BUYING AND SELLING STOCK FOR BEGINNERS

PETER O'BRIEN

THE BASIC STOCK MARKET INVESTING
GUIDE FOR BEGINNERS 2022
LEARN HOW TO INVEST WITH THE DIFFERENT
STRATEGIES AND ACHIEVE YOUR FINANCIAL GOALS

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Introduction

Investing in stocks can be lucrative, but it can also be risky. You may have an increase in profit or a complete wash from your investments. But the first and simplest things you need to consider when buying stocks are the buy order and sell order. This means that you will tell the broker exactly how many shares of a specific stock you wish to purchase or sell. Another thing you can do is sell at the market for what is called the prevailing market price. You can also sell at the limit, which is a certain point at which it is priced or below that price. For instance, placing an order for 100 shares of Amazon stock at a limited price of $140 per share, you are would only be willing to purchase if it is sold at
$140 per share or less. When you are selling your stocks, you are allowed to use a stop limit. This instruction allows your broker to sell the shares when they reach below a specific price point. For instance, you have placed a stop limit on the stock you formerly purchased. This stop limit is set at $130, and the broker knows that you want these shares to be sold once they fall at or below that price point.

When to Buy

Knowing when to buy a stock is as simple as knowing what you want to buy and whom you purchase your stocks through. If you are buying stocks through an online broker, then there are a few steps that you need to take.

First, you have to open your brokerage account. Consider how you wish to trade and find a company that offers lower trade commissions. This can be as little as $7. They should also offer you some valuable tools that you will need to help grow your account.

Secondly, you need to select the stocks that are right for you. Look for a company with robust growth in the long run and is an excellent prospect for your investment portfolio.

Next, you will need to decide the number of shares you wish to buy and what price you would like. Remember that when investing for the first time, it is ok for you to start small.

Lastly, you will need to choose the type of order you will be paying. This can be a market or limit for purchases that you will do more often.

Be Patient – Investing Is Not a Race

Investors who have made money quickly are the exception to the rule, so do not consider yourself to be in this exception. There is a long-term obligation to invest in stocks. Ensure you study as much as you need to. Read a ton of books to gain the knowledge that you need to manage your accounts effectively. Attend seminars to learn about all things that pertain to investing. Take all professional advice that you can get but do your research. Once you have obtained the educational level needed to be an expert investor, you will have better judgment, a little bit more common sense, and the patience that you canuse to be successful.

Chapter 1. Definition of Terms

Agent – An agent is a person or any securities firm responsible for representing the client whenever they sell or buy any security. When the transaction takes place, the agent only performs the act of representation but does not own the security in any way.

Annual Report – Respective companies publish an annual report. They show their operations and financial statements, and they issue this report to their shareholders. The publication of the annual report usually happens at the end of the fiscal year.

Assets – Assets are everything a person or company owns, including everything from equipment to securities and even money. It also includes real estate. In short, everything that the person or company owns is included in the assets. You will find the mention of assets in the net worth statement of an individual or a company's balance sheet.

Bear Market – When the prices of stocks fall in a market, it is said to be a bear market.

Beta – The beta value can measure the relationship between the market's movement as a whole and the price of a stock.

Blue Chip Stocks – The stocks belonging to those national companies that are leading the market and are known for paying their dividends continually and offering other investment qualities deemed to be strong are known as blue-chip stocks.

Bonds – The government or a corporation issues Bonds in the form of promissory notes to the lenders. They are usually valid over a particular time and have a particular rate of interest.

Broker **–** The broker makes the connection between the stock market and the investors, and you can call them registered investment advisors. When an investor is selling or purchasing securities, the broker does not own those securities. They simply mediate the transaction, and they also charge a commission for it.

Bull Market **–** When the prices of stocks rise in a market, it is referred to as the bull market.

Capital – If you consider from the economic point of view, then capital can be referred to anything like factories, machinery, inventory, and so on—basically anything that will be used to manufacture other products. But for investors, when the word capital is used, it usually refers to cash and other financial assets.

Commission – Whenever you go to a broker or an investment advisor, they will charge you a certain fee, referred to as the commission.

Common Stock – These are the securities in a company that will give you voting rights along with part ownership in a particular company. It is the preferred shareholders who first pay their dividends, and then the common shareholders are paid. Even if you consider the line of creditors, then the common shareholders are last in line.

Delta – Delta is a ratio with the help of which you can analyze the price movement of an option compared to the price movement of the underlying interest. The range of delta values is usually from 0 to 1. Deep-in-the-money options usually have their values closer to 1.

Diversification is one of the most prevalent risk management strategies. With the help of which, you can minimize your investment risk by investing your money, not in one. However, different securities and these securities should preferably belong to different companies, each representing a different economic sector.

Dividend – The percentage of equity of the issuer that is paid to the shareholder directly is termed as a dividend. It is usually the preferred and common shares that get dividends. However, there is no legal obligation on the issuer regarding paying the standard or preferred dividends.

Equities – These are the preferred and common stocks. They represent that you possess or own a portion of the company represented by that particular stock.

ETF or Exchange-Traded Fund – With the help of this fund, you can utilize single security to buy a bunch of stocks, and all of these stocks will be following a specific market index in terms of returns. These funds are a particular category of index mutual funds. However, the only difference is that they are traded like a stock and are listed on the exchange.

Growth Stock **–** These are stocks of a company that have shown a growth rate that is more than the average value of the market as seen over the past few years. The usual expectation is that these stocks will keep growing shortly.

Hedge **–** This is a type of risk management strategy that limits your loss in any investment. For this, you have to offset your current position by making another transaction.

Margin Account **–** This is a particular type of account that the client uses for buying security by taking credit from the investment.

Market **–** The market is where the sellers and buyers meet each other to exchange services and goods. It is the market where you will understand how much a service or product is in demand.

Mutual Fund **–** This is a particular type of fund managed by a person who is an expert in this field and has much knowledge about investments in bonds, stocks, options, and other types of securities. These funds can be purchased directly from the company of the mutual fund or through your broker.

Portfolio **–** The different types of securities you own are listed in the portfolio, and these securities might not only be from different companies, but they can even be from different sectors.

Preferred Share **–** This is a particular type of share capital that gives the owners the right to get dividends before the holders of common shares and a pre-determined value per share if there is liquidation. The holders of preferred shares generally do not have voting rights.

Chapter 2. Understanding Stock Market

So, for those of you who are new to investing in the stock market, I will give you a basic understanding of what it is. It is a collection of markets consisting of shares. There is regular issuance, buying, and selling of these shares. Publicly-held companies own these shares. When you buy these stocks, you are now the owner of a particular share of that company. The earnings of the company are what determine the price of the stocks. There are several formal exchanges through which the financial activities related to stocks occur, also known as OTC or over-the-counter marketplaces. They are not allowed to perform in any way they seem fit because a fixed set of regulations governs them.

The fundamental question that every beginner has is, why do these companies sell the stocks? Now, this is because they want to grow their company and make their funds large. For example, let us say you want to start your own business; what do you do for the financing? You either use your credit card, or you apply for a personal loan, right? And then, you can also opt for loans from a bank when your company has reached a certain level. These companies are also the same. When they need money, they can first start by selling their bonds to investors they deem fit. But sooner or later, they will need much money to upgrade their business to the next level. That is when the initial public offering happens. In simpler terms, the company starts selling stocks. Now, the company is no longer the property of any single person. It has been divided into parts, and every person who has bought the stocks holds some part of the company. The stock market sustains because these businesses need to raise more money for their business to grow. That is how everyone who has invested in them makes a profit.

Participants of the Stock Market

There are different types of participants in the stock market; we will discuss the function of each one of them. Some of them play unique roles, but there are others whose roles are connected. To allow the market to run productively, every one of these participants has to work in unison.

Stockbrokers

The role of buying and selling orders for other securities, including stocks, is performed by stockbrokers. Sometimes you will find them referred to as only 'brokers.' They manage the transactions of the institutional customers and several retail customers, mainly through a brokerage firm. In return for the services that they are providing, the stockbrokers get their cut known as commissions. There is no fixed rate for these commissions, and the rates vary from one firm to the other. Yes, indeed, you don't have to depend on stockbrokers absolutely, and you can go and buy the stocks from the company itself, but in that case, you will have to take up much hassle. On the other hand, buying stocks through a stockbroker makes the process so much easier to deal with.

It was not easy to approach or even afford a stockbroker mainly because they charged a hefty fee, so their use was limited to investors with high net worth. But now, a lot has changed, mainly because of technological advances and the rapid rise of the internet. So, you now have discount brokers whose services can be availed faster and at cheaper rates than the scenario. So, investing in the stock market has become more plausible because of the lesser transaction fees. Moreover, even if you are located overseas, you can invest in any particular stock market because of the presence of these discount brokers. The credentialing requirements, although, are not fixed and vary from one country to another.

Portfolio Managers

The next participant that we will talk about is the portfolio managers, who are mainly responsible for maintaining the intricacies of portfolio trading. It can be either passive or active. No matter what the type of the fund is, it is highly influenced by the portfolio manager. The returns that come from any particular fund are also highly dependent on the portfolio manager. So, to become a portfolio manager, you have to have a strong background concerning finance like that of a broker, trader, or experienced investor. These portfolio managers make the selling and buying decisions, and several analysts give them these recommendations.

Investment Bankers

When it comes to raising capital for different entities like the government or other corporations, the individual responsible for that task is an investment banker. Central investment banks are Morgan Stanley, Goldman Sachs, Deutsche Bank, and JPMorgan Chase. They handle all the complicated transactions. To raise the money, they help in issuing securities. Hiring an investment banker saves time because they do not have to research strategies or risks involved. The investment banker will assess everything about the present investing climate. They can also help in understanding the various regulatory requirements. When the IPO or an initial public offering of a company is held, all the shares of that company are bought by the investment bank. The bank, here, acts as the intermediary, and when the company is going public, it acts on the company's behalf. All the company shares will be liquidated because the investment bank will share them in the public market.

Custodian

To ensure that the customers do not face loss or theft, their securities are held by custodians for safekeeping. The securities can be held in either physical form or even electronic form. It is usually the reputable and large firms responsible for the securities and assets since it is not about a few amounts of money but sometimes even billions of dollars. But it is not only the safekeeping of assets that custodians provide, but they also offer other services like transaction settlements, account administration, foreign exchange, and tax support. Based on the services that you are demanding, the fees charged will also be different. Sometimes the total value of the holdings is what determines the quarterly fees of the custodians. The custodian also has the power of limiting your account activity when the beneficiary in question is a minor.

Market Maker

The broker-dealers are known as market makers. They not only maintain an inventory of shares but also help facilitate the trading process. For any specific set of shares, liquidity is ensured by the market makers. They are also responsible for the profits made in the process.

When you invest in the stock market, you will hear the term fundamentals used every day. Executives, investors, and analysts appearing on CNBC or any other news channel will talk about the fundamental of stock. A fund manager will always talk about how some stocks have strong fundamentals. Some traders claim that there is no need to trust stock fundamentals since they do not matter. Before you make the decision, you should understand what the fundamentals are. On this page, we will look at the fundamentals of stocks.

Chapter 3. What Is a Stock

To understand what stocks are, we need to define shares. A *share* is a unit ofownership in a company. A company's capital is often divided into equal portions of shares. Anyone who owns company shares is known as a shareholder. A shareholder gets to share in decision-making and the profits generated by the company.

Stock refers to 100 units of shares. Therefore, shareholders are also referred to as stock- owners. A company's shares are sold and bought in the form of stock. The stock means units of ownership bundled into units of 100.

Stocks allow investors and general public members to claim part ownership of a company, however small this ownership may be. Companies often sell stocks to the public to raise funds for their operations. In return, buyers can own a small part of the company depending on the shares held.

Stocks carry a price because they can be sold or bought at the secondary markets. This price is based on several factors, including the company's earnings. Positive news regarding an excellent financial performance, expansion, a renowned CEO, etc., often positively affects the price. When the company performs poorly, the stock price is likely to fall. Therefore, the price of stocks depends on factors such as a company's profits, the general performance of the economy, and positive news regarding the company. Negative news affects the company’s stock negatively.

Does it also mean that you have the right to explore or access the company's areas that are supposed to be off-limits to unauthorized persons? Can you just grab anything that the company owns, like a table or printer, just because you also own a part of it? Do you have the right to hire or fire workers?

Many investment experts claimed that a stock embodies a shareholder’s claim on the company’s earnings and assets. They further added that when you buy more stocks of that company, the percentage of your own also increases. Regrettably, the definition of stock that many investment experts believe to be accurate has some flaws and therefore is not entirely correct.

Remember that you only own a small portion of the company. Such ownership does not give you any authority to do things as you please. Even if you own a significant number of shares, you only have the right to vote when a significant decision concerns all company shareholders.

Chapter 4. ETF

Exchange-traded funds or ETFs are often a stimulating way to invest in the stock market. There are many advantages to an ETF as opposed to buying individual stocks. You can use exchange-traded funds to track major stock indexes, such as the Dow Jones Industrial Average, the S & P 500, small-cap stocks, midcap stocks, large-cap stocks, growth funds, value funds, real estate, gold, stocks in developing markets—you name it, it can be tracked with an ETF.

Essentially exchange-traded funds are like mutual funds, but they trade like stocks. So, you can just buy and sell shares the same way you'd buy and sell shares of Apple or Facebook. Unlike mutual funds, a financial guru is not actively managed, so the fees are much lower. Also, while mutual funds only trade once a day, exchange-traded funds trade throughout the day like stocks because they are stocks.

ETFs Offer Automatic Diversity

When you invest in ETFs, you can choose between different indexes and sectors, among other things. So, you get automatic diversity because the fund invests across a wide array of companies on your behalf. One of the most popular ETFs is SPY, a fund invested in the companies that make up the S

& P 500. Imagine the difficulty you would have investing in all 500 companies, and then having to adjust the portfolio looking to weigh the fund to get more money invested into companies that performed better, and then taking companies in and out of your investments as the makeup of the S & P 500 changed.

Of course, this would be a complete nightmare. So why not let someone else handle all of that for you? You can just invest in that fund and then let the market do the rest.

There are exchange-traded funds for many different sectors and investment goals. Finding the right ones for your situation will require a bit of research.

The Main Companies Offering ETFs

Many investment firms offer exchange-traded funds, but the main ones that you should spend your time looking at include:

- State Street SPDR
- iShares
- Vanguard

While you will find that these companies offer funds that cover many of the same sectors and indexes of the markets, you will want to go head-to-head comparisons. For example, two funds that invest in the Dow Jones Industrial Average will not give you the same returns. The reason is that while they are invested in the same companies, the weightings of the investments may be different. So, fund A may invest in companies 1,2,3 & 4 by putting 25% of the fund in each company. However, fund B might put 30% in company1, 40% in company 2, 15% in company 3, and 15% in company 4. Why would they do that? They might believe that companies 1 & 2 have much better growth potential.

So how are you going to find out which fund is better? By studying their past performance. Compare returns for different funds against each other and pick the one that you feel is best. Many times, the differences won't be stark. You will also want to have a look at the fees associated with each fund. However, for those coming from mutual funds, you will be pleasantly surprised, the fees associated with exchange-traded funds are negligible.

Use Exchange Traded Funds to invest in everything

One of the things about exchange-traded funds is that you can put money into virtually anything. This makes them exciting and can offer an opportunity to build an actual diversified portfolio but only by using stocks. For example, you can buy shares of VGIT, an exchange-traded fund offered by Vanguard. This fund invests in intermediate-term

Treasuries—U.S. government-issued bonds. So rather than buying the bonds themselves, you can buy shares in this fund.

GLD is a fund offered by SPDR that invests in gold. So, you can invest in gold, but do it by owning shares of GLD rather than going out and buying gold itself.

Let's take a look at funds that can help you build a diversified portfolio that suits your

investment goals.

Remember—these are

stocks.

Although we mention funds offered by different companies, you don't have to go to that company to invest. So, while you could open a Vanguard account, you don't have to. These funds all have stock tickers; you can log into your brokerage account and buy shares in whatever fund you like.

A look at some example funds.

For examples of large-cap funds, we'll have a look at offerings from Vanguard. Stock ticker VIG is a dividend appreciation fund. It tracks the "Dividend Achievers Select Index" on NASDAQ.

VUG, on the other hand, is a large-cap fund that tracks growth stocks. This fund's ten most extensive holdings include Microsoft, Apple, Amazon, Alphabet (Google), Facebook, VISA, Mastercard, Home Depot, Boeing, and Comcast. Notice that by investing in this fund, you're automatically exposed to these ten companies while only having to make one investment.

When you look at each fund, you can also look at the fund's weighting by sector. For example, this Vanguard fund has 34.9% invested in technology, 20% in consumer services, and 13.9% in industrials.

Different funds that cover the same general goal will have different weightings by sector and different companies in their portfolios. However, there may be much overlap. These differences will impact the performance of each fund.

VTV is another large-cap offering by Vanguard. It is listed as a large-cap value fund. The holdings in this fund are pretty different, reflecting the different goals of the fund. The top

10 holdings are Berkshire Hathaway, JP Morgan Chase, Johnson & Johnson, Exxon Mobile, Proctor & Gamble, Bank of America, Cisco Systems, Pfizer, and Intel.

VOT is a midcap growth fund managed by Vanguard. The holdings on this fund include Roper Technologies, Red Hat, and Twitter, among others. Vanguard considers it to be in their highest risk category. However, suppose you are looking to add more aggressive growth to your portfolio. In that case, it's an option to consider instead of making the investments yourself. Vanguard also has a few small-cap funds. You can also invest in microcap ETFs. IWC is a microcap fund offered by iShares.

Tracking index funds is one of the best ways to use ETFs. We've already mentioned SPY, but there are many other stock indexes that you can track to invest in different areas. Some of the other index funds and sectors you can track with ETFs are:

- NASDAQ Composite Index: Mostly technology stocks traded on NASDAQ.

- Wilshire 5000: Designed to track the entire stock market. Not as famous as SPY.

- S & P Midcap 400, Russell MidCap, Wilshire US Midcap: Track mid-cap companies.

- Russell 2000: Tracks small-cap companies.

- Sector funds: Tracks energy, healthcare, finance, utilities, etc.

- Emerging markets.

- Real estate.

- Corporate bonds, including junk bonds.
- Precious metals, including gold and silver.

ETFs and Dividends

One question many people have does ETFs pay dividends. The answer is yes, they do. So, suppose you are looking for a way to build an income investment portfolio based on dividends. In that case, exchange-traded funds can be part of that process. Dividends are paid out quarterly. The proportion of dividends you receive will depend on what percentage of the fund you own. So, if you own 0.1% of the fund, you will receive 0.1% of the dividends.

ETFs Make it Easy

One of the nice things about using ETFs to build a diversified portfolio hitting different market capitalizations, sectors, and so forth is that you can diversify your portfolio without having to study the details on dozens of stocks and companies. Of course, different things appeal to different people; some people want to put the time into studying companies and their performance, while others will prefer the hands-off nature of ETFs.

Chapter 5. Candlestick Charting and Understanding Price Movement

There is an art to making sense of the many charts and graphs used in following the movements of a stock. To become a successful investor in the stock market, you need to accept these instruments as part of your new financial life. These economic indicators can prove to be invaluable when it comes to determining where a stock is headed. From there, you can learn not just the price of a stock but its volume, history, and wealth of other information that would help you recognize a good stock to invest in.

Chart Basics

To begin with, you need to understand precisely what the purpose of the chart is. It is an accurate record of how the stock has performed over a specified time. We all know that stock prices are not static, and they can constantly fluctuate up and down. There could be a significant price swing as a reaction to the news in the media or a company's management change. Many variables are constantly at work at any given time, affecting the price movements. One of the biggest secrets to success lies in your ability to figure out precisely what those movements mean.

New investors often conclude that price movement is unpredictable. After all, how can one individual investor know what millions of other shareholders will do at any given time? However, once you realize that many movements are predictable, and it is just a matter of mass psychology, then you will begin to trade with more confidence and tap into one of the most excellent wealth-building strategies the world has ever seen.

While you have already learned the basics of fundamental and technological analysis, these alone are only the beginning of stock investing. The other half of the puzzle is pinpointing exactly when a stock is in the correct position to trade or finding out if the stock is at the right price.

Unlike in the past, charts for just about any stock on the market are readily available, and most of them can be found at no cost. Of course, some charts are more accessible to navigate than others, but learning how to use them will help you effectively follow thousands of stocks online with just a few taps of your computer keyboard.

How to Use Chart History

We have said it before; past performance is never a guarantee of continued performance, but that does not mean that you can't learn from following a stock's history. History is probably the easiest thing to figure out on a chart.

When it comes to the history of a stock, seven essential factors seem to repeat themselves repeatedly among many of the best-performing stocks throughout history. By learning these seven fundamentals, you build for yourself a foundation that you can use to measure and analyze any potential stock that you may be interested in investing in.

But before you get into studying individual stocks, you need to look at the big picture. The market as a whole operates in cycles. Over the more than 100 years of stock market investing, the US stock market has gone through a never-ending series of peaks and valleys. The market has indeed increased exponentially over the years. However, it has not gotten to where it is today by going in a straight line. What we've witnessed are those highly high highs and unbelievably low lows with an overall average of about 10% return year over year.

Understanding a Market Cycle: One of the first things you'll learn when looking at chart history is how to read the market cycles. Just mastering this fundamental can open the door to huge returns.

Most people have heard references to a market bubble, and even if they don't know what it means, they are sure they don't want to be caught in one. Yet, people still find themselves caught in every cycle because they don't recognize the cycle's beginnings and ends.

A bubble is simply one type of market cycle. There are four different phases of a market cycle. During each of these phases, you can expect certain things to happen. Learning to identify which phase of a cycle you're in can help you avoid getting into the market at the wrong time.

- **Accumulation Phase**: starts after the market has hit bottom and investors are starting to buy into a particular stock. This is when people believe that the worst is over and it is safe to buy again. At this point, valuations are extremely attractive because the general sentiment throughout the market is still more on the bearish side. General attitudes are slowly beginning to shift from negative to neutral.
- **Markup Phase**: At this point, people are beginning to notice that the market has stabilized and the valuations are starting to increase. More people will begin to enter the market tentatively. As a result, higher lows and higher highs will begin to appear. The sentiment is shifting again to a more optimistic view. Later in this phase, market volumes will increase, and valuations will climb to uncommon norms. The overall sentiment now is bullish.
- **Distribution Phase**: At this phase, sellers have complete control of the market. Prices are locked into a trading range that could last for just a few weeks or extend for months at a time. Those investors who have been sitting on the sidelines are now flooding the market, and emotional investors are in force being spurred on by a fear of missing out (FOMO) and greed. Valuations are at all-time highs, but the market cannot sustain these elevated prices for long.
- **Mark-Down Phase**: In this final phase, the market begins to reverse. Many emotional investors will hold on to their investments, hoping that the price will recover and they can at least break even. By the time the market had plunged more than 50%, they finally let go, giving up their investment as lost. Sadly, this is the time for the intelligent investor to buy, as this is when the market is at its bottom.

Those that do are poised to take advantage of the next accumulation phase.

Understanding a market cycle is the key to being able to time the market correctly. There is no set time limit for a cycle; it could last for a few weeks or last for years.

Yes, markets can go up and down every hour and every day, but each of those small fluctuations does not mean it has gone through a cycle. One way you can be sure it is a cycle is to look at the charts. Suppose the market has suffered the kind of decline in prices overall, one that takes a year or more to recover from. In that case, you are probably looking at a market cycle. One of the first things you need to learn is the seven different ways to identify a market cycle.

1. ***Look at the length**:* Market cycles vary in length. Some could last as little as a year, while others could last a decade or more.

2. ***Look at the valuations**:* When you see valuations like the P/E or P/S ratios changing and showing different extremes, it could be evidence of a market cycle. Valuations may be consistent in one cycle, but these will quickly change when a new market cycle begins.

3. ***Look at already identifiable cycles**:* It is not uncommon to see a cycle from within a current cycle. Smaller cycles will affect different types of stocks. For example, value stocks may be affected in one cycle, but growth stocks may fare differently. These smaller cycles could be industry-exclusive as well.

4. ***Look at interest rate conditions**:* The environment surrounding interest rates can affect every market cycle entirely differently. When bank interest rates are low, it is a suitable environment for stocks. So, if you see the rates decline, expect to see a bull market on the rise. On the other hand, when you see the rates on the rise, there will be an opposite effect on the stocks.

5. ***Do not confuse a market cycle with an economic cycle**:* A market cycle indicates what investors will pay for shares in a company's stock. In contrast, the nation's economic cycle indicates how the economy is growing. The two may influence each other, but don't expect them to correlate precisely since they measure different things.

6. ***Buy in a bear market**:* It can be stimulating when you watch stocks moving in a continuous upward movement. It can be tough to sit patiently and wait for the cycle to come to an end so you can buy-in. However, buying when the stocks are low can be very critical when it comes to making money.

7. ***When a cycle comes to an end****:* A crash usually comes at the end of a cycle, and *psychologically*, you'll see investor sentiment take a turn for the worse. What was once excitement and anticipation of what is to come generally turns to fear of impending doom. The dread that disaster is imminent can cause people to pull out of the market rather than take advantage of the many deals found at the market lows.

All of these little observations should teach you several things. First, it is not accessible to time the market—mainly because it is not always easy to identify a market when you're in the middle of it. However, it should also teach you that discipline is the key to success in stock market investing.

Keep in mind that market cycles, while they are fundamental to this type of investment, are driven primarily by psychology, which could be either extreme fear or extreme greed. As long as you can refrain from these types of emotions, you should be able to enter and rationally exit the market, allowing you to tap into those times that could prove to be most profitable.

The best way to understand these things is by looking at chart history. While there is no guarantee that history will repeat itself, it can help you understand the psychology that drove the market in the past, so you can reasonably expect it to repeat itself sometime in the future.

Patterns and Precedents

Charts are economic indicators that are carefully plotted on graphs so that they can be analyzed and interpreted. Just about anything can be charted from a stock's price to its volume. As these things are plotted, their activity leaves behind an evident pattern that can tell you if a stock is strong, healthy, or about to falter.

Because the stock market as a whole is just a large auction block, the power of supply and demand becomes an essential factor in trading. The patterns that appear on these charts will show you specific price corrections and consolidations as they happen. You need to master the skill to learn these patterns and analyze them; this allows you to make informed decisions about your investment.

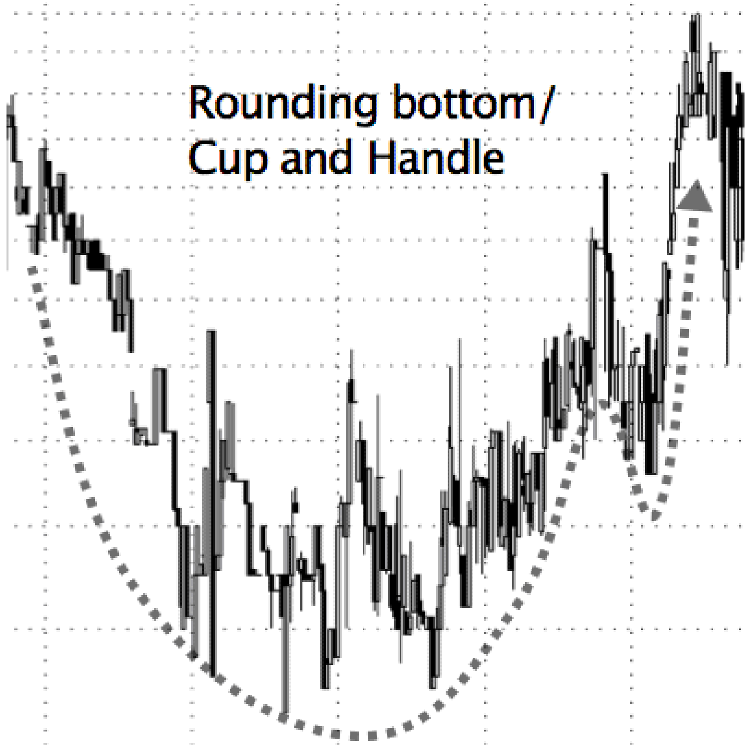
Many would assume that stock market investing is economically driven. However, we've already learned that it is more about group psychology than anything else. Everyone is looking for some gain; some are fearful of losing what they have; others are thinking about taxes, hedging, fundamentals, the advice they've received, and lots more. Your ability to gauge the psychology of those throwing their money in the pot with you is right there on the charts.

You can learn a lot from analyzing chart patterns. Once you've been able to master them,
a prominent picture begins to emerge; a historical record of every trade and every thought

of others interested in the same stocks. This information, once deciphered, can provide you with a framework that you can use to figure out whether it is the bears or the bulls in control at any given point. The more you understand charts and what they say, the better you can position yourself for profit.

One of the main reasons why chart analysis is so effective is because people are highly predictable. The way the masses react to certain conditions has been consistent throughout history. Once you learn the precedents set in the chart patterns, you'll see them reemerge time and time again, making these valuable tools you can use to help you predict future movements that you can take advantage of. While many patterns can appear in charts, we'll look very carefully so that every investor should know how to identify and understand.

Cup and Handle: One of the most common chart patterns you will see is the "cup and handle." You can quickly identify this pattern as it looks pretty much like it sounds. These patterns develop over as few as seven weeks but have been known to last as long as sixty-five weeks. On average, you will see the cup and handle pattern take somewhere from three to six months to form.



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As you examine the chart, you will first notice the cup shape in the form of a "U," The handle looks more like a downward slant coming off the top of the cup. Any stock showing this pattern is subject to selling pressure from its investors. This pattern is generally seen as a buying trigger and helps investors to identify new opportunities to buy.

When analyzing the cup and handle pattern, there are specific characteristics that you should look for; Everyone will tell you something different about how the stock is performing.

- ***Length***: Some cups will have a longer "U" shaped bottom, a strong buy signal.
- ***Shape***: It is best to avoid any cups with a more "V" shaped bottom.
- ***Depth***: Avoid trading if the cup is overly deep.

- ***Volume***: Make sure the volume decreases or increases along with the price to stay lower than the average in the bowl base.

When you trade the cup and handle, make sure you set your stop and buy order just above the upper trend line on the handle. This way, your order is only executed if the price breaks the resistance level. You could also wait and close above the upper trend line by placing a limit order directly below the breakout level.

To set your target for profits, measure the distance from the bottom of the cup to the point where the price breaks out from the pattern and then extend the distance up to match the difference. For example, suppose the distance from the bottom to the breakout point is
20. In that case, you extend the line an additional 20 points above the handle. You can set your stop-loss orders right below the handle in case the price goes down.

It is usual for a growing stock to develop this pattern when the general market declines. It is also perfectly normal for a correction to happen 1½ to 2½ times the overall market averages. Keep in mind that any time the stock experiences a decline that is more than 2½ times its average, it should be treated with caution. These are often too wide or too loose and could, therefore, be destined for failure.

When this pattern corrects, you will usually see a drop from the peak (the top) to the bottom range anywhere from a low point of 12-15% up to 33%. Make sure that the uptrend is evident before the beginning of the base. Expect to see a 30% or more increase in price BEFORE the uptrend.

Cup patterns are pervasive in growth stocks, especially when there is a decline in the general market. Look for these stocks with base patterns that tend to deteriorate when the general market declines.

After extensive research on this pattern, there are a few things you can learn:

- Stocks that form new highs straight from the bottom of the cup tend to be riskier because there is no pullback.
- A price that drops more than 50% from a peak to a low requires increasing more than 100% to reach a new high. Stocks in this position generally have a failure rate of 5-15%.

The handle area usually forms for one or more weeks, and the price tends to drift downward. This is called a shakeout when the price drops to a point lower than the initial low formed by the handle. You should see a noticeable drop in the price during the pullback phase. In most cases of a bull market, you shouldn't see an increase in volume during the correction phase.

When the price drops in the handle section, it should not exceed 12% of its peak in a bull market. Any drop that exceeds this point will form a broad and erratic pattern and is clear evidence of a high-risk possibility.

Pivot Points

As you examine this pattern, look for the pivot points (or the line of least resistance) where the volume for the day shows an increase of 40% or more above average. It is at these points where a breakout or a price reversal could happen. It is pretty common to see these sorts of breakouts with percentages that could reach very high (200, 500, or even 1000% or more). These kinds of volume increase are usually the result of institutional buys and not individual investors.

However, your goal is not to buy at the lowest possible price but to find the right time to buy. This means that you must watch these movements, wait for the price to reach the ideal buy point before entering your position. If you attempt to buy before the crucial pivot point, the stock may never break out. It could stall and start a pullback, and you will lose a percentage of your investment. These pivot points are essential tools to prove that a stock is strong and a good opportunity. On the other hand, if you wait too long, you enter the market too late and lose out with the following price correction.

Volume Clues

When you see the volume of a stock experience a major dry-up that lasts for a week or more, it is usually an indication that the selling period of the cycle has come to an end. This is a common occurrence with any healthy stock in an accumulation phase. It is likely the result of price fluctuations that are too small. This drying up of volume at critical points on the chart can be beneficial in your analysis.

Other clues to look for when it comes to the volume are the appearance of daily or weekly spikes. These spikes that seem to appear right out of nowhere could be setting the stage for future runups. Use a daily chart service like Daily Graphs Online from Investor's Business Daily along with weekly graphs. You'll be able to spot this unusual activity that may only happen once a day.

The more you pay attention to the volume movements in conjunction with price movements, the clearer the picture will become. You will identify the points where the stock falls under accumulation, which is a clear sign of institutional buying. Then, you will be able to make your stock performance analysis and no longer have to rely on the professional opinion of analysts or make those bungling mistakes based on faulty reasoning.

This chart https://mathematica.stackexchange.com/questions/48185/make-plot-look- like-bloomberg-terminal by Author Unknown is licensed by CC BY-SA

Market Corrections (What They Are)

If you think of the stock market in terms of numbers, you miss about 80-90% of the thrust of the market movements. The vast majority of movements in charts are reflections of market corrections.

A market correction is a movement that reverses a previous movement. As you examine the charts, you may see a drop in the price of 10% or more, but this should not be a reason for discouragement. Instead, view it as an opportunity to take advantage of some good deals at a highly discounted price.

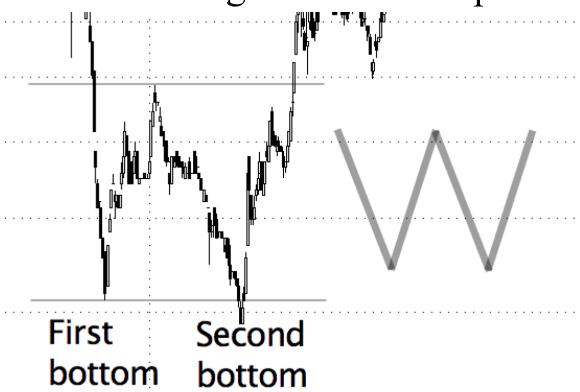
As you grow in analyzing charts, you’ll soon learn how to predict a market correction by comparing one market index to another similar one. With this technique, you can discover when a stock or index is underperforming and, therefore, must be adjusted.

When a correction happens in an index, the individual stocks within it may be strong, so it can prove to be the ideal time to get in and swoop up those assets that may not be performing to their full potential.

Other Common Patterns to Look for

- ***Saucer with Handle***: This price pattern is very similar to the cup and handle, but the saucer part of the pattern usually is stretched out and covers a much longer time. This makes the pattern shallower.

- ***Double-Bottom***: This pattern looks more like the letter "W" on the charts. You may not see it as often as you might see the cup and handle, but it will appear frequently enough to give you a clear sign of what to expect.

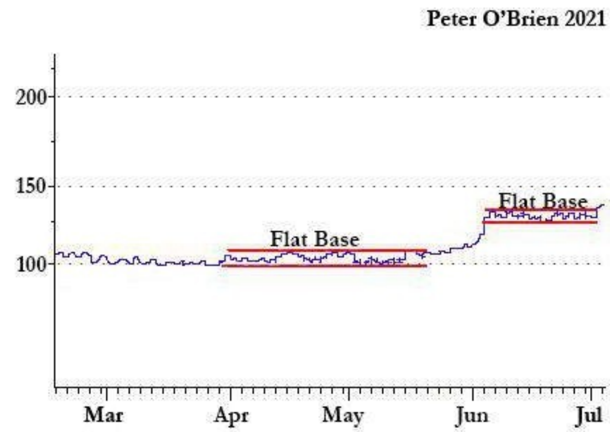


The key characteristics to look for with the double bottom are that the second bottom (the low) matches the first bottom in-depth or drops slightly below it (only 1 or 2 points). This movement will shake out the weaker and less experienced investors.

You could see double-bottoms with handles but not always. The depth of this pattern will be similar to the depth in a cup pattern.

When you see the double bottom, your signal to buy is usually at the top right side of the W as the stock rises to form the recovery side of the second leg down.

- ***Flat-Base****:* The flat-base pattern appears as a second-stage base where the stock has moved up more than 20% away from the cup and handle saucer with handle, or the double bottom. The base has a sideways movement keeping the price within a pretty tight range. It maintains that level for five or six weeks with no significant market corrections.



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If, for some reason, you miss out on the initial breakout, keep on the lookout for this flat base, which will give you another chance to get in on the market at a discounted price.

- ***Flags**:* Flag patterns, although rare, do occur from time to time. A high-tight flag may begin when the stock price moves up 100% or more within a brief time (maybe four to eight weeks). Then, it will show a sideways correction between 10-25%, which will develop during three to five weeks.

This chart
https://en.wikipedia.org/wiki/Flag_and_pennant_pattern

As a bear market is about to end, a negative flag may seem to be developing. This happens when a strong stock breaks out of its base and rises. Suppose it is not able to reach a 20-30% increase. In that case, it will have a pullback and start another sideways price consolidation directly above the previous base.

When the bear market ends, the stock will likely be one of the first to forge a new path to more significant gains. Once the pressure from the overall market is removed, the stock will break free and eventually push up to even higher highs.

Relative Price Strength

David Waring, informedtrades.com, [http://www.informedtrades.com/images/created/rsi-divergence.jpg, CC BY-SA](http://www.informedtrades.com/images/created/rsi-divergence.jpg)

The relative price strength is a method of measuring the trend of a stock. You can calculate the relative price strength by taking the price of one stock and dividing it by the price. For example, you might measure the stock of two similar companies against each other. As of this writing, Ford shares were priced at $9/share, and General Motors is priced at $34/share. If you want to find the relative strength of Ford, you will calculate ($9/34).

This information could be beneficial when comparing the current relative price strength to

previous calculations to see which direction the company you're interested in is moving.

It is not enough to know the relative price strength of the stock you're interested in. However, you should also know how they are performing against their competition and the market overall.

For new investors, learning to master the basics of chart analysis is even more critical. These are the same tools that professional investors have been using for many years as a means of finding new opportunities, identifying danger zones, and mastering the ability to time the market at the right time.

Stock market investing is not like bargain shopping. There is much more involved, and the more you can capitalize on these tools, the easier it will be and the more confidence you'll have in your investment decisions.

Chapter 6. Why Do We Need a Stock Market

What Are the Benefits of Trading on the Stock Market?

Investment Gains

The most apparent benefit of buying or selling stocks is investment gains. The possibility of developing wealth through the valuation of resources (stocks) first attracts most people to invest in the stock market, with an end goal to ensure their monetary future.

Gaining Dividends

A few stocks additionally offer the chance to procure dividends. Dividends can be an extraordinary method to acquire transient investment income. Frankly, who does not need another income stream?

Passive Income

In a nutshell, passive income generates money regularly without the need to oversee it regularly. You do not even need to exert too much effort to create and maintain it. However, it is still advisable to conduct minimum monitoring to make sure that nothing is amiss.

You can make an upfront investment in terms of time and money just to start things up. Once the ball starts rolling, you just practically need to wait and then collect your earnings later.

Stocks are great for passive income. However, you need to choose wisely when buying stocks. Do not buy on impulse following a friend's suggestion (without any knowledge about stocks), or let your loyalty to a particular product or company cloud your judgment. You are looking for something that can bring you many advantages, not for a way to display your devotion to a particular product. If the company that manufactures your favorite product has a good stock market standing, then buy some stocks if they offer them.

Savings

Saving money means setting aside a fixed or variable amount of money regularly (every payday) or whenever you have excess cash on hand. You may keep it in a bank, your home vault, piggy bank, or other safe places. You can also use your money to buy stocks and turn them into savings.

When you invest, you use the money to buy an asset you think its safe to acquire and bring you an acceptable rate of return. Some of the most productive investments are real estate, bonds, and stocks. The good thing about buying stock is that you do not need a large sum of money to buy it. There are good stocks that you can buy without the need to spend so much.

Return on Investment

ROI or return on investment measures the amount of return on your chosen investment against the investment cost. It can help the investor evaluate the investment's efficiency. The investor can also draft a chart to see the efficiency of their investments and compare them with one another. You can use this formula to get the ROI:

$$\textbf{ROI} = \frac{\text{Earnings from Investment - Investment Cost}}{\text{Investment Cost}}$$

The *earnings from investment* in the above formula pertain to the acquired proceeds from the sale of the investment. The *investment cost* is the total price that the investor paid for a particular investment, such as stocks. The difference that you will get from the two is the benefit or return. When you divide that by *investment cost*, you will get the ROI expressed in percentage form.

Retirement

When you are in your twenties, retirement is probably the last thing you can think of. However, it is undeniable that making early preparations for your retirement is an excellent financial move.

You need to balance everything properly. If you spend all your time focusing on finding ways to save more money and providing value, you will not have a chance to enjoy the fruits of your labor to the fullest. On the other hand, if you do not save enough money or fail to provide value, you will not get to do much with your time.

Dividends and Capital Gains

A stockholder may get earnings, which are delivered as dividends. The organization can choose the frequency of dividend payments; it can be in regular periods (for example, one quarter or one year). The company can choose to hold the entirety of the earnings to grow the business further. Besides dividends, the stockholder can appreciate capital increases from stock price appreciation.

Power to Cast a Ballot

Another incredible element of stock possession is that investors can vote for an executive's changes if the organization is underperforming. The official leading body of an organization will hold yearly gatherings to report general organization execution. They unveiled plans for future tasks and the nominations of executives. Should investors and stockholders contradict the organization's current activity or tentative arrangements, they can arrange changes to be made in the board or business procedure.

Limited Liability

Finally, when an individual claims shares of an organization, the nature of possession is constrained. Should the organization fail, investors are not at risk of any misfortune.

Expansion

We should not disregard expansion, another significant advantage of investing in the stock market that many ignore. An appropriately differentiated investment portfolio permits losses in a single market division to be balanced by gains in another, which means the portfolio can be profitable overall.

Chapter 7. How to Invest in Stocks

Investing in the stock market, everybody should learn because it will help you to beat inflation. No matter how much money you have, once you have figured out basic things like repaying all your debts and constructing an emergency fund, you should start investing in the stock market with as little as possible. But before you commit to anything, you have to learn the process, which this chapter describes.

How To Prepare For Your First Stock Market Trade

Action 1: Set Up an Account with a Broker

If you're planning to make your profession, your best option is to opt for a discount broker online. They are much more affordable than complete brokers because they don't offer you all the new services like financial investment advice and other services you probably don't need. If you're making your stock decisions, you should simply pay for the profession.

If you want to become a short-term trader, also known as a day investor, look for a website that gives affordable professions if you trade frequently. Look for a broker specializing in providing cost-effective long-term professional charges if you want to invest for the long term.

Action 2: Learn the Ropes

You can miss this step if you're ready to trade. If you just decided to invest, you don't know how to take your time on this. It is incredibly crucial to understand what you're doing, or else you'll simply be gambling.

Step 3: Set Up a Strategy and Choose your Investments

Stock investing is everything about approach, despite how simple or complicated you make your way. Use the details you discovered from step 2 to set up your strategy—use the guidance from successful financiers like Warren Buffett to construct a method that will work.

Bear in mind that regardless of how excellent your technique is, there will always be a risk. Because one stock choice was terrible doesn't mean you're a terrible investor and must give up. Just put yourself together, change your method as possible, and move on.

Step 4: Money

Place money aside to invest. It's vital to invest in the stock market because you won't have the ability to purchase any financial investment without it. Save your income as soon as possible and be adding money to your portfolio on a routine basis.

Step 5: Buy

The last action is to acquire stocks and also get going. You made your options, currently go to your broker agent account, and make your professions.

Knowing the difference between investing and trading in the securities market is essential for anyone learning to trade stocks.

The discussion here is directed not to the investor but the neophyte investor. This person has yet to discover how to trade stocks, one who is thinking about putting their cash at risk. A risk that can be lessened by complying with some applicable standards rules pointed out but disregarded in the excitement, success, failure, or greed that the present sector of the stocks market exhibit.

The trader is typically more active than a financier in acquiring and marketing stocks, holding the stock settings for a shorter period in the attempt to make gains when they occur or to lessen the inevitable loss that belongs to speculative trading.

Yes, substantial profits can be made when investing in the stock exchange, to the extent that somebody can be financially independent.

It takes time and initiative to discover the principles of stock trading and determination to follow reasonable standards to handle risks and take the needed action in those standards. When encountered with the demand to act, to offer a losing placement, the lure waits for a little while, "perhaps it will recover" is the thought that supersedes the rule that brings about “sell!".

Great investors take high-risk examining by limiting losses when they are wrong and allowing revenues to run when they are right.

There are many reasons stocks change in price at the time. The investor's goal is to buy or sell stocks and benefit from those changes to purchase stocks at a lower cost from which they will rise or sell stocks at a rate where they will fall. This way, when transactions have been completed, if an expected total revenue has been achieved, a receipt a minimum of close or equivalent to the expected target profit, it can be taken into consideration that the purpose has been met.

No formula can guarantee revenue, and successful investors approve the reality that they will indeed make unprofitable and profitable investments. The requirement, regarding possible, is to reduce the losses and optimize the gains to make sure that the overall outcome will be rewarding to the level that the return on the capitals at risk will be more than if they were used to purchase another investment.

Buying Stocks - Making It a Smart Financial Move

Joining the stock market can be a smooth economic action. The different factors you ought to discover about previously making this financial step are how the stock market works, the ups and downs of the stock market, knowing what to buy and how much to buy, understanding when to buy and when to sell, and many more.

Investing in stocks is very profitable if you learn everything before signing up with the stock market or the stock exchange. This is the reason why investing your cash generally is a good idea. There is the potential for high returns to any kind of investment. Stocks are not the only things that people can purchase. People can buy companies, personal home mortgages, property, and many more. Nevertheless, among the most popular investing strategies includes stocks.

Purchasing stocks can be so profitable that many people make earning from it. They make their cash by buying and selling stocks. One way to maximize your gain in a stock profession is buying many shares of a stock when it has reduced and afterward selling all the stocks as quickly as it increases in worth. When you buy the stock when the price is low, you reduce your risk because the loss will not be significant in that situation.

You should also have the ability to forecast how well the stock will perform. Your opportunities for losing money will increase if you buy a stock that is predicted to execute poorly. On the other hand, you may obtain a stock that increases in worth; in that case, you stand to gain a significant amount of money. An investing consulting company focusing on the stock exchange can guide you on which stocks to buy. It is also a good idea when purchasing stocks to spend in a sector you have experience with. By doing this, your wishes about buying a stock or selling your stocks are more likely to be correct.

Best Point of Entry and Exit

This section will discuss what entry and exit points are, then explain how you can identify them.

Entry Point Definition

The price you try to sell or buy a security is the entry point when you are trading. This should be incorporated into your trading strategy so that you can eliminate all types of emotions from the trade and think logically.

When you want to start trading, you first have to make a transaction that involves either selling or buying. Let us say you have identified a stock that seems attractive to you, and you think that the stock is overpriced. Now, you wait for the price to decrease to a certain level, and then you decide to buy it. This is the point where you enter the transaction, and so the price at which you purchase the stock is referred to as the entry point. Suppose you want your returns to be maximized. In that case, you have to determine both the entry point and exit point before the trade and make sure there is a sufficient gap between both so that your portfolio grows sufficiently.

Determining Entry Points

If there has been a counter-trend move in the market, then you can expect the arrival of a good entry point. There are several indicators like the trending moving averages that you can use to figure out these entry points. You can find the resistance and support areas on the stock charts if you connect the peaks and troughs with the help of the trendlines. The support trendline is where you will probably find a good entry point, which will be for a long trade. If you are looking for a short-term trade entry point, you should look close to the resistance trendline.

Exit Point Definition

The price at which you (as a trader or investor) want to close your position is the exit point. If you want to exit your trade as an investor, you sell your assets. But for a trader, he may either sell or buy to exit. Depending on the price movement, the exit point can either bring your profits or a loss. The exit points vary depending on a particular investor or trader's expectations and risk tolerance. In general, the trade will be longer-term when the exit point is far from the entry point.

Determining Exit Points

Just like the entry point, the exit point is of equal significance because you definitely wouldn’t want to leave the market too early or too late. So, if you want to know when it is the right time to exit a trade and call it a night, you can use trendlines to figure out your exit point. Let us say that the trade was going on all well, but the stock closed before reaching the trendline support. Such a situation suggests that the trend has already finished its course, and your duty would be to lock any gains you have made so far.

To lock the gains and mitigate risks, exit points are planned out from way ahead. Suppose you have come this far in the book. In that case, you already know that it is easy to buy and sell stocks, but reading the trendlines and performing technical analysis is a whole new thing. Once you have grasped the concept of these chart patterns, identifying exit and entry points that hold potential will become way more accessible.

Chapter 8. Market Behavior Prices and Instruments

When Do Stock Prices Go Up or Down

Stock Moves: Down

Buying a vehicle, a PC, or another TV, to see it at a bargain the following week can be a significant wellspring of disturbance. Similar remains constant for stocks. To pay $52 an offer one day and hear some negative news and see a cost of $42 the following week is not a charming encounter. On the off chance that the investor's exploration and determination are substantial, the cost will likely recuperate and move to new highs. However, the value of harm in transit down can be hard to persevere. An intriguing marvel can happen with a stock value that seems to continue dropping.

As the value decays, investors will seem to buy up shares at apparent deal costs. If enough of these deal trackers show up, they can stop the value drop, yet sellers may overwhelm them. The base is where the value quits declining and goes level or starts to remember its upward trend.

Numerous investors consider a market "plunge," "pullback," "amendment," or "bear market" a buying opportunity. The cost is lower, and the stock's on special.

Get Information Before You Invest, Not After

The Purposes behind a value decrease can be not kidding; lower earnings or appraisals are anticipated, FICO assessments are brought down, or a potential claim or expense issue has been created. The explanation behind value decay probably won't be so genuine: market remedy, profit-taking, worker stock dispersion, or no news-related reason by any means. Whatever the purpose behind a stock value move, it may be beneficial to discover why it is moving before investing.

Stock Moves: Sideways

Once more, approach questions and quest for answers. For what reason isn't the stock cost moving? Suppose other comparative stocks and the market are progressing admirably. In that case, there is a purpose behind an absence of development in a given stock. Has there been awful news as of late that has made the absence of investor premium, or is the stock currently a jewel standing by to be found?

Albeit uncommon, unfamiliar diamonds can encounter sensational value floods with even a modest quantity of exposure. A few investors follow the technique of searching out these pearls. Yet, regularly they end up with all-around run companies that the market doesn't care for. Generally, they are fundamentally sound companies with restricted growth potential. Significant investors scan for companies with essentially boundless growth potential.

Stock Moves: Upward

Why a stock cost moves upward is generally imperative to investors who don't currently claim it yet might want to be in on the activity. Ordinarily, when there is an abrupt flood in either the stock market or an individual stock, the news shows up rapidly to trumpet the occasion.

How Can You Predict the Stock Market?

The business environment changes from time to time, meaning that there may be no standard directions that a businessperson can be advised to adhere to eternally. Due to the changes in the business environment, there is advice that the business veterans have established on how to make a decision depending on the specific direction of the stock market. However, before you decide to depend on the stock market's direction, you should first understand how to determine the market's direction.

In the market, the essential thing is the process of buying and selling. When determining any aspect of the market, the primary focus is the buyer and the seller. This means that you will not focus on the goods or the services but their flow and requirements attached in trading them. However, if you focus on the valuation, you may dwell on the past or a traditional pattern. However, considering that the marketing environment and processes keep changing, it would not help you determine the market direction.

The focus on the buyer and the seller of a stock will help you focus on the liquidity flow. The flow of liquidity is an independent aspect that can be used as a ‘landmark’ in economics. The reliability of the flow of money is firmly established because the central banks control the flow. However, central banks can only perform two operations concerning money flow; pursue a tighter monetary policy or a looser one.

Tighter Monetary Policy

An economically stable country can still suffer poverty if the circulation of money is low. That is why entrepreneurs discourage people from just keeping their money ‘idle’ in the banks. The reason being money in the bank is not circulating. As a result, the central banks take the initiative to ensure that the cash flows are per the gross amount in a particular country.

Cash flow determines the economy of the organization and, in turn, of the country. Therefore, when money tends to be circulating in sluggish motion, central banks will strategize ways of increasing the flow by formulating tighter policies. These achievements are attained by selling off assets, mainly government securities, and increasing interest rates. As a result, there is a high risk in asset classes, and high yield in monetary classes as more money is taken out of the financial system.

Looser Monetary Policy

On the other hand, when the central banks wish to pursue a looser monetary policy, they ‘ease’ the flow of the liquidity through a reversal of the above processes. Lowering the interest rate as they buy assets to direct the liquidity into the financial systems. Consequently, the assets fetch higher values.

The two mentioned processes are the determinants of the universal financial markets. They give a map and clue of the direction of markets and save the investors from wastage of time and backwardness as they try to study and analyze patterns and traditional parameters such as earning and financial ratios.

How to Foretell the State of Stock Market, Rates, and Bond

Rates market is vital in focusing on stocks as it influences the rate at which the cash flows are discounted in the future, thus making up stock valuations. Below are facts associated with processes in the stock market, rates, and bonds.

Focus on the Buyer and the Seller

Focusing on the buyer and seller in connection to the liquidity flow will help one determine the market direction. It will also encourage diversification in investments, as people will not focus on the commodity but the return.

Chapter 9. How to Choose the Right Stocks to Invest in

It can be pretty challenging to choose which stock or stocks a beginning investor wishes to invest in. After all, there are thousands of options available. Investors must decide if they wish to invest in one stock or several stocks before deciding anything else. They must then consider what companies they already know and love and how these may be good companies to invest in (or not). The investor must also learn how to find stocks for companies unfamiliar with and the proper speculative stocks that will have high performances over the period they wish to invest. They must also know how to invest in the period that they are interested in. Investors must also know how to decide the price of stocks they are looking for and how many shares they wish to purchase. Finally, it is crucial to learn how to analyze charts and data about stocks when researching.

One Stock or Several?

The investor must decide whether they wish to buy one stock or to buy several. Although there is a risk for all stocks, the risk may be reduced by utilizing specific strategies. While one may invest in a heavily researched stock, and the investor may become an "expert" on that stock, it is precarious. If that company performs poorly, the investor will experience losses on their entire investment. If the investor chooses the right stock and performs very well, they may experience a great return on their investment. This isn't as likely, however. Putting all of one's investment into a single stock can prove highly profitable or a great gamble. However, suppose the investor diversifies their portfolio. In that case, they have a more negligible risk of experiencing losses on their total investment because it is spread out among several stocks.

Several factors may lead to a downward turn for stock. The company may have made poor decisions in its management. They may have performed poorly. The economy may be weak. The industry of that stock may be in a slump. Whatever the case, it is wise to choose a variety of stocks to reduce the risk of significant loss of the investment. If one stock is lacking in performance, there is bound to be another that is performing well. There is no "ideal" number of stocks to own; it is best to own "a few" stocks. That number will vary for the investor, yet it should be a number that is high enough to allow for adequate diversification yet low enough to track and manage their investments quickly. If one has too many stocks, it can become challenging to manage all of their investments. However, too few stocks will lack the element of proper diversification.

It is wise to invest in each of the classifications of stocks. There are cyclical, countercyclical, growth, and income stocks. Cyclical stocks move with the economy. These are stocks such as airline, automotive, and real estate stocks. Countercyclical stocks tend to move in the opposite direction of the economy. These companies produce goods and services that are essential for life, such as utilities and pharmaceutical companies. Growth stocks tend to rise in value quite quickly, such as technology companies. Income stocks have growth that is steadier yet pay out dividends to their shareholders. Having some of each type of stock helps to diversify one's portfolio.

Instead of buying a single stock, the investor may choose to buy multiple stocks at once in the form of a mutual fund. These may provide the investor with additional diversification and are therefore lower-risk options for buying stocks. Index funds and ETFs are also wise to invest in. Index funds will follow a specific index. ETFs will trade just as stocks do, yet they will allow for further investor portfolio diversification. They will also be lower-risk investment options, as they will encompass several stocks instead of just one.

Investing in Familiar Companies

Beginning investors will most likely not have a solid idea of the specific stocks they wish to invest in. This is common for those starting with stock investments. There are two ways that the investor may find stocks to invest in; they may research new stocks and see how others have analyzed them, or they may invest in companies that they already know and love. The investor may consider what products they use every day, which stores they visit each week, or what services they use. Perhaps the investor uses a specific health care brand frequently, visits the same chain grocery store each week, or has a reliable utility company providing them with their utilities. By considering each of the goods and services that the investor uses daily, weekly, or monthly, they may determine companies that they (and many others like them) are loyal customers of. It may help to write down all of these companies and perform extensive research on them.

The investor must learn about the company's products, its performance in the market, potential competition, and other factors before investing in that particular company. Those familiar with the company and its offers can hold an advantage over those unaware of its management and economic powers. One may also choose to specialize in a particular industry that they have prior knowledge of. For instance, a car enthusiast may be more aware of the automotive industry than the average consumer. For this reason, this investor will have an advantage when it comes to choosing a stock in that industry that is more likely to perform better than its competition. Although it is possible to learn about industries unfamiliar with, it is wiser to stay in the sectors that one is more confident in. For instance, car enthusiasts may not have any knowledge of how the Internet works. This investor may find it wise to avoid investing in the technology industry, as much of the modern-day technology that consumers use is based around technology. Investors may walk around and get inspiration from nearby stores or even stay at home and discover whom the products they purchase are made by. These can help inspire the investor to find companies that they may research further. After this, the investor may research the company more extensively.

Perhaps the investor works for a company that has its stocks. Those investors would have an advantage over the average investor. They are more likely to know about their performance, management, and such. They may also have the option to buy stock options or use employee stock purchase plans. It may also prove highly risky if too much is invested. The investor may lose both their job and their stock investment if the company performs poorly. There may also be emotion associated with this stock, as its performance may cause investors anxiety over their jobs.

Finding the Best New Stocks

It is essential to find the right company to invest in. This will generate the highest return for the investor and build the best portfolio possible. By allowing themselves to be exposed to more unfamiliar stocks, the investor is broadening their horizons and allowing for more options of what to invest in. The investor must know what to look for when researching stocks and how to find new companies to invest in. Investors may wish to start with a few mutual funds and ETFs then add more individual stocks to have a more diversified portfolio. They may also wish to add a specific type of stock to their portfolio. Perhaps their portfolio is mainly composed of long-term, dividend-earning stocks. The investor wishes to add more speculative stocks to their portfolio. They may add in some high-growth stocks without dividends to their steady-growth, dividend-earning stocks. This will help to reduce risk and diversify their portfolio. They may also wish to add stocks from specific sectors to their portfolio to add additional diversification. This will also help lower the risk of their investments, as one stock may grow while the other experiences a decline.

Those who wish to add more individual stocks may also experience a greater return than those who don’t, as there may be massive growth in one stock while the others remain steady. If more stocks are owned, there is a greater likelihood that the investor will have selected a high-performing stock. By selecting stock manually instead of hiring another to do so, the investor is becoming more educated and is saving themselves the money that would need to be spent on fees for fund managers or financial advisors.

To find new stocks to trade, there are a variety of ways to discover such stocks. One may acquire lists of potential stocks either online or through print. Some magazines review the best selections for stocks. These may have subscriptions, and they may have new editions each month. There are courses to take given by those who are experienced in stock training. There are videos on the Internet that speak of investors' tactics and top selections. Many articles are available to read, both online and in print. One may even search up what the best stock selections are for their investment goals. The individual may hire a fund manager or financial advisor. It is also possible to speak with those in one's life that may have more experience in investing.

The investor should look for a stock that has a golden price-to-earnings ratio (P/E). This is the company's share price divided by its net income. Although a P/E below 15 is considered cheap, it will depend on the particular company. Those with higher P/Es may be justified by rapid growth. The investor should compare this company's P/E to other companies in that industry to see how it compares. It is also wise to familiarize oneself with the company's revenue growth, profit margin (the difference between revenue and expenses), amount of debt, and dividend.

Investing for the Desired Period

Different stocks are better selections depending on the period that the investor wishes to invest for. Those wanting to invest in the long-term may choose stocks with steady growth, dividends, and a low to medium risk. Those interested in shorter-term investments may opt for higher-risk stocks yet have the potential for rapid growth.

There are many ways to analyze stock to determine if it is a good investment for the long term. The company must be financially healthy, and the stock price must be below its actual value to allow for a good deal of the purchase of the stock. The dividends must be consistent. Suppose the company can pay out its dividend and increase it over time. In that case, the dividend is predictable and consistent. This means that the company can pay what it says it will. The company is performing well enough and experiencing enough growth to raise its dividend over time. Its earnings will be optimal and will allow investors to receive a proper portion of these earnings. The investor should research the dividend earnings for at least the past five years, perhaps even the past 10 or 20 years, to truly get an idea of its earnings. The investor should also look out for stocks with lower P/Es, usually an undervalued stock indicator. The stock should also have steadily increasing earnings over the years. If the price fluctuates wildly, it may not be the best long-term buy. The stock's past earnings and future earnings projections may be analyzed to ensure that the company moves in the right direction. The valuation should also be analyzed, as a low-priced stock may fall even lower. If the company has high debt, it may not be the best buy. The investor should also evaluate the current economic condition, as the economy should be experiencing growth in the future.

Those wishing to invest in short-term stocks will have different factors to consider when analyzing the good stocks for them. Investors may look for stocks that offer high growth or those that are currently highly undervalued. Those that experience high growth are at an average price. However, they will climb to a much higher price shortly, allowing investors to sell their stock much higher than they paid for it. These are for companies that have high growth potential. They tend to be valued a bit higher, however. There is a risk for these stocks, as the company may not perform as anticipated by the investor. Undervalued stocks will be lower than their competitors, although they are predicted to experience growth shortly. These have a risk potential, as they may not grow as anticipated. Investors may identify companies experiencing rapid growth and determine whether or not there is the potential for even more growth shortly.

The company's sales should be ideal, and management should have a clear idea of running the company properly. The price of the stock should have an upward-trending moving average. A positive market trend is another factor to look for when buying a stock for the short term. The investor may also look at the relative strength index (RSI), which compares that stock's strength to others like it in the market. The stochastic oscillator may also be used; this decides whether a stock is priced well based on its closing price range over time.

Prices and Shares: How Many?

The price and number of shares that an investor should be willing to pay and buy will depend on the investor's personal preferences and goals. However, there are general rules of thumb as to the amounts of both of these should be.

Prices that investors are willing to pay will depend on the stock. $50 may be excellent for one stock, while it may be a very high price for another. This will depend on the stock's value. It may also depend on the supply and demand of that stock. The price will increase with higher demand and lower supply.

On the other hand, the price will decrease if there is lower demand and higher supply. A company with higher earnings will also have an increase in the stock price. The price may also be affected based on the expectations and attitudes of investors. The price of a stock may change for a significant number of reasons. Therefore, it is more important to look at the P/E than at a price itself. Similarly, an undervalued stock will be much more profitable than a simply low-priced stock. Investors need to know that a cheaper stock does not always equate to a better buy.

The number of shares that an investor purchases will also vary. It may depend on the stock price and how much money the investor has to purchase stock with. Typically, buying more shares at once is more worth the money. The typical transaction fee sits at around $7 currently. This $7 is a much higher investment when the investor purchases
$100 worth of stock (7%) than purchasing $1000 worth of stock (0.7%). However, the investor may not have the money to purchase so many shares of stock. They may also not wish to risk that many shares on one stock. Due to high commissions and stock prices, the investor may not want to buy so many shares of stock. However, they may want to make transaction fees worth it and increase their likelihood of a greater return by purchasing many shares of stock. The investor may also want to look into options, allowing them to control many shares for only a fraction of the stock share

price. This is a good alternative for some investors, but it may not be optimal for other investors.

How to Analyze Charts

To analyze a chart, the investor must know the basics. This will help to understand how to read the chart and analyze it to understand more about a company and how wise it would be to invest in it.

A stock chart will have its stock symbol, the few letters that identify the specific company. The chart itself will consist of the trend line, which shows the movement or trend of the stock. There may be massive growth or decline periods, which is typical for most stocks. The overall trend of the stock, however, should be that of growth. The trend line measures price, shown along the vertical axis, over time, the horizontal axis. The charts may often be adjusted for shorter or longer periods. The support and resistance lines are also important, as these are the level at which stock stays over time. The stock will not often fall below the level of support or rise above the level of resistance. This is the typical price range of the stock, although there will undoubtedly be extremes over time. The investor should typically buy a stock at the support line or higher and sell at the resistance line or lower. The chart may also show when dividends and stock splits occur. These are beneficial to watch for, as they may change the share price. The trading volumes (typically indicated by small vertical lines) determine the trend of the stock's volumes. Increasing volumes may shift the stock price. These are the main aspects to look for when analyzing stock charts.

Selecting the first stocks may seem overwhelming at first. However, the investor may think of companies they are already familiar with, find some unfamiliar with, find stocks for the optimal period for the individual, decide how much stock to buy, and analyze stock charts to find the best companies to invest in.

Chapter 10. Bull and Bear Markets

There are two types of markets that are commonly discussed among traders: bull markets and bear markets. These are crucial to understanding, as there are different strategies for handling each.

A bull market is what occurs when prices rise or are expected to rise. This is when there are extended periods in which a large portion of security prices rise. This may occur for months or up to years. Investors during bull markets are more optimistic and confident that these strong results will continue for a more extended period. This psychological effect may mask the signs of a potential decrease in the market, and investors will continue with the mindset that the market is experiencing growth. Typically, bull markets will occur when stock prices rise by twenty percent. This follows and precedes a twenty percent drop in the market. It is usually more challenging to recognize the period when a bull market occurs until after it has already occurred. This is because of the difficulty of predicting such a phenomenon. Bull markets occur when the economy is strong and typically co-occur as a strong GDP (gross domestic product) and low unemployment. These events are typically associated with more significant corporate profit, which will drive the stock market up. This will lead to greater investor confidence and subsequent increased demand for stocks.

For those who wish to take advantage of bull markets, there are several possibilities. It is essential to buy early to take advantage of rising prices.

Investors may buy and hold. They may purchase stocks in the beginning and sell them once they have grown to their peak. They may even keep buying stock as the price rises, called a high buy and hold. Investors may even take advantage of retracements, which are the more minor dips within the period of growth. They may also try swing trading, which is the more active approach to taking advantage of the bull market. They may attempt to short-sell their investments during the market shifts.

On the other hand, a bear market experiences a twenty percent drop between market highs. This is caused by an overall market decline or a significant index decline. These typically last for two months or longer. It can last from several months to several years. The economy as a whole will be less intense. This is characterized by high unemployment, low disposable income, lowered productivity, and decreased profits of businesses. It may also be caused by a drop in investor confidence or a change in the tax rate or federal funds rate. Although bear markets are essentially long dips, they are different from market corrections (these last less than two months).

Investors to take advantage of the bear market short-sell their stocks. This occurs when the investor sells borrowed shares and repurchases them at lower prices. For long-term investors, bear markets may be an excellent time to buy stocks, as they will be at much lower prices. However, this may prove to be a more high-risk strategy if the stock does not bounce back to its original value.

Chapter 11. Brokerage World

After you have researched and arrived at a few stocks you want to invest in to get dividend income, it is time to start implementing your plans. The first step in doing so is going to be finding the right broker. To a certain extent, finding the right broker is a matter of personal taste. These days most brokers offer relatively similar services. So it might even boil down to what user interface you like best. One issue to consider is whether you prefer trading on a desktop computer or using a mobile device such as a phone or tablet.

Once you get set up with a broker, you want to start implementing your investment plans. This is going to be something that you have to stick to regularly. Everyone will have their schedule, determined by how you earn your income and when money to invest becomes available. But the most critical aspect of this is to make sure you are investing regularly.

Choosing the Right Brokerage

At this point, the brokerage market has somewhat matured. So, it probably will not be an issue for you to find brokers that have a mobile app, for example. Second, since dividend investing is not hour by hour or minute by minute activity, the way trading is, having access to a full suite of tools that lets you do chart analysis probably is not going to be something you are worried about.

The most significant factors are probably going to be cost and ease of use. Most brokerages charge a commission to execute trades, but these days there are a few that offer zero-commission trades. This is a nice feature; who would not argue with free? One example of a zero-commission brokerage is Robinhood. It is a relatively new brokerage, and it has a very easy-to-use mobile app interface. You can also access it is investing tools online. Robinhood lacks the type of analysis tools that you would get with some of the trading sites that are in part geared toward day traders and such. However, as we have mentioned before, those kinds of tools are irrelevant to dividend investors.

For some dividend investors, the stability of the company might be an issue. Several older brokerages are still around and doing very well. Among these are Charles Schwab and Fidelity Investments. These are well-known and stable companies, so you might be willing to pay the small commission fees to run your investments through these brokers. They may also have help, including financial advice available depending on what type of plan you sign up for, which may or may not be helpful.

Account Minimums

Some brokers have account minimums. For example, E*Trade requires a minimum balance of $500. Some are paid as you go. Once you've connected your bank account, you can transfer money on the fly with Robinhood. The account minimum is one thing that you will want to look into before you tie yourself up with a broker. Some may have higher account minimums. For most people, a $500 requirement will not be a considerable obstacle to worry about. But as part of the overall picture, you need to consider every penny you have to spend. Suppose you are just starting and only have
$200, but you're anxious to start getting some stocks under your belt. In that case, going with a brokerage that requires a $500 minimum might not be worth waiting around for. In that case, you might go ahead and get started with Robinhood so that you can at least start buying some shares and getting your investment portfolio going.

What Happens if a Broker Goes Under?

People new to individual investing might be wondering what happens if a broker goes out of business or closes down for other reasons. Often, arrangements might be made to transfer your account to a different broker. You might want to verify whether or not your brokerage belongs to the Securities Investor Protection Corp (SPIC). This organization ensures investments in stocks and bonds, up to $500,000. Up to $250,000 of this can be cash.

But remember that when you buy shares of stock, you own shares in the company, and the broker is just a middleman. If the broker ends up going out of business, that should not impact shares of stock that you own in different companies.

The concern with a broker going ultimately under would be any cash that you had in your account with them. That is where the real risk lies. If you plan on moving large amounts of cash at a single time into your brokerage account, then you might check to see if the broker you selected is SPIC insured.

Keep in mind that the stock you own stays with you, and the company's value determines the value of the stock, and the brokerage has nothing to do with that part.

How to Buy Stocks

Buying and selling stocks is as easy as renting a movie. You simply look up the stock you want, determine how many shares you want to purchase and place your order. One thing to note is that there are two types of orders. These are called market orders and limit orders.

Most people execute market orders. If you look up stock and just click the buy button, then that is a market order. It will buy the stock for you at the prevailing market price as soon as it can do so. Market orders usually execute quickly.

If you are interested in trying to save money, you can place a limited order. This type of order will only fill if a buyer or seller takes the limited price that you specify. Using a limit order, investors can try to buy stocks at discount prices, provided they can find someone willing to sell at the limit order price. A limit order also allows you to wait until market conditions change so that the stock price drops to your limit price.

Limit orders can be entered as good until the end of the trading day or good until canceled.

Limit orders are beneficial for traders who are not looking to hold stock for very long for various reasons. However, wasting energy on limited orders is probably not the best way to spend your efforts for a dividend investor. Most dividend investors are simply going to be placing market orders.

It is not the job of the dividend investor to try and guess which way the stock is moving; leave that insanity to the traders. Over the years you invest, temporary ups and downs will average out and not be all that important for your overall investment.

While the more frequently you buy stocks, the better, sticking to some schedule is more important. Some people might only buy stocks once a month, and that is fine. Others might buy every two weeks whenever they get paid. Still, others might buy once a week. Again, the time frame you use is not as important as setting up a plan and sticking to it. Get in the habit of regular investing. This will make it more likely to have a solid portfolio to produce the income you want when you reach your retirement.

Setting Your Income Goals

It would help if you kept that in mind when you start buying shares. Suppose you buy one share a month and need 4,500 shares to meet your goal; that probably will not work out for you since it would take 375 years. So it would help if you looked at how many shares you are going to need to reach the desired level of income, and then break that down into a set of share purchases that can be put on a regular schedule that will also be something that can be realized within the time limits that you have set for yourself. So, if you only have ten years to invest and need 4,500 shares, you will have to buy 450 shares a year. That translates into about 38 shares a month. Depending on the stock, this can be an expensive proposition. So, it is better to start early in your investment life actually to realize your goals. Suppose you are in a situation where you are getting older but still want dividend income. In that case, chances are you are going to have to use a high- growth portfolio now instead. Then when you reach retirement age, you can start selling shares from your high-growth stocks and buy dividend-paying shares at that time. At least you will have more capital to work with. A compromise setup would be to invest 65% in high-growth stocks and 35% in dividend stocks so that you are acquiring shares of high- growth stocks while also starting to build up a dividend portfolio at the same time.

It is essential to be realistic about meeting your goals. Also, do not be too concerned about short-term fluctuations and even recessions. Most downturns are short-lived. You should not estimate the annual return for a stock when it is in the midst of a downturn and then think it is a bad deal. You will need to look at the overall growth of the company.

For those looking to get an excellent middle-class income from their dividend stocks, a worthy goal to set is acquiring 10,000 shares of stock. For most people who do not have thousands of dollars to throw into the stock market every month, this will not be an easy feat to accomplish. Unfortunately, our high schools and universities do not teach students about financial management and investing, and most people are financially illiterate. Many of us did not grow up knowing much about finances and how to secure our future because our parents did not know either. That makes it hard for many people to plan. As you have probably heard on the news from time to time, most Americans cannot even come up with $400 to pay for a minor emergency. So, most people are not even remotely thinking about a long-term investment plan to secure their long-term future.

Chapter 12. Robo Advisor

Robo-Advisor: What for?

Robo-advisors (also called Robo-adviser or roboadvisor) are digital platforms that offer automated, algorithm-driven financial planning services that use little to zero human supervision. The typical Robo-advisor will collect information from various clients about their future goals and financial situation through an online survey and then deploy the data to provide advice and invest assets from clients automatically.

The best Robo-advisors will have security features, attentive customer services, low fees, comprehensive education, robust goal planning, easy account setup, portfolio management, and account services.

Understanding Robo-Advisors

The first Robo-advisor, called Betterment, was launched in 2008 and began to take money from investors in the year 2010, a period when the recession took its toll on the world. The initial aim of the advisor was to rebalance assets within target-date funds as a sure means for investors and traders to manage passive, buy-and-hold investments via a simple online platform.

This technology was not new. Human wealth managers have been making use of automated portfolio allocation software since the beginning of the 2000s. However, until

2008, they were the only ones who could afford to use the technology, so clients resorted to employing a financial advisor to enjoy this innovation.

Today in 2021, most Robo-advisors employ passive indexing strategies optimized with some variant of modern portfolio theory (MPT). Some Robo-advisors have optimized portfolios for Hallal investing, socially responsible investing (SRI), or tactical strategies that function like hedge funds.

The introduction of modern Robo-advisors has changed the narrative by bringing the service to the consumers' doorstep. After many years of improvement and development, Robo-advisors can now work on much more sophisticated tasks, like tax-loss harvesting, retirement planning, and investment selection.

The industry has seen explosive growth; various clients' assets managed by Robo- advisors hit 987 billion USD in 2020 and are expected to reach over $2.9 trillion throughout the world by the end of 2025.

Other very common designations for Robo-advisors are "automated investment management," "automated investment advisor," and "digital advice platforms." These terminologies refer to the same consumer shift towards using financial technology applications to manage investments.

Portfolio Rebalancing

To design indexed and passive portfolios for their clients, most Robo-advisors use modern portfolio theory or other variants. Once established, these advisors monitor the portfolio to ensure optimal asset class weightings are maintained even aftermarket moves. Robo-advisors get this done by making use of rebalancing bands.

Every individual security, or asset class, is assigned a tolerance range and a target weight. For instance, an allocation strategy might recommend the requirement to have 30% in emerging market equities, 40% in government bonds, and 30% in domestic blue chips with a corridor of +/- 5% for each class of asset.

Blue-chip holdings and emerging markets can help move between 25% and 35%. In comparison, government bonds will account for 35% to 45% of the portfolio. When the weight of any holding moves outside of the allowable band, the whole portfolio will be rebalanced to show the initial target composition.

Experts have advised against this type of rebranding in the past because it often involves transaction fees and can be time-consuming. However, Robo-advisors help makes it automatic (fast) and done at a relatively low cost. Tax-loss harvesting is another type of rebalancing commonly seen in Robo-advisors. It often comes at a low cost through a trusted algorithm. Tax-loss harvesting involves a strategy that deals with selling securities at a loss to defray capital gains that are taxable on similar securities.

Benefits of Using Robo-Advisors

The primary benefit of using the Robo-advisors is that they can serve as a low-cost alternative to traditional advisors. By removing human labor, online platforms can provide just the same service at a lower cost. Most Robo-advisors demand an annual flat fee of about 0.2% to 0.5% of the investor's account balance. Moreover, when you compare this rate with the 1% to 2% rate charged by a human advisor, you will see that it might be best to opt-in for a Robo-advisor.

In terms of accessibility, Robo-advisors are very much accessible. You can have access to a Robo-advisor throughout the day, as long as you have access to a stable internet connection. Furthermore, it requires significantly tiny capital to begin. The minimum assets you need to register yourself for an account are just hundreds to thousands (5,000 USD being the baseline). The most popular and the first, Robo-advisor, Betterment, has no minimum amount to get started.

In contrast, human advisors cannot go lower than clients having $100,000 in investable portfolios, especially the consultant who was there and did it repeatedly. They always want high-net-worth persons who need various wealth management services and can afford to hire their service.

Another significant benefit of these online systems can be found in their efficiency. For example, before Robo-advisors, if a particular investor wanted to perform a trade, they would be mandated to place a call across to or physically meet with a financial expert, talk about what they want, fill out some papers, and then wait. Now, all of these can be done with one or two clicks at the comfort of your home.

In another instance, making use of a Robo-advisor will limit your option as a standalone investor. You cannot decide which ETFs or mutual funds you are invested in, and you will not be able to buy individual bonds or stocks in your account. On average, picking stocks or attempting to beat the market has been known repeatedly to yield poor results. You are mostly better off employing an indexing strategy.

Hiring a Robo-Advisor

Getting involved with a Robo-advisor will often involve doing a short risk-profiling questionnaire and sincerely evaluating your financial status, age, and investment goals. In many cases, you will be available with the opportunity of linking your bank account directly for fast and easy funding of your Robo-advisory account.

The overall point of automated advisory services lies in their ease of online access and comfortability. But some demographics are being targeted more than others by many available digital platforms. This includes the younger millennial and new generation set of technology-savvy investors and prefers to accumulate their wealth using online platforms.

This demography is very much comfortable sharing their personal information online and handling essential tasks, like wealth management, in the hands of technology. And in fact, an overwhelming part of the marketing efforts of many Robo-advisory firms make use of social media channels to get to millennials who are always on social media.

Still, the industry attracts rising interest from newbies, investors, and high-net-worth individuals, significantly improving technology. One research carried out in 2016 reported by Hearts and Wallets reveals that half of the investors from the age of 53 to 64, and about one-third of retirees, use digital resources to manage their funds effectively.

How Robo-Advisors Make Money

The primary means that almost all Robo-advisors make money is via a wrap fee based on assets under management (AUM). Human advisors charge around 1% or more per year, Robo-advisors charge less, around 0.25% per year.

Robo-advisors can charge relatively low fees because they employ algorithms to automate their trades and an indexed strategy that uses low-cost and commission-free ETFs. Since they charge reduced fees, however, Robo-advisors will have to gather a more significant number of smaller accounts so that they can accrue the same interests as their pricier counterparts.

Apart from the management fee, Robo-advisors often generate money in many other ways. One typical way is the interest generated on cash balance (called cash management) which is often credited to the Robo-advisor rather than the client. One thing is that there must be many users on the ground for this to become a rich source of income.

Another stream of revenue often comes from payment for order flow. Robo-advisors can accrue funds that have been added from dividends, deposits, and interests and then bundle them together into large block orders carried out at only one or two points in a day. This enables them to carry out fewer trades and obtain favorable terms owing to large order sizes.

Finally, Robo-advisors also make money by marketing targeted financial products and services, such as credit cards, mortgages, or insurance policies. These are usually done via strategic partnerships rather than employing advertising networks.

Chapter 13. Portfolio Management Strategies

We can define portfolio management as an approach to balancing rewards and risks. To meet your investment goals, you will need to invest in a wide variety of products, including SMAs, REITs, closed-end funds, ETFs, and others. It is an excellent idea and highly recommended to have an investment plan and determine your end goal, especially when numerous options are available.

Portfolio management often means different things to different investors. Think about a young person fresh from college and on his first job. Such a person views portfolio management to grow investments and provide a pretty decent amount over time for future use. On the other hand, a young person who has been working or in business for a while will view things differently. Such a person will view portfolio management as an excellent chance to hold on to their accumulated wealth over the years. There are different ways of organizing and planning portfolio management.

A portfolio manager should handle the various needs of different investors when coming up with a diversified portfolio. This is why an individualized approach is a highly advised option. Here are some basic principles of developing a portfolio.

First, it is advisable to note the availability of numerous options. This means that there are plenty of investment vehicles to choose from. Therefore, a client or investor needs to determine whether they wish to create wealth over time, put away funds for future use, generate a regular income, and so on. This way, it will be possible to come up with a suitable investment plan. Such a plan should incorporate appetite for risk, period, and similar aspects.

Basic Steps

One of the first steps in setting up a portfolio is coming up with an informed yet realistic perspective on the best approach of investing funds prudently and productively. The best way is to start from the end goal and then formulate a strategy that will support the attainment of this goal. It is advisable to consider all associated risks and time factors to meet an investor's desires.

When we talk about the time frame, we refer to when an initial investment is made and until the investor needs to access the same funds. Therefore the initial steps involve developing a preliminary plan that includes a selection of different products and accounts.

Another essential factor is that the finds need to be diversified into various asset classes and different sectors. Once funds are distributed to different sectors and asset classes, there should be regular monitoring regarding the performance of each asset. If there is a need to, then adjustments should be made where necessary.

Goals Achievements

When investments are made in the right way, properly diversified in different asset classes and across sectors, it will be possible to achieve all set objectives. Investors have short- term goals, mid-term goals, and long-term goals. Short-term goals may involve furnishing a home, saving for a vacation, purchasing a motor vehicle, and so on. Long-term investment goals could be saving to start a business, purchase a home, and even save for retirement. It could also include saving for kids' college. For this reason, it is advisable to regularly monitor the portfolio's performance so that adjustments are made should it be deemed necessary. In some cases, goals change and regular monitoring of the portfolio.

Financial Advisory Services

One of the best ways of investing and harnessing the power of informed investments is to work with a portfolio manager or any other finance expert. Indeed, numerous investors invest independently without assistance from professionals. However, working with a professional makes it easier to diversify funds into different sectors and asset classes to monitor the performance of the investments over time.

Those who invest independently will lack the kind of exposure, assistance, and wisdom that investment managers and financial advisors have. As an investor, you need to have the correct information regarding all the available tools and systems. You also need to learn about any emerging opportunities and access to all available resources. This is advisable only for those who know what they are doing, including finance experts, accountants, bankers, etc.

On the other hand, while professional investment advice is crucial for ordinary investors, it does not come for free. There is a fee that has to be paid. Investors have to pay fees such as consultation fees to receive professional investment advice. However, the benefit obtained through professional consultations is invaluable. The professional has not just knowledge and experience but also intimate knowledge about finance and the various sectors. Also, financial advisors have legal responsibility or fiduciary duty to clients, which means they are supposed to work in the best interests of their clients.

Their financial planners, and then there are brokers. Brokers often purchase securities on behalf of clients. They act more like intermediaries between clients and the firms that deal in funds. On the other hand, we have investment advisers. They are professionals who provide advice and recommendations about the best investment vehicles.

Dividing Funds for the Portfolio

When it comes to choosing funds and amounts to be allotted to each fund or asset type, specific considerations will have to be made. First, you will need to consider any investment goals like short-term and long-term goals. Others include the preferred rate of return, time available, and so on. It is possible to find mutual funds designed for each situation. Therefore, investors should take the time to scrutinize the various funds and sometimes even different instruments in various sectors before eventually choosingtheir preferred.

Inclusions in an Investment Portfolio

Once you begin investing, there are certain assets that you will need to invest in. In fact, because of the need for diversification, you may need to open and manage multiple accounts. Some of the accounts that you can open and invest in include an individual retirement account, a 401(K) or another type of employer-sponsored account, a brokerage account, peer-to-peer lending accounts, and so on. Even investing cash in certificates of deposits and the money markets are welcome forms of diversifications.

These accounts, whichever one is selected, should have a variety of assets. These include futures, retirement funds, options, mutual funds, REITs, and numerous others. While diversification is crucial for successful investing, investors should avoid costly investments and any assets that carry uncertainty. It is better to choose investment options like low-cost index funds. Ideally, most of the funds should be invested in ETFs and mutual funds. These closely mirror significant indexes such as the Dow Jones Industrial Average and the S&P 500. It is a cost-saving approach to diversifying a portfolio.

Diversification also refers to investing in a variety of assets that do not correlate. Take bonds and stocks, for instance. These have a negative correlation because when one asset class rises, the other will likely fall in price and vice versa.

Rule of Thumb in Price Allocation

The general rule of thumb is to determine the amounts based on age regarding price allocation. The most common recommendation is to subtract the investor’s age from the figures 100 or 110. A person who is 25 years old will ideally allocate 75% - 85% of their funds to stocks while only 15% - 25% is allocated to bonds. For a person in their 60s, the equation is revised so that 40% - 50% is invested in bonds while 50% - 60% is invested in stocks.

Some investors like this rule and apply it to their investment portfolios. However, others find it too simplistic as it does not consider an investor’s risk tolerance. Therefore, the best approach would be to use a mix of stocks and bonds in diverse industries. The best way of achieving this is to focus on low-cost index funds. Many investors prefer being safe rather than taking significant risks. This is why they prefer investing their money in low-cost index funds.

How to Build your Portfolio

R.O.I. or Return on Investment:

One of the most critical aspects of your investment portfolio is its profitability. You need to regularly monitor your investments which are best achieved using the ROI or return on investment. It is advisable to work out what each dollar invested has generated. There is a formula for working out this figure.

R.O.I = (Profits – Costs) / Costs

Even then, investors need to understand that the ROI depends on numerous other factors, such as the kind of investment security preferred. Also, note that a high ROI implies a higher risk while a lower figure means reduced risk. For this reason, appropriate risk management must be undertaken.

Risk Measurements

All investments carry an inherent risk. This is why investors and experts in finance like to say risk and reward are essentially two sides of one coin. Investors should gauge their level of risk tolerance, so they know what kinds of investments or assets to choose. Risky investments may promise higher returns for those seeking to grow their investments, possibly by double digits. Investors looking to maintain or moderately grow their accounts can opt for less risky assets.

One of the most reliable ways of mitigating risk is to select securities with extreme care. This is because some are considered safe, while others are thought to be risky. For example, penny stocks may not necessarily make one rich but are riskier compared to other options. On the other hand, government bonds do not pay much but are very reliable and pose minimal, if any, risk. The yields are almost guaranteed, but the amounts are low.

In general, investment risks mostly come down to volatility. Volatility can cause the price of an asset to shoot up or come crashing down. This is why it is much better to diversify investments into a portfolio. This helps to minimize risks and stabilize the entire investment.

Also, remember that precious metals like silver and gold generally perform well when the market is downturned. The same is true about technology stocks which tend to surge when the markets are on an upward trend. Such information is crucial to investors, especially those without access to professional advice.

Diversifying Portfolios

There is a risk sometimes of over-diversifying. This means that even if diversification is an excellent approach to investing, it should not be overdone. The primary purpose of diversification is to level the valleys and peaks caused by regular market fluctuations and manage market downtrends in the long term. Investors need to avoid adding anything to their portfolios that has the possibility of turning counterproductive.

In Summary

Investors should, at all costs, avoid taking a gamble with their investments. There are plenty of high-risk investments. These pose a considerable risk to a portfolio and can easily wipe out any gains made by other more successful assets. Speculative investments are best left alone.

Therefore, when planning a portfolio, an investor needs to keep their goals in mind all the time. Try and identify asset classes that will help achieve the investment objectives and not those too risky or too passive.

Also, an investor's risk tolerance should be evaluated. Younger investors trying to grow their accounts and generate wealth can take on more risky ventures. However, older investors seeking to manage their wealth should opt for safer investments such as government bonds, considered highly safe.

Investors should also focus their energies on sectors in which they have some form of basic understanding. A software engineer, for example, may wish to look at tech stocks, while a banker may do well to invest in financial stocks. This way, you will have reliable intuition regarding the performance of stocks within your sector. People lose money when they invest in sectors that they have little or no understanding of.

Finally, it is crucial to know when to let go of stocks. Selling the stocks at the right time means investors get the best possible price. All too often, some tend to cling to their stocks and are unwilling to let go. Knowing when to sell is crucial for successful investing.

Chapter 14. Investment Tips and Common Mistakes

In the beginning, investors will make mistakes. It is all part of the learning process. As investors become more experienced, they will learn what works and what doesn't. Although learning from one's own mistakes is an excellent wayto improve, learning from others' mistakes is also beneficial. This is why many investors talk about their mistakes; it helps prevent others from making the same mistakes.

Diversification Issues

Beginning investors must know how to diversify their portfolios appropriately. Investors may make the mistake of not having enough diversification, or they have too much diversification. Perhaps they are diverse in one aspect but not in another. The investor should invest in a variety of stocks in different sectors. They should also choose stocks at different price points. They must also not have a single stock make up the majority of their portfolio. Finally, it is essential to have at least a couple of long-term investments among short-term investments. There are several ways to diversify one's portfolio. Beginners must learn the proper (and improper) methods of diversification to reach their fullest potential.

There is an excellent balance of diversification. There is such a thing as too much diversification and too little diversification. There is no set number for how many stocks that an investor should manage at once. This is up to the investor, their goals, and their personal preferences. The investor definitely should have more than one stock. Suppose all of their investment is in a single stock. In that case, the performance of that one stock will determine how their entire investment performs. This can be beneficial if the stock experiences extraordinary growth. However, this can also be a high-risk move if the stock does not perform well. The investor may also have too much diversification. Especially at first, there is much time to research and education about the investor's stocks. Yet, the investor can keep track of all of their investments. For instance, an individual with a full- time job will not handle trading hundreds of stocks at once. This requires excellent research and analysis. For this reason, the investor should choose several stocks that they can handle to keep track of.

Investors should also have stocks of different companies in different sectors. Having just a couple of stocks or having all stocks in the same sector is also a sign of a lack of diversification. There are a few ways to help this. The investor may invest in mutual funds or index funds. This will help them to have many companies in their portfolio, and they are typically diverse already. The investor may also hand-pick companies in various sectors to allow for proper diversification and reduce the risk of all of one's investments performing poorly simultaneously.

Investors should also have a good balance of prices and amounts of stocks. The investor must not have one stock making up the majority of their portfolio. Instead, they should spread their investment among several companies relatively evenly. They should also diversify the price levels of the stock that they own. While penny stocks may be cheap and have high growth potential, it is essential to have well-established stocks that cost a bit more. These stocks typically are more stable (plus, they may pay a dividend).

Poor Speculation

The concept of speculation is that one is investing in stock in the hopes of it growing over time. Certain stocks are more "speculative." These are the stocks that the investor is not sure of. They may not be well-established but hold the potential for high growth. The investor will invest in these stocks hoping that they will generate a high return for them. Investors must develop their skills in picking the right stocks. They must not risk it all on stocks that perform poorly. For this reason, investors should familiarize themselves with how to speculate correctly.

The definition of speculation seems to carry different meanings. It may mean choosing stocks that will perform well. It may also mean making predictions about the market as a whole. Financial speculations can cause actual economic events. For instance, when there is mass speculation that the stock market will drop, investors will begin selling out of fear. This fear gets in the way of making logical decisions, which may cause an actual drop in the market. Investors must know how to separate fact from emotions. They must be able to sift through the rumors to discover the truth. There will constantly be speculations on the market; some may predict a massive dip while others predict significant growth. Speculation can be reasonable. If the investor puts excellent time and effort into their research, speculation can be highly profitable. Great returns may require the investor to take significant risks. For this reason, speculation may be beneficial. It can help investors choose the correct times to buy and sell, and it can also help them choose the stocks to buy and sell.

On the other hand, speculation can sometimes have adverse effects. Investors expect companies to grow over time and provide returns that may not be realistic based on the economy and the company's revenue. Instead of reinvesting in itself, the company is forced to meet expectations and pay its dividend out to the company's stockholders, leading to its destruction and an inevitable crash. This is caused by investor speculation. Instead of focusing so much on earnings per share, investors may choose to focus on creating the most cash flow possible.

Speculation isn't all bad, however. A proper amount of speculation can regulate the health of the economy. Speculators may point out when supply is running low, which will typically increase the demand and the price of stocks. This can prevent shortages from occurring. Speculators can predict a wide range of economic factors, such as growth, decline, effects of the government, supply, demand, and more. Speculators will also point out the facts, yet investors must know whose advice and thoughts to listen to. The best way to learn the facts is to receive a proper education and conduct thorough diversified research.

Improper Education and Research

Investors need to conduct proper research and receive proper education about the stock market. They must familiarize themselves with all aspects of the stock market and learn how those elements work together to operate.

This will serve as background knowledge for the topics that they will research. Investors must research the stocks that they wish to invest in. They must also research the stocks that they already have invested in to track their performance. This is crucial for one's success in investing in stocks.

It is essential to have a solid background in the stock market and to become educated on it. Investors must educate themselves enough on it to understand all of the concepts necessary for trading. However, it is also important not to buy into unnecessarily expensive classes on stock education. These courses will make promises on returns and dollar amounts of investors. What they typically don't explicitly state, however, is how much they cost and how much commission will be taken out. This is often in the fine print, and investors will learn this after it is too late. It is highly beneficial for investors to teach themselves how to invest. After all, experience is the best education. Some topics simply can't be taught; investors must learn for themselves how to invest in stocks. Each investor will also have individual goals, and one investor's "perfect" strategy may conflict with another's personal goals. Investing also depends on the market, which is constantly changing. An "ideal" stock to invest in one day may be a very unwise investment the next day. There is also a particular element of luck that is associated with the stock market. Although one can develop their skills in analyzing the market and predicting it more accurately, there will always be factors out of the investor's control. Sudden changes may occur that the investor would not have been able to foresee.

There are, however, a few ways that one may educate themselves on the stock market. The first is by actually getting involved in the market and learning through experience. The investor may also read books on the topic (like this one). There are many articles available in both print and online. It is possible to learn from a mentor, friend, or even to hire a financial advisor. There are videos created by those who are already established in the market. Subscriptions are available for both e-mails and magazines. There are some classes, courses, seminars, and meetings for investors. It is important to diversify one’s education to receive a broader knowledge of such topics. This way, the investor can learn various strategies for investing in the stock market.

Investor must also diversify their research on stocks. They should study the company's published reports to see their net income, P/E ratio, and return on equity. Investors should look at Form 10-K and Form 10-Q. The brokerage that the investor signed up with may also have various tools for researching the market. The company's management should be researched extensively. It is essential to also look at the company's charts to see how their performance has been for the past month or two and the past years and even past decades. This will help to give the investor an idea of how well the company is performing currently. They can use this information to notice trends and make predictions on that company's future performance.

Inadequate Planning

Investors must plan everything out to maximize their return on their investments. Without planning, there will be no sense of direction for the investors. Investors must set goals for themselves so that they have specific achievements to work towards. It is also advisable that they plan out their trading schedule and educate themselves on how much they wish to dedicate to stock. They must also figure out how much they would like to save, invest, and spend to manage their budget correctly. Doing these will help investors make the best use of their money and generate the greatest return on their investments.

Investors must set goals for themselves. Trading can become discouraging for those who fail to set specific goals for themselves. Setting goals will help the investor to stay motivated and have a path to success laid out for them. Unlike a job, stock trading does not pay by the hour. It is a self-motivated task that requires the total work of the investor. Instead of dwelling on the losses, investors may have achievements to look at and celebrate.

Each trader will have their own goals that they wish to achieve, so it's essential to set specific and personal goals to maximize the potential that stock has to offer. Investors should set specific goals with a specific time frame. This will challenge, motivate, and help the investor. Of course, those who attempt to generate passive income may not reap the benefits of goal setting nearly as much as active traders. Passive traders are more focused on putting their money aside and enjoying the steady growth and income that long-term investments offer. They may set goals regarding how much time they wish to educate themselves, how many stocks (and shares of those stocks) they wish to acquire, and how much they wish to invest. However, active traders may get a bit more specific in their goal setting. They may be more specific about how much time they wish to dedicate to both education and analysis. They may set specific quantitative goals. There may be other goals to set, however. One goal may be not to trade when the time isn't right. Often, traders will become obsessed with the idea of trading and set quantitative goals. To meet these goals, they may make spur-of-the-moment decisions that will not benefit them in the future. It is essential to learn when it may not be the best time to trade. Traders can set both quantitative and qualitative goals. There are always new strategies to utilize and various methods to try.

Investors should also have a financial plan. They should decide what percentage of their income will be used for investing. Many beginners fail to figure out the ideal amount to invest. Some start with investing all extra money because of the newness and excitement of stock. They want to invest everything that they possibly can. However, this can prove harmful. Investors must not invest money that they will need soon. If losses occur and the investor needs that money, they will be out of luck. This is why it is crucial to calculate how much money must be reserved for spending, saving, and investing.

Other Common Beginners' Mistakes

There are several mistakes that beginners frequently make when first investing in a stock. It is essential to learn from such mistakes to avoid making them. Although it is inevitable to make mistakes while trying something new, mistakes may be reduced by educating oneself on the potential mistakes that may be made.

In the beginning, investors may watch the market more than necessary. Although it is wise to stay updated on the market, watching it too closely will result in anxiety about the market's volatility and may even lead to emotional reactions (buying out of greed and selling out of fear). While these may seem justified at the moment, they are typically not logical choices. Beginners may also let their ignorance drive decisions. They will put too much trust in others. While the Internet and television will be filled with helpful information, conducting individual research before buying stock is essential. Instead of blindly following the advice of others, beginners should see for themselves what the stocks are all about. Those with long-term investments will also often forget about their goals for stock and will sell their investments out of fear. However, they may have regained all of the lost money and even made gains if they had kept those investments longer. Beginning traders may often neglect the aspect of risk. While traders should be willing to take some risk, it is wise to have a portfolio filled with higher-risk and lower-risk investments in case of an emergency. While it may seem exciting to increase the risk of investment, it may not always be wise.

Beginners will inevitably make mistakes in the actions that they take. These mistakes may be minimized with proper education, in any case. Beginners may learn how to practice proper diversification. They may learn how speculation can help (or hurt) the market. Education and research are crucial for making the best investing decisions possible. Investors should also plan how to use their money, save, spend, or invest it. By recognizing common mistakes that beginners make, beginning investors may avoid them and become better investors themselves.

Chapter 15. Stock Investment Strategies

You cannot achieve a consistent flow of profits just by relying on luck. To significantly increase your chances of success, you should use effective strategies. Take note that just reading about these strategies is not enough. Investing in stocks is like learning a new skill. You also need to practice it. Let us discuss some of the notable strategies that you should know:

Fundamental Analysis

Fundamental analysis is also referred to as the 'lifeblood' of investment. Hence, this is worth learning. This strategy does not just apply to the stock market but also all kinds of investment. So, what is fundamental analysis? Fundamental analysis studies the fundamentals or the basics. As such, it is crucial. You are probably familiar with the saying, “Knowledge is power.” Well, this is what this strategy is all about. When you use this strategy, you should research and analyze the different factors that affect stock or the stock market in general, such as the economy, level of competition, legalities, and market acceptance, among other things.

When you use this strategy, you must follow up on the latest news since the news reveals essential information about the stock market. Although fundamental analysis might be the strategy that demands the most time and effort, it is also highly effective. If you are serious about being a successful stock investor, you should learn about this strategy. Successful investors use this daily. As a professional investor, you need to be up-to-date with the latest developments in the stock market.

It is worth noting that fundamental analysis can be used along with another strategy. This strategy is not just about gathering all kinds of information. Instead, it has to be high- quality and reliable information. Of course, you also need to do your analysis to identify the best information. You will soon realize that the more you know about the market and the different stocks, the more likely you will come up with the right investment decisions.

Technical Analysis

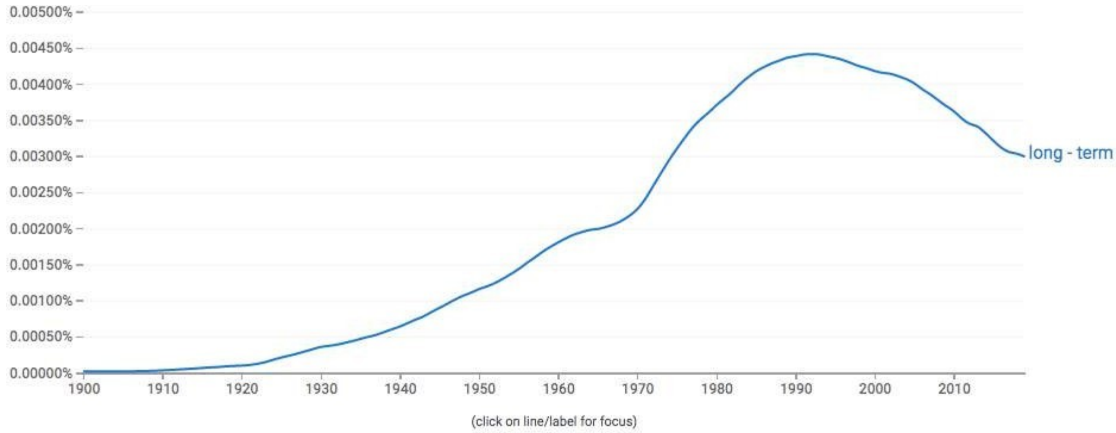
If you are the visual type of person, then you might find this strategy interesting. Technical analysis makes use of graphs and charts to study the price movements of a particular stock. The idea behind this strategy is that the different factors that can affect a stock have their final effect on its price. Therefore, just by analyzing a stock's price movements, you also get to deal with all the factors that influence it. You might want to consider this as the simplified and visual version of fundamental analysis.

When you use this strategy, you should learn to read patterns. Okay, you might be wondering: “Do patterns exist?” The answer is ‘yes.’ In fact, even a random generator creates patterns. However, it should be noted that patterns come and go. What this means is, you cannot expect to see a pattern all of the time. There will be times when no matter how hard you study a graph, there is simply no pattern to be seen. Again, you don’t need to worry because this is normal. A common mistake is forcing yourself to see a pattern even when no pattern exists. Remember, always make your analysis with a clear and unbiased mind. It would help if you didn't decide to force yourself to see something even there.

Just like fundamental analysis, technical analysis can be used together with another strategy. Many expert traders use both fundamental and technical analysis at the same time. Indeed, the more information that you have, the more likely it is that you can come up with the right investment decision. Technical analysis is an excellent strategy for short- term investments, but it can also be used for long-term investments.

Examples of technical analysis:

The technical analysis foresees that the price continues to bounce on the trend lines until it breaks support to accelerate sharply. These are great times to enter the market.

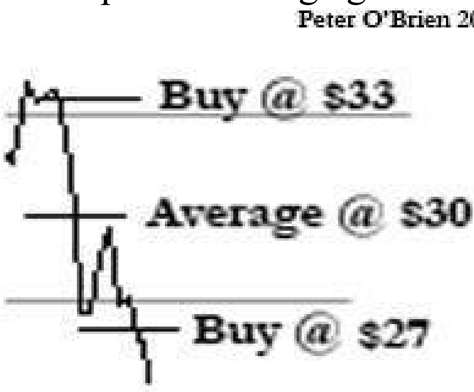


Averaging Down

This strategy will allow you to purchase stocks at a bargain. You can then sell them for profit. The best way to explain how this works is by using an example. You want to buy the stocks of company X, and its current price is $10 per stock. You then make a buy order at the said rate. If its price increases, then you can quickly sell it for profit. If the price decreases, then according to this strategy, you should make another buy order. So, if the price drops, say, to $9, then you should make a buy order at $9. Now, if the price decreases again, then make another buy order at the lower price. This way, you are buying stocks at a much lower price.

Okay, you might be wondering: “Are you not simply buying a losing stock?” Although it may look like it, this is not the case. You are making a sound investment. Imagine how much you can profit once the stock price goes back to its original price (when you first applied the strategy) or higher. All the buy orders that you have made will give you an excellent return on your initial investment.

Example of Averaging down chart:



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Now, it should be noted that this approach is considered highly aggressive, so be very careful every time you use it. The key here is to identify a stock that will most likely increase in price. Take as much time as you can to research the stock concerned, as your success will depend on whether its price will increase or at least recover shortly.

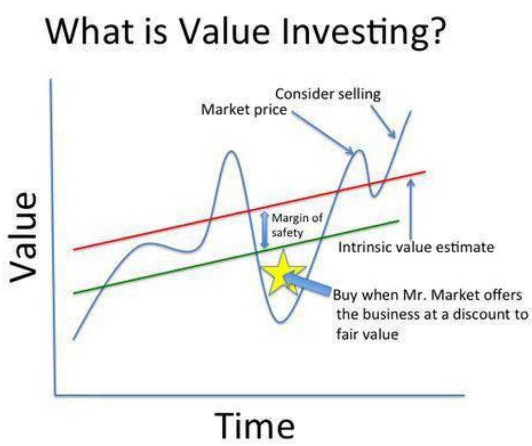
An excellent strategy to use together with averaging down is fundamental analysis or technical analysis. You cannot use averaging down alone as it relates only to the amount you invest and does not tell you where to invest. Of course, where you put your money is a crucial factor in making profitable investments. This strategy will allow you to weather fluctuations in the market since you're holding on to profitable stock investments. Again, keep in mind that although this seems highly practical, it is still considered a highly aggressive approach.

Growth investing

This is where you invest in the stocks of a company because you believe that the company has the potential to grow. This is usually used for small and start-up companies since they have room for development. When you use this strategy, take a look at new businesses. Consider how they are positioned in the market. Can they match up with the competition? Do not just focus on the company. Keep in mind that the strengths and weaknesses of a business are relative to the strengths and weaknesses of its competitors.

Therefore, you should also keep an eye on competing businesses. This is an excellent way to gauge how a particular business is doing in the market. It is not enough that a company has space to grow, but the business should take positive actions to grow even further. Last but not least, you should also pay attention to market acceptance. After all, no matter how fantastic a business is, it would not do any good if the market ignores it or simply does not accept what it offers. These are the essential things to consider when you use this strategy. The drawback of using this strategy is that since you will most likely be dealing with start-up companies, there may not be enough information that you could use to measure the profitability of these companies. This is a challenge that you have to overcome with this strategy.

Value Investing



This chart https://de.m.wikipedia.org/wiki/wikipedia:grafikwerkstatt by Unknown Author is licensed by CC BY-SA

This is similar to growth investing. However, in this case, it is the value that you need to look into. When you use this strategy, you should look for a company that offers its stocks lower than their actual value. Okay, this is where the challenge is. It is you who will have to determine the value of their stocks of the company. You need to look for stocks that are underpriced in the market. The idea behind this strategy is that the value of the stocks will soon adjust and correct itself. If you find an underpriced company, you will soon gain a nice profit when this happens. Unlike growth investing, value investing does not just work on new companies. It can also apply to old companies or stocks. Still, this is an excellent strategy for new and start-up companies since they tend to have good value but have a low stock price. It is good to use this strategy together with fundamental analysis. Take as much time as you need to study the company. Of course, do not forget to compare its strengths and weaknesses with the strengths and weaknesses of its competitors. Suppose you find a company that has good value but is underpriced. In that case, that is an opportunity that you can take advantage of. When you use this approach, you mustn't be biased about anything. Always keep an open mind and do your best to understand the company before making any actual investment.

Stock Split

In a ‘stock split,’ a stock is split, and so it gets divided. For example, if a stock or share costs $40. After a stock split, then you will end up with two stocks at $20 each. Please take note that it does not always have to be an equal split. The point is that the stock will be divided, so its price should also be divided accordingly. This is usually done by companies when the price of their shares gets too high. So, they move for a stock split to lower the price. This is also because investors tend to shy away from stocks that are too pricey. Now, this is a good sign. It usually means that the business is doing good. Typically, after a stock split, the price of stocks continues to increase. When you use this strategy, you should pay attention to companies that just declared a stock split. This usually signifies that they’re doing well.

Now, you should be careful. A common mistake is to fall for a reverse split. This is like a stock split, but it is not good. In a reverse split, stocks are combined, which causes the price of stocks to increase. Since there is a price increase, it might look like a good investment, although not the case. Here is an example. Let us say that there are ten stocks at $10 each. In case of a reverse split, you will end up with five stocks at $20 each. This is the opposite of a reverse split. In this case, the price of stocks increases not because the company is doing well. However, it’s because of a manipulative action made by the company. Hence, do not forget that a simple increase in the price of stocks is not good enough to indicate that the company is doing well.

Although a stock split is often a good indication that the company is doing well, you should still research before investing. A stock split alone is not enough. You should take a closer look at the company and study it carefully. This way, you can increase the chances of making a good investment.

Stock Mastery

The more you know and understand a particular stock, the more likely you can predict its price movement. This is the idea behind this strategy. When you use this approach, you should choose a stock you like that you think is profitable. Your job is to make sure that you read and analyze the said stock every day. After some time, you will notice that since you know the said stock so well already, you can easily predict its behavior in the market, allowing you to take advantage of it and make a nice profit.

Read and find out as much as you can about your chosen stock. Now, it is also expected that you might suddenly realize that the stock is not a profitable investment as you study it. This is well and good because it will help you lower your losses. In this case, do not be discouraged. Move to another stock and start over. Do not consider your efforts as a waste. If you end up losing stock, then be thankful that you have saved money by not making any actual investment.

Once you gain mastery over overstock, then you can start taking advantage of it. But, how do you know if you have mastered a particular stock? There is no strict rule regarding this matter. The important thing is that you can predict its price movements correctly most of the time. Once you attain mastery over a particular stock, then feel free to master another stock. The more stocks you master, the better chances you have of making a significant profit. Do not rush the process of learning and researching information about a particular stock. Take note that you are aiming for mastery and not just having mere knowledge of the stock.

Develop Your Own

As a professional investor, you can develop your strategy. It can be as simple as making a few adjustments to the strategies that you already know. However, you are also free to come up with an entirely new strategy of your own. The life of a full-time investor is primarily about developing a strategy. Keep in mind that the stock market is a continuously moving market. The strategy that you use should be up to date with the latest changes and developments. Therefore, as you work on your strategy, you should also keep a close eye on the stock market.

Developing your strategy can take a long time. Be ready to trial and error before adopting a strategy and applying it using real money. This is an excellent time to make use of the demo account provided by your stockbroker so that you can test your strategy in a natural market environment without risking any real money. If you do not want to use the demo account, you can make small investments and see how they go.

Take note that strategies are compassionate. This means that even a minor change in your strategy can make a big difference. Therefore, when developing your strategy, be sure to test it more than once, even if you only have to make a slight adjustment.

Chapter 16. Extra

One of the essential things any trader can have is the proper trading mindset. This refers to the ability to remain calm and collected every day of the week. Trading stocks is done successfully by those who understand the essence of remaining calm in any given situation to monitor something within their proximity carefully.

It is essential to understand that enduring surprises time and again will increase your chances of incurring losses when stock trading. You must remain calm and collected, developing a trading mindset that eventually dictates different patterns of your life.

For instance, you might have to start waking up late at night or in the early hours of the morning to follow up on investment. Also, you might have to choose entirely new reading material from your familiar information sources, changing the nature and composition of information you absorb.

Either way, learning to have a positive mindset is pivotal in ensuring that you can attain success when you start trading. It is necessary to point out that inspiration will always come from within yourself, so never look for it too far.

Guideline 1: Utilize Technology

Most people underestimate the power of technology in the modern world to drive different fundamental aspects of life. Technology has been responsible for massive changes in terms of developments and spreading information. It would help if you utilized every bit of technology available to you to ease the process of trading somehow. You should acquire information on the stocks you are interested in with relative ease because of the technology access. There are better methods of communication today than in the past. Information moves much faster than in the past. It is possible to make the entire world into a small global online village through social media.

Therefore, there is no excuse not to search for software that guides you on setting pivot points, stop-losses, and even entry points. There are different types of technology that you can utilize to get you in the proper trading mindset. This way, you can focus on other fundamental aspects of trading while still ensuring that profitability is guaranteed. It is incredible how simple technology works to put you in the right mind to handle specific challenges that face you as you trade.

Guideline 2: Always Use a Stop-loss

If you are not familiar with the importance of stop-loss, this prevents you from making losses when a trade starts making losses. It limits the loss cap for your money, ensuring that you exit a trade just as you hit the stop-loss level. This has the disadvantage of missing out if the trade suddenly changes and witnesses the boom you anticipate. Either way, a stop loss will enable you to be in the proper trading mindset because you will not always be fidgety about losing a large amount of money on a single trade.

It will be possible to save your funds for a future trade by relying on a stop-loss even if the trade changed and started moving into a profitable position. Patience is vital when a stop-loss epitomizes trading and this. An unstable trade can easily make you massive losses, so being cautious about the value movements of the trade is critical for success. A stop loss is a necessary risk-tackling measure that you must make, particularly if you have immediate short-term goals that must be achieved for the success of the trade.

Guideline 3: Become a Student

A quick way of becoming successful is becoming a student of the very markets you intend to trade in. At first, make small and few trades, listening to advice and gauging the market with the knowledge that you already have. There is never a time to stop learning. Even if you achieve short-term success, massive losses can easily await you soon. Do not underestimate the value of continuously learning. If you observe closely, you will realize that even the expert traders take some time to learn for themselves.

There are various ways you can become a student; for instance, you can work under the apprenticeship of a master. This does not mean they set up a trading account; you must show your commitment by setting up and even trying a trade for yourself. After that, ask a professional trader that you might know of to teach you the ropes of trading to also profit. You can also identify stock market websites that specialize in providing news and other trading-related facts to help you develop a trading routine and, eventually, the right trading mindset.

Guideline 4: A Plan is Important

There is nothing more important than having the right trading plan because you can never be in the proper trading mindset for success without it. A plan identifies your objectives and the methodology you will use when approaching different challenges. If you want to identify your risks, this makes an essential element of the plan you intend to implement.

Remember to set everything you want to do in pen or paper or even on an Excel worksheet. Identify the main aspects of trade you want to implement and consider the resources you have. One of the most significant parts of the trading plan is the element of time because you must plan for it appropriately. Remember that time is everything and once lost, it is impossible to recover.

A proper plan will set you in the right mood for trading because you envision whatever you want to implement. You will have foreseen some problems, and usually, this is enough to ensure success. Therefore, take some time and plan before launching into your first trade.

Guideline 5: Identify Rest Periods Beforehand

As much as it is essential to constantly stay in the loop, as you will soon discover when you start trading, rest is equally important. You might want to continuously trade and make money because of the ongoing opportunities right before you. However, what is more, important is investing in time for yourself and family and friends because it makes all the difference in having the proper trading mindset. When you overwork yourself, you can be sure that you will never be in the proper trading mindset.

Have a conversation with the people close to you; understand what is going on in their lives. This is just as important to you as the trading process, and you must always recognize those who are close and around you. Set limits for the time you trade, and do not bog yourself down in front of a computer screen attempting to profit on a late trade; if it is time for bed, it is time for bed. It would help if you recognized the importance of giving yourself a rest because you can only produce your best when you are fresh and full of energy to go.

Guideline 6: Make Sure Trading is a Business to You

Avoid constantly taking money out of your account to spend it on something unnecessary and straightforward when one of your trades has come right. Instead, plow the money back into the trade and identify your losses or profits. Try to use as much money as possible to spread different trades and minimize the risk of incurring losses. When you think of your trades just like a business and putting food on your plate, you are on the right track to success.

Guideline 7: Make Sure Your Trading Practices are Reasonable

If you have $2,000 in your trading account, do not trade it all away; instead, look for minimalist strategies that will allow you to trade on multiple exchanges and try to profit. This way, you spread the risk through several trades and increase your income when most of them come right. You will not be pressured for all your trades to go right because only a few from your choices will be sufficient to cover your losses and produce a profit, as well.

Guideline 8: Planning for Trading Capital is Important

When you understand the importance of your trading capital, you can make trading a continuous practice and constant profit. Just as your trades need to be reasonable, ensure that you have a backup for your trading capital for the same amount. These are some things that make trading quite tricky and must be considered to provoke some success. Your trading capital will always give you an advantage when you make losses. You will have gained crucial information on a specific market and turn to your substitute capital to make profits.

Guideline 9: Have a Trading Methodology

When you have a consistent trading method, it empowers you to make the right decision regarding your investments in the stocks. This certainly sets you in the right mindset because you can identify favorable spots in the market and utilize them appropriately. A right trading mindset is enhanced by an appropriate approach to trading that you have developed. It is suitable for utilizing your strengths to guarantee success. A trading methodology sets you in the right frame of mind for trading because you will positively view most of the challenges you encounter.

Guideline 10: Do Not Risk Too Much

Most people end up risking much more than they really can afford, leading to their demise. You have heard of stories where consistent traders who were once making a living from the stock market are now entirely out of cash and living in dire conditions. Most people usually use these stories as an example to keep from trading, but the truth is that you should only bite off what you can chew.

If you put your entire life savings in a trade without a backup, it will be your fault if you lose all the money and have to start a new life. Never risk more than you need to because you should always trade within your limits to grow. It is the only sure way of achieving success because trade benefits will not come immediately but to those who are patient enough to wait.

Conclusion

Thank you for making it through to the end. My goal in this book was to educate everyone about every aspect of the stock market and how you can make a living by investing and trading stocks. I am hoping that by now, you have a comprehensive idea of how the stock market works. If you have always been interested in how the stock market works but you were never sure where to start, then this book right here can provide you with all that you need to know as a beginner. I have given practical information and valuable tips in every chapter to make the learning process easier for everyone.

As a beginner, you might lose some money trying your hand at different trading and investments, but don't let those small losses define your path because no person has ever made it big in the market without incurring any loss in their life. You have to learn from the mistakes you are making so that they don't happen again. Before entering the stock market, make sure you have built your emergency fund and set money aside for your day-to-day expenses. I hope the information provided in the book has helped you start a new chapter in your life, and I wish you all the very best on this journey. Remember that the stock market can help you fulfill all your dreams, and at the same time, mismanagement and bad judgment can lead you to lose all your money.

Thank you for reading to the end. I hope this book has helped you understand how the stock market works and how it operates.