

Top Ten Things
to Remember
While Investing
in the Stock Market

By Robin G Coles
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Rolling for Profits

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By Robin G Coles, August 2006

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1. One Strategy Does Not Work For Everyone

If there's one thing I've learned over the years – its one strategy does not necessarily work for everyone. Nor do strategies of the past work today.

Let's take the buy and hold strategy. Years ago, our parents, grandparents and/or great-grandparents used this strategy. They would find a good company they liked, buy the stock, and then hold it till they could use the money for retirement. This was the most popular way to be involved in the stock market. This worked if you invested while you were young enough and had 20 or 30 years to let your money grow. But, if you are considered a baby boomer just starting out now, the buy and hold strategy won't work for you.

Many baby boomers felt the "in" thing to invest in was mutual funds. With Mutual funds you did not have to pick individual stocks. This made investing easier, the investment period was much shorter and one could enjoy the benefits of long-term compounding while diversifying in the stock market. Many even put some of their dollars into a 401k through their place of employment. This was good because for the most part, companies were matching dollar to dollar.

Generation X and Y are investing their money into bonds or nothing at all.

According to a [study](#) done by Hewitt Associates (an employee benefits consulting firm based in Lincolnshire, Ill.), 72 percent of baby boomers (ages 42 to 59) are taking advantage of 401k retirement plans, 63 percent of Generation X (ages 26 to 41) are taking advantage, while only 31 percent of Generation Y (ages 18 to 25) are taking advantage.¹

Yet, new strategies are coming available all the time for us to invest our money into. One of the newest forms is FOREX, Foreign Exchange. This is a strategy that was built by the banks for themselves. Only over the last few years has it been available for people like you and I to trade.

¹ *New York Times* article (March 2006), Paul J. Lim reprinted on:
<http://www.pbs.org/wgbh/pages/frontline/retirement/world/geny.html>

So, no matter where you're at in life today, you need to find a strategy that is right for you. One that you can stomach and most importantly...

2. Know Your Reason Why You Are Investing

Before you put any of your hard earned money into the stock market, whether it is in stocks, bonds, CDs, treasury bills, mutual funds or even Forex, you have to have a plan.

Don't invest because it's the "in" thing to do or because people tell you that's what you have to do. It may not be right for you. Maybe you don't have extra money right now to put aside. If that's the case, you shouldn't invest it.

If your reason to invest is to make money, then ask yourself the following questions:

- Is the money for a rainy day?
- Is it to pay for college education, buy a house or retire?
- What is the time frame and how much do I need to make?
- How much money can I afford to invest to get started?

The answers to these questions will tell all. Once you have the answers, then you can set off to find out what strategies will work best for you.

3. Know Who to Trust

Once you've figured out your reason why you need to invest, the next thing is to find someone you can trust.

Because we are creatures of habit, it would make perfect sense for us to go to our friendly banker, financial planner or even insurance broker. The bad news is that even though we like them, these people get paid commissions based on what they sell.

When it comes to mutual funds, usually what is being sold to us is considered load funds and don't meet our financial goals.

The same is true when buying and selling stocks. You need to find a stockbroker that can and will answer your questions. Sometimes my friends will tell me stories about their stockbrokers and I cringe at the things I hear. Most of the time they are getting phone calls from the brokerage firms telling them they need to buy this or that. Again, it usually has nothing to do with my friend's goals. It's usually a push to sell somebody's stock. If this happens to you, ask the stockbroker how many shares they bought. Usually it's none.

Another problem I've run into is when I ask to have a stock sold at a certain price, the stockbroker will argue with me over it. Every time this has happened, I've lost money.

Don't listen verbatim to your friends either. What is working for them may not necessarily work for you. The timing could be all wrong, and then you lose.

This happened to me when I first started out playing the stock market. A co-worker/friend of mine had been making a killing on a certain new stock and was telling everybody about it. He had bought very low and now it was worth a lot of money and climbing. So, after listening to his story several times, I checked out the stock and sure enough, it was climbing. I bought in even though my gut reaction was not to. The stock climbed a couple more dollars, then BOOM – it dropped faster than you could read these words. It went so fast that my stop loss didn't even take effect. I lost all that money! My friend didn't care – he made a killing on the stock many times over as it climbed. He was very happy.

4. Don't Be Greedy

This is where you can get yourself into loads of trouble. Remember the dot com period in the late 90's? The high Tech companies' stocks were climbing like gangbusters and people were investing like crazy. Then the boom happened and people ended up losing everything. One reason for the big loss was that people were so sure that the stocks would just keep going they were buying stocks on margin. That was not a good idea.

Once the crash happened, anybody who bought on margin now had to start repaying that money. This meant selling homes, closing out bank accounts, etc.

Don't try to make a killing on the stocks that you buy. Instead, learn to be happy with a certain return on your investment. The return doesn't need to be a 100 percent profit or more. As long as the profit you make after fees is more than what you bought originally – you are doing great. Anything over 50 percent is actually good.

Here's an example: a rolling stock you are looking at keeps rolling between \$1.00 and \$3.00. You purchase 100 shares of the stock at \$1.25 then put a good to cancel in at \$2.75. Though you can try to wait the roll out to the full \$3.00, you have a better chance at making money at the \$2.75 sale. With commissions you should have made a little over \$100. Not bad for a stock that you purchased at \$1.25.

This may not seem like much, but it's a great way to get started in the stock market and build up your confidence as well.

Another example is Forex. Let's say you have a \$1000 trade. You get in at 1.8874 and set your stop loss for 1.9094. That's \$2200 you made. Subtract the commissions of 5 pips and you made \$2150. Not bad for a 22 point spread!

Remember, when you get greedy in the stock market – you usually lose!

5. Don't Get Stressed

If you're playing the stock market, watching your stocks all the time can become very stressful. This is especially true for those who are trying to be day traders while working a full-time job. It's hard enough playing the stock market, never mind hiding from your boss. Today, it's so easy for businesses to fire you if they catch you doing other things online besides your job. So be careful while downloading stock market information like charts, doing research, and trading.

A little glitch on the screen and you could panic causing who knows what to your heart. If you are at work, it could put you

over the edge, causing major attitude problems for the rest of the day and lack of production.

Your profits could suffer as well by you selling too early. Or, you decide to hold a stock rather than selling it. Either way, stress clouds your judgment.

Watching the stock market while on vacation also causes stress. They have a habit of taking their laptop with them so they can constantly watch their stocks. This causes stress for everybody all around because you can't relax long enough to have a good time. Those with you are there to spend time with you, not have you ignore them.

So, what's the answer?

It's best to have a system in place. Know what your stop loss is and when to sell. There are plenty of services out there that will fit into your budget. Or, maybe, find a strategy that will produce the results you want with less stress.

6. Know When to Get Out

As my 95-year-old aunt would say – this is the most important thing in playing the stock market. Know when to get out or you will be in big trouble.

Don't fall in love with the stocks you buy. Many stocks are not worth holding for any length of time. So, when a company isn't performing the way they should, sell. This especially holds true when you may need extra money for the gift giving, holidays, or other events. History has a habit of repeating itself, but not when you need it to.

I can tell you from experience knowing when to get out and not falling in love with your stocks is easier said than done. I have a stock that I bought a while ago that took a nosedive, came back up and has now gone back down. It is so low it's not even worth the money I paid for the certificate.

At this point, do I sell? Do I get greedy? My heart says the stock will rebound again, wait. Now that's stress!

7. Understand Your Trading Personality

If you've ever studied the various personality profiles, you know that we could fall into different categories depending on whose profile test you took. There's DISC, Sanguine, Choleric, Phlegmatic, Melancholy, Type A, etc. on the inside. We have personalities that people see us as on the outside and our own clothing personalities. Now, trading personalities as well².

The good news is that many of these overlap. Which one are you?

- Instant Gratification – They want their money now, not tomorrow, next week or next month. Immediately!
- Slow but Steady – They want low risk investments with reasonable rates of return. This is opposite of instant gratification.
- Indecisive – Investors who can't make up their mind whether to buy shares, put more money into their funds and/or which funds to choose from.
- Mom and Pop – They are more conservative and usually follow what they were taught since childhood.
- Online Obsessed – Consistently online buying and selling stocks and funds because they find it easy to do and fun.
- For the Future – These investors live for today but thinking about tomorrow.

8. Research - Do Your Homework

If you invest in mutual funds, find the ones that best suit your needs. Learn how to read the prospectus, go through it carefully and slowly.

Take the time to play on paper or do simulated trades for a while till you get the knack of trading.

Read as many books, articles and financial newsletters you can to help you understand the strategies. Join forums and newsgroups to learn from others.

² Rich Mintzer, The Everything Mutual Funds Book, p. 29-33, (Adams Media Corp, 2000)

9. Learn New Strategies (for you)

As our financial needs change, so should our strategies. What may have worked for us when we were younger may not be aggressive enough for us now. For example, some people who lost a ton of money in the dot com bust, are now looking at day trading to try and quickly replace what was lost. Will this work? It depends on you. Personally, I don't want to sit in front of the computer all day stressing out over selling a stock. I would prefer something that I can look at maybe once a week. So, with that said, I am currently studying Forex and will be writing about it on my [blog](#) once I've figured it out.

10. Beware of the Hidden Fees

I recently ordered a product while doing some research for a client and got caught with those hidden fees. After some phone calls, I was able to straighten the problem out, however, if I didn't catch it in time, it would have ended up being very costly.

It went like this: at the bottom of the sales letter there was a statement that they were so confident that I will become a loyal user of their products that they are giving me their best selling book, and a CD for FREE. I just had to help by paying a small refundable shipping and handling fee. Their guarantee to me is very simple, If I don't make money or are unhappy for any reason with the free book and CD within 30 days from their shipping date simply call their toll free number and arrange for a refund of the shipping and handling fee, etc.

Well, when I received my product, not only did I get the free book and CD, but I also got a complete CD set and a note saying my credit card was going to be charged \$99 if I didn't cancel this order within 30 days. I didn't ask them to send this extra CD set. I was more interested in the hidden fee disclaimer and what they had to say in the book.

Anyways, I called the 800 number within my 30 days only to learn that it was their 30 days, not mine that counted. It didn't matter that it took two weeks for me to get the product. While speaking to the customer service rep she didn't listen to anything I had to say and just kept asking if I listened to the CD's. No, I didn't want the CD's I told her. Well, if you had

listened she started.... After 3 offers that she tried to get me to accept, she finally gave up and refunded me my \$99 which I found out they had just credited my account with that morning.

I still didn't get the shipping and handling reimbursed, so I kept the book, which I don't want.

The moral of all this is that there are hidden fees everywhere. Mutual funds, for example, have operating costs. Loads, fees and expenses are all money deducted from your overall returns. Buying stocks with or without a broker have turnover fees and costs that result from the trading. Forex trading uses a pip system, which stands for price interest point. These pips can cost anywhere from 2 – 5 pips for a trade depending on the broker.

So, when you are figuring out your good to cancel, stop loss or exit strategy make sure you know what all the fees are before selling. This will help determine just how much you will make. More importantly how high to go before getting greedy and possibly losing it all!



About the Author

In 1990 Robin started her entrepreneurial spirit kicking it into high gear. She became an independent consultant and her services included hands-on experience as a software developer for databases, websites and later expanded into technical writing and training in healthcare, telecommunications, manufacturing, educational and hospitality sectors. She later became so enthralled with the high-energy environment of the hospitality industry, she spent two years as an operations manager of a fine dining restaurant.

In 2002, Robin turned to AWAI for a more formal training in writing where she studied direct marketing copywriting and travel writing to give her writing more depth and lucidity.

In 2005, Robin started studying Internet marketing more formally under the direction of Mark Hendricks and his [Internet Success System](#). It was here that her first project in Internet marketing the website www.rollingforprofits.com was born.

Robin's study of the stock market and her favorite strategy rolling stocks has led a variety of articles, this e-book as well as other copywriting assignments in the financial industry.

Robin can be reached at robin@rollingforprofits.com
At her office: P O Box 520461 ~ Winthrop, MA 02152

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