



Do's and Don'ts of Stock Market Investing for Beginners

Do's

Make equity investing your friend: The long-term returns for equity beats most asset classes. People are often told about the risk of investing in the stock market—however, few talk about the risk of not investing in the stock market. Imagine sitting on cash with inflation at 8%. Equity has to be part of your asset allocation strategy. More so if you are young and have a long investment runway ahead.

Understand the risk: Stock markets never move in a linear path. There are ups and downs. One needs to understand this before making a plunge into stock market investing. Don't get gutted by the downs—they could present a buying opportunity. Don't get carried away by the ups—they could be a trap.

Unleash the power of compounding: It is tempting to take money off the table after making quick gains. However, real wealth is generated over a long-term horizon spanning around 5, 10, 20 years. Re-ploughing your gains again into the stock market and seeing them compound over the period—nothing can beat that.

Set monthly investment targets: It is prudent to save money every month. It is even more prudent to invest that regularly in stocks. Investing at regular intervals helps iron out the volatility and boosts long-term returns.

Research before investing: Every investor needs to research the company before investing. One has to put initial efforts before investing in the share. You must be aware about the basics of the company.

Follow the news: One needs to understand the direction in which the wind is blowing to make prudent investment calls. Following the news, be it business or political, local or global, micro or macro. Anything that impacts the economy or corporate performance will eventually have a bearing on your stock returns.

Investing in CAPS: Yes! The word INVESTING needs to be written in caps to emphasise its importance. But that's not what we mean here. As a beginner, remember to invest across large-caps, mid-caps and small-caps. Large-caps are relatively less risky and offer high liquidity. For mid-caps, one needs to research the stock in which they are investing. If you are building a 20-25 stocks portfolio, it is prudent to have representation from all three buckets. The mix can depend on your risk profile.



Keep an eye on FPIs: Foreign portfolio investors (FPIs) are the most influential investors in the market. Their investment behaviour is majorly driven by global factors such as international monetary policy, dollar movement, bond yields and oil prices. However, the active participation of domestic institutions and retail investors has levelled the field. But often, FPIs determine the market direction.

Keeping a stop loss is important: If you are a trader, it is essential to set stop-loss to limit erosion in your investing corpus. You may go wrong in some trades. One doesn't have to get too emotional about it. You can move on and look to make up the loss with another trading idea.

Get your taxes right: Gains made from stock markets are subject to 15% short-term capital gains (holding period 12 months) and 10 %long-term capital gains (holding period over 12 months). One needs to keep a tab on these for filing tax returns.

Don'ts

Mix investing and trading: Both involve buying and selling of shares. You can dabble into both. Trading involves taking ultra-short-term investment calls. While investing is done for the long haul.

Directly jump into F&O: Many beginners get drawn into [futures and options](#) (F&O) trading quite early without fully understanding how it works. The stakes are high in the derivatives segment. One can always use it, but after understanding and studying how it works.

Avoid investing based on tips: One needs actionable inputs and ideas during their stock market journey. But it is best to avoid investing solely based on tips shared over WhatsApp groups and other social media platforms.

Put all eggs in one basket: The often-used phrase to advise investors to spread their bets. Using your entire capital on just one or two companies can be a risky proposition and could leave room for error. One should diversify their portfolio. The idea behind diversification is that a variety of investments will yield a higher return.

Spread oneself too thin: This is the other end of the spectrum. Don't invest in so many companies that it would become difficult to monitor them. Or deploy so many strategies that you find it difficult to juggle them.



Invest solely for dividends: [Dividends](#) are now taxable as per your tax slab. So, buying stock to pocket dividends can be a wrong strategy. Typically, the stock price adjusts lower after the dividend is paid.

Look at absolute stock price: A stock quoting at ₹5 is not cheap, and at ₹1,000 is not expensive. Sadly, analysing a stock is slightly more complicated than that. Looking at metrics such as [price-to-earnings](#) (P/E) ratio, price-to-book (P/B) ratio, debt-to-equity ratio (D/E), and return on equity (ROE) would give you a much better insight.

Look to buy low, sell high: One can always dream of buying at the lowest point and selling at the highest point. But executing this isn't practical. If you believe in a stock, it is okay if the stock has run up 10-20% but over the long-term it won't matter. Waiting for the stock to fall to a level where you want, may not happen. Imagine missing out on buying in 2020 and sitting on the side-lines all of 2021. Likewise, you will never be able to sell at the top.

Avoid unnecessary risks: Always know the risk you can take. The greed of earning quick money often forces you to put money in stocks that have many associated risks. One must avoid investing in high-risk shares in the hope of high returns.

Don't make emotional decisions: While investing in the stock market, do not take emotional decisions. No matter how much you like a company, it may not be the right investment decision if it is not profitable and doesn't have a bright future potential. Do not get emotional while making your investment decisions.