Stock Market Investment Principles - Golden Rules of Investing in Stocks

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There is a saying in stock markets that if you want to make your broker rich, go for intraday trading/short-term investing but if you want to make yourself rich, go for long term investing in quality multibagger stocks If you came into Stock Markets to make wealth, it can be made only through long term value investing/fundamental investing in Small Cap Stocks & Mid Cap Stocks.

All the legendary investors of the world like Warren Buffett, George Soros, Peter Lynch, Benjamin Graham etc are/were value-investors/fundamental-investors. It is highly unlikely to find a Intraday trader in the list of rich investors. Warren Buffett bought Coca Cola thirty years back and he is still holding it. Even Warren Buffett can't predict prices in next 3 to 6 months but new investors can not benefit by investing in these Buffett multibagger stocks now because now these stocks have multiplied hundreds of time. If new investors want to make money, they will have to find new similar multibagger stocks which are at early stage of rise.

Golden Rules of Investing in Stocks

Here are few sound investment principles which if you will follow in your life, you will do very good in stock markets.

(1) Investors should understand that it is not easy to find an undervalued stock. Making money is not easy anywhere (and specially in stock markets). Millions of investors, FIIs, MFs etc are researching thousands of companies day in and day out. Very deep knowledge of Finance, Ratio etc is needed to find undervalued stocks and most investors do not have that deep financial knowledge except few basic things like PE, P/B etc. So instead of picking stocks yourself and burning your fingers, find a real expert with proven record. When you are ill, you go to doctor. When you are in legal trouble, you go to Lawyer. Then why pick stocks yourself when it is not your field?

If book knowledge made great investors then Librarians would be richest people on the earth. There is much more to investing than what appears to naked eyes. In Stock Markets, 99% people lose money and money lost by those 99% is grabbed by the remaining 1% investors. There is a famous saying which investors should remember –"If you do not know a Jewel. then Know the Jeweller"

(2) Always invest according to fair value of a share. It is observed that most investors invest according to irrelevant criteria like "up from 52 week low", "down from 52 week high", "Technical Support and resistance" etc. These all things are useless. Always find out what is the FAIR VALUE of a share and if the share is trading at less than its FAIR VALUE then buy it. and if the share is trading above its FAIR VALUE, then sell it. I see that if a share run up 30-40% in few day, then investors hesitate to buy it and wait for its coming down to invest it as if share price will come down just for that investor so that he can invest. Instead the investors should just compare the CMP with its FAIR VALUE and then invest accordingly.

(3) Never buy on Margin and never take a loan to invest in Equity. Invest only that much cash in Equity which you do not need for the next 2 years at least.

(4) Do not fall in love with IPOs. IPOs are generally overpriced.

(5) Investors should understand that if a stock doubles very quickly, it should become less attractive for investment. Please remember this quote of Warren Buffett – "You should buy stocks in the way you buy grocery, not in the way you buy perfumes". Also remember another quote of Warren Buffett – "Price is what you pay, value is what you get".

(6) Don't fall in love with only Blue Chip Companies if you came to stock markets to make wealth. Wealth is made in small cap stocks and mid caps stocks. When Rakesh Jhunjhunwala bought Titan, it was a small cap stock. Reliance is trading at 1,000 today. Do you think Reliance can become 5,000 in 2 years? No way! But quality mid cap shares can multiply 10 or 20 times in few years. For example, HDFC Bank took 15 years (2003 to 2018) to multiply 40 times (Rs 50 to rs 2,000). Find out strong small cap and mid cap stocks and then hold them tight for years. If you have come to Stock markets, then you came to multiply your money and not for small returns. If you want smaller returns, then there are other asset class like Bank FDs etc.

(7) Another thing is observed that when an investor buys a stock, he starts tracking the price immediately and expects the price to rise immediately as if the stock was waiting for his entry to rise. Investors should concentrate on business performance instead of daily price movement. If business does well, price will eventually follow.

(8) It is also observed that when a retail investor buys a stock and price rises even 10-15%, he sells the shares quickly and books profit. This mindset never allows them to make big money. Warren Buffett bought Coca-cola in previous century and he is still holding it. Had Buffett sold Coca-cola after just 20-30% profits, he would have been still a small investor. Secret of Fundamental investing is that if you found a real gem then buy it and leave it for many years. Do not check its price daily because if you will track its price daily then there will be a temptation to do something.

(9) One way to end up with $1 million is to start with $2 million and use technical analysis. So do not focus too much on Technical Analysis. Fundamental analysis is the main science in stock markets to make money. If one can make money by just following charts then the wealthiest people on this earth would have been Geometricians/chartists.

(10) Don't invest in Mutual Funds and Real Estate if you are looking for Multibagger returns. Mutual Funds have no history of giving Multibagger returns in 4 years. After factoring in high inflation in India, real returns by Mutual funds are just 5% to 10% per year. Future of Real Estate also does not look great after Demonetisation. Real estate boom was driven by Black Money in the past. Real Estate will not give any returns in next 5-10 years. I will strongly suggest you to sell your real estate property which you bought for investment and put that money in Quality Small Caps in stock market. Commodity and Forex trading I consider as gamble instead of investing. Biggest wealth in India in the next 5 years (2019-2023) will be made through Quality Long Term Equity Investments. If you want to do SIP, then also you can do monthly SIP in the same quality small cap stocks for many years. From the point of view of quality of life also, Investing is best career because here your money works and you remain free. What is the use of making big money/salary if you are bound to spend your day on a chair from 9am to 6pm?. Only money is not important. You should have time also to enjoy that money. And for how long you will keep on working for your boss to make him rich? Work for yourself. Invest in Stock Market!

(11) You can make future of your children also through long term investing. Invest 10-20 lacs in quality stocks for your little children. If you do not have that much capital then you can do monthly SIP also in few strong quality small or mid cap stocks. That investment will take care of their education and marriage expenditure. By 2025 Sensex can hit 1,00,000 (Yes, 1 Lac). There are still many small caps which can multiply 10-20 times by 2022 end. Fundamental Stocks have very less correlation with Sensex/Nifty, which means that Fundamental stocks can multiply in long term even if Sensex doesn't go up. Because in Long term, Share prices are decided by earnings of a company and not by Sensex/Nifty. If Earnings of a company keeps increasing at fast pace, share price will have to go up irrespective of levels of Sensex/Nifty. In a bull market, retail investors hesitate to buy after a significant run up and then they wait for a correction to enter (which never comes!). Remember, Stocks are never too high to buy if general conditions are favourable.

(12) In Quality stocks, Averaging should always be done on downside instead of averaging on upside. Remember that Quality stocks are very less in stock market and a stock does not become quality stock just because it is being recommended on TV or internet, or just because management is coming on TV and showing good order book/projections, or just because your broker is suggesting you to buy it, or just because company is posting good profits, or just because positive news is being flashed in the media about the company. Never average just because stock price has fallen because averaging in a bad company can cost you heavily. It takes many years of experience and intelligence to identify quality stocks.

(13) Trading volumes of a stock has no relation with the potential of a stock. Rather biggest multibaggers are the ones in which volumes were low when the stock was in initial stage of its journey. There is a misconception among investors that penny stocks are bigger multibaggers than high value stocks. This is not true. A Rs 10 stock can become 1 Rs and a 500 Rs stock can become Rs 5000. Secondly, A stock can look like low priced but its market cap may be in thousands of crores and on the other side, a stock can look like a high price stock but in fact its market cap may be just few hundreds of crores. So while selecting Quality Small Cap stocks, focus on market capitalisation and not on absolute price of a stock.

(14) Never invest your money based on free tips/SMS or free/cheap trial offered by some websites. If you will invest in free/cheap tips, you will soon be freed from your own money. Remember, you get what you pay for. By investing in free/cheap tips, you save advisory fees but you put all your portfolio at risk. You save some money but you lose peaceful sleep. I will tell you how this trap of "Free/cheap" trial works. I have heard that some websites offer free trials to investors and then pump the stock price up 10-15% in next few days. Then they ask those same investors to subscribe for their paid services. Investors subscribe for their paid services because previous free trial gave them some returns and then those paid stocks fall heavily. Govt is also planning to ban these free trial offers because perhaps they are also aware of wrongdoing of some websites. So free/cheap tips can cost you heavily in stock market. Never invest your money based on tip providers calling you on your mobile or based on SMS received on your mobile. Also, never invest your money based on your stock broker's advice.

(15) Never ever do Intraday Trading or Futures & Options trading. You can never make money consistently in trading. Eventually you will lose all your money in intraday/short term trading. Even if due to some miracle you made money in intraday/short term trading, you will have to pay fees to your intraday tips provider regularly, brokerage to your broker and 15% tax to government. In long term Investing, you don't need to pay for tips regularly, some brokerage house like Zerodha takes zero brokerage on stocks bought for long term, and govt takes less tax on stocks

bought for long term !

(16) Last but not the least, it is observed that investors always hesitate to sell their holding when they are in loss in that particular stock. Investors should understand that Fair value of a stock keep changing with the change in company fundamentals and external economic environment. Markets has nothing to do with 'your buying price' of a stock. A stock will not recover from low level just because you are in loss. There are investors who bought Unitech at 500 Rs and did not sell at 400 just because they were in loss. Those investors are biting the dust now because Unitech is at Rs 1 now. So if after some time of buying a stock on your own research you realize that you made a mistake, it is better to sell and cut your losses. That loss will be recovered in other Quality stocks suggested by experts.

If investors will keep in mind the above mentioned investment principles, then they will do good in stock markets**Happy Investing!**

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