

Donâ??t buy into a stock just because it is trending

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Have you ever lost money because you bought into an investment that you didnâ??t quite understand?

Be it an investment-linked plan (read why I cancelled mine here), a stock you didnâ??t understand or even in complex stock market instruments (read how Australian retail investors lost over $400 million in a single week on CFDs here)?

There as been a lot of flurry in the investment markets over the past few months, no thanks in part to the combination of COVID-19â??s impact on the economy and that of oil prices crashing. And in the midst of that all, several stocks have been in the spotlight â?? Singapore Airlines, Sheng Siong, Biolidics, Zoom Video Communications, Teslaâ?¦just to name a few.

But before you jump, I wanted to emphasise a really important point:

The most important rule in investing is to invest in what you understand. And the more you donâ??t understand, the more likely you are to lose money in the stock markets.

Just because something is trending, doesnâ??t mean it is necessarily a good investment.

In the last few weeks, Iâ??ve been appalled by some of the comments Iâ??ve been seeing on several investment groups on social media, where folks admitted that they invested into SIA stocks largely based on a singular premise: because they thought the government was going to bail them out for sure.

Thatâ??sâ?¦hardly enough. And today, some of these investors are crying foul over the recently announced rights issue, as well as the oil hedging losses that SIA has now been hit with.

Weâ??ve to take responsibility for our own mistakes, and our own losses.

So at the end of the day, you should really only invest in (stocks of) businesses that you understand, and not based on whatâ??s trending.

The bottomline is, if you donâ??t understand it, then donâ??t buy it.

Thereâ??s no doubt that the recent stock market crash has unveiled a lot of good opportunities. But there are also bad eggs and value traps.

Just donâ??t get caught in the wrong ones.

In these unprecedented times, it is worth remembering the most important rules in investing once more. Find out what they are here.

With love,
Dawn

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