Stock Market investment – A Cautious Approach

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1. Stock market is a **barometer of the economic conditions** of a nation and reflects the economic position of the future. Since there are all indications & hopes that the Indian Economy will perform well in the future, the stock market is also showing good signs of consolidation and boom. The foreign investors mainly FII'S are net buyers in the market since January 2012 and they are still bullish even at the current rates.

2. **Indian investors** are scary and feel shy to invest in the market on the grounds of their previous bad experience as well as having the impression that the share prices have already gone up very high.

3. It is the experience of the years that the retail investors as well as the general public becomes greedy and enter the market when the market reaches a very high level on a continuous long term bullish trend. Such investors buy the shares at the really high prices on the basis of **herd mentality** and market rumours. These investors earn for a while but loose ultimately.

4. If we are convinced that our economy shall fare well in the coming years, then it is **the right time** to start investing in the market on a long term basis; based on our investment in the fundamentally strong companies which we expect to perform excellently in future.

5. Investment in stock market provides **excellent opportunities** as well as **tremendous risks**. It is like playing with fire. Normally the investors commit the following mistakes which we should avoid. Such mistakes are outlined below :-

   5.01 A **true investor** is one who, by taking a long term perspective, resorts to investment by employing his own money, by developing necessary knowledge / skill and with the objective to earn a better rate of return than the other available investment

opportunities. Such an investor is aware about the market risks and tries to manage them to the extent possible.
Unfortunately, we don’t find such true investors in the market and even the true investors often turn into speculators.

5.02 The investors tend to invest on the basis of market **rumours and tips** and not on their own judgement of investment potential and risk.

5.03 A true investor takes investment decisions after selecting a portfolio of few companies on **‘fundamentals’** and then investing on ‘technicals’. He also books profit from time to time.
The so-called investor, on the other hand, invests when the price of a script is very high and the market rumors suggest for a further hike. He does not book profit and wait for the ‘dream’ price of the script which never comes and in the process the speculation in the script vanishes and the investor is left with a huge loss.

5.04 Investors tend to take buying decisions very fast and postpone sale decisions. The experts in the field of investing have always warned against such attitude and have always advocated for **keeping cash** till the real buying opportunities emerge.

5.05 Investors normally take investment decisions based on absolute prices of the scripts and not on the basis of the upward or downward **trend** of the prices.

5.06 Investors **get married to a stock** and do not disinvest even though the price has reached the saturation point.

5.07 Investors **waste too much time** in buying / selling rather than using that time in understanding the fundamentals of their portfolio companies.
The numerous transactions also involve transaction cost and also result in higher taxes.

5.08 **Success is the great fallacy**. If an investor has earned in the market, his confidence shoots up and he repeats the same strategies with higher stake. Any adverse behaviour of the market puts such investors in heavy losses.

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