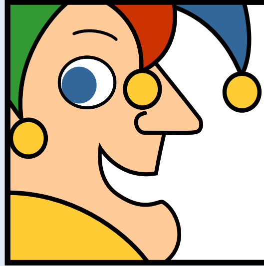

Getting Started on the Stock Market

INTRODUCTION

You probably already know that, over the long term, the stock market generates returns higher than any deposit account. Using figures adjusted for inflation, the stock market has returned an average of 8.2% a year since 1918, while cash in the building society would have generated just a 1.6% annual return over the same timescale. Indeed, over any ten-year period since 1918, the stock market has beaten cash 97% of the time.

So, with that outperformance in mind, have you just set up your online dealing account to help start improving your investment returns? Or perhaps you've already bought some shares, only to see your portfolio suffering badly from some poor investment decisions?

Either way, this mini-guide is for you. In 9 easy steps, we'll guide novice stock pickers through some of the essentials of stock market investing.

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SHOULD YOU BE BUYING SHARES ANYWAY?

1

To kick off, let's review some of the real investment basics, because buying shares in individual companies is by no means for everyone.

Here are four good reasons why you shouldn't buy shares.

- You have debts (apart from your mortgage);
- You need your savings for a specific purpose;
- You do not have a long-term investment horizon;
- You haven't done your homework first.

DEBT

Before venturing into the stock market, first pay off your debts. Forget all about effectively borrowing money to fund your stock market exploits.

Why should you be a debt-free investor? Well, the interest rates on unsecured loans virtually always exceed the general rates of return from the stock market. It just makes no sense to be investing money at a lower rate than your borrowing costs! And be warned – the stock market does not provide fixed rates of return either. When the markets tumble, as they will from time to time, portfolios funded on borrowed money could be in deep trouble.

"Most really good investors feel they never stop learning about the stock market."

But there is no reason why you should put off learning about share investing until you get out of debt. The extra learning could come in very handy.

Some people believe you should also pay off your mortgage debt before investing. Whether you'll want to do that is largely down to per-

sonal preference and individual circumstances. Essentially, it all boils down to whether you think the expected long-term returns from your stock picking, and risks involved in attaining those returns, outweigh the generally lower borrowing costs associated with a mortgage.

YOUR SAVINGS AND YOUR TIMEFRAME

By investing in shares you are putting your money at risk. While the long-term rate of return from the stock market has been significantly greater than cash in a building society, it is far, far more volatile. So if you invest for a short time, your performance is much more uncertain. Investing works best when it is done over many years, such as saving for your retirement.

If you need your money for a specific purpose, like a deposit on a house or a tax bill, then you definitely should not be investing that money in shares at all. Here, the only sensible answer is to stick the money in a high interest savings account. The risk of doing anything else with it is just not worth it.

DO YOUR HOMEWORK

Importantly, there's no need to rush with the stock market. You wouldn't start servicing your car without knowing which parts of your car do what, would you? It's the same with investing. As with anything in life, you need to do some groundwork learning first. Indeed, reading this mini-guide before you start share dealing is a very good step! Start slowly and learn from your mistakes. Unfortunately, dazzled by the prospect of overnight riches, many novice investors do decide to "pay now, learn later" with the stock market.

In general, it usually takes at least three years before you can honestly say you are truly comfortable with what you are doing. Most really good investors feel they never stop learning about the stock market.

2

ARE YOU PROPERLY PREPARED?

We mentioned in the previous step that you need to do your homework before you start investing. There's a good reason for that.

It's that if you want to try your hand at stock picking, then you'll have only one aim in mind – to beat the stock market average. If you're not going to do that, you'd probably have been better off in a simple index-tracking fund.

But unfortunately…

Consistently beating the stock market over the long term is very difficult.

It's a fact of investment life that around 80% of all actively managed funds undershoot the stock market average over the long term. Given that most professional fund managers, with all their research, industry contacts and experience, can't consistently beat the stock market, what chance is there for the novice investor?

"Consistently beating the stock market over the long term is very difficult."

So face it. Successful stock picking will involve a lot of time, effort and, given the volatile nature of the stock market, anguish.

Ask yourself these questions before embarking on any market-beating quest:

- *Can I devote a significant amount of time to investing?*

The more you read, research and learn, the better an investor you will become. Successful stock picking requires considerable dedication and effort. If you're not inclined to put in the required time and elbow grease, you'll lose money.

- *Do I want to learn about the intricacies of accounting and valuation?*

Do you wish to get your head around some of the complicated figures at the back of an annual report? Do you want to get a grasp on how to value a company's share price? A lack of inclination to become familiar with either will severely restrict your investment performance.

- *Can I stomach one of my shares losing 50% of its value for no reason?*

When you pick individual shares, you'll almost always endure a volatile ride. Expect your handpicked portfolio to diverge significantly over the short term from the overall stock market. If you're terrified that one of your shares could lose half of its value for no reason, then individual stock picking isn't for you.

- *Can I risk the possibility of long-term underperformance?*

Despite your best intentions, there's always the possibility of consistently underperforming the market. Can you accept the possibility that, say after five years, you won't have beaten the market average?

"A good start to an investment career could be to begin with a tracker."

TRACKERS

It cannot be emphasised enough that the most sensible investment product in existence is the low cost index tracker. If we use history as our guide, then over the long term, an index tracker will outperform all other forms of investment, the majority of managed funds and (probably) most other private investors too. Unlike picking your own shares, the tracker requires no time, skill, ongoing maintenance or anguish. So, a good start to an investment career could be to begin with a tracker while gradually building up your own handpicked portfolio to match your experience.

WHY YOU NEED AN INVESTMENT STRATEGY

If you're going down the DIY stock-picking route, then you'll need to get a share selection strategy in place. Because if there's one certainty on the stock market, it's the certainty of losing money by haphazardly picking individual shares on a whim.

It's a very rare investor that can consistently pick stock market winners solely through gut feel or intuition. Forming a set of sensible guidelines and having the discipline to stick to them should always increase the chances of owning more suitable investments.

Whether it's considering companies of a certain industry, or keeping to companies that exhibit certain financial criteria, remaining with what you know best and feel comfortable with will always limit any stock market heartache.

CLEAR THINKING

For the novice investor, the stock market can be a bewildering place. There are hundreds of different companies out there, spread over various industries. And with every company issuing a never-ending stream of corporate news and mystifying accounts too, there's a real danger of "information overload".

"It's a very rare investor that can consistently pick stock market winners solely through gut feel or intuition."

However, applying just one investment philosophy and sticking to it leads to clear-cut thinking and better investment decisions. The information overload is curtailed, as the number of investment possibilities reduces significantly.

Becoming a market-beating investor means finding a suitable investment style, continually developing it further, and ignoring companies that don't meet your criteria.

Alternatively, if you never get an investment strategy firmly in mind,

you're more likely to be swayed by those who can supposedly offer a stock market shortcut. It's so easy to just fall back and rely on investment "tips". But whether it's following the advice of stockbrokers, media pundits, the Sunday broadsheets or specialist investment magazines, continually acting upon other people's advice ultimately leads to stock market disaster

Here are two reasons why the Motley Fool dismisses the following of tips as a sound investment strategy.

- **The regularity of the typical tipster's suggestions.** Usually a handful each week, every week: a steady stream of tips must dilute the overall effectiveness of their selections. Obviously, a constant desire for fresh proposals will lead to marginal investment suggestions from the tipster. This will lead to share price mediocrity for anyone subsequently taking the advice.

- **Why is the tipster still being paid to tell you how to invest?** Surely, if any investment "expert" had a consistent record of picking the stock market winners of tomorrow, then why would they bother themselves with the hard slog of publication deadlines? If you could divine the investment future, wouldn't you rather invest at your own pace on a beach somewhere?

Forget all about tips. Blindly acting upon them will lose you money. At very best, they'll give a springboard for you to perform further research. The Motley Fool advocates developing your own strategy to *become your own tipster.*

4

AN INVESTMENT STRATEGY EXPLAINED

Although many investors would like to think so, there is no such thing as the "correct" way to invest. That said, there are plenty of "incorrect" ways! What brings real success to stock market investment is not so much the actual method of investing, but the investor's application, knowledge and profound belief in a preferred and sound process.

This mini-guide offers broad guidelines to stock market investing, not hard and fast rules. Over time, the greatest investors have all taken on board investing methods from other people, but gradually adapted the techniques to suit their own personality and comfort.

"There is no such thing as the 'correct' way to invest. That said, there are plenty of 'incorrect' ways!"

LONG TERM

From The Motley Fool's point of view, the foundations of successful investing lie in:

1) thinking about the long term;

2) thinking about buying shares as buying a part-ownership of a business, and;

3) thinking about valuation.

Over a couple of years, a share price will largely run in tandem with the profitability and potential of the underlying business. In the short term, however, a share price will seemingly take on a life of its own. Daily, weekly and monthly share price movements, in isolation, typically bear no relation to what's going on within the company concerned.

"Over a couple of years, a share price will largely run in tandem with the profitability and potential of the underlying business."

4

Things such as an off-the-cuff comment from the Governor of the Bank of England, a famous investment pundit publishing an opinion, corporate rumours, political issues, a hedge fund collapse, OPEC meetings and so on all have a significant influence on share price movements in the short term. But over a couple of years, the general performance of your chosen company will eventually win through.

So, when contemplating a share, it is far easier for the individual investor to think along these lines:

"Company A has the scope to generate substantially higher profits in five years time. All things being equal, Company A's share price should rise substantially higher too."

Rather than thinking:

"Company B's annual results are due in three months and I think the company will issue some bumper figures. If I buy in now, there's a good chance I'll make a 20% return in that time."

"However, by taking a longer-term approach, you're more likely to see your return underpinned by the performance of the business you've invested in."

With the approach to Company B, your three-month return is more likely to be affected by random market events just as much as the company's next set of results. With such a short timescale, you are up against an army of City fund managers, who, unfortunately, mostly concentrate on quarterly performances too. What's more, with their greater resources and contacts, City professionals tend to have the annoying habit of knowing about certain near-term news in advance. If you become a short-term private investor, you're going to have the market odds stacked against you.

However, by taking a longer-term approach, you're more likely to see your return underpinned by the performance of the business you've invested in.

BUSINESSES FOR THE LONG HAUL

Before we go any further, holding a selection of shares for a couple of years doesn't automatically guarantee stock market success. Buying any old company at any old price just doesn't cut it.

You've got to consider whether you understand the business, its quality and predictability, and its valuation.

Most beginners would recognise the fact that, when it comes to selecting a company to invest in, some subjectivity is needed. Considerations over the company's products and industry will eventually have a major influence on its long-term share price performance. Opinions will obviously differ between investors. This subjectivity, to a certain extent, is what separates the investing greats from the also-rans.

So, first of all, you have to actually understand the business you're buying into. You can't make any sound calls on the company's progress unless you've got some knowledge about the company itself and its products. Many investors get into trouble by investing in little-known companies producing obscure gizmos. Such investors will rely on comments from the company's management concerning their superior product, but remember, company management are never shy when it comes to promoting their own efforts.

In short, **you** have to judge whether the company's products or services will remain popular in years to come. You have to judge the impact from the company's rivals and that from any industry newcomers. Does your company have a sustainable advantage to fend off the competition? Ask yourself questions such as "Why is this company currently better than its rivals?" and "Why should it remain that way in the years ahead?"

"A great company does not necessarily equal a great investment."

Then there's the question of predictability. Certain companies tend to sell ever-popular products or services that possess a certain amount of customer loyalty. For example, how often do you change your bank, washing powder brand or Sunday newspaper?

Compare those types of companies with a toy manufacturer that has to judge the fickle tastes of the country's children each year. It's easy to imagine the toy manufacturer having volatile financial performance, a characteristic not really that suitable for assessing a company's longer-term potential. On the other hand, profits from a manufacturer of a leading brand of washing powder could be deemed to be quite stable. With the future always uncertain, it's best to keep "product predictability" at the forefront of your mind.

VALUATION

There's also the question of valuation. Or, in other words:

"A great company does not necessarily equal a great investment".

Buy in at too high a price, and you could be waiting a very long time before you see a satisfactory return.

While there are many ways to judge a company's valuation, the subject is best explained with the price to earnings (P/E) ratio. The P/E is calculated by dividing the company's share price by the after-tax profits the company currently produces in per share terms (otherwise known as Earnings Per Share).

"A company's valuation reflects its expected future profitability."

A company's valuation reflects its expected future profitability. So, the greater the future expectations of higher company profits, the higher the share price will be in terms of today's actual profits.

Thus, a company with superb profit growth expectations could have a P/E of 40, while a company with a poor outlook for profits could have a P/E of just 10. To put those P/E figures into perspective, the average company has a P/E of around 20.

But of course, below-average P/E companies don't necessarily make better investments than high P/E ones just because of a lower

valuation. A company with a P/E of 5 could still be a bad investment if it's in danger of going bankrupt from the slightest operational hiccup. If you're aiming for a long-term investment, you still need to enquire about the underlying quality and predictability of the company.

Needless to say, judging whether a company's valuation is justified or not can be very tricky. But one useful rule of thumb for successful long-term investing is to "buy above-average companies on below-average P/E ratings".

"If you take just one message from the dot com bubble, it is 'valuation is important!'"

FEAR AND GREED

As we know, peripheral stock market events are the main driver of short-term share price movements. But alongside them, basic human nature is at work too. Fear and greed also have a heavy influence on market movements.

In particular, greed has recently led to the downfall of many private investors in early 2000. Caught up in "dot com fever", investors put to one side valuation to instead climb aboard surging share prices. But when, all of a sudden, everybody started to realise their dot com growth expectations were far too optimistic, many portfolios began to fall apart. It's clear that investors factored in far too much profit growth potential to justify those companies' then valuations. If you take just one message from the dot com bubble, it is "valuation is important!".

"Always consider selling if a long-term valuation is offered far earlier than expected."

Of course, for those wishing to sell their dot com investments, the boom was more than welcome. Rather than wait many years for the share price to reflect the underlying progress of their company, sellers were presented with a long-term share price in the here and now.

So, another lesson. Although you should take a long-term view with

any prospective investment, always consider selling if a long-term valuation is offered far earlier than expected.

SELLING

Keeping to the subject of selling, long-term investing doesn't mean you can waive all responsibility to monitor your portfolio. Unless you've decided to pick a wide range of blue-chip companies to replicate an index tracker, action is required from time to time. Especially when you think the original expectations of your companies may not come to fruition!

So, when do you sell? It all depends on your buying criteria. Essentially, has the company's "story" significantly changed for the worse? Have superior competitors suddenly emerged? Has the marketplace suddenly matured? Has the respected management team decided to quit? Has the company decided to adopt a risky overseas acquisition strategy?

"Looking back at the subsequent performance of any 'stop lossed' shares can be a useful way of discovering whether your share selection policy requires a rethink."

A real skill of a truly successful investor is to distinguish a temporary operational glitch from a fundamental deterioration in the company's business or prospects. Holding onto a company's shares through a temporary downturn can be very profitable when a recovery emerges. Holding onto a company's shares when the business is going down the tubes can be disastrous.

While the underlying performance of your company should be the major factor in any sell decision, many novice investors use a stop loss to help limit the portfolio damage they'll inevitably encounter when starting out.

A stop loss is a simple mechanism whereby shares are automatically sold if they fall below their original purchase price by a predetermined percentage. If the shares rise after purchase, some investors raise their stop loss exit price (known as a trailing stop loss) accordingly. Stop loss

percentages vary between individual investors, although most tend to be at the 10% or 20% level.

However, the stop loss is a double-edged sword. It does not actually stop losses, it just crystallises them at a certain amount. It also cannot help you when your shares lose 50% in the blink of an eye on the back of a profit warning.

In some instances, the shares will fall further and the stop loss would have saved you money. In other instances, a stop loss could cause you to miss out on a recovery. In truth, whether a stop loss helps your investment performance or not will ultimately depend on the quality of your initial purchase decisions.

By operating a stop loss you are implicitly saying that you trust the market's interpretation of the value of a business more than your own. However, to become a consistently successful investor, you eventually need to trust your own value interpretation over that of the market's.

But if you're a novice investor, looking back at the subsequent performance of any "stop lossed" shares can be a useful way of discovering whether your share selection policy requires a rethink.

5 WHERE TO FIND GOOD STOCK IDEAS

Where *can't* you look for share ideas? The world around us is full of companies and, where there are companies, there are investment opportunities. Look closely at how your own individual life is supported by the products around you. Look at what you use in your job, what your employer produces, what the competition produces, what you do in your leisure hours. Looking for companies to invest in is primarily about keeping your eyes open and thinking about the world around you.

But always be wary of personal experience. The investment world is littered with companies that may be great to work for, that give excellent customer service and have great products. But if they don't make a profit or have too much debt, then they might not be the best investment.

On the newspaper front, the *Financial Times* is pretty much essential reading for anyone serious about taking control of his or her own investments. It may be a bit intimidating at first, but don't worry, it really is not as dry as it may look. The FT's coverage is often in-depth and its London Share Service lists every quoted company in sector order, a feature greatly aiding stock pickers with industry-specific requirements. The business sections of most other broadsheets newspapers are also teeming with investment coverage and ideas.

"The art of investment is to narrow your search down to a few companies that you can then study and follow."

Turning to specialist investment magazines, the *Investors Chronicle* covers company results from the previous week in more detail than just about anybody else. In particular, the IC produces very useful financial summaries that can be quickly scanned to see if the company fits with your investment criteria. But don't forget, while the write-up of company results can contain useful facts, beware of blindly following the IC's "advice".

An excellent product for the really serious investor is Company REFS (Really Essential Financial Statistics), located at www.companyrefs.com. REFS is a database that gives a snapshot of every quoted company, detailing among other things past financial records, various performance ratios and future profit estimates. The CD and online version offers the superb facility of setting up personal search criteria (e.g. low P/E ratios, high dividend yields) to present a list of suitable companies for further investigation.

Essentially, the art of investment is to narrow your search down to a few companies that you can then study and follow, and based on the information you discover about them, produce better and more informed investment decisions.

6

WHERE TO FIND COMPANY INFO

Your first port of call should be the company itself. These days, most quoted companies will have a website. As a rule, the larger the company, the more investor-specific information will be contained on the site. Many companies now have a special section of their website just for investors.

Without doubt, the most useful piece of information a company can supply to prospective investors is its annual report. Published once a year by every listed company, this report contains details of the company's latest operational and financial performance. Examining the annual report is an essential part of assessing the fundamentals of any company.

Most companies provide a downloadable version of their latest annual report on their website. Alternatively, you may wish to order your reports (free of charge) through our annual report service. And if you contact the company direct, you could also ask for any historic annual reports to help judge the company's record in more detail.

Perhaps the best website around for a one-stop-shop overview of every listed company is Hemmington Scott. The site presents very informative corporate summaries, covering financial records and consensus profit forecasts of every listed company. Another useful site for investors is the FT's, a site that provides a news-based service that allows extensive searches for archived stories. And UK-Wire provides raw RNS statements for those wanting the full nitty-gritty of company announcements.

But of course, if you're looking for opinion, then look no further than The Motley Fool. The Fool's message boards are widely recognised as being the best in the business. Numerous well-informed investors post their thoughts and other interesting links to help others evaluate the company's investment merits. And the Foolish writers regularly venture their opinions on popular companies too, the latest of which can be seen at www.fool.co.uk.

INTERNATIONAL INVESTING

These days, shareholders are not restricted to companies operating within these shores. With electronic trading bringing dealing costs ever lower, ordinary UK investors can now look abroad for suitable investments without worrying too much about excessive charges. Indeed, UK investors now buying popular US stocks generally have lower dealing costs (not least, because buying US stocks incurs no stamp duty) than they would have incurred investing at home!

Most brokers provide international dealing facilities. Depending on the services provided by your broker, a separate dealing account may have to be opened should multi-currency accounts prove not to be an option. And on the currency issue, the London Stock Exchange has recently introduced its International Retail Service (IRS). This service should reduce some of those dealing account headaches by allowing UK investors to buy foreign shares, in sterling, through its own London exchange. A wide range of US and European companies have listings via the IRS, the details of which can be seen at www.londonstockexchange.com/irs.

In terms of information to help make your investment decision, the usual places still apply. Check out the company's website and its annual report (many of which can be ordered from the Fool's own ordering service). Also, most online brokers who provide international dealing facilities will supply relevant foreign news and features too.

In terms of other sources concerning international stock picking information, European Investor and Yahoo! provide good one-stop shops for news and comment round-ups. Those UK investors venturing across the Atlantic have a myriad of specific online information sources, good examples being the US Motley Fool, Fortune magazine and the Wall Street Journal.

Apart from the general currency risks, there are three other factors

that investors have to consider when dealing abroad.

Firstly, the accounts of overseas companies are not usually presented in the same fashion as London-listed ones. US accounting principles, for instance, have some notable differences compared to the accounting principles used in the UK. Comparing companies from different countries could involve some accounting jiggery-pokery.

Secondly, there's the regulation aspect. Companies have to meet certain financial and "credibility" requirements before they can list on the London exchange. While similar regulations exist on the major North American, Western European and Asian bourses, be aware of less stringent listing requirements elsewhere.

And thirdly, there's the issue of keeping tabs on your foreign companies. Unless you're getting involved with major international businesses, you're going to have to be regularly proactive in seeking out your information. National newspapers and personal experience will keep you informed of, say, a decline in fortunes at your favourite UK retailer. But if you've invested in a German equivalent, the news may not be as obvious.

TRAITS OF THE FOOLISH STOCK PICKER

Half the battle in becoming a successful stock picker is to get into the correct frame of mind. While any strategy may differ from another in the types of companies selected, the psychology surrounding the route to stock market success is broadly the same.

Here are some guidelines to bear in mind when investing.

- **Be honest:** Nobody starts a flawless investment career from Day 1. Accept the fact that you'll make plenty of mistakes early on. So be honest with yourself and learn from your experiences. Reviewing the "how and why" of disappointing investments is the best way of honing your stock picking prowess.

Did you really understand the company you were buying into? Did you think the company's valuation looked high, but bought in anyway? At the end of the day, the responsibility for your long-term investment success relies firmly with you. If you can't be honest about your poor share selection and prefer to blame others, disaster looms.

- **Be brave:** Common sense suggests that the more diversified your portfolio, the more likely it is to report a stock market average performance. And what's the point of toiling away with an average performing portfolio when a no-effort index tracker can do the same job? To diverge from the stock market average means owning just a few carefully selected shares. If you never develop the courage to invest significant proportions of your portfolio in a handful of companies, the chances of any notable outperformance will remain slim.

- **Be patient:** Good things come to those who wait. When you buy shares for the long-term, you're bound to suffer market gyrations. Unfortunately, while the general underlying business performance on your chosen investments will eventually win through in the long term, the stock market never uses a strict timetable! If the story behind your original investment remains intact, it's always best to sit tight.

- **Be disciplined:** Although a little flexibility is sometimes required, losing your discipline can be costly. There are numerous distractions when investing. Market euphoria in sectors you've avoided, endless media "advice" on unheard of stocks or high-profile investors using other strategies all can lead you to question your own stock picking. If you're already following a sound investment process that you feel comfortable with, then suddenly being tempted into areas you know nothing about courts investment disaster. Stick with what you know.

- **Be contrarian:** If you think about it, if the investing crowd was always right, then wouldn't most people beat the market? Given that isn't the case, then perhaps ignoring what the crowd are doing is a better course of action. But that's not to say you should *always* go against the crowd. Instead, Ben Graham (the man who wrote the first ever sensible book on investing, *The Intelligent Investor*) suggests a more self-centred approach:

"Have the courage of your knowledge and experience. If you have formed a conclusion from the facts and if you know your judgement is sound, act on it – even though others may hesitate or differ. You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right."

- **Be humble:** Respect the power of the market and don't let success go to your head. Dramatic share price rises can lead to complacency and taking your eye off the stock market ball. Unfortunately, plenty of investors develop the nasty habit of boasting about their gains instead of thinking about possible overvaluation concerns. If you think that your gains are far too good to be true, then they probably are...

9

PUTTING IT ALL TOGETHER

Let's run through the key points from this mini-guide.

Before you start buying individual shares, ensure:

- Your debts are paid off;
- You have a long-term investment horizon;
- You do some learning groundwork first.

Then consider your preparation:

- Can you devote plenty of time to investing?
- Do you want to learn about accounting?
- Can you stomach stock market volatility?,
- Can you risk underperforming the stock market?

You will also need to develop an investing strategy because:

- Picking shares on a whim will lose you money;
- It reduces the number of suitable companies to invest in;
- You won't get distracted by any tipsters.

And when developing an investment strategy, think about:

- The long term;
- Buying shares as buying a part-ownership of a business;
- How much you understand about the company, the stability and predictability of its profits, and;
- Valuation.

To help locate companies to invest in, and discover more about them:

- Consider companies you come into contact with, either through your employment or your custom;
- Read investment publications such as the Financial Times from time to time;
- Visit the company's website and read its annual report.

Consider investing overseas, as:

- Charges for online dealing in foreign shares are typically on a par with UK shares, and;
- It can widen your opportunities and create additional diversification or opportunities in your portfolio.

And finally, don't forget the six traits of the successful investor's mindset:

- Honesty;
- Bravery;
- Patience;
- Discipline;
- Contrarianism;
- Humility.

SUMMARY

There is no sure-fire guaranteed method for picking profitable shares. We've by no means offered you a step-by-step technique, but a handful of guidelines, each of which will help to swing the odds in your favour. Unfortunately, there's never yet been a publication that can distil the secrets of stock market success in an easy-to-replicate formula!

Now, you need to really fine-tune your personal stock market philosophy. That takes a lot of time and no shortage of experience. There are principally two parts to any winning stock market investor. Firstly, there's the adoption of a sound investment process. And secondly, there's the required psychology and attitude for the process to be successful.

While our suggested guidelines may appear vague at first, they really do cut down on the number of companies to consider. Indeed, they'll almost certainly reduce any stock market disappointment too.

So ask yourself questions such as…

How well do I understand the company and its products?

How well placed is the company compared to its rivals?

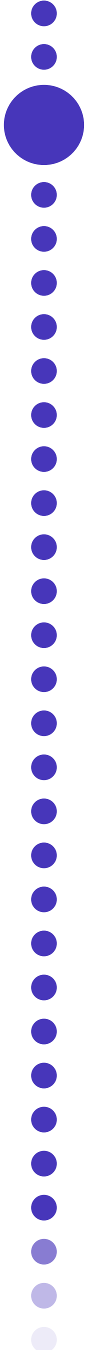
How can the company maintain its competitive position?

How will the company's industry change in the future?

How will demand for the company's products or services change?

Why are the company's shares "good value"?

…when you're contemplating your next stock market move. If you



can't answer the questions convincingly, the stock market will eventually find you out!

Remember, "Buying above-average companies on below-average valuations" is a good motto to abide by. And as we commented earlier, perhaps it's worth considering investing part of your portfolio in a tracker alongside your self-selected shares.