

JagoInvestor Presents

A Small Guide For Newcomers In Stock Markets

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Contents

- **Why Stock Markets Attract and Look Easy**
 - **Understanding What exactly you want to do in Stock Markets**
 - Who am I ? A Trader or an Investor ?
 - What will i Trade/Invest In ?
 - What will be my Time Frame ?
 - **8 most Important Rules in Stock Market**
 - Don't put all your money in stock markets
 - Cut your losses Short
 - Getting your priorities Right
 - Do not fight the Trend
 - Everything is Probabilistic here
 - Don't listen to Stock Markets Experts on TV
 - Have realistic Expectations
 - Be ready to Make mistakes and Lear
 - **How to Start in Stock Market**
 - CLOPS Model of Learning in Markets
 - Calm Down
 - Learn
 - Observe
 - Practice
 - Start Slow
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Who must Read this Book

Any Newcomer in Stock Market or people who are struggling in Stock Markets can read this book .

Important Points

- **Each Chapter has example's to help reader understand the concepts well.**
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Why Stock Markets Attract and Look Easy

Why it Attracts ?

You must have heard lots of stories about people who got millionaire over night or in a short span of time from stock markets, there are two kind of people who make money from stock markets

- First kind are the people who make money because of luck. They buy some thing , it goes up and they think it was your skill . Next time they buy something again and woo!! .. it makes money again , and now they are the king !! . Then comes one day when there "best time in the market" is over and they start loosing money , this time its "bad luck" as they say !! and they keep on trying and trying to prove that they are knowledgeable . At last they go bust and return from where they came from . Smart people in this category are those who make money once or twice because of luck and don't come back , I appreciate their smartness .

- Second kind of people are those who are real game players , they have done their home work , failed lot of times , learned from their mistakes and worked hard to make money . They know the rules of stock markets and take it seriously . They are successful traders or investors .

People hear that lots of people make lots of money in short span of time from stock market and how easy it is to just open your trading account , choose some stock , buy or sell and magic !!, you make money . Far from truth !! .

This thinking that "Lots of money can be easily made from stock market without much hard work" is the main reason why stock markets attract lots of people .

Why it looks easy ?

"BUY OR SELL" , that's all you have to decide ? Either you will Buy some thing or you have to sell something , One of the renowned trader [Larry Williams](#) says this is the reason why most of the people think that its an easy thing to make money in stock market because they have very less decisions to make ie. BUY or SELL .

This is a human psychology which tends to believe that anything with less decisions is easy and one can do it . Everyone thinks "I am different" , "I know all these people where not able to make money , but i understand things , and I can do it" , this thinking is appreciated . but , untill it becomes over confidence . its true that you are different and you can do it , but each and every area has some ground rules and unless you follow it , its almost impossible for you to succeed.

What you must understand ?

You have to understand that you are a newbie and a small player , a new born baby ,who cant even crawl in world of stock markets, but dreams of running a marathon and that too on one leg ;) . Each profession needs specialization and experience and Making money from stock markets is no different , Just like becoming a Doctor, Engineer or anything like that demands extreme study , experience , knowedge and other things specific to that profession , stock market also demands that , those people who want to make money without doing it can not sustain for long and will hurt themselves very very badly . We will discuss more of this in 4th part of this article "How a new comer should start in stock markets ?" .

Understanding What exactly you want to do in Stock Markets

So, you are new to stock markets and you have heard lots of people make good money . You jump in , open a trading account, read some blogs online which claim to have 80-90% success rate and you jump in to buy some stocks . You make money or loose money , doesn't matter in short run , What you are concerned is long term is you are serious , if you are not serious , i would recommend go somewhere else, if you take stock market as hobby , its a costly hobby i am telling you .

Lets see some of the most important things a new comer should ask himself/herself .

Who am I ? A Trader or an Investor ?

This is one of the most important question you have to answer .Are you are Trader or an Investor ?

Investor is someone who buys the stock for [long term](#) . Investing it self is a word which means that you are putting your money in something and you expect it to grow over time . This has to take with fundamentals , company's potential , long term prospects . Cash flow , profit and losses. See it as owning the firm , where will u put your money in ? Its has to be something which will grow over time from its current levels . You are not concerned about its short term movements .

If the company share prices are providing value over its current price , and it has consistent track record , has good future prospects and many more things like these , you will buy it .

Trader on the other hand is someone who buys and sells the stock for short term . He is not concerned about long term prospects of a company's much . He is more interested in what stock will do in short term . His decisions are more based on news , [technical analysis](#) , gut feeling and things like those .

What will i Trade/Invest In ?

Another important question to ask is What you want to trade or Invest in ?

If you are an investor you can choose from Large Cap companies (NIFTY companies) , MIDCAP companies or very small penny companies . Each of them offer different risk and reward opportunity . But you have to be clear with what you are going to invest in . Because once you are clear with it , you can make some strategy for it and follow it , juggling from one to another will lead to confusion and is not recommended .

If you are Trader , you have to choose from Stocks , [ETF's](#) , [Futures or Options](#) . Each of them are different from each other and require specific knowledge about them . Its a critical factor to know what you are going to trade .

Once you know what you are going to be involved with you have a clear road map and then you can move forward to next thing .

What will be my Time Frame ?

Another important thing to consider is the time frame for you .

For Investors It can be very long term (10+ yrs) . Medium term (3+ yrs) , Short Term (1+ yrs) . It depends on your personality , your ability and time to be involved with stock markets . Something which works for a person with short term view may not work with long term view person . So each time frame has its own advantage and disadvantage . you just have to choose one and be clear about it .

For Traders , you again have to choose your time frame and your style of trading .

You can be

- Positional Trader whose holds the trades from some weeks to some months
- [Swing Trader](#) (few days)
- [Day Trader](#) (Buy and Sell on the same day)

You can trade

- Stocks
- ETF's
- Stock Future's
- Index Futures
- Stock Options
- Index Options

Understand that each time frame is different and each will yield different result . Two people with different view on market and different time frame can both make money .

Example :

You are bearish on market and you say that Markets are going to fall soon . I say that I am bullish and markets may go up . for next 3-4 days markets move up and I make money based on my judgement and then markets fall heavily and you can make money based on your judgement .

So the important thing here is no one is wrong , the only thing is different time frame , So before listening to anyone you also have to understand their time frame . Many analysts on TV channels will give calls like "BUY RELIANCE at 2130 , with target of 2200 , SL 2100" , Don't go and buy RELIANCE next day because you have no idea about the time frame of the person , what is the analysis behind it and what are the risk in it . It may work once in a while but its a recipe for disaster for long term .

Conclusion

" A person who wants to do everything eventually cant do anything "

Stock Markets have different kind of things and offer different ways of making money. If you are not clear on how exactly will you do things , Its a tough game then , the first important step is to Identify what you want here , just like in Life we must be clear of what we want to do and then be good at it , learn about it and just consistently improve in it . the same we must do in Stock Markets.

8 Most Important Rules in Stock Market

In this article we will discuss 8 key points which a new comer has to understand . May be you already have all this in mind and understand them at subconscious level, but lets go through them and discuss these very important points . Lets see them very briefly.

Don't put all your money in stock markets

Never Ever, put all your money in one go in stock markets. If things go wrong you will be ruined for ever. If you have 50 Lacs, and you choose to put all your money in markets because "you are sure that its going to double in 4 months" , You are also saying that "I am ready to get ruined if this crashes and goes down to 10 lacs.". Most of the people like to see the first picture but don't expect second one to happen even though probabilistically the second one is more likely. Better look for "[low risk-or-good](#)" returns, rather than "fatal-or-exceptional" returns. A money which you want to throw in trash can be used for such high risk Investing or trading.

Cut your losses Short

I know telling you this wont make sure you follow this. It takes time to understand this by making mistakes over and over again and learning from that . But still, "Cutting your losses short" is the "Rank 1" Rule in Stock Markets, one who can master this single rule can rule markets. When you start making losses , your emotions come into play and it says to you "Its coming back and once its back to Rs XXX , I will get out". **Don't listen to it** . The simple rule is "You were wrong , accept it and get out and look for something else" and its damn to tough to understand this in start. Mistakes in Stock markets are fantastic if you learn from them . They are more valuable then the right things you do in markets.

Getting your priorities Right

This Was covered in second Chapter

Do not fight the Trend

We know that markets move in zigzag fashion, up-down-up-down like this and its true. But some people wire this in mind in such a way that they always try for force market to reverse from its path and justify that it moves in up down fashion . If markets are going up, in their subconscious mind they feel like markets will now reverse "because they move in zigzag fashion" and hence it should now reverse, this belief entices them to invest or trade in opposite direction. The interesting thing is that people don't understand what encourages them to go against the trend, My one and half years of trading experience(not very beautiful one) tells me that this is the reason why we do against the trend. And once we control this, it can change our luck . There is no luck in stock markets ,its your thinking . "Change your thinking, your luck will change"

Everything is Probabilistic here

"Buy RELIANCE above 255 , Target 273 , Stop loss at 245" . Now our Mr. Newcomer will read this in newspaper or listen it from the GOD a.k.a "Markets Expert on CNBC" and take the trade, things will go weird or may go the way predicted . but most of the times things will go wrong . He will be wondering who is wrong ? Market ? That expert on TV ? His Dog ? Mr Obama ? who ? Will blame everyone in the world but not himself ,He will never [look inside himself](#). Everything is probabilistic here , Out of 100 times , things may work 60-70% (depends) of time and not work rest of the times . When it does not work, you have to control yourself and accept that its not working rather than forcing markets to work for you.

Don't listen to Stock Markets Experts on TV

Why do I say this? Markets "Calls" are least important things in Stock markets (i believe) , and you only get that least important information from TV experts . What you don't get is vital things like psychology to trade , Money management rules, Discipline to follow every time you take the trade . Those calls are in isolation , They are not generated by a consistent rule , you can get calls from here and there and all of them will be kind of random to you . Other problem can be that you don't know the time frame of the call . If you don't understand all this what I just told , the easy way to understand is to answer this

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- **"If listening to TV experts was really worth , Why am I not making money"**
 - **"How many people do you know who make living or earn exceptional returns by trading what experts tell them"**

At last , the point is not that there calls and advice works or not ? They may work , but not for you. There is lot more than getting calls and acting on them . Another important thing why you should stay way or listen less to them is because most of their calls are for "forcing you to trade more" , which will eventually generate more brokerage and commissions for trading companies , Read [this article from Shyam Pattabi](#) to understand more on this.

Question : Why do experts give more of BUY calls and very less of "SELL" calls **My Answer :** When some one "SELLS" , he is out of trap , he is out of stock market , he pays commission once . But when Someone "BUYS" , he is trapped in markets , He already paid once and has to pay one more time to get out , so SELL = Commission 1 time and BUY = Commission twice for sure :) , Ohh.. Did I discover something here :)

Have realistic Expectations

One of the important reason for failure in stock markets is unrealistic goals , you see 100% made in a week , 50% in a year , 10% in a day , and you think like this , If 10% is possible in a day or a week . than 100% in a year is a child's play OR you think like if I buy this I will sell only after its tripled . once again I say "We learn from History that we do not learn from History" . Have you seen what is the best long term returns from stock markets all over the world . That's around 15%-20% . That's it . I am not saying that you cant get 50% in a year ever , you will get it and everybody gets it , but sometimes . Over long term you should have expectations of 5-10% more than what safe instruments return or have a target of 4-5% more than what markets give . So anywhere from 12%-20% is good return to expect from long term . In short term there will be chances where you get exceptional returns like 50% in a week or 500% in a year . But let them come to you , dint force them to happen . Unrealistic Expectation force us to meet them by hook or by crook and that when we do mistakes and take unnecessary risk to achieve them and burn out hands badly .

"Want to understand markets, have a girlfriend and try to understand her psychology,
People who are already in relationship (males) have an edge I think as Markets and
Girls are very much same"

Be ready to Make mistakes and Learn

Some of the best Traders and Investors who are successful today and are multi-millionaires didn't become one overnight. They Failed miserably in Markets and but [never quited](#) . They learned, learned and learned from there mistakes. Markets like Life give us opportunity to make mistakes and learn. As I like to say "Making Mistakes in a privilege which unsuccessful people dont get in life". Making mistakes is Great, if you are ready to learn from them .

How to Start in Stock Market

"Small babies like Teddy Bears, and Market Bear likes Babies (newcomers) in Stock markets"

There are 5 things a new comer has to do ,I will call it **CLOPS** model of starting in Markets .



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- Calm Down
 - Learn
 - Observe
 - Practise
 - Start Small

This model of learning is totally obvious and logical and applies to all the areas of life. Stock Markets are no different . Lets see each of them separately and what they mean in Stock markets .

Calm Down

The first thing a newcomer has to do is calm down and not rush . Just be where you are . Most of the people come in stock markets and its totally a new place for them and every things looks like a great "get-quick-rich" opportunity to them and they want to make most of that once-in-a-lifetime opportunity . They don't know its every-day thing in stock markets. Markets are like a wonderland for them. Markets are no going anywhere and its more true for the opportunities they provide . So the first thing is to just calm down and do-not rush to get in, There are other important things you have to do before you get-rich-quick. most of the mistakes which newcomers do is mainly because of excitement and getting in without preparation , not because of lack of skill or because of there abilities . When you calm down first and don't get excited, you are doing an important thing , which is not jumping in without thinking and making yourself ready for another important things which are discussed below.

Learn

The next step is to Learn , Learning is an ongoing process which will never stop as far as Stock markets are concerned ,but before at the starting level you need to learn lots of basic stuff , Read how Stock markets are structures , what are different indices , what is Nifty and Sensex ? , What are the factors affecting markets, How do analyse a company , what are important things to consider while investing . Read books , Read blogs, Read anything you can get on the subject. Some of the good resources are

Books for Value Investing *(Thanks to Rohit Chauhan to provide the names)*

- [Intelligent investor](#) by Benjamin Graham
- [Common Stocks and Uncommon Profits](#) by Phil Fischer
- [Warren Buffett Way](#) by Robert Hagstrom

Blogs for Value Investing

- [Rohit Chauhan](#)
- [Shyam Pabbati](#)

Books for Trading

- [The Psychology of Trading](#) by [Brett Steenbarger](#)
- [Come into my Trading Room](#) by Dr. Alexander Elder
- [The Disciplined Trader](#) by Mark Douglas

Blogs for Trading

- [Brett Steenbarger](#) Blog
- [Sudarshan Sukhani](#) Blog
- [Timamo](#) Blog

Observe

After learning, the next thing is to Observe the markets. See markets movement, watch how prices are behaving on each news or with volumes , see what kind of patterns are developing on charts and does it behave every time in almost same way. Look at [how market behaves in relation with Nifty PE in this post](#) . When you observe things , you will develop some understanding on relationship and you can validate those with what you have learned so far . A good amount of time should be given to this , markets have different faces and you need to see all the faces , just one good up move is not enough , see at least all different kind of moves . Up-move , Down-move , [trading in range](#) . All of these in different time frame .

You can actually start this early and do it side by side your learning . Collect charts for each day for later reference so that you can see it later . If you know some programming , make a small program which can download the charts from yahoo customised to your purpose . I have downloaded 15,000 daily and weekly charts for all the Nifty , Midcap stocks and Asian Indices. I can go back to them and test any of my strategy on those charts . Keep History to learn about the future :) .

Practice

Now come the fun part and very important part , Practicing what you will do in real . So you have learned things and observed things , now is the time to practice . Before you try out anything in stock market with real money , just see if you able to make any money with practice or not . I would recommend just have an excel sheet and put all the transactions there like

- Buy price
- Sell price
- Profit
- Profit percentage
- Time of holding the position
- Average Loss per trade
- Average Profit per trade
- Average profit per trade

These are the statistics you should keep and see how you are progressing each week . Don't concentrate on each trade too much , better have a weekly target while you are practising . I would recommend at least 2-3 months of practice . This step is important because when you get into market to trade , its totally a different thing . Your reactions to markets movement will be too different than what you had thought . If you jump in markets without practice, you will do lots of mistakes . Better practice before getting in real . Important thing here is that even with practice (without money) . It wont help you a lot but will give you good idea of things . The fun part comes when you start with money , then you truly get idea of your behaviour :) . Anyways this is important .

Some people think practice is taking all the time and they are loosing all the money, which they "could" have made . this is a wrong way of seeing things . though it looks like a opportunity loss , you are in learning mode and the best part is that you are not "loosing" anything and getting ready for making money . There is a chapter on Practicing from a book "*Enhancing Traders performance*" on [this post article by Brett Steenbarger](#) , download it and read, its copyrighted material so i cant put it directly here .

Start Small

Now after you have learned things , Observed things and Practiced , here comes the last part , Starting Small , Start putting money in markets in small quantities , Grow gradually . View your self as a small baby who has just born , first start moving , then crawl , finally stand up one day and walk , once you can walk with speed then try Marathon . The same thing applies to Stock market . But most of the new comers just want to win the marathon and start running fast without understanding that there body is not ready for marathons . they need to first know how to crawl and they want to win marathon .

You will fall a lot of times , have losses and make money too . But if you don't start small , one big loss will wipe you out of markets . In the start it would be difficult for you to control your losses , have string of losses , the best way to tackle the situation is to start small and put little money in markets , so that even a series of bad trades don't hurt you much .

lot of people may go for learning and practicing part , but when they start with real money , they start too big , and that's because of there [over-confidence](#) that are now ready to make money. First crawl baby, Marathon is long way to go . Make yours legs healthy first, then dream of running .

Conclusion

Each and every newcomer in market should understand that Stock markets are places and from centuries , people are trying to make money from it consistently , but very few people are successful , this profession has very less success rate if you compare it with other professions like Medicine , Engineering , Computer Science etc etc . There has to be some reason why you need to give time to it and learn things here . Take it as another professional course like any other and work hard on it . I think one should seriously give around 2 yrs for learning purpose .

See it as a career , not just another place to get-quick-rich, that doesn't happen in Stock Markets . Its a gradually getting rich place rather than get-quick-rich place . There is a famous quote in markets that "*There are old traders and bold traders in stock markets , but not both*" . that's true

Thanks

Thanks for reading the ebook . I hope you have learned some thing which can help you . To read more articles like these visit <http://www.jagoinvestor.com>

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