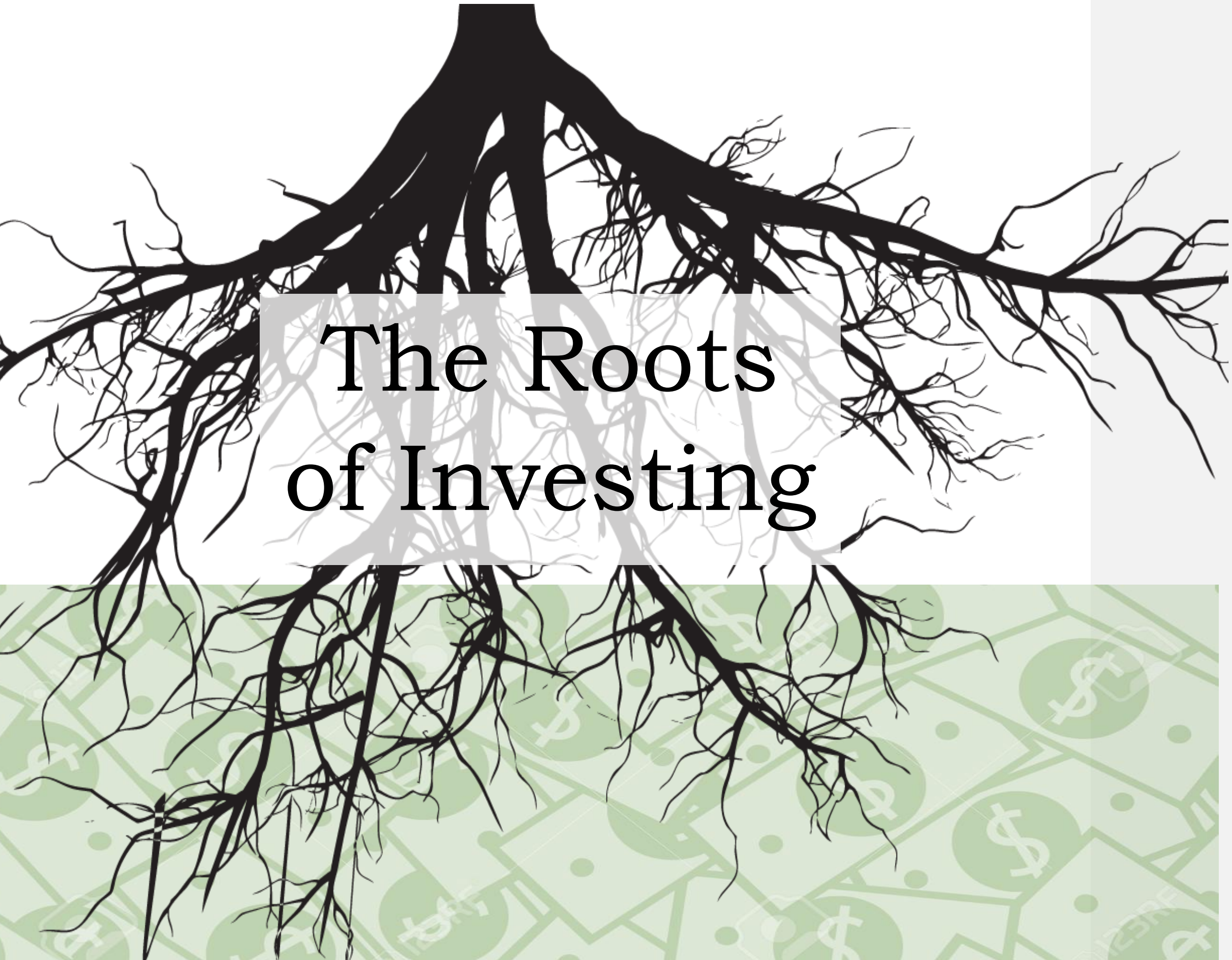

The Roots of Investing

A Guide for the Person who wants to Grow Wealth out of One Seed.

Let this Guide be that Seed.

By Ricardo Jacome

Library of Congress Control Number

The prices and rates stated and shown in this book are subject to change.

Graphs on: 26 and 30 were provided by the author.

Contents

Preface

This book is my personal attempt to make a difference in the stigma that exists when it comes to investing in stocks. If you believe that investing is not for you, keep this book. If you think it is hard to understand, read this book. If you want to start building your wealth, start with this book.

Investing is something that every individual should have some degree of knowledge. Regardless of your profession, income level, or even age (as soon as you learn basic algebra, investing is something you can pick up quickly). Everyone's goal, I would assume is to become successful, to obtain higher salaries, to obtain a better quality of life. Whether is for you or your beloved ones, the desire to become wealthier is embedded in most of us as humans. For this reason, investing holds the key to attain that level of wealth we desire. If you invest in your body and you will become healthy, invest in your classes and you will get better grades, invest in your money and you will get wealthy.

This book covers the essence of what investing really entails but will go in detail for one type of investment, which is Stocks. Stocks have a reputation of being risky because they are perceived as a gamble. Ironically, even experts treat it as gambles countless times. If that was the case, buying stocks would be the same as buying lottery tickets. Just a decision based out of chance. If chance would be the deciding factor on stocks, the number of millionaires from stocks and lottery should be similar, and it's not. In fact, the research shows that 70 percent of lottery winners end up bankrupt [1]. The reality is that stocks are a form of investment that will forever change the way you look at money.

So now that I have said all of these, you might ask: How do I start then? Keep reading and by the end of this book you will have the tools to turn a small monetary sum into the wealth you deserve. The title of this is inspired as an analogy of growing a plant that will give you a fruit (image your favorite fruit). In order to grow this fruit, there are many steps to take even before the seeds start to become roots! Location of the seeds, how much shadow, sun, water, and more importantly, how much time? Even though this book is not about gardening, the analogy works the same, and this book will bring you to obtain the roots of your wealth tree. It will give you all the tools you need to start planting, growing, and finally reaping the sweet fruit you desire.

https://www.nefe.org/press-room/news/2018/research-statistic-on-financial-windfalls-and-bankruptcy.aspx

I have always been a simple person who likes complicated topics. When it comes to the stock market, I realized soon that many experts agreed in one thing, "no one can predict the future", and I agree, to a certain extent. Throughout research experiences I have encountered many people who have seemed to "predict the future", even though it was seemingly "impossible". So, if that was the case, how were these people predicting the market so accurate? To begin with, the greatest investor of all time Warren Buffet once mentioned in an interview: "If all traders would treat their investments as a real business, then most traders would be successful". The idea communicated here resonated with me strongly. Remember, investing is not a gamble. You are not predicting the future out of luck. You are predicting the future out of knowledge. And that knowledge is what I have come to share with you, and everyone else who wants to learn.

I have been teaching students for a couple of years in many subjects, and there is something that most of them share. Students want to learn fast and simple. Sadly, that option is not always present, and the resources are not always that fast to grasp. Or are they?

Learning anything efficiently requires you to understand the basic simple blocks of the subject in order to build up from there. You do not run without walking first, but you do not walk without crawling first. This is the same procedure when learning anything. Everyone is different, and some people might go faster from crawling to walking, and from walking to running. But if you know the very basic steps first. You are sure to do well on the long-run. I could apply this example to many subjects, but here is the one of your interest. Investing! If you think carefully, I would believe investing is almost close to running, and learning to crawl is this guide. So that is where most people who invest in the stock market fail. They start investing without learning the building blocks first. Sometimes because they are too eager to start, or simply they do not have the right knowledge to start.

So now, sit down and be prepared to learn, if you are a fast reader you can finish this in one day. If you are a steady reader, you can read it in less than a week. But don't try to rush through it. Let all the information sink in, and obtain that mentality needed to know how to "beat the market".

Be wise, be eager, and always be a learner.

-The author

Overview

~~This guide is intended to offer a quick and sharp understanding of how to invest in the stock market. The information provided will give you all the tools you need to go from 0 to 100 in just a couple of hours. If you are a reader with no previous knowledge about the stock market, this is the perfect starting point. Every single concept will be explained straightforwardly along with examples on how to think like an investor and how to avoid common mistakes. If you are an experienced trader, this guide can help you to have a quick go-to-guide for refreshers but remember that this is intended to offer the essential tools in investing along with the right mindset to begin. This guide is made for everyone, so whether you are an investor that is starting out, or somebody who just wants to learn how to invest to have extra money resources that is completely valid! The platform in which many individuals are investing now is Robinhood, so many of the examples and explanations will come from it. However, these techniques can be useful on every single type of trading platform.~~

Disclaimer: The information presented does not guarantee money for its use. The information is based on present value stocks and these could be affected by many factors by the time the reader purchased this product. Reader is responsible for their own investments. Investing necessarily involves risk and investments may decrease in value over time. The companies presented on this guide are simply used for illustration purposes, they are not recommended stock purchase

~~Chapter 1:~~ Introduction

Why use this?

~~Well,~~ I imagine you want to make some extra money. Whatever your goal might be, whether is to obtain luxury, travel around the globe, or being financial security to your life, everything will start to materialize as soon as you finish and understand this guide.

I would personally like to thank you for purchasing this guide and reassure you that it will offer you everything you need to have a strong understanding regarding stock trading. My motivation to write this is based on personal experience. When I first started buying stocks, back in university, I found that many definitions were confusing, tutorials were mainly just people rambling on stuff that did not help, and if you really wanted to get professional education you needed to pay a lot. I researched for many years in books and I believe that there is still not a **quick**, **straight to the point**, and **useful** guide in how to buy or sell stocks. Furthermore, there is nothing that answers the most important questions in investing while being considerably **cheap**. Many people get scared about buying stock, and many people find this topic taboo, but this guide, if read thoroughly, will give you everything you need to start from zero and build up as much as you wish from there. In case you did not know, buying learning tools such as this one, is a great investment. And this will be the stepping stone you need in order to reach your desired wealth.

Learning about the stock market is filled with definitions and information that is often not needed to understand a concept. Throughout reading many investment books I have found that authors tend to focus on telling a story rather than teach you the exact facts and tools needed. I have often read~~There is one author that says that~~ that a couple of monkeys playing darts can predict the stock market better than average people. Guess what? I am here to tell you the right mentality and the right approach to understand, visualize, rationalize stocks, and beat monkeys.

~~How to read this~~Keep in Mind.

Aside from this initial introduction, every piece of information will be presented sharp and to the point. Thus, you might find that there is a **lot of information to be retained**. In these cases, is recommended for the early beginner to have this guide with him while making initial purchases. ~~For example~~, this guide contains examples of trends and lists of different stock categories to always watch out for. ~~So,~~ in these trend cases is good to have a guide (either printed or opened in a screen) for comparison. Even though there are always things to consider ~~new strategies to learn~~ while buying, this guide also has some quick-examples where you can see how different stocks behave and what is the appropriate mentality when looking at them. This guide is a kick-start for stock investing and is aimed to provide a background from the very early grounds. Literally starting on what an investment is, and how there are many types of investments. Once you have all the right tools, it will be just matter of time to start growing your wealth.

Whether you know nothing about the stock market, or have many years of expertise, this book is made to offer a comprehensive exploration of the right mindset that is needed to become a successful investor. However, this mindset starts by having a **solid understanding about the roots of investing**. Thus, this book will aim to provide a structured mentality to tackle any future stock investments you can have in mind.

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Structure of The Guide

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~~Once investments are explained, we will focus on only certain types of investments, which are stocks. In stock investments, every person has their own style for trading, and different styles will be explained. However, most of the tactics involved are for long-term style of investments, and many examples will show how this method is the most efficient. This does not mean that the tools offered are not valid for other types of investment styles. It just means that if you want to dedicate to short-term gains, you could need extra tools and things to consider.~~

Every subsequent chapter of this book will be divided into 2 sections called "The Basics", and "The Mindset". The Basics will cover mainly definitions that need to be clear in order to understand the Mindset section. If you have invested before and have a firm understanding of what it involves, you might find this section as a refresher. However, if you are an expert in investing and are completely ready to learn new techniques, feel free to skim through The Basics and how straight for the Mindset section. Beware that you can always learn something new out of something old!

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The first chapter is focused on how companies work, to give readers and in-depth understanding of why is it that stock even exists. The subsequent chapters talk about different types of trends and what do those mean. Usually every chapter is independent of the other, except for the First Chapter and the Quick-Examples Chapter, where information from previous chapters is used to culminate in trade decisions. Many words will be bold which means that these are key things to remember. Also, some Quick-Examples will be listed out throughout the guide that give a good insight on how to think about companies from a stock-purchasing perspective. Finally, the guide offers a Suggested Readings for online tools and further reading, along with a Key Summary that gives a "take-away" summary of the guide. Once you have all the right tools from this guide, it will be just matter of time to start growing your wealth.

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~~Why Robinhood?~~

~~There exist multiple investment platforms that people can use. For this guide, most of what we will see comes from a platform called Robinhood, which is available both online and as a phone application. The reason to use it is simple: it's free. You can start with practically no money and is a platform easy to illustrate concepts with. Remember that this guide aims to offer a quick go- to-guide for beginners, so, Robinhood offers everything that is needed. It removes fear from being charged for trading, any quantity of money can be used, and is easy to understand~~

Chapter 1~~2~~: What is Out There to Invest In?

The Basics

When you begin investing, you need to understand that there are many types of investments. Many people believe that investing refers to a certain thing ~~stocks~~ only, and that is not the case. One of my favorite definitions of Investment comes from G. Malkiel: “I view investing as a method of purchasing assets to gain profit in the form of reasonably predictable income (dividends, interest, or rentals) and/or appreciation over the long term” [2]. Many examples come to mind that can serve as an investment. Real state, if you invest money to obtain a property and rent it out, in the long term you will generate income. Invest in gold, wait a couple of years and sell it for a higher price that you originally bought it for. Invest in stocks, and in the long term you will end up with many dividends that will come from the company. The more investments you have, the higher the rate of return will be. Think about it as the fruit example given before, the more seeds you plant, and the different variety of fruits you choose, the more fructiferous your results will be. The best thing about multiple investments, is the fact that if one is not being successful, you can still profit from others. Some forms of investments are:

Bonds: This investment type is a form of “loan” that is given from the investor to the company. Bonds are different from stocks because these are “secured”. Thus, a company is legally liable to pay out bonds to the current bond-holders in the case of bankruptcy. Bonds only pay off interest rate (which varies from companies). One main disadvantage of bonds is that the amount of money you receive will always be independent on how well the company is doing. Bonds could be considered the same as bank loan. However, the investor is the bank, the bond is a loan, and the customer is the company.

Real Estate: This investment focuses on buying physical properties and obtaining money by either renting them out or selling them out. The importance of real estate lies in that they offer a strong source of income that is independent of a company. However, it depends on other factors such as the property conditions, location, and more.

Foreign Exchanges: This type of investments involves buying a currency (or money from other countries). The value of foreign exchanges depends heavily on economy, and also offers a slow growth. Recently it is a method not highly recommended.

Cryptocurrencies: This type of investment is a new way of moving money. Simply put, money is invested on a virtual currency that is independent of the country it is in. Cryptocurrencies have been adopted by many companies as a form of legitimate payment. An advantage or disadvantage (depending on perspective) that comes from cryptocurrencies is that they are always available for trading, all year.

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If you are interested in investing on any of those categories, I have provided at the end of the book many recommendations on other types of investments to keep growing from multiple income sources.

Stock Investments

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Stocks can be referred as shares or equity. Stocks represent ownership from a company in exchange for money. Thus, when you buy a stock, you are claiming a percentage of ownership. There exist cases where is possible to take whole possession of a company by simply gathering stocks. For this reason, sometimes, you read the news that say, "company X is **repurchasing** stocks". This is referred to as **Stock buybacks**. What this means, is that the owners of the company are getting their stock back to the company because it might be dangerous that a high percentage of these stocks can be with a different person rather than the current owner. If that happens, a new owner could obtain the company by owning more than 50% of the stocks. For this and many more reasons, companies can sell their ownership in the form of stocks and repurchase it back as they need.

Dividends: These are an incentive for people to buy their shares. This incentive offers a constant amount of money being paid up to the shareholders (or stock owners) at a regular interval. The time of pay and the number of dividends is different for every single company. They tend to offer these depending on their financial situations. If the company needs to raise money quickly, using dividends are an enticing option.

Undervalued: This means that the company has a stock price that looks low, and it will increase within time. Defining a stock as undervalued is totally arbitrary; somebody could be telling you that and be wrong. However, if you find truly undervalued stocks and invest in them, then you are in the right track to become wealthy!

Overvalued: The opposite of undervalued, in this case it is not recommended to buy overvalued stocks because you would be paying money for a stock that is more likely to go down later.

Where are Stock Transactions made?

Finally, let us clarify what is "the market." There exist many markets in the world. Many countries have different markets. In the United States, the most famous one is the New York Stock Exchange (NYSE), but there are many around the globe. This guide is focusing on the NYSE only. However, many strategies and most investment types are the same for any other market. These markets have explicit "trading hours" that depend on which location the market is. For NYSE, trading hours go from 9:30 am to 4:00 pm EST (Eastern Time).

The Mindset

Now that we have all the basics for stock investment, we need to swim into the idea of why stocks exist on the first place. If we understand the necessity of stocks for a company, we start to understand how we should look at these "potentials sources of income".

Why do stocks exist?

If you have taken a basic accounting course you will know that everything for starting a business revolves around the **Basic Accounting Equation**:

Assets = Liability + Owners Equity

This equation basically says that all the goods or values that the company has (known as assets), is equal to the amount of debt (liabilities) and equity (stocks) that the company has. There is no need to go in detail for this equation (there are entire books about it) because it is mainly used to understand how to manage a company. However, it is important to note that the Assets represent everything on the company: assets include all their possessions and profits. While Assets go up, Liability and Equity will go up as well. Thus, to make profits, it is needed to first get some "borrowed" money in the form of liabilities (bank loans, etc.) and owners' equity (stocks, etc.). So, if you want to company to become bigger, you would need bigger financing sources to fund your projects, products and services.

One key difference in between liability and owner's equity is this: **Liabilities are secured, and Owners Equity are risky.** For example, the bank gives the company money, in exchange of a fixed interest rate for their services. Then, the company is legally obligated to pay this. However, for equity, the company is not obligated to pay shareholders anything in the case the company goes bankrupt.

Companies sometimes don't like the interest rates offered, the amount of money provided by banks, or the terms of contracts, and **that is why** offering owners' equity (selling stock) is a great source of funding money. In the case of selling stock, the incentive for shareholders is that, if the company is doing good, our initial investment will be increasing. Another incentive are the dividends that were mentioned. Other reasons to sell stock instead of loans is that companies need more money than what they can obtain from liabilities (loans) and they rely on owner's equity.

How is stock price determined? There are many definitions that are given for Stock Prices, some are simple, and some are complicated. Let us start with the simple one first ~~The idea is simple~~, take how much the company is worth (this number is also called total value, market capitalization or simply market cap). This number is usually determined from the basic accounting equation as the "assets" side. Then, just divide this number by the total number of shares available (or **outstanding shares**), and that is the stock price. For example, if the market cap of a company is worth 1 Million dollars, and there are 200,000 shares on that company. The price is roughly $\frac{1,000,000\ dollars}{200,000\ shares} = 5$ dollars per share. The number of outstanding shares is usually determined by the company's needs so each company will make as many shares available to the public as they need~~.~~. The stock price has more to it than just a number and will be explained later in Chapter X.

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Finally, not all companies have stocks on the market for sell. These types of companies are known as **Private Companies** because they do not see value in obtaining funding from stocks. Companies with stocks on the market are known as **Public Companies**. Companies can have many reasons to be either private or public, an example could be that their products are doing extremely well so that they never needed extra funding. Another would be that a person or an entity that has more than enough money to run the company is not worried about funding for the future. When companies go from Private to Public, an **IPO or Initial Public Offering** occurs, which announces the day that a stock is available to sell along with its initial stock price.

Different Stock Investment Types

~~Finally, let us clarify what is "the market." There exist many markets in the world. Many countries have different markets. In the United States, the most famous one is the New York Stock Exchange (NYSE), but there are many around the globe. This guide is focusing on the NYSE only. However, many strategies and most investment types are the same for any other market. These markets have explicit "trading hours" that depend on which location the market is. For NYSE, trading hours go from 9:30 am to 4:00 pm EST (Eastern Time).~~

Different Stock Investment Types

Now that you understand the basics of how companies use and run by stock, we need to understand what kinds of stock exists. **Many people specially at early age, believe that there is only one type of stocks to buy, but that is not true.** It is recommended to have a **portfolio** (or collection of investments) that has different investment types.

The different types of investments and their definitions are the following:

Common Stock: This is also known as Public Stock, and this were explained previously in this

***Common Stock:** This is also known as Public Stock, and this were explained previously in this chapter. This investment represents a form of financing for a company that will offer benefits to investors if the company is successful.

Penny Stocks: This definition can vary from the source, but usually, penny stocks are the same as a Common Stock that has a value of $5 or less. This type of Stocks is important to distinguish from common stock because these are way riskier to invest on.

ETFs: These are basically a "collection" of different investing options (called securities as well).

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***ETFs:** These are basically a "collection" of different investing options (called securities as well). ETFs can be made of stocks, bonds, and many more. The key of ETFs is that many investors are in charge of splitting your money (in a company building) in different options to maximize your profit. **You are not in charge of where the money specifically goes to.** For ETFs or any collection of securities, your money will grow based on percentages as a combined sum. This is because that way, the investors in charge of your money can use it in many companies.

Mutual Fund: These are also a "collection" of different investing options. However, Mutual Funds only trade at the end of the day price. **With this in mind, we could say that Mutual Funds only change once a day, and ETFs constantly change throughout the day.** The Mutual Funds can be made of bonds, stocks, and more. The key of Mutual Funds is that many investors oversee splitting your money in different options to maximize your profit. **You are not in charge of where the money specifically goes to.**

Index Fund: To explain this investment, we need to understand what an index is. **An index is a collection of stocks only.** There are many index types, and one of the most popular is the S&P 500. This index has the most popular 500 stocks available in the market and has a **historic record of always going up on the long-term**. Now, an Index Fund is a general term to refer to any type of index. If you are investing on the S&P, you are investing on an Index Fund. Index Funds are classified as a Mutual Fund because it also has a "collection" of investing options. Many investors use the S&P as a "benchmark". So, if your portfolio grows faster than the S&P, you are officially "beating the market"

Preferred Stock: This type of investment is like Common Stock. However, the main difference is that when a company pays off dividends, the company is legally liable (or responsible) to pay out the money to their preferred stock members. Common shareholders do not have this privilege, so if the company either goes bankrupt or decides to not give money to the shareholders, there is nothing to do about it.

Feel free to delve deeper in other investment options or investigate more about the ones mentioned.
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~~**Real Estate:** This investment focuses on buying physical properties and obtaining money by either renting them out or selling them out. The importance of real estate lies in that they offer a strong source of income that is independent of a company. However, it depends on other factors such as the property conditions, location, and more.~~

~~Note that not every single type of investment possible is listed, but just the main ones.~~ Feel free to delve deeper in other investment options or investigate more about the ones mentioned. The key to be a good investor is to **know really well what you are investing in**. Even though many investment types were described, it is important to note that the tools on the next chapters are mainly focused on Common Stock. Some examples in the guide include penny stocks, ETF's or more, but to fully invest on those is recommended to read more about them. The tools offered next can be of help for other types of investments but not necessary all of them. For example, many tools in this guide will not be efficient when entering real estate, but really efficient in penny stocks trading. **It is always recommended to learn about other types of investments because the more sources you invest in, the higher the chances of profits**.

Remember at the preface where it was mentioned how retirement plans were investment options? Well, there are **two main retirement plan options: 401k and 403b**. When you put money in these accounts, they get saved and get invested on the types of investments that were listed earlier. Sometimes, your plan might let you deposit money in specific areas like stocks, bonds real estates and more (called asset allocation). However, sometimes when people are not sure how the investment works, they just let the company in charge of the 401k/403b to invest at their judgement. What makes a retirement plan different from simply saving on a savings account are two things: taxes, and accessibility. The money you get for your retirement plan gets deducted from your monthly payments before taxes so that they quantity you get is **not affected by taxes**. The accessibility part means that **the money is not available** to you even on emergency cases until the date of retirement is reached. So, this would seem like an extreme savings account.

However, we must look at another type of retirement option which is: Social Security. This type of plan is not an investment, but money that gets collected from taxes and is used to provide another form of retirement to workers in the U.S. The problem is that many researchers believe that Social Security will not have enough money in the future to provide to all the retired people in the country (research it if you don't believe it!)[2]. The reasons and explanations are not related to an investment (these are more government related, so out of the scope of this guide), but we need to understand that investments are a backup plan to Social Security.

https://www.ssa.gov/policy/docs/ssb/v70n3/v70n3p111.html

Chapter 2: Stock Trading in a Nutshell

The Basics

Now that investment types have been defined, it is time to go into the good stuff from this guide. How to understand stocks. Some investment books claim that stocks behave in a random matter [3]. For this same reason, it is pretty much useless to try and predict which companies will go up and by how much. Generally speaking, this is true. Many analysts apply what is called "Technical Analysis" in which stock charts can help forecast the future behavior of the stock. In my personal experience technical analysis (also known as charting) **will not provide** you with any insightful information about the companies' future performance. However, (you can and should confirm this yourself), there is one thing that charts will help you on. That is, on selecting a stock as good candidate for investing or not. ~~How to understand what you are investing in~~. ~~Remember that this will be focusing on common stocks, so we will be using Robinhood to make our analysis and classifications.~~ In order to do this, we will take a look at the general trends of stocks. Overall there are three main types of trends: Upwards, Downwards, and Horizontal Trends. Let us analyze each one of them.

Upwards Trends or "Bullish" Trends

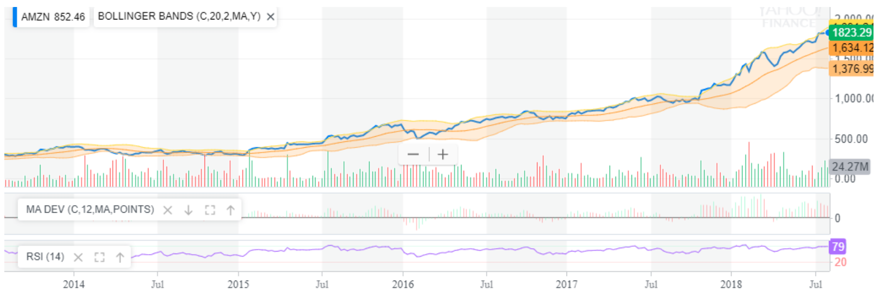
<u>These trends are the best and most successful trends you can ever obtain.</u> Many investors recommend to always buy stocks that exhibit an upward trend. Given that the company is consistently increasing in value. An example shown is by famous Apple Company.

Apple's Stock 2018

This upward trend, as the name implies is characterized by going "up" and it can be shown with a straight line going up as well. This trend tells us how well the company is doing, and how "Steep" the trend is, can tell us how efficient the company is compared to others. Now we will show 2 stocks that offer upward trends and a "linear approximation" (a single line that tries to follow the pattern of the stock) in blue to see how steep each one of them is.

Comparison in between NVIDIA and Apples Stocks

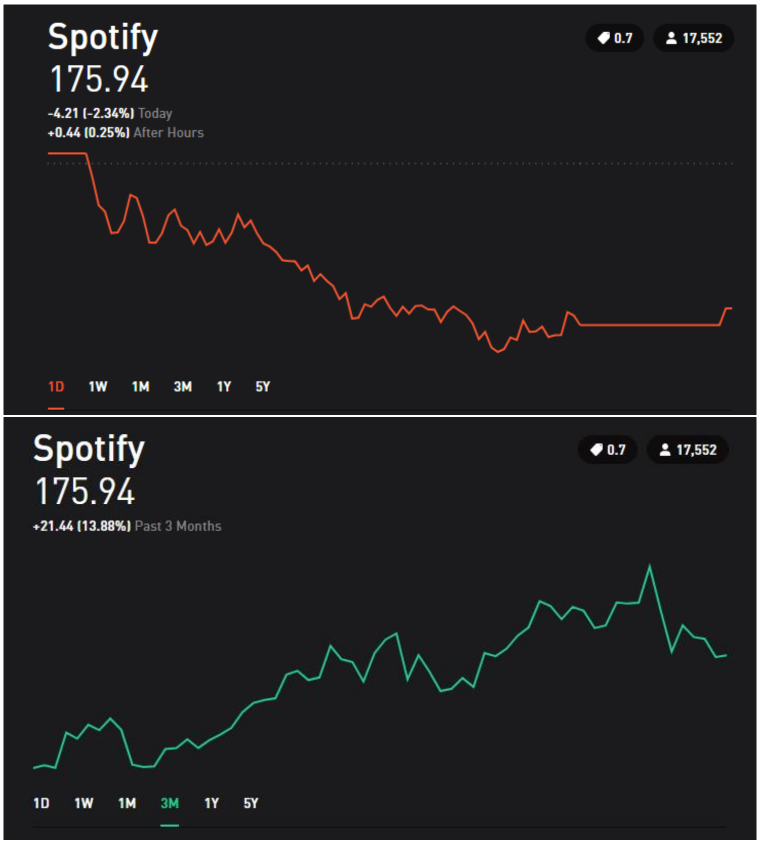
Both show a linear increase, but it can be noticed that the linear approximation (in blue) for NVIDIA is steeper than Apple's. Therefore, it would be determined that NVIDIA has shown more growth in their stock value. This can also be reinforced by looking at the percentage increases in both. Apple has 34.45% and NVIDIA has 50.13%. Even though this analysis seems simple, you can run through other platforms where information shows too many trends that can be really confusing for the early investors. To show how complicated this can get, let us see an example from Yahoo Finance that has some indicators



Amazon's Stock from Yahoo Finance

This type of images should not discourage the early investors. This types of charts offers many "charting tools" that again are trying to be used to predict the future but most likely fail. When in doubt, always go back to the basics of identifying upwards trends. The key points to consider when looking at upwards trends are as follows:

- If you are comparing stocks, make sure they are being compared at the same length of time. Just as NVIDIA and Apple were compared earlier with 1 year of stock history, you need to always compare stocks with the same time of previous stock history. If you compare Apple's history from last month to Microsoft's history from last year to decide which one is better, you are not doing it right.
- When analyzing, make sure you are not being disappointed by daily changes. For this, we will take Spotify as an example.



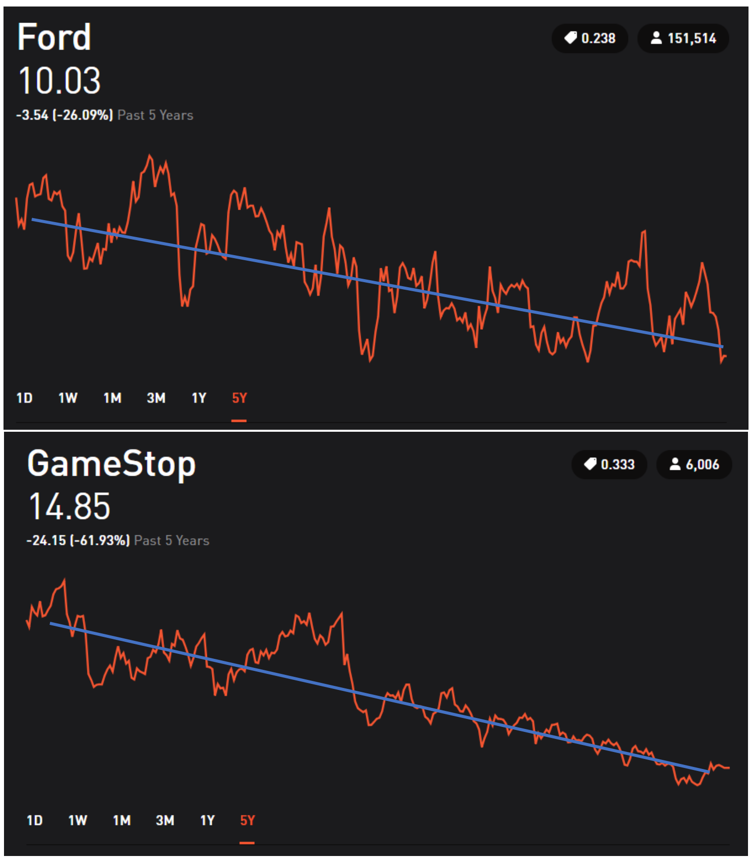
Spotify 1 Day vs 3 Month Trading history

If we look at Spotify's trend for one day, it is obvious that the loss was considerably bad. However, if we look at the 3-month stock history, we notice how the stock in reality has generated 13.88% increase in price. So always remember that even if the company has had a bad day, does not mean that is doing bad.
Now, most of early investors get disappointed by buying stocks and then in one day or
Now, most of early investors get disappointed by buying stocks and then in one day or
Now, most of early investors get disappointed by buying stocks and then in one day or week start getting loses and decide to sell the stock before losing more money. However, if they start looking at the long-term information they can deduct that the company has a high chance of giving return on the longer-term investments. **The longer the company has had their upward trend, the higher the chance that the company will keep giving you money on the long-term.**

- The reason why many investors don't follow these ideas and start selling as soon as they see negative trends is because they want fast money. The reality is that even though is possible to make fast money on the stock market, it is unlikely and hard to achieve. So, the strategies and layouts on this guide serve for long-term investments.
- One safe baseline is to define upwards trends by **at least 1 year** of previous stock history. However, if the company does not have that much time in the market, more research might be needed given that it can be risky to invest in something rather new.

Downward Trends or "Bearish" Trends

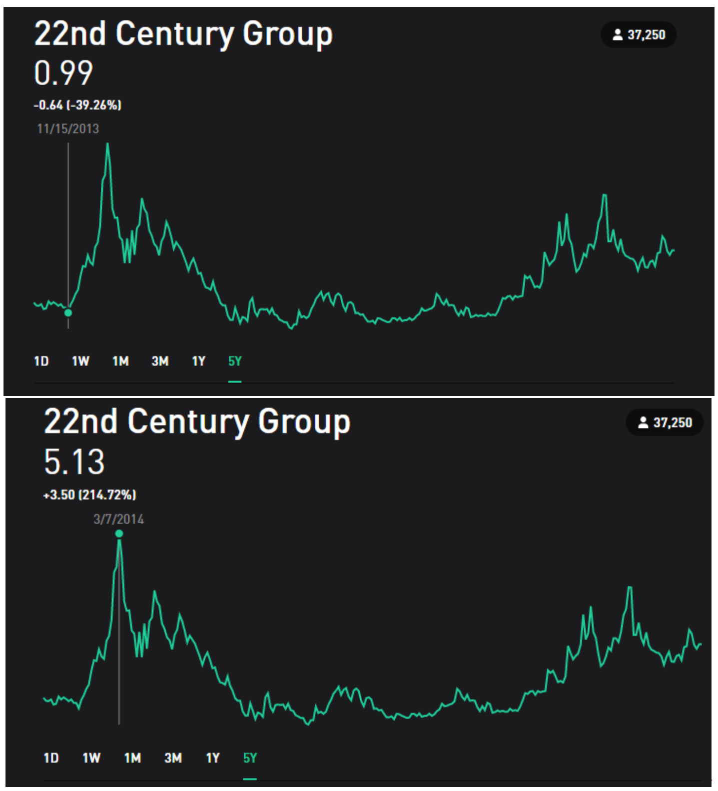
~~**These trends are the ones you need to avoid at all costs.** The reason to avoid these stocks is simply because they are going down. Some examples for downward trends are the following:~~



~~Downward Trend Examples~~

~~Some people argue that a downward trend is a sign that indicates that they will go up later. So, they buy the stock when price is decreasing, trying to find the exact time when it will start going up again. Some others argue that if the price once had a certain value, it must go back to that value eventually.~~ **~~However, from personal research and experience, most (if not all) sources recommend avoiding this type of buying.~~** ~~The reason behind it, is that there is too much risk involved in the company. Instead of trying to make money, people are focusing on just recovering back they had from that same stock. This can be dangerous because it can bring obstinance in their behavior and start believing price changes that could never happen.~~

~~This obstinate behavior is true for either long-term or short-term investments. An example is given for 22nd Century Group.~~



~~22nd Century Group in 2013 and 2014~~

~~If you bought stock in 2013, the value of it was about 1 dollar. After 4 months in 2014, the value of the stock grew 5 times of what it originally was. During this period of time, buying would be recommended. Excitement is high, and returns are good. Now let us look 4 months later, and 3 years later.~~

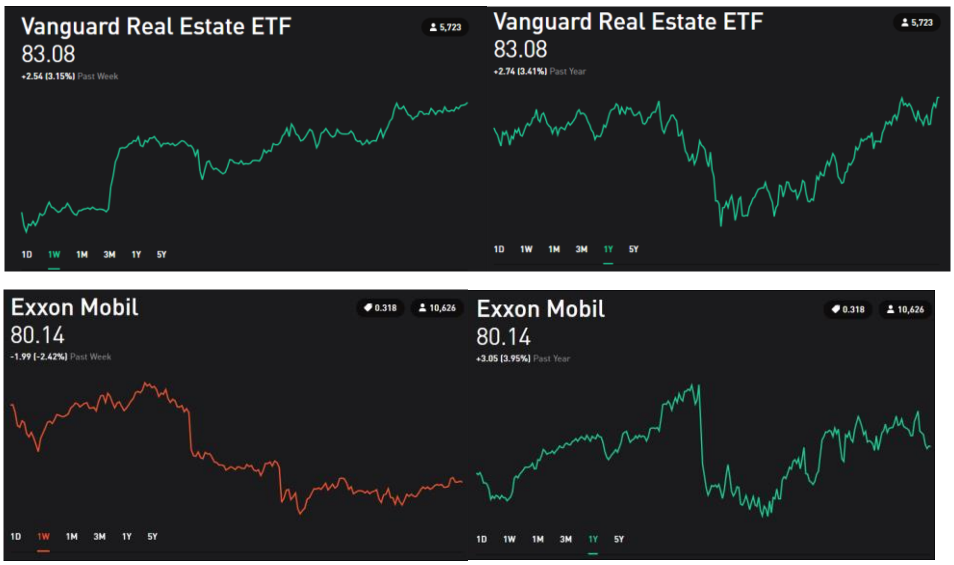
~~22nd Century Group in 2014 and 2017~~

~~Some investors way before this point of time would already have sold their stocks and kept their return instead of holding it longer waiting for more return.~~ **~~But some investors could be on the idea that the price must go back to 5 dollars, even though they are on a downwards trend, decide to even buy more. That is not a wise move.~~** ~~Three years later, the stock is valued even less than it was back in 2013. Looking at the history at 5 years, we can see how many investors won a lot of money and then some others lost a lot as well. This behavior of going down and then back up is possible, but is risky, that is why is not recommended for long-term investments.~~

~~Remember, investments need to be taken from a logical perspective rather than an emotional one.~~ ~~Whether you are disappointed with loses, whether you are very excited with profits, it is always recommended to be calm and anticipate how things can change.~~

Downward Trends or “Bearish” Trends

~~**Horizontal Trends are attractive due to their low-risk characteristics.** The idea behind horizontal trends is that they tend to be constant. Horizontal Trends are not purely horizontal, they are in reality very little upward trending or very little downward trending. The key to this trend is to **always find horizontal trends with little upward behavior**. For now, let us illustrate that with two different investment type, an ETF and a stock.~~



~~Horizontal Trends for Vanguard and Exxon Mobil at 1 Week and 1 Year~~

~~To identify a horizontal trend, we first look at the 1-year progress of both Vanguard and Exxon, in which both show a constant (or very little change) stock value. A key personal idea to identify a horizontal trend is looking at **two distant times (in this case, we look at 1 week and at 1 year) and we see how the progress of the stock circles around ± 5% change (or a small percentage change). This little margin of percentage gives us a good sign of a horizontal trend.** However, to verify that the stock is profitable we should focus on a stock that for the long term has shown a positive increase. Now let us look at Vanguard and Exxon for 5 years.~~

~~Horizontal Trends for Vanguard and Exxon Mobil~~

~~If we look at both graphs now, it is noticeable how Vanguard has had an upward trend for 5 years and a horizontal for about 1 year. In the other hand, Exxon still shows a horizontal trend. Given this information, both seem to be an example of an investment that will give low-risk returns, but Vanguard would show a higher rate than Exxon on the long-term investments. Note how this analysis worked for both an ETF and a Stock.~~

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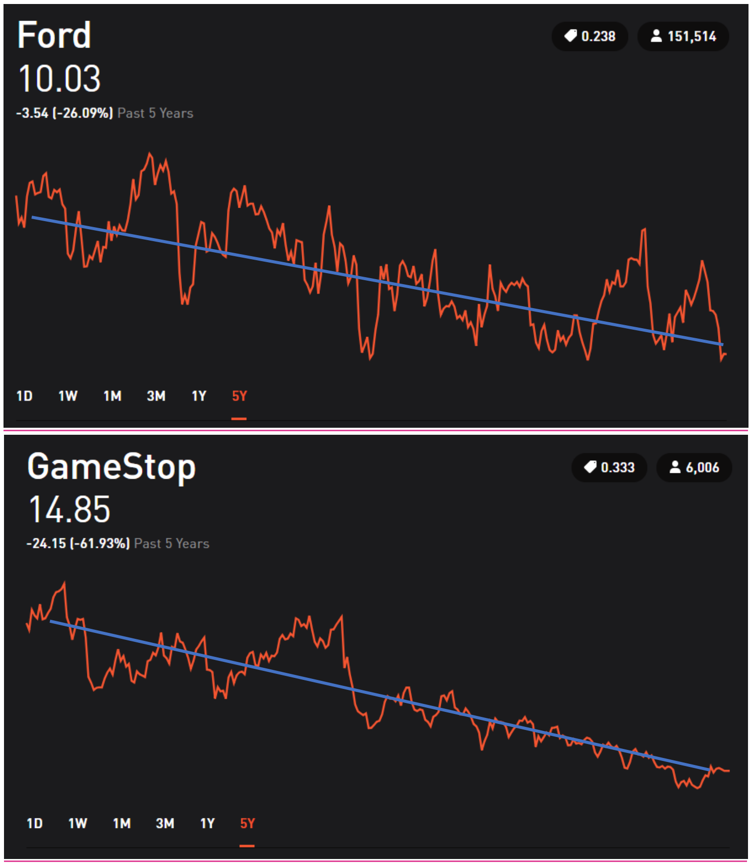

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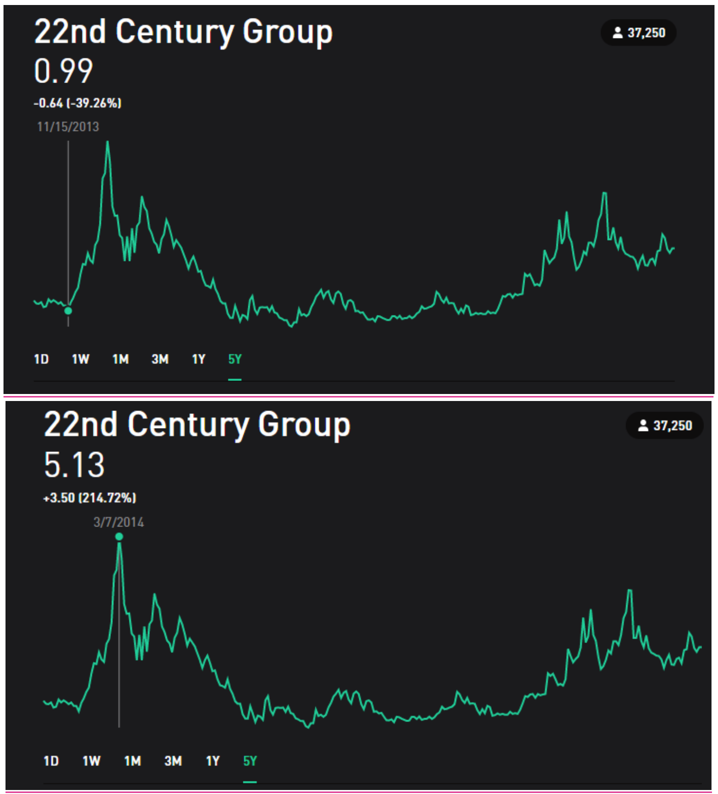

22nd Century Group in 2013 and 2014

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