How to make money in the markets. Some golden tips

The best way to learn your investment lesson is by investing in equities. Each occasion in the market teaches new lessons, which will empower you to achieve your ultimate goal of building wealth.

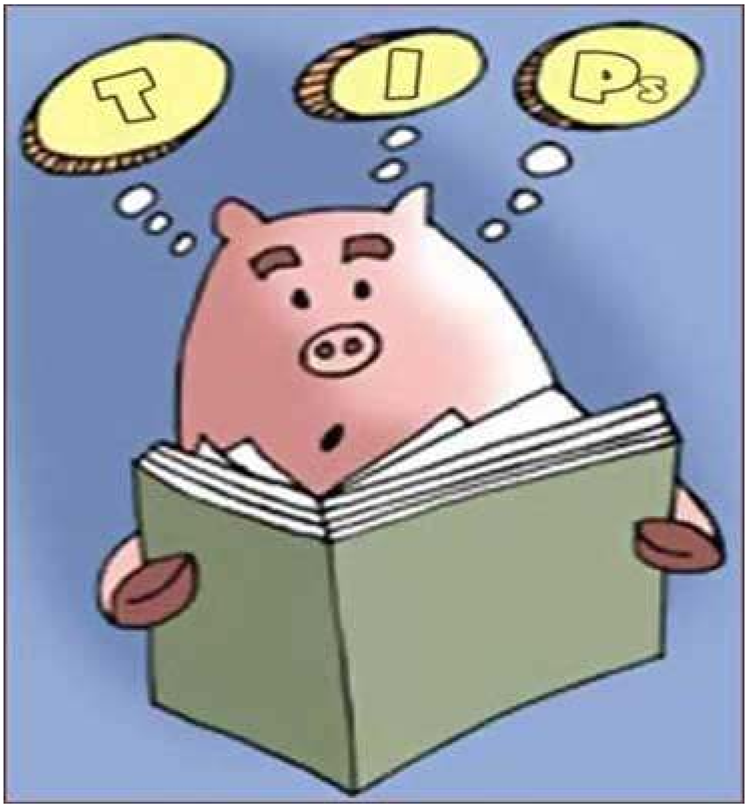
Often, it happens that you start putting money in equities and the market moves to new highs. Then you are tempted to put in more money, since you are getting higher returns. Suddenly, the market starts to slide down. Forget returns on investment, you are not even able to recover your capital.

This is a common grouse of most investors. They either lose in equity investment or end up in a no profit-no loss situation. Why? Is it because you make wrong decision or because the market is only meant for speculators and gamblers?

No, that's not true. We go through this pain again and again because we do not learn from our previous experiences in the market. Only the 'smart investors' survive the ups and downs in the market and make pots of money

Evaluate when you lose money in the market. Do not just shrug and say, "I am not going to invest any more!" Investing does not mean making no mistakes, it means learning from experience. All of us made mistakes, when we started - such as going by tips from broker or buying penny stocks. As time passed by, we learnt that by not following the herd, we may have limited gains but our capital will be protected.

Be patient when investing in the market. Investors who show the right kind of patience make the most from the stocks they invest in. You need to be patient by not booking losses at the slightest market provocation or by not selling stocks before they have reached an optimum price. Also, be patient by not panicking when in a market downslide or by not buying stocks which you know are good but currently priced higher.



Look for opportunities to invest. There will be many opportunities to grab in the market, such as FII selling, global downturn, credit crisis, currency crisis, etc. Each such occasion is to be looked at as an opportunity.

'Smart investors' will fill their pockets with the cr me de la creme stocks in the equity market on such occassions. For example, blue-chip stocks like BHEL, HDFC, NTPC and ITC were quoting low prices in the first quarter of last calendar year due to the global credit crisis. It was an opportunity to buy these stocks.

Look for quality advice before investing. Do not follow the herd mentality. Always remember, quality stock picking will help you generate substantial wealth over a period of time. The quality picks can be large-cap, such as SBI, HDFC Bank and Tata Power or mid-caps such as Petronet LNG, Power Grid and Marico.

Learn to invest systematically. Getting into a systematic investment plan in mutual funds or directly in an equity portfolio is the preferred mode of investing. At the end of five to 10 years, this portfolio is likely to appreciate by leaps and bounds. If the market is in a bullish phase, the money may even double in less than three years.

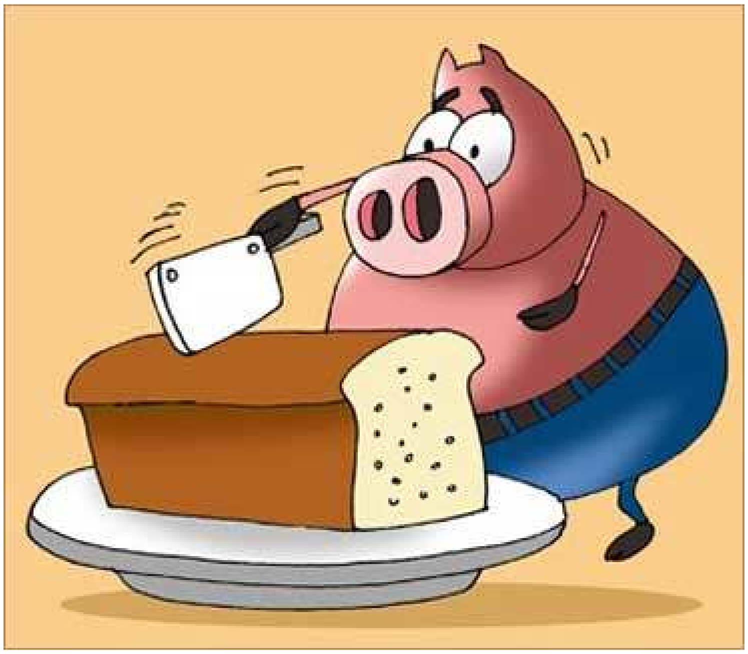
Learn the importance of diversification. You can better your returns and reduce risks by diversifying your portfolio. You can diversify across asset classes like gold, commodity futures, property, etc, as well.

A **profit booking policy is advisable**. The profit booking policy can be based on expectations from equities. Suppose an investor has put money in a stock and it rises by 100 per cent in a year, he may book profits either partially or fully. One strategy could be to book profits in a way that the initial investment is recovered and the profit portion continues to be invested in the stock.

Assess risks before investing in the market. Many a time, we invest in a particular stock or fund without assessing the risks involved with the stock. For example, sectors such as real estate or metals are riskier as compared to FMCG or power. If you don't have a high risk taking ability, do not go for risky stocks or sectors.

Do not borrow to invest. In a sliding market, such investors are most impacted, as they have to offload stocks due to margin calls or liquidity issues.

Do not chase momentum stocks. In most cases, investors enter such stocks at the peak and are stuck with these for a long period or have to sell at a loss. Some of the momentum stocks in the recent past were Unitech, DLF, Jet Airways, Reliance Industrial Infrastructure and Jai Corp. The prices of such stocks reach a peak on sustained buying and then slide, roller-coaster, in a few sessions



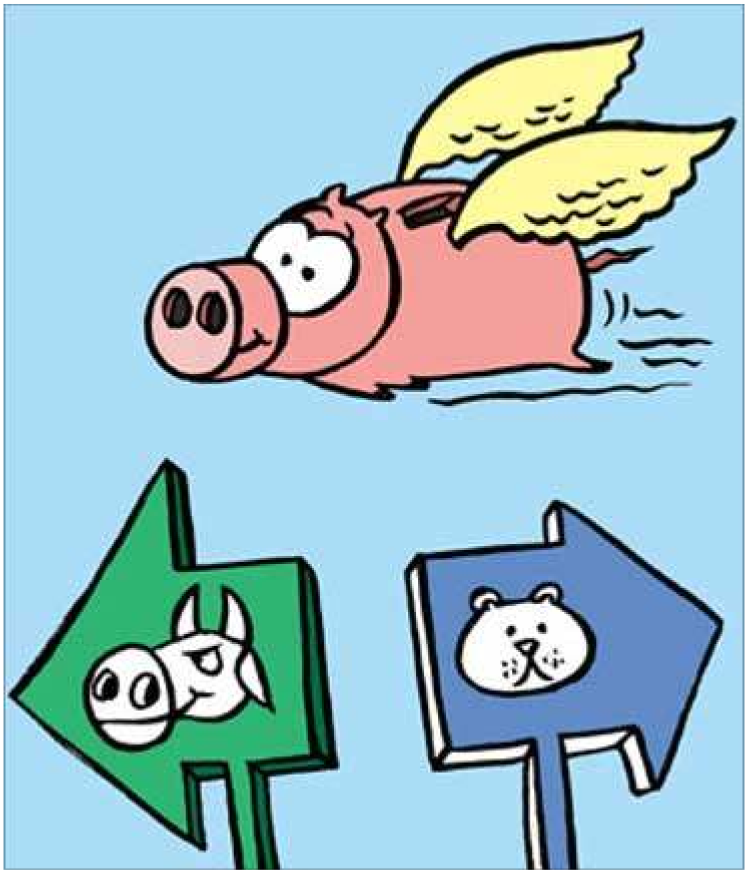
Conclusion:

Investing requires continuous learning from the market. Like driving a car, investment is more of learning practically and hands on. It requires discipline.

When you are driving a car, what speed to drive and which lane to drive in are decided by the driver. Similarly, in case of investment, you must know how much to invest, where to do so and when to sell.

The best is to have a disciplined approach, combined with an investment philosophy. Some of the great investors like Warren Buffet or George Soros have been successful as they have a disciplined way of investing. There is no easy way to make money.

All of us have to learn lessons in investing in the same market and in the same way. Each time, investors are put to different tests. Only the learned investors will succeed. Be a 'smart' investor.



In brief :

1. Learn from your past experience
2. Have a strategy to invest
3. Invest systematically
4. Look at your liquidity requirements
5. Diversification is advisable
6. You will need discipline and patience