

How to lose money in the stock market

by Edward R. Doughty
news@thecharlotteweekly.com

The mere fact that you're reading this, after reading the title of this article, means one of two things: You may have had a few losing experiences in buying and selling stocks and just want to be certain that you lost money the right way. Or you've had such amazing success that you simply feel bad for the rest of us and think it's about time you took one for the team. Regardless of the reason, I hope you can gain some wisdom

that, if applied, will allow you to know what to avoid when making that next investment decision.

Let's acknowledge one very obvious fact: The stock market doesn't always go up. With that said, there *always* will be times when your investments are down in value. The key is not letting emotions dictate your actions during these less-rewarding times. All investors should realize that the market has no emotion. It doesn't know when you bought your stock and, simply stated, it doesn't care about the price you bought it. Now the

market isn't always as mean as I'm making it out to be. In fact, it can be quite friendly at times (think 1993 through 2000. During that time, the market was a best friend). But it definitely can have some mean streaks and we just witnessed one from October 2007 through March 2008. In fact, I've never seen it meaner.

For most people, losing money in stocks is seemingly easier to do than making money in stocks. Stocks are bought with the intention of making money. That's a great intention. There's rarely any

emotion tied to a "buy" decision. In fact, sometimes there's little more to the decision than having the money available to do it. This is similar to a little kid with a pocketful of nickels who walks into a candy store. It's not a great reason when you think about it. There always should be a fundamental rationale behind each and every purchase.

However, *selling* a stock has a whole list of reasons behind it – almost all of which are tied to emotions. Here are potential mind-sets when selling a stock:

- *You picked a winner:* Should I sell it now and take the gain? Should I hold it because it might go higher? Is it at the top? Will it pull back? I need new countertops and granite would be nice.
- *You picked a dud:* It hasn't budged; should I just sell it? Should I stick with it? I've held it for so long, what if it goes higher after I sell it? I need new countertops and laminate really isn't bad.
- *You picked a loser:* Should I hold it until I make my money back? Should I sell it and cut my losses? Should I buy more? I really think our countertops have a few more years left in them.

As you can see, the fear-greed conundrum really can wreak havoc on any sell decision. And *that* is how people lose money in the stock market – too much noise, too many options, all with too much associated emotion. The idea here, quite simply, is to take the emotion out of the decision. Get as emotionless about selling as you do about buying.

Be systematic about selling. It's easier said than done, right? Wrong. If you know the price at which you would sell it *before you even buy it*, it is as easy as it sounds. Simply pick a price above the current stock price and pick a price below the current stock price. At minimum, pick a price below the current price so that you cap your loss potential (very smart). Nothing is ever an all-or-nothing situation. You can pick different prices above the current price level for different share-lots. This way, if the stock does increase, some of your shares get sold but it doesn't negate you making higher gains on the remaining shares (very savvy).

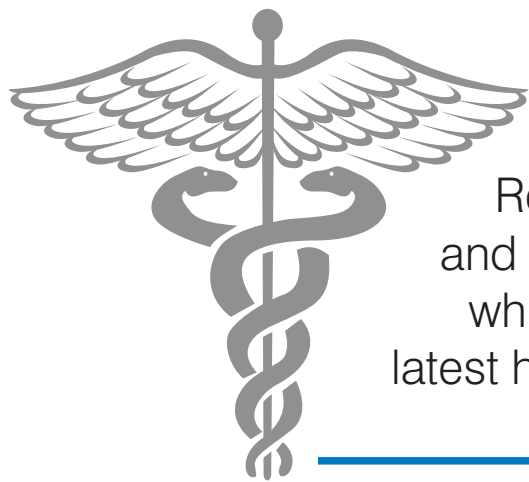
There are other advanced ways to do this, all of which are in relation to preselling, but this is the general idea behind it.

Know when you are going to get out, before you ever get in. Otherwise, you fall victim to the human emotions of fear and greed, and an ongoing battle within yourself – which is never an easy battle to win, yet it's a surefire way to lose money in the stock market. □

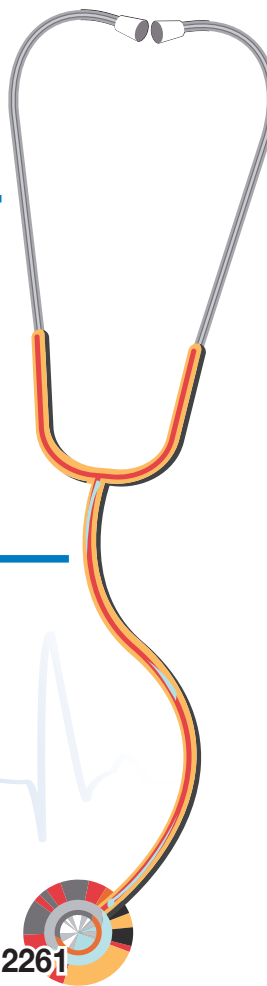
Doughty is managing director and a financial consultant at Epic Capital Wealth Management, a SouthPark-based financial planning firm. Securities offered through LPL Financial – Member FINRA/SIPC.

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