Investing 201

Buying Stocks

MIND YOUR MONEY

Establish your risk tolerance

Step 1

- It’s important to know your comfort level before investing in stocks. Certain stocks are more volatile than others which means they can go down just as quickly as they came up.
- You need to know how much price movement you can stomach before you invest any of your money into a stock. If a stock is worth $150 today and is worth $125 tomorrow, will you panic and try to sell before it potentially loses anymore? Or will you try to buy more because you’re still confident in the company’s long term success and now the stock is more affordable?

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- There are 5 main investor profiles: Conservative, Moderately Conservative, Moderate, Moderately Aggressive and Aggressive.
- Most people like to assume that they are Aggressive investors until their results come back a very different story. Being an Aggressive investor means being able to stomach huge swings in prices and not panic.
- Meanwhile, being a Conservative investor is commonly viewed as someone wants consistent returns but isn’t willing to lose much, if any, of their investment at any point in time.

- When you know what you're comfortable with and what type of investor you are, it makes selecting companies to invest in much easier. If you're a more conservative investor, you won't want to invest in more speculative companies. You will likely want to invest in established companies that have steady revenue year after year.
- A more aggressive investor may invest in the companies that still have not sold anything and are considered "pre-revenue" which are much more risky investments than established companies. If the company delivers on its promises, it may result in a huge payout to early investors. However, if it falls short or fails to meet expectations, it could result in investors losing everything in severe cases.

Start a stock watchlist

Step 2

- You can start with companies that you are familiar with and seeing if they are publicly traded. It's easier to keep up with important news for a company or brand that you already use in your daily life. For example, you may like cars and drive a certain brand or use a certain cell phone provider that's publicly traded.
- There are thousands and thousands of companies that are publicly traded so choosing one to invest in can be overwhelming.

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- You can go to sites like Yahoo Finance and view the recent earnings reports for companies you're interested in. You also can go directly to the company's website and view their earnings reports and presentations in the "Investor Relations" or "For Investors" sections.
- It's important to look for an increase in revenue each quarter and each year. If there was a decrease in revenue, you'll want to understand why. Maybe they were impacted by COVID or maybe they lost some customers to a competitor.

- Once you’ve researched a company’s earnings reports, you want to look at competitors and similar companies to compare fundamentals. What that means is looking at things like how much cash on hand a company has versus another. If a cruise line burns through $100M cash a month to operate, it will run into some tough decisions if a stay-at-home order lasts for 10 months and they only have $1B cash.
- It may also mean that one company’s cash pile allows them to possibly buy another company to give them an extra advantage. This happens so often in the technology industry which is part of the reason there are so many pushes to break some of them up.

- Another important thing to consider is investor sentiment. You may love or hate a company but what are other investors feeling? Stocks move up and down off supply and demand. If there are more people that are buying the stock, the price will go up. If there are more people selling the stock, the price will go down.
- You may not feel good about news that came out about a company you're invested or interested in but the market may not share your feeling. You may think the stock is going to go down because of the news and instead it may continue rising. Or the opposite.
- The point is stocks don't always move up or down because a company beat profit expectations, has good fundamentals or has increased another important financial metric. Sometimes they move simply because there is such a positive feeling about the company.

Create an account using money you won’t need for at least 12-18 months

Step 3

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- Brokers are simply companies that you offer you the ability to purchase stocks and other investments.
- Popular names such as Fidelity, Charles Schwab, TD Ameritrade, Robinhood, etc. all operate under the same regulations imposed by the SEC and offer $0 commission free trading so when it comes to choosing one, there are really only two important factors.
- The first is the hours that you are able to trade stocks. The **regular stock market hours** are from **9:30a-4:00pm EST** but there are *extended trading hours* in the pre-market from *4:00a-9:30a EST* and the after-hours market from *4:00p-8:00p EST*.

- Most trading happens in the regular hours and since not as many people have access to the extended hours, prices are typically more volatile.
- The second important factor to consider is how quickly you can use deposited funds. Some brokers will credit your account after 1-2 days whereas others will allow you to deposit funds and give you buying power the same day.
- Always fund your account with money that you are not expecting to need for any reason within the next year. This will help you make better investment decisions because you will be less likely to make decisions off of emotion.

Determine how long you plan on being in the stock BEFORE you buy it

Step 4

- Determining when you plan on getting out of a stock is key to becoming successful at trading. There are several technical models and techniques to help you figure out what a stock might be projected to be worth in the future. A simple method is evaluating a stock's past performance and applying some of your research in the company's fundamentals and projected growth to the current price.
- For example, if a stock was $10 this last year and grew steadily to $20 today, you might deduct that their revenue growth doubling is the reason why their stock price doubled. If there is positive sign that they might double their revenue again the following year, you might deduct that the stock price will double again in that same time. In month 11, if the stock is not at or near your price target then you may decide to sell after the year passes depending on how it performed according to your expectations.
- The point in this example is that emotions never dictated when you decided to sell.

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Buy shares in the company

Step 5

- Most brokers only allow you to buy stock in a company in whole shares but some brokers allow you to buy fractional shares of a company if you can’t afford an entire share.
- You can decide to place a market order and buy at the current price or set a limit or stop order for a certain price. We discuss order types in more detail in future courses.
- When it’s time to make your exit, the same orders can be done to sell and take profits!

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Be sure to check out our other courses!

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