STOCK MARKET 101

Everything you need to know about stocks, trading, and the stock market investing world

About Us

Forget how you used to learn about finance.

Minority Mindset was founded to revolutionize the way people think about money and to make financial education fun, easy, and accessible to everyone.

We won't bore you like some other traditional financial companies do. Instead, we give you resources & knowledge about finance that you can actually use.

We're Changing The Game Because We Know The Game

As Money Nerds, we've spent years honing our business, finance, and money management skills so you don't have to. That way you can spend more time:

- **Growing Your Wealth**
- **Budgeting Like A Master**
- **Earning More & Spending However You Want**

Think Like A Money Mind

The Minority Mindset has nothing to do with how you look or what you believe. It's all about the Mindset that you have when it comes to your money.

In short - We Rethink what it means to be Rich & we want you to do the same.

So, say goodbye to boring personal finance brands, & hello to the Minority Mindset, where we help Money Minds RethinkRich!

CONNECT WITH US

Watch Minority Mindset

@MinorityMindset

@MinorityMindset

Read Our Blog

www.TheMinorityMindset.com

Everything You Need To Know About Stock Market Investing

Now that smartphones and apps have brought stock market investing to the palm of your hand, you might be considering getting in the game.

But it can be intimidating and somewhat scary to willingly fork over your hard-earned money in exchange for an intangible piece of a company. The truth is that there are many incredible upsides to becoming an investor. And it’s easier than ever to get started.

This guide is here to break down:

- What stocks are
- How to invest in them
- What to do before investing in the stock market
- How to become a successful investor
- Tips for investing during market volatility

What is a Stock?

A stock represents ownership in a piece of a company. Companies that choose to go public and offer the ability to purchase stock will use the money raised to invest in their business. First, a company will file paperwork with the SEC (Security Exchange Commision), and will need to be approved before they can start trading.

Once the company is approved, it will set an IPO (initial public offering) date with the New York Stock Exchange. You can then buy a share once the company goes from private to public.

Assuming they do well, companies may compensate shareholders through cash or additional stock or reinvest earnings back into the company, which benefits shareholders with a rising stock price.

Suppose you're a big fan of Target and you decide to purchase a share of Target stock. By doing so, you believe that Target is a company that will continue to grow and be profitable for the foreseeable future.

When the price of Target goes up, the stock is said to appreciate in value. You hope that over time, it will continue to appreciate, and you either receive ongoing dividend payments or you can sell the stock at a much higher price and make a profit from your original investment.

If and when you decide to sell, appreciation is used to gauge capital gains. And the amount of capital gains is what determines how much you'll need to pay in taxes post-sale.

On the other hand, If Target does not perform well, people will probably be less likely to invest in its stock. So, its stock price will most likely go down, or depreciate, because there is less demand for it. The value of a stock typically works like this:

- If X company has 100 shares of stock and 110 people want to buy those shares, its stock value will go up.
- However, if X company has 100 shares, and only 50 people want to buy shares, its stock value will go down.

When you own a piece of a company's stock, you are a partial owner of the company. All that means is that you own the company on paper. You won't have any power to manage or make decisions within the company itself, but you can attend annual shareholder meetings for the company, which may help to influence the decisions of whatever company that you own stock in.

What Is The Stock Market?

The stock market is simply a gathering place where investors can meet to buy and sell securities and do so in a safe and regulated environment. These physical or virtual watering holes are referred to as exchanges.

Perhaps the most well-known physical venue is the New York Stock Exchange (NYSE), where company representatives may go to ring the opening bell when they IPO. In addition to the NYSE, there are numerous other exchanges in the US and internationally.

The health of the stock market is often gauged in terms of how well certain indexes are performing. There are three main indexes in the US that you’ve likely heard mentioned, the Dow, S&P, and Nasdaq.

The Dow Jones Industrial Average (lovingly referred to as the Dow) follows the 30 biggest large-cap US companies. Household names like Coca-cola and Johnson & Johnson are often included. While companies in this small index change occasionally, it always represents the whales.

The Standard and Poor's (S&P) 500 again tracks large-cap US companies, but this time includes a more diverse span of 500. It's said that the S&P 500 can track approximately 75% of all publicly traded stocks, which makes it a very reliable marker of the overall economy.

The Nasdaq is both an index and an exchange. It has the most extensive reach because the composite index tracks around 3,000 companies that trade on its aptly named Nasdaq Exchange.

How Do You Invest In The Stock Market?

Back in the day, you had to call up your stockbroker or even mail in a letter indicating your interest in purchasing or selling shares of a stock. But thanks to the rise of the internet, smartphones, and apps, investing in the stock market is far more straightforward and faster than ever.

One way to trade is by using a traditional brokerage company, like Vanguard, Schwab, or Fidelity. A brokerage is the middle man that gives you access to exchanges. You can deposit cash directly from your bank account, choose your desired trades, and the brokerage facilitates the trade and actually executes the purchase for you.

Often, these larger brokerages require a minimum investment to purchase securities (financial assets). So while you can open a taxable brokerage account with Vanguard free of charge, the minimum investment in any funds is often $1,000.

For this reason, many people opt to invest using both a traditional brokerage and an app like Acorns or Robinhood. Apps like these were designed with the younger generations in mind. With these apps, you're granted access to the same exchanges, but you can make smaller contributions, and getting started is a breeze.

Apps also provide news and decision-making tools at your fingertips in addition to fee-free trades. And when you can invest right from your phone, Wall Street's traditional image starts to shatter. Suddenly, investing feels much more accessible and a lot less scary.

It’s worth noting that no investment in a stock is a “sure thing.” By nature, stock picking is a highly volatile endeavor. That’s why successful investors aren’t just choosing individual stocks on a whim and hoping for the best.

Becoming a prosperous stock market investor takes a multi-pronged approach that includes creating a stable financial base, research, diversification, and a long-term investing plan.

Create Financial Stability Before You Invest

Stock market investing is shiny and exciting. The upsides are huge, and when you start to look at success stories, it makes you want to jump in with everything you have right this minute. But hold your horses. You’ll want to be sure to position yourself for success from the start. And that begins with getting the rest of your financial house in order by:

- **Paying off any high-interest debt.** Debt in this category would be anything over 8-10% and includes credit cards and personal loans. Since average returns in the market are 5-8%, anything over that you'd be better off paying down first to save on interest. Any low-interest debt like a mortgage or auto loan is okay to keep as long as it's a reasonably low rate.

- **Creating an emergency savings fund.** The quickest way to crash your investment portfolio is by pulling out money prematurely because you need to cover an unexpected medical bill or car repair. Give yourself a cash cushion of at least $1,000 at first. But work to build up to savings that will cover 3-6 months of living expenses.

Once you've cleared up lingering high-interest debt and have emergency savings in case of life's surprises, you're in a more stable financial place to begin to learn about and enter the market.

Three Steps to Getting Started

There are no guarantees when it comes to stock market investing. You could invest $100 today and lose it all tomorrow. But people invest because the markets generally trend upward over time. Just take a look at the all-time chart of the Dow:

Even though it's had many ups and downs, the overall trend is going up. This is true of the other two indexes as well, the Nasdaq and S&P 500.

And putting money into the stock market is one of the best ways to make sure you'll have more money in the future than you have today. It's easy to get started with these 3 simple steps.

Decide Your Approach

Before you open a brokerage account, you need to decide your overarching investing approach and whether you'd like to take an active or passive role.

- Do you want to buy and sell securities and manage your accounts, or would you like someone else to use your money to make investment decisions?
- Do you envision actively monitoring your stock's activity, or do you want to be hands-off except for annual check-ins?
- Are you comfortable allowing automated tools to manage your money, or do you feel more comfortable with a human touch?

The answer to these questions will lead you to one of the following approaches:

1. **DIY**: If you fall into the "I'd like to do it myself" realm, you can use a financial app like Robinhood or sign on with a larger brokerage, like Vanguard, Schwab, or Fidelity, as mentioned above. The DIY approach is a good choice for anyone who feels they can put forth adequate time to research companies and funds before investing.
2. **Leverage a Robo-advisor or automated investment tool:** It's easier than ever to be hands-off with your stock market investments using a tool like Acorns. This automated investment tool makes it easy to set recurring weekly investments and do credit card round-ups to bump those investments further. You can simply tell the app what type of portfolio you want, "moderately aggressive," for instance. And it makes decisions about what securities to invest in on your behalf. Totally hands-free. Robo-advisor-type tools like Acorns are popping up at most institutions and are great for anyone who wants to invest passively.
3. **Talk to an Investment Manager or Financial Advisor:** If you like to work with humans, there are investment managers out there happy to help for a fee. Typically, these advisors like to work with people who have a bit more capital, so check on account minimums and fees before setting an appointment.

Choose an Account

There are several types of accounts you can use for stock market investing. While some accounts, like a 401(k), are explicitly tied to an employer, other options like an IRA are available to anyone with taxable income.

And deciding what type of account you'll use to invest is a critical decision, one which may also heavily impact the securities you choose to invest into that account.

- **Retirement accounts tied to an employer**: 401(k), 457, 403(b), or other employer-sponsored accounts can be great tools that leverage stock market growth while providing income later in life. Since you can't generally touch these accounts until age 59½, any investment you make today will be in it for the long haul. Since stocks are often riskier, it's recommended to sell off some stock investments in favor of bonds the closer you get to retirement.
- **Individual retirement accounts (IRAs):** IRAs are individually owned and managed. That means you choose the investments to hold in this vehicle. And the tax implications are based on if your contributions to an IRA are pre-tax or post-tax

(Roth). A post-tax account is often prime for investing in equities (stocks) since the account grows tax-free and equities generally have much higher returns than bonds.

- **Taxable brokerage account:** These accounts use after-tax money and are subject to taxes on growth. Depending on when you withdraw the funds, you may need to pay short-term or long-term capital gains taxes, which you pay on the asset's growth.

Decide On Individual Stocks Or Funds

Individual Stocks

Often heralded as a risky and volatile asset class, individual stocks can also have the most upside when it comes to growth. If you're individual stock picking, it often requires much more research and understanding of the company and the overall industry to be successful.

Investors try to profit on individual stocks in a few ways: stock investing, stock trading, and options trading. Stock investing, which is what we're covering in this article, is the practice of buying stocks with potential in hopes of long-term gains.

On the other hand, stock trading is when investors buy and sell stocks frequently for short-term gains. Options trading contractually gives you the right to purchase shares of stock based on whether you think the stock will go up or down and by how much.

Stock trading and options trading are quite a different game than stock investing, with much more nuance that falls outside this piece's scope. For more information on stock or options trading, check out our full guide on that, here.

Many savvy investors will "play" with individual stock picking as a fraction of their portfolio. It's worth noting this is not the same part of their portfolio they plan to live off in the future. That's generally held in funds.

Funds (ETFs, Index Funds, Mutual Funds)

A fund is a collection of tens, hundreds, or thousands of stocks that create a pool that follows a particular industry sector, like commodities, or a broader index, like the S&P 500. Funds offer instant diversification and are less risky as a result.

You can purchase a fund to track virtually any asset class, from precious metals to the internet of things. The most important thing when scoping out funds is to check the fees. Actively managed mutual funds tend to have much higher fees than their passively managed counterparts (ETFs and index funds).

How to Become a Successful Investor

Contrary to popular belief, most "successful" stock market investors aren't getting rich off choosing single stocks with massive growth. Success as an investor happens like success in most areas of life, really slowly, then all at once. So settle in for the long haul and likely years of monotonous recurring investments before you can deem your investments a win.

Below are the 4 areas you'll want to consider to increase your likelihood of doing well as an investor over the long-term.

Develop a strategy

Billionaire investor Warren Buffett is the epitome of a successful investor. Of course, Buffett is well-known for amassing insane wealth through stock market investing. But interestingly, his strategy is incredibly simple.

He invests in companies he understands and looks for stocks that are undervalued. That's the strategy that works for him, but not every investor needs to do the same thing. To each their own when it comes to investing strategies. Some of the most common are:

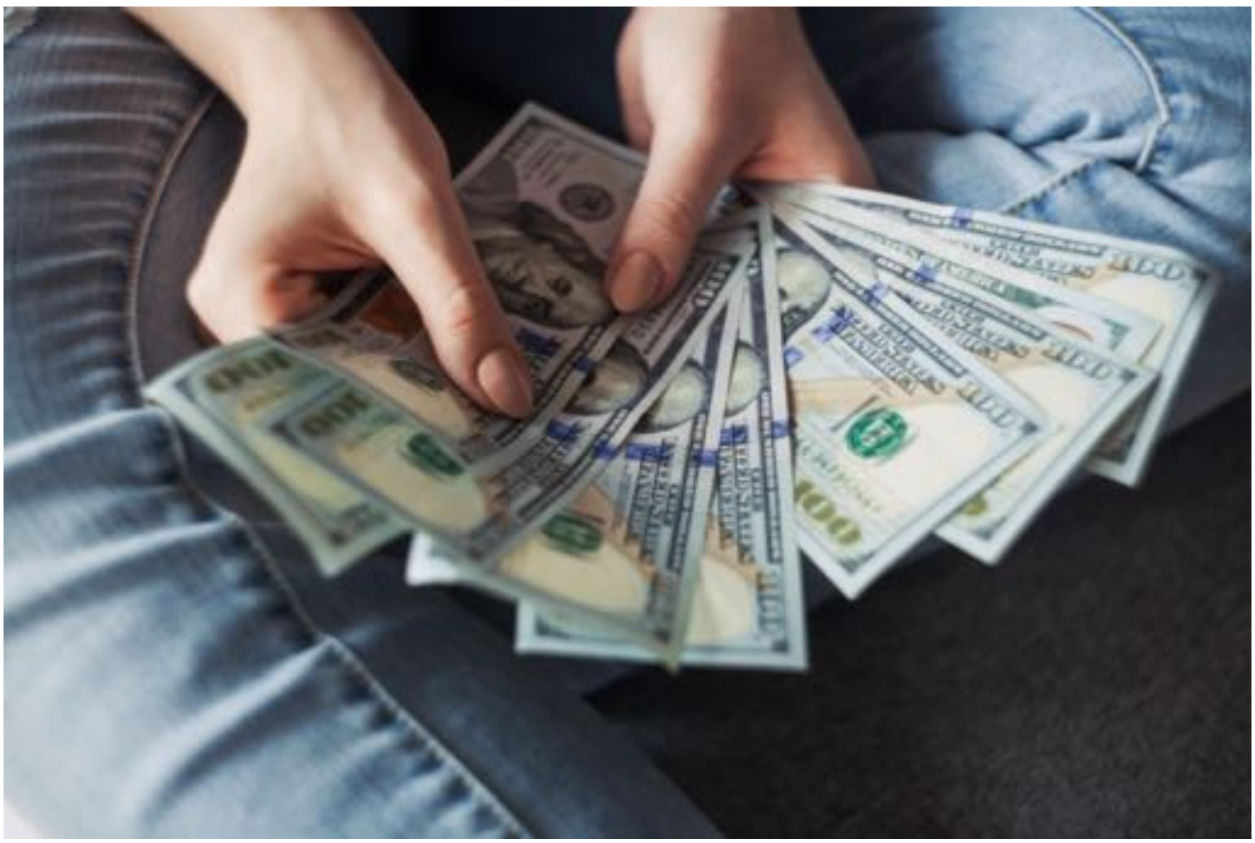
- **Buy and hold:** This is the strategy of most long-term investors and those investing specifically for retirement. If you're making recurring investments into a 401(k) and don't plan to change or sell those investments until you retire (or get closer to retirement age), you're participating in a buy and hold strategy.
- **Value investing:** A value investor looks specifically for undervalued companies and attempts to purchase them "on sale." This can be a time-consuming endeavor as the underlying companies need to be thoroughly vetted and understood. An easier option is to buy into a fund that tracks equities marked as "value."
- **Dividend stocks**: These are the high-paying, often large-cap stocks. They pay investors a quarterly or annual dividend in cash or as additional stock based on company performance. While more expensive, dividend stocks tend to be heavily favored because of their ability to produce regular passive income.

Decide How Much You'll Invest

Investing in the stock market is an inherently risky venture. And while markets generally trend upward over time, there is still the ability to lose a lot of money if you pick individual stocks that end up tanking.

That's why it's critical to decide your investment budget and leverage that against other financial goals like debt payoff, emergency savings, and short and long-term savings goals.

How much you choose to invest will be based on your unique financial situation, which is ever-evolving. You may start with as little as $5 per week. As you free up debt payments or get raises at work, you can likely shift a bit more towards investments if that aligns with your financial goals.



Focus on Stocks as Part of a Broader Asset Allocation

General advice for asset allocation in a portfolio is to take 100 - {your age} and make that your stock allocation. The rest would then be in bonds to promote stability.

With this equation, the younger you are, the more money you invest into equities. Those who hold a mostly equities portfolio do so for a few key reasons:

- *They have a fully-funded emergency fund.* Even if something comes up out of the blue, investors with an emergency fund wouldn't need to pull from any investments. Therefore, there's less risk of needing to pull the money from the market at a loss.
- *Investments have a longer time horizon.* Younger investors who may not need to access funds for 20 to 30 years can afford to be a bit more aggressive. Over time, the closer you get to needing the money, you can slowly transition to a more conservative portfolio and include bonds for stability.
- *They can be hands-off*. When the market goes up or down, savvy investors stick to their investment strategy. Equities are more volatile by nature, so any investor who can stomach the downturns and stick to the plan is a good candidate for a stock-heavy portfolio.

Again, the asset allocation and stock or fund selection are entirely up to the investor. There is no right or wrong; it's whatever makes you feel the most comfortable.

Determine Diversification

Diversification can come in many forms. In short, diversifying your portfolio simply means that you own a variety of different assets. You can diversify across asset classes, like leveraging real estate, equities, and bonds, or within an asset class, like buying diverse ETFs.

When it comes to stock market investing, it's best to make sure you're not heavy on one type of stock or fund, like growth or large-cap assets that heavily favor tech stocks. An easy and quick path to diversification is choosing funds that complement each other.

For example, a well-diversified 5-fund stock portfolio might look like holding:

- 20% large-cap domestic growth
- 20% small-cap domestic growth
- 20% large-cap domestic value
- 20% small-cap domestic value
- 20% international stocks

Balancing domestic large and small-cap with both value and growth funds plus an international or emerging markets fund can often hedge against the risk of being in 100% US large, high-growth companies.

There are many different ways to tackle diversifying funds, so this is a point where research alongside your long-term goals will guide the path.

The upside to diversification is that if one of your investments goes down, you won't need to worry as much, because you have many others.

This strategy minimizes your risks when it comes to stock market investing while also maximizing your potential to make a profit on your overall investments when you finally do go to sell them.

Tips for Stock Market Investing In A Downturn

The stock market is volatile. There's really no other way to put it. But generally, over time, the market trends upward, and that's what we're all here for. When the market takes a dive, there are a few things all stock market investors should do to make sure you don't:

1. Lose any gains you've made by selling below or close to your original purchase price.
2. Miss the upswing when the markets inevitably return to normal and continue to grow.

Take Emotion Out Of The Equation

One of the biggest detriments to investors operating on a primarily assets portfolio is being prone to jumping into selling too quickly in a downturn. Separate your portfolio from the rollercoaster that happens in your stomach when you check your accounts.

One way to manage emotions is to set recurring investments and only check-in quarterly or annually. Another option is to remove all investing apps from your phone and only check in on a computer. This can be especially helpful if you're prone to checking your portfolio frequently and may become stressed by minor fluctuations.

Shop The Sales

Downturns can be viewed from two angles. The first is where you see your portfolio crumbling and feel like you need to jump in and sell everything. Or you can see downturns as a sale.

Any successful investor believes in buying stocks when they're on sale and exploiting the inevitable growth. Anytime a stock starts trading lower than its potential, it's an opportunity for investors. Make sure you cash in if you're able.

Losses Are Only Theoretical Unless You Sell

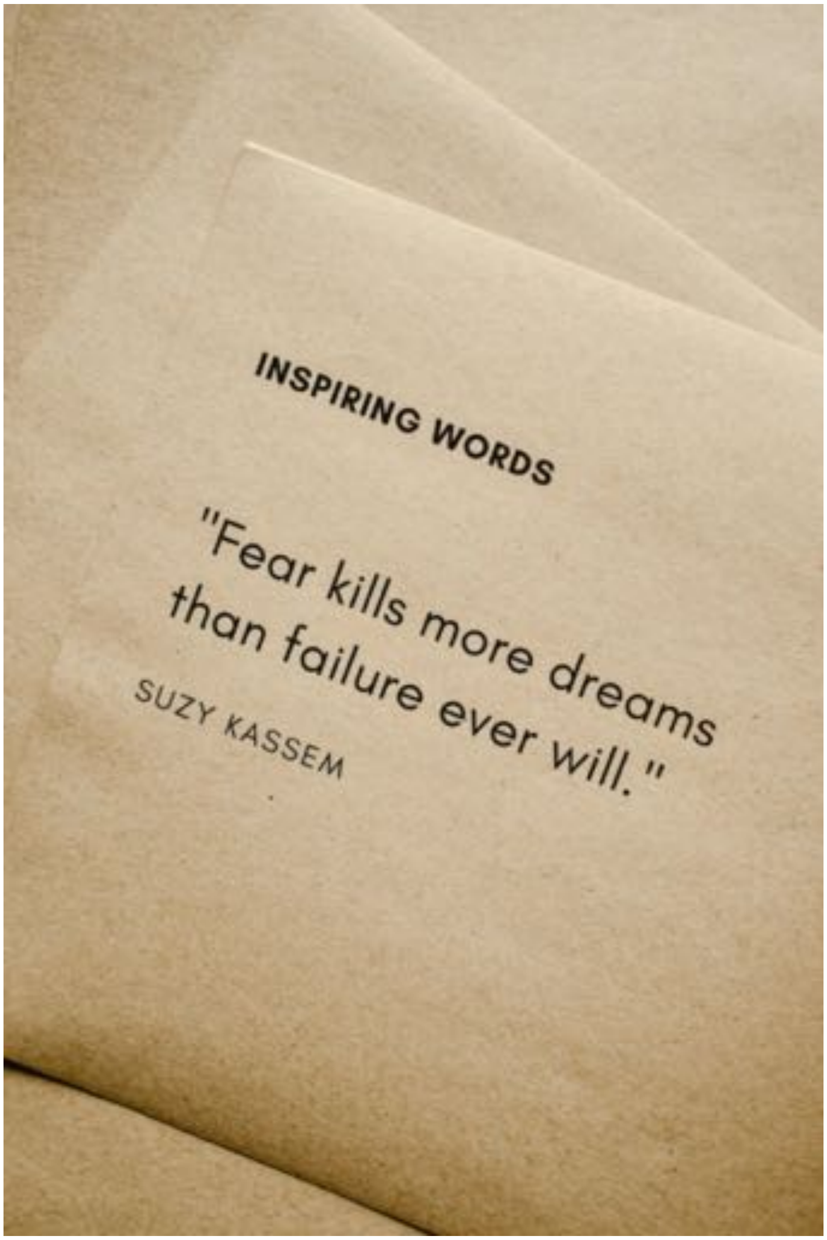
When the stocks you've invested in have a bad day, and you lose money, that's all theoretical. You haven't actually lost anything until the moment when you pull the trigger and sell those shares. Until you do so, you're no worse off than you were yesterday or last month.

Keep your losses to a minimum by making intelligent selling decisions. And as mentioned above, make sure when you look to sell that you're not coming from an emotional standpoint but a logical and rational one.

Hedge Risk By Setting Limits

When you purchase an individual stock, you can set what's called a stop-loss order. That means if a stock dips below a certain point, you'll automatically sell-off that asset. If you're playing with especially volatile stocks, it can be wise to set this type of limitation.

And it can ease the emotional burden of living in fear of a stock tanking and losing your entire investment.



The Bottom Line

The stock market can be overly complicated if you allow it to be. Narrowing your focus to only the accounts, companies, and funds that suit your broader investing needs enables you to cut through the clutter and invest on your own terms. If you're ready to get started:

- **Don't let fear of failure hold you back.** Fear of failure when starting something new is totally normal. Many people don't ever get started investing because they're afraid of losing money. Take a breath. Start slow. Invest a little bit of money first and put more in once you've gotten your feet wet and feel more comfortable.
- **Only invest what you can afford**. Stock market investing is inherently volatile. You can remove some of the risk by investing in more diversified index funds or ETFs, but there are no guarantees. Make sure you've covered your financial basics, like establishing an emergency fund, before you look to invest.
- **Educate yourself.** There are so many fantastic online resources and books to dive into before you start investing. Sites like Kiplinger and Barron's and books like, The Little Book that Beats the Market, The Bogleheads' Guide to Investing, and The Intelligent Investor contain a wealth of information for new investors.

We're living in an incredible time where stock market investing is open to anyone. It's a time to embrace the simplicity of trading and the abundance of options.

Learn what you need, try a few investments to get started, and don't be surprised if you start teaching others the magic of the stock market in no time at all.