feel overwhelming, and the temptation to draw lots can be very strong. But that's not a very good way to go about it because certain types of brokerage firms may be better for you than others. You must make an informed choice and not just a random one to make the most out of your stock trading activities.

What are the things you should consider when choosing a stock brokerage company to trade with? Aside from being accredited with your preferred stock exchange, you should also consider the minimum deposit requirements for trading with a stock brokerage company. Some firms require only a minimum of $1,000, while others have a much higher requirement.

Another consideration should be transaction fees, and when it comes to such, the degree of services available determines how high or low they'd be. Stock brokerage companies come in 2 general kinds: discount and full-service brokerages. Discount brokerages - as the name implies - charge way lower fees than full-service ones. But as you may also have surmised, they range of services they will offer you will not be that extensive. Some of the services you'll miss out on as a rookie stock investor when you engage the services of a discount broker include advice in terms of which stocks to buy and sell when to buy and sell them, and other practical advice that can help you make better stock trading decisions as a newbie. They're like a self-service convenience store: you're pretty much on your own.

But the major appeal of discount brokers - especially for those who are already self-sufficient when it comes to trading stocks - is the low minimum initial deposit requirement. Most discount brokers only require $1,000, but some either require much less or even waive the deposit altogether. But be wary that in exchange for ditching the minimum deposit requirement, some discount brokers may require you to pay higher charges for certain kinds of transactions. Be sure to read the fine print. Share builder is one of the top discount brokerage companies in the United States, which also allows clients

to use their site to trade stocks online.

As you may have guessed, full-service brokerage companies are those that provide all services that you may need when it comes to stock market trading, which includes information and advice on which stocks to buy and sell and when to buy and sell them. But the trade-off here is cost. Because these things don't come for free, full-service brokers often charge substantially higher transactions fees. As such, their clients are usually from the upper economic strata, i.e., the rich peoples of the world. To give you a great idea of how rich most clients of full-service brokers are, they usually require a minimum of $50,000 to be maintained in an account.

And speaking of transactions costs, the average transaction fee charged by discount brokers range from $10 to $30, which will be something you should factor in your stock trading decisions. These fees will increase your buying cost, and your minimum required selling price, which will be added to your purchase cost and deducted from the proceeds of your sales.

Diversification requires that you'll engage in more transactions, which will increase your investment costs by way of transaction fees, i.e., commissions. But such is the price of minimizing your market risk through diversification. To minimize your costs as a beginner, it's better to stick to just three stocks from 3 different industries as you start to embark on your stock market investing journey.

Lastly, choose a broker with a good online trading facility. And by good, I mean fast and reliable access to the stock exchange you'd like to trade-in. You can get important information to help you evaluate this aspect - and others - of available stockbrokers in the United States at https://www.stockbrokers.com/guides/online-stock-brokers .

CHAPTER 9– CHOOSING YOUR STOCK

Ok, this is it! You should now get a feel for the market by choosing your first three stocks! And to do this, we'll tackle two basic approaches to analyzing stocks: Fundamental and Technical analysis.

FUNDAMENTAL ANALYSIS

Fundamental analysis is a way of evaluating whether or not a stock is worth buying or selling using financial statement data and to some extent, economic data. The main questions that fundamental analysis seeks to answer when it comes to choosing stocks to buy or sell are:

- How profitable is the company now?
- How profitable will the company most likely be in the future?
- How much is the company worth now?
- How much will the company most likely be in the future?

When answering the first two questions, the most important financial data to look at are earnings-per-share, return on equity, and return on investment. In most cases, these data are available on your online broker's platform or through financial websites such as Reuters, Bloomberg, or Yahoo Finance. But in case you're wondering how they're computed and what they convey:

- Earnings-Per-Share (EPS) is computed by dividing the company's latest annual net income after taxes over the number of shares outstanding. EPS tells you how much profit a share of stock of a certain company made in dollar terms. The higher the EPS, the better.
- Return On Investment (ROI) is computed by dividing the company's latest EPS over the current market price of a stock. Expressed in percentage terms, this datum tells you how much return a share of stock generated for a specific time frame. If the EPS used was computed based on the latest annual income, then the ROI would tell you how much return a share of stock was able to generate for last year based on current market price. The higher the ROI, the better.

- Return On Equity (ROE) is computed by dividing net income after taxes over total shareholder equity. This datum - also expressed in percentage terms - tells you how much return a company has made using its equity or capital. The higher the ROE, the better.

To answer the last two questions on worth, the most relevant financial data to use are the price-to-earnings ratio and book value per share. Here's how to compute for them and what they convey:

- Price-Earnings (PE) Ratio is derived by dividing the current market price over the stock's EPS. Expressed in "times," this ratio tells you how much investors are generally willing to pay for a chance to earn a specific EPS. For example, if the current price of Apple stocks is $100/share, and the latest annual EPS was $10/share, then $100 divided by $10 would yield ten times or 10x. This means that currently, investors are willing to pay ten times the EPS of Apple's stocks to have a crack at said EPS. In simpler terms, investors are generally willing to pay $1.00 to earn 10 cents per share of Apple's stock.

For the PE ratio, the lower, the better. Why? A higher PE ratio means a stock is more expensive than another with a lower PE ratio. Remember, the PE ratio tells you how much more than the actual EPS of stock investors are willing to pay for. So, the higher the PE ratio, the higher the amount one will need to pay to earn a specific amount of EPS. The ideal PE ratio for buying stocks is ten times or below, which means a stock is selling for cheap.

- Book Value per Share is computed by dividing stockholders' equity over a total number of shares outstanding. Expressed in dollar terms, this tells you the actual accounting value of each share of stock of a company, which will most probably be different from the market price. For this, the lower, the better. Why? If your objective is to buy at a low price and sell it at a higher one, wouldn't a lower price, i.e., book value, make the stock a much better deal?

Fundamental analysis is more concerned with identifying which stocks to

buy. It provides a reasonable basis for choosing them because it establishes actual financial values. However, just because the fundamentals validate the value of a stock doesn't mean it's the best time to buy them.

TECHNICAL ANALYSIS

Technical analysis complements fundamental analysis by answering the question of when to buy or sell stocks. In a way, technical analysis tries to estimate the general mindset of the market, i.e., the investors that comprise the market and based on such estimation, provides signals for timing stock market trades.

Remember our discussion earlier about how a stock's price and its value are two different things because the former reflects what the market believes a share of stock is worth, while the latter reflects a share of stock's actual worth? If fundamental analysis answers the question of a stock's actual worth based on financial data, technical analysis gives you an idea of what the market thinks that worth is and more importantly, if the price of a stock will continue its present trend (going up or going down) or if the trend will reverse soon. Knowing these things can help you time your trades well and increase your chances of consistently making money from the stock market.

When discussing technical analysis, there are only 2 data that's relevant: historical price and historical volume (shares traded). And there are two general ways that technical analysis can be used to time your trades: through price charts and statistical indicators.

With price charts, a specific stock's historical prices are plotted to create a graph that goes up and down but with a very general trend, i.e., upward or downward. These price points - when graphed - produce patterns that can help you get an idea about how the market is feeling and acting on a share of stock. These patterns are classified as continuation and reversal patterns.

Continuation patterns convey the idea that whatever the current price trend is for a particular share of stock is, you can reasonably expect it to continue. Examples of continuation patterns include triangles, flags, and rectangles. So, when you see a specific stock price's pattern form any of these, you can reasonably expect its price to continue its current trend, i.e., upward or downward.

Reversal patterns convey the idea that you can reasonably expect a trend

reversal to happen soon. Typically, such patterns involve breaches of support and resistance levels. Support levels refer to price points at which a stock's price bounces from after falling and from where it resumes its upward trend. Typically, when prices breach a support level (identified by drawing what's called as support lines) when it drops by a substantial percentage below said level, it's taken as a sign that the market has changed its mind about that stock and that it's the stock price is now on a downtrend. Therefore, if the price of a stock has gone below its support level by a significant amount, then it's a signal that you should sell your stock already.

A resistance level is an upper limit price point from which a stock's price bounces from and resumes its downward trend. You can think of resistance levels as the ceiling of your house and the price of your stock as a balloon. As you let it go from the ground, it zooms upward, and as it hits the ceiling, it would bounce back down a bit and resume its upward motion to hit the ceiling again. But if the ceiling suddenly disappears, the balloon will start to go up continuously. In the same manner, once a downward trending price breaches the established resistance levels by a significant amount, it's often taken as a signal that the downtrend has ended, and the price is now trending upward.

Some of the most popular reversal patterns include head and shoulders (upward trend reversing to downward), reverse head and shoulders (downward trend reversing to upward), double top and triple tops (both are upward trends reversing to downward), double and triple bottoms (both are downward trends reversing to upward), rounding top (upward reversing to downward), and rounding bottom (downward reversing to upward).

TECHNICAL OR FUNDAMENTAL ANALYSIS: WHICH IS SUPERIOR?

Ever since I can remember, fanatics of the two types of analysis would wage war against each other, claiming one is superior over the other. So, in the battle of the analyses, who is the clear winner? For that, let's consider the strengths and weaknesses of both, and after that, I'll tell you who the clear winner is.

One of the major considerations for answering this question is the data needed to perform each type of analysis. One of the superpowers of technical analysis is you only need two kinds of data: historical prices and trading

volume. If you stick to basic chart pattern reading, all you'll need are historical prices. And the best part of needing only historical prices and trading volumes is that both are readily available in major online platforms such as Reuters, Bloomberg, Yahoo! Finance, NASDAQ, and NYSE. In most cases, the charts are already plotted, and the statistical indicators are already computed on a real-time basis on these platforms, so all you'll need to do is process the information and make a decision.

Contrast that with fundamental analysis, which will require relatively more financial data that's usually neither easily accessible nor timely. Take, for example, the ROE. For that, you'll need to have data on its net income after taxes and the total outstanding number of shares, which isn't always readily available - at least on a real-time basis. What you'll usually find on major platforms are figures based on the previous calendar year, and in some cases, current ROE, ROI, EPS, and PE ratios are annualized or adjusted to assume the current year's ending figures. This round goes to technical analysis.

Another important consideration is intrinsic or objective values that can serve as a barometer for the wisdom of buying or selling shares of stocks. Let's take, for example, the book value per share (BVPS), which tells you in objective dollar terms how much a share of stock is worth. Remember that BVPS is computed as total stockholders' equity, which is the actual dollar value of a firm) divided by the number of outstanding shares. So if the current market price is $20.00/share and the BVPS is only $5.00, that should give you an idea of how overpriced a particular stock is. Or if the BVPS is $10.00 and the current market price is $5.00/share, that's a solid indicator that the stock is selling for a very cheap price - a bargain if you will!

Technical analysis, on the other hand, relies only on market psychology, i.e., estimation of herd-think. It doesn't let you know whether or not the price at which a stock price is trading is sensible or not. It just tells you if the price is either going up or down. That's it. It may be that the current market price is about 100 times the BVPS, but people are still snapping up the stock anyway, which means that there may be nothing in the stock but speculation. As such, this round goes to fundamental analysis.

So, it seems that the score is tied. But which should you consider more important: what the market thinks or what the actual financial data say? I'd say both are important! Why?

All you'll care about is making money off the stocks you buy, which means it's all about buying stocks that the market believes will continue going up in value over in the near and distant future, depending on your investment or trading time frame. To this extent, it may seem that technical analysis is the only analysis that matters.

Wrong.

You see, technical analysis doesn't give you a basis for believing that a specific trend for a specific stock will continue to hold. It doesn't give you an idea if the reason for the rise or the fall in prices of stocks has a solid basis or if it's purely speculation. If there's a solid basis for the trend, which is what fundamental analysis can give you, the possibility of that trend being sustained over the long haul will be much higher compared to if the trend's lacking in any solid basis, i.e., purely based on speculation. Any trend based on speculation is bound to crash and burn soon, and when it does, you may be left with substantial losses that you'll be challenged to recover in near to medium term. That's why fundamental analysis is equally important as technical analysis. They're like hands of champion boxers like Manny Pacquiao and Floyd Mayweather: they need both left and right hands. In the same manner that it'll be very challenging to win a boxing match with just one hand, it'll be very hard to make winning trades using just one type of analysis consistently. Use fundamental analysis to identify which stocks to buy and use technical analysis to time your purchase and sales of such stocks. By using fundamental analysis to choose fundamentally sound stocks on which to use technical analysis for good timing, you can substantially increase your chances of making winning trades.

Therefore, who's the winner? It's a draw!

CHAPTER 10 – TRADING STRATEGIES

Now that you know how to choose your stocks, it's time to learn the strategies that can help you optimize your chances of earning good money from stocks. Take note that the returns on stocks aren't guaranteed and as mentioned earlier, are subject to market risks or the risk of incurring losses because of unfavorable movements or changes in stock prices. The best you can do is to use strategies that can minimize the risk and amount of possible losses and maximize your chances and the number of profits you can make.

DEFINE YOUR PROFIT GOAL AND STOP LOSS LIMITS

When it comes to stock market trading, one of the worst enemies you can have are your emotions. Believe me when I say that my emotions had gotten the better of me in the past when it came to trade in stocks, and in most cases, those moments resulted in losses. As such, it's important to have an objective basis for your trading decisions. And one of them is defining your profit goals.

If you plan to trade on a very regular basis, say daily or weekly, a relatively lower profit goal is ideal. A 5% to 10% profit target for a day or week is neither too lofty nor too low and can be achieved with timely trades. This means that when your stocks' prices reach a level where your expected profit (net of commissions from buying and selling them) reaches your profit goal, you should sell the stock already. Don't give greed the chance to lose that profit and regardless of how you feel, make it a commitment to follow your profit goals and sell once they're achieved. If you are taking the longer-term, buy-and-hold approach, you can aim for a much higher profit goal because of the relatively long-time frame.

Aside from defining your profit goals at which to sell your stocks, you should also establish a stop-loss limit, which is a price at which your maximum expected net loss - taking into consideration the commissions paid for both buying and selling the stock. How much should your stop-loss limits be? It would depend on the amount of cash you're comfortable losing. If you're comfortable with losing 5%, then let it be a rule that when your stock's price drops to a level where your expected net loss - taking into consideration the commissions for buying and selling - will be 5%, you'll sell the stock. Do it regardless of how you feel. It will help you move on faster.

Why a stop-loss limit? It's because having no such limits can worsen your losses. It's like diving off a bottomless pit. By limiting your losses, you can live to trade another day - or hour.

COST AVERAGING

This refers to a strategy wherein you bring down the average purchase cost of your stock during downward trending markets, i.e., bear markets, so that you can make it easier to make profits later on when the market reverses back to an upward trend, i.e., bull market. Here's how it works.

Let's say you bought ten shares of stocks of Apple, Inc. at $100 per share for a total buying cost of $1,000. Please take note that since this is just for illustration purposes, I have intentionally left out commissions charged by the broker and other incidental expenses. Let's say after a week, its price goes down to $90. That will give you a loss of $10 per share or a total expected loss - again, not factoring in commissions and other expenses for the sake of simplicity - of $100 or 10%. You have two ways to go about this.

First is to wait for stock prices to go back up by $10 to $100 per share so that you can break even. And if you want to make a profit of say 5%, you'll need prices to go up to $105 per share.

The other way to go about this is to use the cost-averaging strategy, in which you buy more shares of Apple, Inc. stocks at the $90 price. Let's say you bought ten more shares at $90 per share that'll cost you $900. You'll then have a total of 20 shares with a total cost of $1,900 and if you average that, your average buying cost per share would go down to only $95 from $100 originally. This is good news! Why?

Because your average buying cost drops to just $95 per share, you'll no longer have to wait for prices to go back up to $100 per share to break even. You need to wait for it to climb up to $95! Even better, when prices come back up to $100, you'll already make a profit of $100 or a 5.26% profit.

You can also use the cost averaging strategy if you choose to go long term, i.e., use the buy-and-hold stock market investing approach. Many people choose a very good stock, buy them, and buy some more as time goes by when funds become available. When the market goes up, they automatically make profits. When the market goes down, all the more they have the

opportunity to make their future profits bigger and average buying costs lower.

SHORT SELLING

As discussed earlier, you can still make money even when the prices of stocks are going down, i.e., during a bear market. How? By selling stocks, you don't have and buy them back later on at much lower prices. That is called short selling. The reason it's called short selling is that you're selling stocks that you don't have at the moment - you're short of stocks! This is how it works.

Let's say the price of Apple's stocks is on a downward trend. Say it's currently doing at $95.00 per share and based on technical analysis and market chatter, there's a very strong chance that its price will fall back down further to around $85.00 per share. You can sell 10 shares of Apple stocks you don't own yet, then buy them back later in the day or the week - depending on your arrangements with your chosen stock brokerage company - at a much lower price like $85.00 per share, which will give you a profit of about $10.00 per share or a total profit of $100. And you can do this even when prices are falling! You can only profit from short selling when prices are going down.

You may be thinking: won't I go to jail selling something I don't have? Well, you won't because technically, you won't be shortchanging your counterparties. It's because brokerage houses which allow short selling have a securities lending facility, where you can "borrow" shares of stocks that you don't have yet to sell on the market. When the price of the stock you short-sold drops further, you can buy from the market so you can pay back your broker for the shares of stock you borrowed. It's that simple. That's why short selling won't get you jailed!

BUY-AND-HOLD

This last trading strategy is the long-haul approach and is often referred to as a passive type of stock market investing, as I've explained in an earlier chapter. In case you've already forgotten, the reason why the buy-and-hold strategy's considered a passive investment strategy is that it involves much less work compared to an active trading strategy where you'll have to monitor the market frequently and execute trades. And as the name implies, all you'll need to do with this type of investing strategy is to do your initial research,

buy your stocks, and go about your life with very minimal monitoring.

With a buy-and-hold approach, you'll need to monitor your stocks every month if only to be updated. It won't even hurt you much if you monitor it once or twice a year because you're in it for the long walk and market fluctuations wouldn't matter much. The most crucial task - and probably the only cumbersome one - that you'll have to perform when with a buy-and-hold approach is the initial research. Because you won't be actively monitoring and managing stocks under this approach, you'll have to choose stocks that are fundamentally sound and have solid financial bases for substantial capital appreciation. To this end, blue-chip stocks are often the best ones to go for.

CHAPTER 11 – FROM SMALL BEGINNINGS TO GREAT WEALTH

CAN YOU MAKE MONEY IN STOCKS?

The New York Stock Exchange was launched on May 17, 1792, when 24 stockbrokers signed an agreement under a wooden tree at 68 Wall Street. Countless fortunes have been created and lost since then, while shareholders have fueled an industrial era that has created a landscape of corporations too big to fail. Insiders and leaders have benefited a lot from this mega boom, but how did the smaller shareholders, hit by the two turbines of greed and fear, behave?

Discount brokers, consultants, and other financial professionals can obtain statistics showing that equities have generated extraordinary returns for decades. However, keeping wrong stocks can also easily destroy fortunes and deprive shareholders of more lucrative profit opportunities. Also, these elements will not stop your intestinal pain during the next economic downturn, when Dow's industrial average will fall by more than 50%, as was the case between October 2007 and March 2009.

Retirement accounts such as 401 (k) and others suffered huge losses over this period, with account holders aged 56 to 65 having the most success, as those nearing retirement generally retain greater exposure in shares. The Employee Benefits Research Institute (EBRI) studied the crash in 2009, estimating that the 401 (k) accounts would take up to 10 years to recover these losses with an average annual return of 5%. This is little comfort when years of accumulated wealth and capital are lost shortly before retirement, exposing shareholders to the worst possible moment of their lives.

This troubling period highlights the impact of temperament and demographics on stock performance, with greed provoking market players to buy stocks at too high prices, while fear encourages them to sell at reduced prices. This emotional pendulum also favors the misfits who steal profits between temperament and style of ownership, as evidenced by an avid and unsuspecting crowd playing the commercial game, as it seems like the simplest way to achieve fabulous returns.

Earn money in stocks with the Buy and Hold strategy

The investment buying and holding strategy became popular in the 1990s under the umbrella of Nasdaq's four technology leaders, such as the large technology companies that financial advisors advised clients to acquire and maintain for life. Unfortunately, many people followed his advice at the end of the bull cycle by purchasing Cisco Systems Incorporations, Intel Corp. and other inflated assets that have not yet regained the high price levels of the dot-com era. Despite these setbacks, the strategy has been optimized by less volatile leading stocks, offering investors impressive annual returns.

In 2011, Raymond James and Associates released a long-term purchasing and maintenance performance study covering the 84 years from 1926 to 2010. This period was characterized by no less than three market declines, which gives more realistic indicators than most cherries picked industry data. Smaller stocks had an average annual return of 12.1% during this period, while large stocks had a modest return of 9.9%. Both asset classes outperformed government bonds, inflation, treasury bills, offering extremely beneficial investments for a rewarding life.

Equities continued to post a strong performance between 1980 and 2010, with annual returns of 11.4%. The REIT subclass outperformed the broader category, posting a return of 12.3% as the booming real estate boom contributed to the group's impressive performance. This temporal leadership emphasizes the need to carefully select stocks in a purchasing and retention matrix, either through well-developed skills or through a trusted outsourced consultant.

Large stocks underperformed between 2002 and 2010, posting a low return of 1.4%, while small stocks maintained their lead with a return of 9.6%. The results reinforce the urgency of the internal diversification of asset classes, requiring a combination of capitalization and sector exposure. Government bonds also rose during this period, but the massive flight to safety during the collapse of the 2008 economy probably distorted these numbers.

James's study identifies other common mistakes in stock portfolio diversification, noting that risk increases geometrically when exposure cannot be split between capitalization, growth versus value and key benchmarks, including the Standard & Poor's 500 Index. Also, the results make it possible to find the right balance through asset diversification, consisting of stocks and bonds. This advantage intensifies during the bearish equity markets,

which mitigates the risk of a downturn.

THE IMPORTANCE OF RISK AND RETURN

Earning money on the stock market is easier than keeping it, with predation algorithms and other internal forces generating volatility and reversals capitalizing on crowd behavior. This polarity highlights the crucial problem of annual returns as it makes no sense to buy stocks if they generate lower profits than real estate or a financial market account. While history tells us that equities can generate higher returns than other bonds, long-term profitability requires risk management and strict discipline to avoid traps and periodic overruns.

Modern portfolio theory offers an essential model of risk perception and wealth management, whether you are a novice investor or have accumulated significant capital. Diversification provides the basis for this classic market approach by warning long-term players that are relying on and owning to a single asset class carries a much greater risk than a basket of equities, commodities, real estate and other types of assets.

Also recognize that the risk comes in two distinct flavors, systematic and unsystematic. The systematic risk of wars, recessions, and events related to black swans generates a strong correlation between various types of assets, which undermines the positive impact of diversification. Non-systematic risk avoids inherent risk when individual companies do not meet Wall Street's expectations or engage in a paradigm shift event such as the food poisoning epidemic that toppled more than 500 points of Chipotle Mexican Grill Inc. 2015 and 2017.

Many individuals and consultants face non-systematic risks by using ETFs or mutual funds instead of individual stocks. Index investing offers a popular alternative, limiting exposure to the S & P 500, Russell 2000, Nasdaq 100, and other important benchmarks. Both approaches diminish but do not eliminate the non-systematic risk because unrelated catalysts can demonstrate a strong correlation with market or industry capitalization, causing shockwaves that simultaneously affect thousands of stocks. Arbitrage between markets and asset classes using high-speed algorithms can expand and distort this correlation, generating all kinds of illogical price behavior.

COMMON MISTAKES OF INVESTORS

The 2011 study conducted by Raymond James revealed that individual investors underperformed the S & P 500 between 1988 and 2008, with the index posting an annual return of 8.4%, compared to 1.9% for individuals. The most serious mistakes of investors have been segmented as follows:

Key findings highlight the need for a well-constructed portfolio of a specialized investment advisor, which allocates risk across different asset types and shares subclasses. A higher shareholder or fundraiser may outweigh the natural benefits of asset allocation, but sustained performance requires considerable time and effort in terms of research, signal generation, and aggressive position management. Even skilled market players struggle to maintain this level of intensity over the years or decades, making distribution more appropriate in most cases.

However, the allocation is less logical for small trading accounts and retirement accounts that must constitute considerable capital before engaging in real wealth management. Low strategic exposure to equities can generate higher returns in these circumstances, while the creation of accounts through employer pay and payroll deductions is the largest share of capital. Even this approach poses considerable risks, as individuals may become impatient and overreact, making the second most damaging mistake of trying to plan the market.

Market professionals have spent decades perfecting their craft, watching the band for thousands of hours, identifying repetitive behaviors that result in lucrative entry and exit strategies. Timers understand the opposite nature of the cyclical nature of the market and how to take advantage of greed or fear-driven behavior. On the other hand, the average investor cannot understand the cyclical nature of the market movement, often purchasing too high or selling too low. As a result, your market timing decisions are detrimental to long-term returns while draining your self-confidence, adding a psychological barrier that is difficult to overcome.

Investors want to believe in the firms they own, but the affair can be detrimental because it encourages overexposure on a few stocks, which greatly increases the risk of non-systematic while making them blind to the negative catalysts that change the terrain. We are fascinated by beautiful stories about the purchase and maintenance of Apple or Amazon and look forward to the big slaughter we can brag about at the next family reunion.

Unfortunately, information stocks that change paradigms are rare and require a shareholder approach to share ownership rather than a gunslinger strategy that aims for the next step. This is difficult to achieve in our social media-dominated environment, where the stocks attract a quasi-religious cult, while the messages quietly fill the comment sections with false information.

KNOW THE DIFFERENCE: TRADING VERSUS INVESTING

For many people, 401 (k) employer programs are the first opportunity to play on the stock market. These accounts encourage purchase and maintenance strategies, with annual allocations that can be difficult or impossible to change in the middle of the year. Equity opportunities develop geographically after years of wealth creation, generating the capital needed to open an independent brokerage account or to make funds available to a trusted advisor. Task changes are added to these options, with access to self-managed IRA substitution accounts.

Commercial speculation and short-term speculation become viable alternatives in these favorable circumstances, taking part in all free capital and seeking to profit from the movement of technical prices, news flow or sentimental changes. Endless jokes about extraordinary profits and thousands of websites are mobilizing billions of dollars in these strategies, which seems more exciting than splitting a retirement account between stocks and bonds and moving away for a decade. However, the vast majority of traders are doomed to fail, often losing all their shares in the blink of an eye.

As in the marketplace, profitable trading requires full-time engagement, which is almost impossible when working outside the financial services industry. Industry members view their profession with as much respect as the surgeon, who monitors every dollar spent and his response to market forces. They understand the enormous risk of massive collisions and have enough time to escape the challenge of profit thieving games triggered by predatory algorithms and insiders.

In 2001, the Journal of Finance published a study from the University of California, Davis, which discusses the common myths attributed to commercial gaming. The authors interviewed more than 66,000 households, noting that their activity generated an annual return of 11.4% between 1991 and 1996, compared with 17.9% for the general reference indices. They also

note that net returns declined directly relative to sales, the number of times shares were bought and sold. These results challenge the myth that frequent commercial execution generates higher profits because the strategy captures the most dynamic ranges of highly biased securities.

The authors identified overconfidence and a preference for small high beta stocks as precursors of high-volume trading and poor performance. This partially resolves the perceptual problem of trading and investing. In addition to a previous analogy, the shooter thinks that the ribbon ticker can be folded at will, thus paying the bets in the short term. On the other hand, the traveler accepts the often-chaotic nature of the stock movement, seeking a symbiotic relationship that exploits the underlying trends.

Authors Xiaohui Gao and Tse-Chun Lin provided interesting evidence in a 2011 study that found that individual investors viewed transactions and games as similar hobbies, highlighting how the volume of Taiwan Stock Exchange compare with the nation's lottery jackpot. Their findings suggest that investors chose to give up trading positions because they viewed the lottery prize as a bigger opportunity for profit.

The results are consistent with evidence that traders are looking for adrenaline generated by short-term stock market speculation as well as financial returns. Unfortunately, this rush comes when the trade generates a profit or a loss, generating self-destructive reinforcements that help explain why so many traders are expiring their accounts with catastrophic and often upsetting losses. It can also be said that overconfidence combines destructive power to this feedback loop and discussed why it could motivate traders to double and triple the losers.

FINANCE, LIFESTYLE, AND PSYCHOLOGY

Profitable participation requires close alignment with an individual's finances. A new graduate can be limited to 401 (k) allowances for many years before acquiring the capital needed to expand investment options. At the other end, older families may have accumulated substantial wealth, but have little time to increase their income, making a trusted advisor the only viable option. Many people are building clean nests for eggs that want to grow faster through self-determination.

Incompatibilities can generate lower or zero returns. Younger teens can

become impatient to create wealth and experiment with many different investment styles, losing money. The dangers of trade must be clear at this stage, limited to available capital until a long-term history takes on greater risk. Meanwhile, seniors with limited skills can make catastrophic mistakes by directing stock portfolios when a shopkeeper, supposed to be relieved by greed-fear polarity, makes wiser choices based on extensive market experience.

Personal health and discipline issues must be fully considered before engaging in a proactive investment style, as markets tend to mimic real life. Drug and nicotine abuse, as well as a sedentary lifestyle, can hurt yields if they generate low self-esteem, which may unwittingly seek reinforcement through a financial loss. This is true when it comes to short-term speculation in which cards are already stacked in favor of the house.

A 2006 study describes the ostrich effect, which revealed that investors pay close attention to their stocks and market exposure, more often watching portfolios in rising markets and less often or letting go of the market in falling markets down. It also observes how these revisions or non-evaluations generate painful and pleasant events, generating secondary reinforcements that can affect financial returns.

The author also observes how this phenomenon affects the turnover and the liquidity of the market. Volumes tend to maximize in rising markets and decline in declining markets, adding to the trend of participants continuing their upward trends, turning a blind eye to downward trends. Coincidence may again be a driving force, with the participant adding a new exposure as the bull market confirms a pre-existing positive bias.

The market's loss of liquidity during a recession is consistent with the study's findings, indicating that "investors are temporarily unaware of the market during a recession - to avoid mentally painful losses." This self-destructive behavior is also prevalent in day-to-day risk management. Companies explain why investors often sell their winners too soon while leaving their losers in competition - the exact archetype of long-term profitability.

BLACK SWANS AND OUTLIERS

Wall Street loves statistics that show the long-term benefits of share ownership, which is easy to see when plotting a centennial Dow Industrial

Average chart, especially on a logarithmic scale that mitigates the visual impact of four slowdowns major. Unfortunately, three of these brutal bear markets have occurred over the past 31 years, well within the investment horizon of current baby boomers. Amid these vertiginous collapses, the stock markets suffered dozens of mini-accidents, decay collapses, and other so-called outliers that tested the will of stockholders.

It is easy to minimize these furious drops, which seems to confirm the wisdom of buying and holding investments, but the psychological deficiencies described above invariably come into play when markets contract. Legions of rational shareholders are adopting long-term positions, such as hot potatoes, as these liquidations accelerate, seeking to end the daily pain of their savings plummeting into the bathroom. Ironically, the disadvantage magically ends when enough of these people sell, offering deep-sea fishing opportunities to those who suffer the smallest losses or winners who are betting short of taking advantage of lower prices.

Nassim Taleb popularized the Black Swan event in his 2010 book, "The Black Swan: The Impact of the Very Improbable." He describes three attributes for this colorful market analogy.

- First, it is an outlier or unusual expectation.
- Secondly, it has an extreme and often destructive impact.
- Third, human nature encourages rationalization after the event, "making it explicable and predictable." Given the third attitude, it is easy to understand why Wall Street never discusses the negative effect of the black swan on equity portfolios.

Shareholders must plan Black Swan events under normal market conditions, repeating the stocks they will take when the reality occurs. The process is similar to a fire simulation, paying particular attention to the location of the exit doors and other means of evacuation if necessary. They must also rationally evaluate their pain tolerance, as it makes no sense to develop a stock plan in the event of abandonment at the next fall of the market. Of course, Wall Street wants investors to stay in their hands during these difficult times, but no one, except the shareholder, can make such a decisive decision.

THE BOTTOM LINE

Yes, you can make money with stock and be rewarded with a prosperous life, but potential investors face economic, structural, and psychological hurdles. The most dependable way to achieve long-term profitability will start in the short term, by choosing the right broker, and starting with a narrow focus on wealth creation, developing new opportunities as capital increases. Purchasing and holding investments is the most sustainable route for most market participants, while the minority who masters particular skills can generate superior returns through a variety of strategies, including short-term speculation and short sale.

BUILDING WEALTH BY INVESTING IN STOCKS

Everyone would like to be rich and have enough money to enjoy life. Building wealth for most people seems like a difficult proposition. Those who earn a regular income do not feel able to do so. The reality is that it is easy to create wealth. This requires a systematic approach. The stock market is among the best ways to create wealth. Stock market investment is a great way to create wealth, even for a small investor.

Okay, a lot of money is earned and lost in overnight stocks, but once you know the waters you are walking on, creating wealth should not be a problem anymore. If you think your goal is to look at your computer screen all day, do business quickly and keep up with what the big Fortune 500 companies have done, it will not change anything. So, what can help you make money on the stock market? We look at some tips you can follow to make money by investing in stocks.

1. Start with a plan

Before doing an activity, you must plan. Investing money in stocks is no different. You must plan your investment. The first point to note is to understand your appetite for risk. The stock market can make you rich beyond your wildest dreams; It can also make you lose everything you have. It is a risk that you take to win a reward. When you take risks, do not do it in your savings. Plan cash for your contingencies and use a portion of your regular income to invest in the stock market.

Decide how much money you can invest in the stock market. You need to budget and understand your expenses and income. Estimate how much you can save and use a little money to invest in the stock market. The youngest investors can invest up to 80% of the stock market, the others investing in

safer investments such as bonds. As you age, you can slowly reduce your equity investments to reduce your risk.

All this requires planning. You must systematically establish an investment plan. You can use a professional investment advisor to develop a plan. If you have some financial knowledge, you can do your research and plan it yourself. Make sure you set your investment goals. Identify the wealth you want to generate and for what purpose (buying a house, university education for children, retirement funds). On this basis, develop a plan.

2. Think long term and stay the course

Some lucky investors reach gold with their investments in a few months. These stories are rare and rare. Slow and steady surely wins the race for the turtle and the stock market, investor. You have to think long term when you invest your hard-earned money to buy stocks. Do not expect to become rich in a few years.

The secret of wealth creation is perseverance. Stay invested for the long term, and there is no reason not to become rich. On average, the stock market has a 9% return. Once combined, investing only 2800 euros a year can make you a millionaire in 40 years. It makes sense to stay invested for the long term. Stay on course, and your dreams can come true.

3. It's a roller coaster ride, so hang in there

Once you begin to invest in the stock market, it's important not to stop. Time is your greatest ally in this business. It takes time to make money investing in stocks, but the bottom line is to keep going. Most people who have been successful in the stock market have kept their money in the stock market for long periods, or even fifteen years or more. Most of them have achieved excellent results.

Stock market investment is like a roller coaster. Sometimes you are on top, and sometimes you can go down. So hold on and do not jump. The market has its ups and downs. When the market collapses, do not panic. Will recover! It can take a few months or a year or two. When you are there in the long run, do not worry when the bears take over, the bulls will come back for sure.

4. Do not lose your sleep

There is no rule for everyone when it comes to investing in the stock market.

Be sure to evaluate your situation before investing. Do not make an investment with which you are not comfortable. If you cannot sleep at night thinking you are losing your money, you will probably lose it. Have a goal to target your investment.

You may be looking to acquire tax-free interest, preserve your capital, or create current income. If you have an idea of your goal, you should be good. Never invest in stocks just because your neighbors, friends, or family are doing it. Make an informed decision and invest in stocks you understand, don't do so blindly. This will make sure that you do not lose your sleep.

5. Create a diversified portfolio.

You may have heard the saying: do not put all your eggs in one basket. This is also true for the stock market. Do not invest everything in a similar company or type of stock. The solution to minimize your risks and obtain attractive returns is to diversify your portfolio into instruments and assets. A few things must be kept in mind about how to spread your risk. Some factors include fixed income, real estate, growth and enterprise value, regardless of size, commodities, real estate, emerging markets, etc.

The number of stock market investments you make is not as important as how you spread your risk. There are several types of stocks. For example, you have top-notch stocks among market leaders where you are unlikely to lose money and expect stable growth. You have small and mid-cap stocks in emerging companies. These companies are ready to take off and can help you realize huge returns. So, invest some of your cash in blue-chip organizations and some in small and mid-caps.

Also, invest in all sectors. Do not put all your money in one area. For example, if you invest all your money in IT stocks and the IT industry is facing a recession, you may lose money. Buy shares of companies from different industries. This ensures that your risk is very well diversified. Even if a company or industry is facing a setback, you will want others. Also, be sure to reallocate or rebalance your investment in different sectors every six months.

6. Never try to time the market.

To win big on the stock market, you have to buy low and sell high. How do you know what is big and what is short? It's very bad to time the market. Even big investors, like Warren Buffet, would not dare to do such a trick.

Small investors throw themselves into the market at the slightest rise in the stock market. It is not always recommended to follow the positive sentiment of investors rather than analyze the results of the companies.

Instead of trying to gain time in the market, you should invest systematically over some time. Also, avoid investing in small businesses when the market is high. These stocks may seem profitable, but they tend to be quite volatile. Leave it to experienced investors. A systematic investment plan is a great method to invest in stocks. Invest a fixed amount each month to buy selected shares. When the market is bullish, your overall investment is valued. When the market falls, you can purchase more stocks. Systematic investing is a good option for small investors.

7. Periodically review your investments

Now that you have invested cash, probably in a systematic investment plan, you can relax and watch your money grow, right? No! The market does not work like that. You cannot afford to take things easy. The stocks you chose were the ones that were doing well or expected to do well. However, you do not know what might happen in the future. You must follow the evolution of the shares you have invested.

You must periodically review your investments. If the company you have invested in collapses and is facing serious problems, it is probably time to stop investing in this company. Likewise, the sector in which you have invested may face serious problems that are unlikely to be resolved any time soon. These things happen, and in such a situation, you must review your investment and decide if you want to continue investing in those stocks or change your investment.

When you establish an investment plan, it is not valid forever. You must review your plan and make changes to it. Various situations, such as a job change, a salary increase, a job loss, or an increase in the family can occur. You must review your investment plan and make the necessary changes. Then, regularly review your investments and your investment plan.

8. Reduce your losses

If you think you are making losses with one or two titles, it's time to look closely at these titles. You must examine the performance of these companies, their country of origin, and understand their prospects. If you think the stock has no future, reduce your losses. Sell the stock and get the

money you can get. You can use it to invest in another stock that is doing well and has better potential. These are decisions you must make quickly. Otherwise, you risk losing everything. You must follow the news regularly and be aware of what is happening in the stock market.

9. Book profits

The stock you bought for 100 can be increased to 1000. What are you doing? If you think your inventory has sufficiently yielded for you, then go ahead and save your profits. You can always reinvest your profits in the business if you plan to continue behaving well. Reserve profits when the market reaches new heights. You can always go back to the market. Do not find yourself in a situation where you see your profits diminish and lament the situation.

10. Do not be emotional

The stock market is cruel. There is no place for excitement. Being moved and sticking with the title you bought because you liked the company or because the title you got from your father will not help you. Be logical and analytical. Understand what is happening and decide based on the data. Never be moved by a stock for any reason. An emotional investor is unlikely to succeed.

11. Take the help of brokers

Getting a good investment broker to handle your transactions makes you go. If you are new and not very confident, call a full-service broker. You can even choose to go with an online broker. Just be sure to mark some things on the list when you are talking to an online broker. Check that the broker is registered and approved by the regulators.

You can also use the broker service for investment planning if you wish. This will save you from having to monitor your stocks regularly. The investment advisor would do it for you. Make sure you choose a consultant you can trust and have a good reputation in the market.

Well, these are the simple rules to become big in the stock market and create wealth. Happy investment!

CREATING WEALTH THROUGH STOCK INVESTING

Everyone can make a small fortune on the stock market. All you are required to do is start with a big fortune. This may be a little radical, but the reality is that the vast majority of professional fund managers cannot do better than major stock indexes such as Standard and Poor's 500 or Wilshire 5000. It is

certainly possible to accumulate wealth by investing in stocks, but it requires perseverance, diligence, vigilance, time, and a certain amount of luck.

Determine your financial superpower. Discover your net worth by adding up all your assets and subtracting all your debts. Create a budget that will list all of your monthly income and monthly expenses. These two steps will let you know the amount of money you have to invest.

Determine where you want to find yourself financially. Ask yourself specific questions and write specific answers. How old are you to retire? How much money will you need for a comfortable retirement? How long do you have by then? How much money do you possess to work? At what level of risk do you feel comfortable? Once you have provided solutions to these questions, you will have a good idea of how much you need to invest regularly to reach your goals.

Do your research, open a brokerage account, and start investing. You can take two main routes to invest in the stock market. You can use a full-service broker who will make investment recommendations based on your needs and wants, or an online discount or broker who will execute your orders but give you little or no advice. Discount brokers are cheaper but provide fewer services. A third option is to invest in mutual funds that offer both diversification and professional management, but even this option requires research. Remember that most mutual funds do not exceed the average.

Invest regularly. Regular investment of a fixed amount provides a benefit called average cost in dollars. This means that during periods of the high market, you buy fewer shares. When the market is down, you will buy more shares. By investing a fixed amount each month, instead of buying a specific number of shares per month, the per-share average cost will be lower.

Reduce your losses. You usually buy a stock because you think its price will go up. The problem is that you probably buy from someone who is also convinced that the stock price is falling. The reality of investments is that the market will fluctuate. Some stocks go up, some go down, others go up and down. Some investors make cash, while others lose money. To build wealth in the stock market, you cannot be emotionally attached to a particular stock. Always set a stop-loss price to the amount you will lose and eliminate inventory if it falls below this level. If stock prices rise, increase your stop-loss to protect your profits.

TAXES

If you play the stock market (if you are no longer shocked by the volatility of the past two years), you may want to know a little more about the taxation of your bond transactions.

Capital gains tax

Any profits made by selling a share held for at least one year are taxed at the long-term capital gains rate, which is much lower than the rate applied to your other taxable income. That's 15% if you are in a tax bracket of 25% or more and only 5% if you are in the range of 15% or less. Earnings on shares held for less than one year are taxed at their common tax rate.

Ordinary dividends earned on its shares are taxed at ordinary tax rates, not at capital gains rates. But, "qualified dividends" are taxed at a very attractive rate of appreciation ranging from 0% to 15% maximum. For dividends to be identified as "qualified," they must be paid by a US corporation or qualified foreign corporation and the holding period must be greater than 60 days. There are many other exceptions and definitions, so consult your broker or tax advisor to find out if your stock dividends are "qualified." Dividends on shares held in a qualified pension plan do not constitute taxable income.

I believe that Congress has approved the lowest rate of capital gains to stimulate investment. After all, most tax laws are adopted to guide social behavior. Be sure to follow the evolution of the capital gains rate over the next few months. Former president Obama has rejected the idea of raising the capital gains tax rate repeatedly, although nothing has happened yet. So far, the problem is that current rates will remain in effect for the next two years. If this is not the case, I advise you to sell the shares that have benefited from a capital gain of more than one year while the lowest rates are in effect.

Stock Sales

When determining your profits on a stock sale, it is important to understand not only the formula but also the meaning of the variables. Some circumstances applied to the variables may reduce your tax payable when you sell. Many taxpayers feel they have to pay taxes on the total amount of the check they receive from the sale - this is not true. You can subtract your base.

The formula is: Sales revenue - Base = taxable profit or deductible loss

Commissions paid to the broker may reduce the proceeds of the sale.

The base is the cost of the share plus dividends reinvested and commissions paid for the acquisition. If you inherited the share, the base is either the fair market value of the share on the death date of the deceased or the alternative valuation date. If the action was received as a gift, the base is either the lowest value of the fair market value or the donor's base at the time the gift was made.

The wash rule

Many investors take advantage of the sale of a losing stock to make up for again and then return and buy back the security.

However, the IRS will not let an investor claim a capital loss if you sell a stock, and you buy it back within 30 days. The "money laundering rule" prevents you from claiming a loss on the sale of shares if you purchase replacement shares within 30 days before or after the sale and you will lose compensation.

Capital losses

One of the greatest barriers to investing in equities is the number of losses you can deduct from your tax return. If your market stocks at a loss, you can only deduct $ 3,000 a year; The rest of the loss is carried forward over the next few years. You can apply capital losses to your capital gains in the current and future years to settle the overall result.

Deductible investment costs

A tax deduction that is often ignored by investors is the cost of management fees paid to brokers, usually for mutual fund management consulting services. You can deduct these expenses as a placement fee on Schedule A of your income tax return. Some brokerage or year-end statements indicate the year's total, but many will not. You may be required to call your broker to find out how much you paid.

Audit Taxpayers often forget a sale of shares when they file their tax returns, which results in the IRS sending a letter CP-2000. The letter is about 12 pages long and somewhere in the middle is a list of omitted items and a tax calculation for these items. If you find one that shows an omitted stock sale, do not just pay the tax bill. The IRS only knows how to sell shares; They have no idea of their stock. Remember the previous formula? You may have had a loss of inventory, and that means there is no tax liability. You may be eligible for a refund. So ,call the cell number on the front of the letter and let

us know that you are going to amend the tax return.

However, as of January 1, 2011, under the Emergency Economic Stabilization Act, 2008, brokerages will be required to report base costs and earnings/loss information to the IRS. On their Form 1099, which was issued in 2012. This will greatly simplify the tax preparation process and will allow specific letters from CP-2000 to be sent to taxpayers. This will also reduce the number of amended tax returns that must be filed as a result of a stock omission.

CONCLUSION

Thanks for buying this book. I hope that through this, you were able to learn a lot about investing or trading in stocks and how you can make money from doing so. But, more importantly, I hope that you were encouraged to take action on what you learned and start your stock trading journey as soon as possible. Begin by opening an account with a broker and from there you can do your research and choose your first 2 or 3 stocks to buy using fundamental and technical analysis.

Just a word of encouragement: do not expect to make money immediately in stocks. For one, you're a beginner, and you'll have a learning curve. Nobody ever made big money immediately when they started trading in stocks. Losing money - at least initially - can be part of the game.

Another reason why you may not immediately make money in stocks is that the prices of stocks - even the most fundamentally sound ones - fluctuate. There may be times that you're in the profit and sometimes, in the loss. The vital thing to remember is that losses or profits are only paper or market losses and aren't final until you sell your shares.

And to level your expectations, you will need a good amount of money - and one that you won't need anytime soon - to start trading in stocks. As mentioned earlier, most brokers require a minimum deposit of about 1,000 dollars to start trading on their platforms and settling for minimums can make it harder for you to generate substantial returns on stocks.

But all in all, the stock market is your best investment bet because it provides opportunities for very good returns, but the risks aren't very high compared to relatively newer but very risky assets like cryptocurrencies. For me, it provides the best risk-return balance among all investment assets. Oh, and it's the most liquid too.