



A GUIDE TO TRADING & INVESTING IN STOCKS

In this guide, we'll walk you through the basics of stock investing and explain how you can trade and invest in stocks through eToro.



INVESTING IN STOCKS CAN BE ONE OF THE MOST EFFECTIVE WAYS TO GROW YOUR WEALTH OVER TIME.

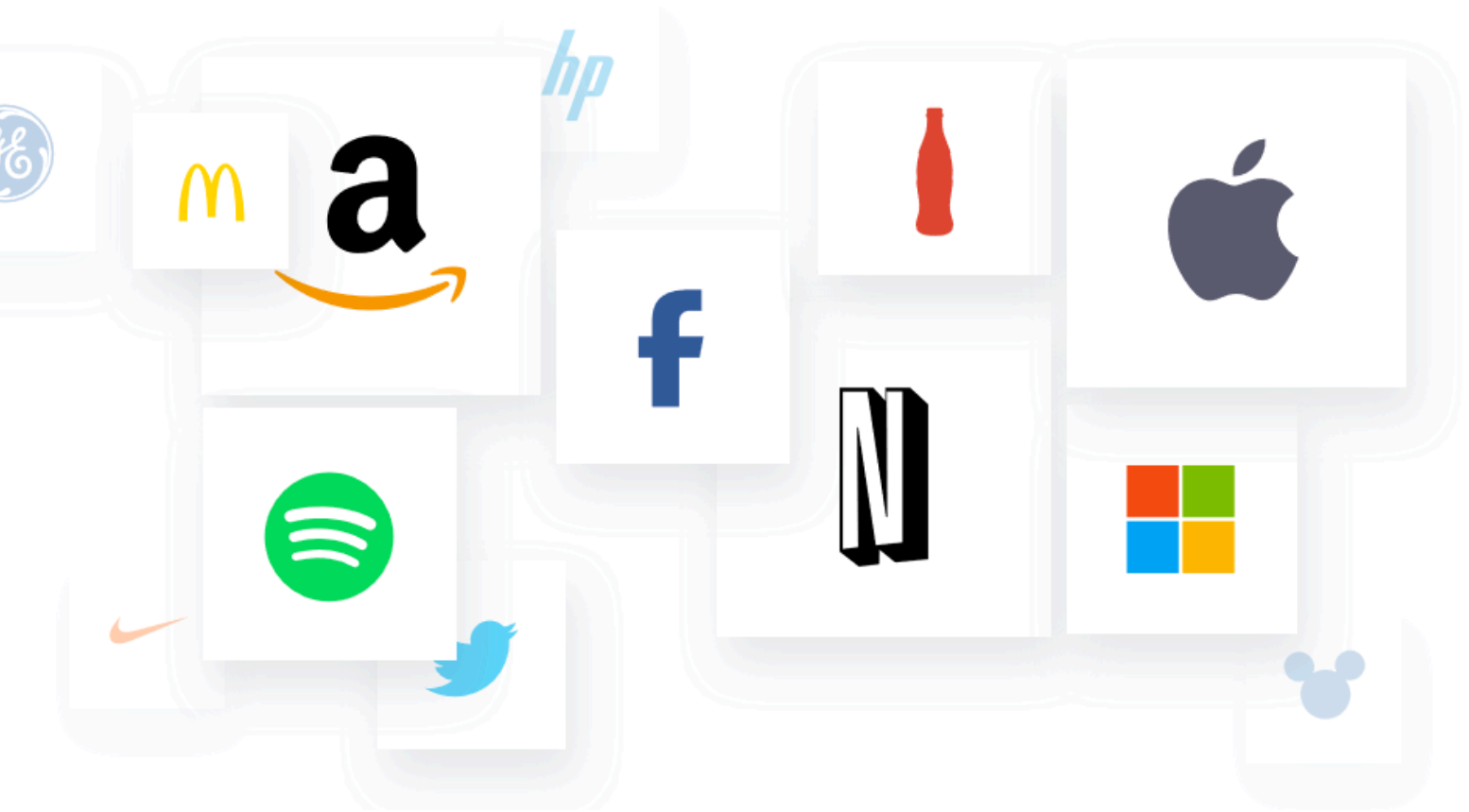
While stocks can be volatile in the short term, in the long run they tend to provide much higher returns than other assets such as government bonds and cash savings.

Interested in learning more about stocks and how to invest in them?

This guide to trading and investing in stocks is a great place to start. In this guide, we'll walk you through the basics of stock investing and explain how you can invest in stocks through eToro.

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WHAT ARE STOCKS?

Stocks, or shares as they are often called, are investments that represent ownership in a company.

Companies issue stocks in order to raise money so that they can grow and develop. When you buy a stock, you essentially become a part-owner of the underlying company and are entitled to a share of its profits.

Stocks are traded on stock exchanges such as the New York Stock Exchange (NYSE), the NASDAQ, the London Stock Exchange (LSE), and the Australian Securities Exchange (ASX). A stock exchange acts like a market where buyers of stocks can connect with sellers. To place a trade, you need an investment account with a stock broker or investment platform.

At **eToro**, investing in stocks is a straightforward process. eToro's platform is easy to use and offers [zero commissions as well as low minimum investments](#). This means that investing in stocks is something that anyone can do.

The benefits of stock trading on eToro



1. Own the underlying asset



2. Receive **dividends**



3. Low minimum trade – just \$50

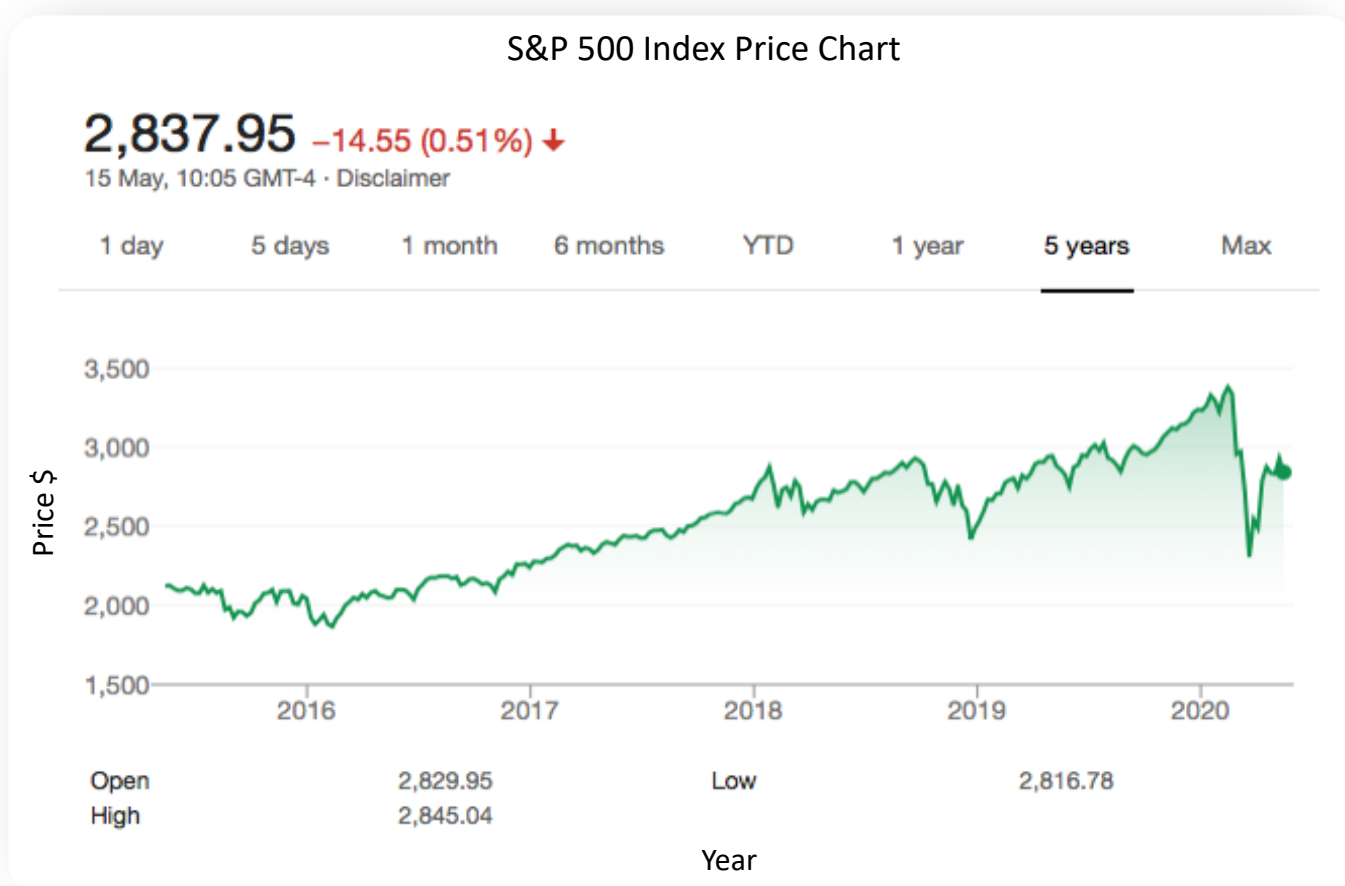


4. 2,000+ stocks from 17 exchanges

WHY INVEST IN STOCKS?

Investing in stocks can be a great way to grow your wealth over time. Historically, stocks have delivered excellent returns to investors over the long term.

For example, since the inception of the [S&P 500 index](#) (a stock market index that is composed of 500 large US companies) in 1926, it has generated annual returns of around 10% on average. This is a much higher return than the returns generated by other assets such as government bonds and cash savings.



It's important to realise that not every stock performs this well. That level of return is an average across all stocks in the index.

It's also important to understand that stocks don't rise in a straight line. Stock prices can move down as well as up and stocks tend to experience periods of bad performance every now and then.

Don't let this put you off, though. Time and time again, studies have shown that stocks are one of the best long-term investments you can make.

FIVE ADVANTAGES OF INVESTING IN STOCKS:



Stocks tend to produce high returns over the long term



Stocks can help you protect your money against inflation



Stocks are easier to buy and sell than other assets such as real estate



You can start investing in stocks with a relatively small amount of money



You can spread your money over many different stocks to lower your investment portfolio risk

INVESTING IN STOCKS VS TRADING STOCKS

The terms 'investing' and 'trading' are often used interchangeably. However, there are key differences between the two financial strategies.

Here's a look at how the two strategies differ.



INVESTING IN STOCKS

The goal of investing in stocks is generally to build wealth over the long term.

Investors will often hold stocks for years, or even decades, with the aim of generating substantial profits from both rising stock prices and dividends over time.

Investors tend to ride out periods of underperformance, with the expectation that stocks will eventually rebound and any short-term losses will be recovered.



TRADING STOCKS

The goal of stock trading is to generate short-term profits.

Traders hold stocks for a much shorter period of time than investors, often buying and selling within weeks, days, or even hours. Instead of focusing on the company's long-term prospects like investors do, traders focus on which direction the stock is likely to head in next and try to profit from that move.

Traders often use stop-loss orders to automatically close out losing trades at a predetermined price level in order to protect their capital.

TAKEAWAY

Both investors and traders seek to profit from the [stock market](#), however, they pursue this goal in different ways. Investing is a 'buy and hold' long-term strategy, while trading is a 'buy to sell' short-term strategy.

	INVESTING	TRADING
TIMEFRAME	Medium to long term	Short term
PROFITS	From rising stock prices and dividends	From rising and falling stock prices
INSTRUMENTS	Stocks	Stocks or contracts for difference (CFDs)
RISKS	Limited to initial investment	Potentially magnified by CFD leverage

For more information on the differences between investing and trading, check out our guide to [Investing and Trading](#).

HOW TO PROFIT FROM STOCKS

There are three main ways to make money from stocks.

RISING STOCK PRICES

The first way is through increases in stock prices. If you buy a stock and its price rises, you can sell it for a profit.

For example, if you buy one [Amazon](#) share when the stock is trading at \$2,000 and it rises to \$2,200, you can sell it for a \$200 profit.

This is called generating a capital gain.



DIVIDENDS

The second way you can make money from stocks is through dividends.

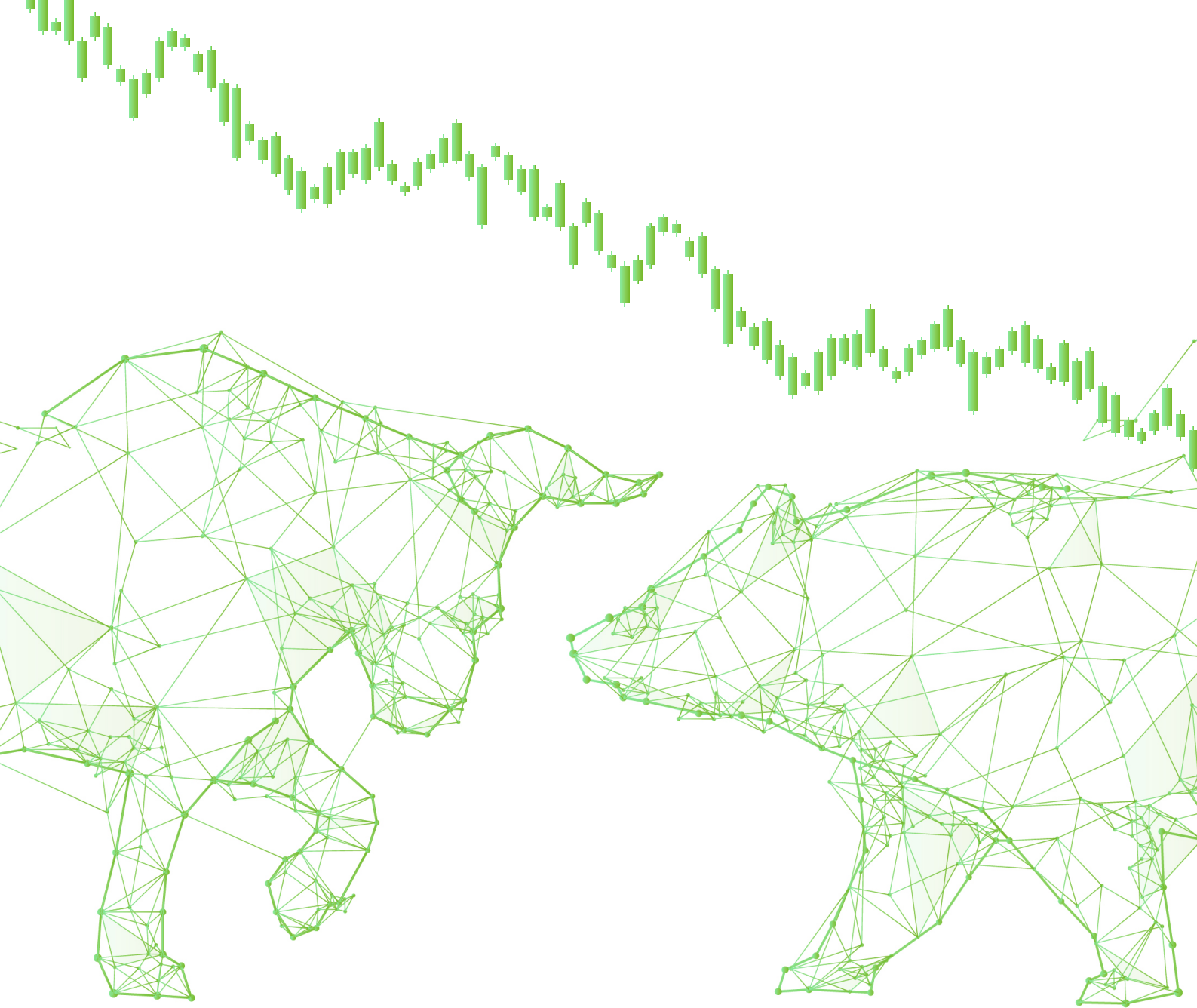
Dividends are cash payments that some companies pay to their investors out of their profits. Not all companies pay dividends but many well-established companies do.

One example of a dividend-paying company is [McDonald's](#). In 2019, it paid its investors a total of \$4.73 per share in dividends.

McDonald's dividend history

	2019	2018	2017	2016	2015
DIVIDEND PER SHARE	\$4.73	\$4.19	\$3.83	\$3.61	\$3.44

TIP: Dividend payments can often seem insignificant, however, they shouldn't be ignored. Many studies have shown that, over time, dividends tend to make up a significant proportion of overall stock market returns.



FALLING STOCK PRICES

Finally, traders can also profit from falling stock prices. This involves using [Contracts For Difference \(CFDs\)](#) to open 'short' positions and bet against stock prices rising.

CFDs are financial instruments that enable traders and investors to profit from a security's price movements (in both directions) without actually owning the underlying security.

If you open a short CFD position on a stock and its share price falls, you can close the trade for a profit.

WHAT DRIVES STOCK PRICES?

Stock prices are driven by supply and demand.

If there are more buyers than sellers of a stock, its price will rise. Conversely, if there are more sellers of a stock than buyers, its price will fall.

Supply and demand for a stock can be influenced by a number of factors. These include:



COMPANY NEWS:

Any news surrounding a company will affect demand for its stock. Good news tends to increase demand, while bad news, or any news that increases uncertainty, tends to decrease demand. For example, if a company announces that its quarterly profits are higher than the figure that the market was expecting, demand for its stock is likely to rise, pushing its price up. However, if a company announces that it is experiencing operational problems and that its quarterly profits will be lower than the market was expecting, demand for its stock is likely to fall, pushing its price down.



COMPETITOR NEWS:

News in relation to a rival company can also impact demand for a stock. For example, if one company in the automotive sector reports strong annual sales, it may boost demand for other automotive stocks.



ANALYST UPGRADES AND DOWNGRADES:

Analysts at investment firms such as Goldman Sachs, Citi, and Morgan Stanley regularly provide ratings on stocks. These ratings reflect the expected performance of a stock over a given time period. Three common ratings are 'buy', 'hold', and 'sell.' If an analyst upgrades or downgrades a stock, it can influence demand for the stock. For example, if a major Wall Street firm suddenly upgrades a stock from 'hold' to 'buy', demand for the stock is likely to increase.



ECONOMIC AND POLITICAL NEWS:

Economic and political developments can also drive demand for a stock. News in relation to interest rate changes, inflation data, unemployment figures, and political turbulence can all influence investor demand.



INVESTOR SENTIMENT:

Investor sentiment refers to the overall feeling that investors have about the stock market. This can have a large impact on supply and demand for stocks. If investors are feeling confident (bullish) that stocks are likely to rise in the future, demand is likely to be high. However, if investors are concerned about market conditions and believe that stocks could fall (bearish), demand is likely to decline.

DEVELOPING AN INVESTMENT STRATEGY

There are many different approaches to investing in stocks.

Some of the main investment strategies that are commonly pursued by stock market investors include:



VALUE INVESTING:

This strategy involves investing in companies that are trading at a discount to their 'intrinsic', or true stock value. The idea is that if a stock is trading below its true value, it's undervalued, and, therefore, may be worth buying. However, if a stock is trading above its true value, it's overvalued, and, therefore, may be worth selling or avoiding.



GROWTH INVESTING:

This strategy involves investing in companies that are expected to grow at a fast pace in the future. Growth stocks can offer high potential returns, however, they can be volatile, which means that they can be riskier.



QUALITY INVESTING:

This strategy involves investing in companies that have financial strength and are highly profitable. High-quality stocks tend to be resilient and can offer protection during market downturns.



SMALL-CAP INVESTING:

This strategy involves investing in small companies that have stock market capitalisations (the combined value of a company's total shares) of \$2 billion or less. Smaller companies tend to produce higher returns than larger, more-established companies over time, however, they are generally more volatile.



DIVIDEND (INCOME) INVESTING:

This strategy involves investing in companies that pay consistent dividends to their investors. Dividend investing is popular among retirees and those looking to generate passive income.



SOCIALLY RESPONSIBLE INVESTING (SRI):

This strategy involves investing in companies that have financial strength and are highly profitable. High-quality stocks tend to be resilient and can offer protection during market downturns.

Note that these approaches are not mutually exclusive. Often, investors combine a number of strategies. Which strategy is best for you will depend on a number of factors including your investment goals and objectives, financial situation, time horizon, and risk tolerance.

STOCK ANALYSIS BASICS

Before you invest in stocks, it's sensible to do some research.

The aim of stock research is to determine which stocks are worth buying and which stocks should be avoided.

There are two main forms of stock research.

The first is what's known as fundamental analysis.

Fundamental analysis involves looking at all available information in relation to a company, including its financial performance, its financial strength, and the threat of competitors, to determine whether a stock is undervalued or overvalued.

In this form of analysis, investors analyse financial data and often use financial ratios to work out if a stock is worth buying.

Three popular ratios used in fundamental analysis



PRICE-TO-EARNINGS (P/E) RATIO:

This is the ratio of a company's share price to its earnings per share. The P/E ratio is useful because it can be used to compare the valuations of different stocks.



DIVIDEND YIELD:

This is the ratio of a company's dividend per share to its share price. It's often expressed as a percentage. Dividend yield is useful because it enables an investor to compare the dividends offered by different companies.



RETURN ON EQUITY (ROE):

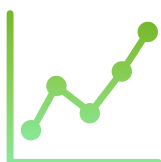
This is the ratio of a company's net income to the amount of equity (assets minus debt) on its balance sheet. ROE is a measure of how profitable a company is.

The second form of analysis is known as technical analysis.

In this type of analysis, investors examine stock charts and analyse trends, patterns, and indicators in an effort to predict a stock's future movements. Those who use technical analysis believe that historical price movements can be used to predict future price movements.



Three popular technical analysis strategies



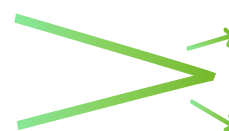
TREND TRADING:

This strategy aims to generate profits by analysing a stock's trend. A trend occurs when a stock moves in one direction for a long period of time. Once you have identified the trend, it may be possible to profit from it by trading in the same direction as the trend.



SUPPORT AND RESISTANCE TRADING:

This strategy aims to generate profits by identifying a stock's support and resistance levels. Support is the level on the chart where the stock's price finds it difficult to fall below. Resistance is the level where the stock's price finds it difficult to go above. Once these areas have been identified, it may be possible to profit by placing trades at the area where the stock's price is likely to reverse.



BREAKOUT TRADING:

This strategy aims to generate profits by identifying stocks that have broken through established support or resistance levels. Breakouts can be strong signals, especially when confirmed by other technical analysis indicators.

Fundamental analysis and technical analysis both have their advantages and disadvantages. For this reason, many investors use a combination of both when making investment decisions.

TIP: If you want to learn more about how to trade using technical analysis please visit the [eToro Trading School](#) homepage where you can register for a free course


HOW TO TRADE STOCKS ON ETORO

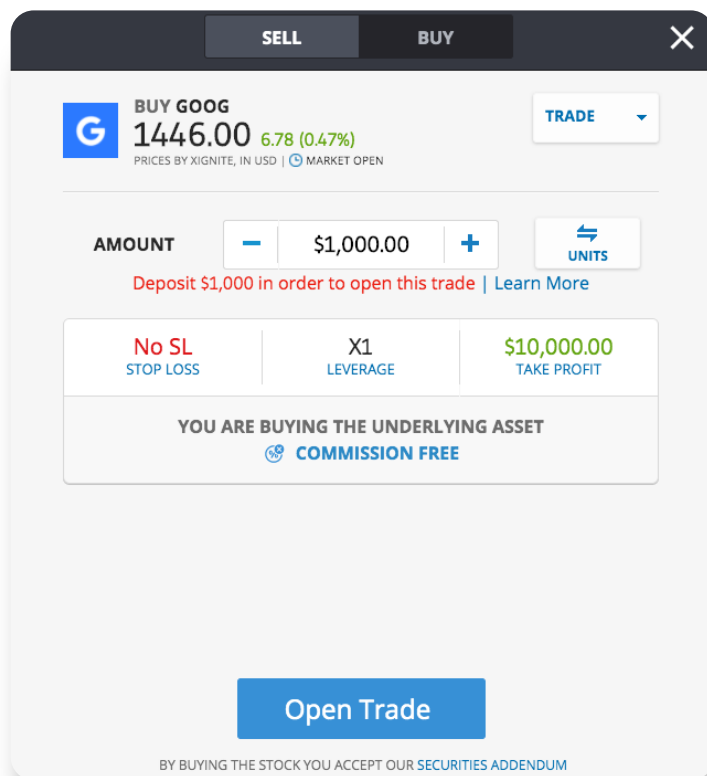
THERE ARE TWO DIFFERENT WAYS YOU CAN TRADE STOCKS ON ETORO:

1. You can buy and sell stocks outright (i.e. trade real shares)
2. You can trade stock price movements via Contracts For Difference (CFDs). With CFDs, you can trade in both directions and also use leverage to increase your exposure.

Here's how to place a trade using each approach:

1. BUYING A STOCK OUTRIGHT (NON-LEVERAGED)

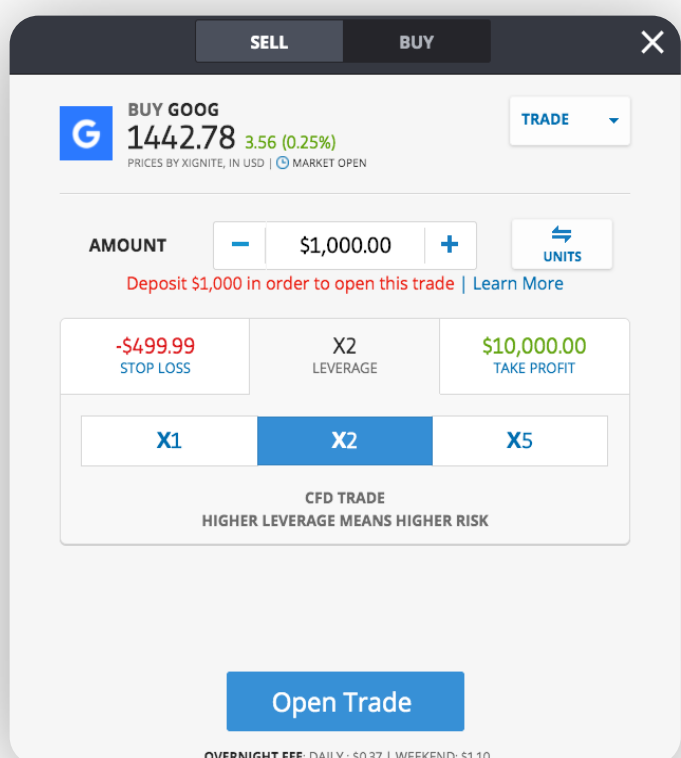
1. [Login](#) or create an account by going to <https://www.etoro.com/#signup>
2. Head to our [Markets](#) page, and then select [Stocks](#) to access the full list of stocks that are available to trade
3. Select the stock that you wish to invest in, then select Trade
4. Select BUY 
5. Enter the amount of money you wish to invest in the stock or the number of units of stock you wish to buy
6. Ensure that leverage is set to X1
7. Set the take profit parameter if you wish to
8. Select Open Trade



The screenshot shows the Etoro trading interface for buying Google (GOOG) stock outright. At the top, there are 'SELL' and 'BUY' buttons, with 'BUY' selected. The stock price is displayed as 1446.00, with a change of 6.78 (0.47%). Below the price, there are controls for the trade amount, currently set to \$1,000.00, and a 'UNITS' button. A note indicates that a deposit of \$1,000 is required to open the trade. The interface also shows options for 'No SL STOP LOSS', 'X1 LEVERAGE', and '\$10,000.00 TAKE PROFIT'. A prominent blue button labeled 'Open Trade' is at the bottom. A disclaimer at the very bottom states: 'BY BUYING THE STOCK YOU ACCEPT OUR SECURITIES ADDENDUM'.

2. TRADING A STOCK VIA A CFD

1. [Login](#) or create an account by going to <https://www.etoro.com/#signup>
2. Head to our [Markets](#) page, and then select [Stocks](#) to access the full list of stocks that are available to trade
3. Select the stock that you wish to invest in, then select Trade
4. Select BUY or SELL, depending on the direction you wish to trade (BUY if you expect the stock to rise and SELL if you expect the stock to fall in value)
5. Enter the amount of money you wish to trade on the stock or the number of units of stock you wish to trade
6. Set your leverage (i.e. X2, X5, etc.)
7. Set the stop loss and take profit parameters
8. Select Open Trade



WHAT IS LEVERAGE?

Leverage is essentially a loan from your broker that enables you to control a larger amount of money than you have deposited for the trade. For example, leverage of X2 means you can trade \$200 with a deposit of just \$100. Leverage is a powerful tool that can potentially increase your profits. However, it can also increase your losses so it's important to understand the risks.

It's also worth noting that CFD positions that stay open overnight incur a small fee, relative to the value of the position. This is essentially an interest payment to cover the cost of the leverage that you use overnight.

BUYING THE UNDERLYING ASSET VS TRADING CFDS: WHICH IS THE BEST APPROACH?

Both approaches to stock trading offer the potential for fantastic profits.

Which approach is better for you will depend on your investing goals and your risk tolerance.

BUYING THE UNDERLYING ASSET IS GENERALLY SUITED TO THOSE WHO:



Plan to hold the stock for an extended period of time



Only want to profit from upward price movements



Are happy to pay the full value of the trade upfront



Don't want to use leverage to increase their exposure

TRADING VIA CFDS IS GENERALLY SUITED TO THOSE WHO:



Want to trade in both directions



Have a lower initial investment



Want to use leverage to increase their exposure



Are not concerned about owning the underlying asset

RISKS OF INVESTING IN STOCKS

All forms of investing involve some degree of risk and stock investing is no different. It's important that investors are aware of the risks.

Some of the main risks associated with investing in stocks include:



STOCK-SPECIFIC RISK:

This is the risk of a particular stock underperforming. Every stock has its own unique set of risk factors and it's important to be aware of the risks before investing.



MARKET RISK:

This strategy involves investing in companies that are trading at a discount to their 'intrinsic', or true stock value. The idea is that if a stock is trading below its true value, it's undervalued, and, therefore, may be worth buying. However, if a stock is trading above its true value, it's overvalued, and, therefore, may be worth selling or avoiding.



LIQUIDITY RISK:

This is the risk that you might not be able to sell a stock you own at a fair price due to a lack of buyers. Liquidity risk tends to increase during periods of stock market volatility.



LEVERAGE RISK:

While Leverage is a powerful tool that can magnify gains, it can also magnify losses. If a large amount of leverage is used to trade, even a relatively small price movement in the wrong direction can result in substantial losses. It's important to be aware that losses can exceed the amount invested.

RISK MANAGEMENT STRATEGIES

You can never eliminate risk completely when investing in stocks, however, you can reduce it.



DIVERSIFY YOUR PORTFOLIO

One of the most effective ways to reduce risk is by diversifying your portfolio. This is the process of spreading your money over many different stocks so that you're not over-exposed to any single stock. Owning a diversified portfolio that contains many different stocks is less risky than owning just one or two stocks.



LONG TERM OUTLOOK

Adopting a long-term investment horizon is another strategy that can help reduce the risk of losing money. In the short term, stocks can be highly volatile. However, in the long run, the stock market tends to rise. Generally speaking, the longer you invest for, the less chance you have of losing money.



USE STOP LOSSES

When trading CFDs, stop losses can also be an effective risk management tool. Stop losses help minimise investing losses by closing out losing positions before large losses build up.



ADOPT A BROAD ASSET ALLOCATION

Finally, adopting a broad asset allocation (the mix of different assets in your portfolio) is also sensible. Wise investors tend to allocate their money across multiple asset classes including stocks, bonds, commodities, and crypto, as this also helps to reduce overall portfolio risk.

SUMMARY:

- ▶ Stocks are investments that represent ownership in a company.
- ▶ Investing in stocks can be a great way to grow your wealth over time. Historically, stocks have delivered excellent returns to investors over the long term.
- ▶ Stock prices are driven by supply and demand. Supply and demand can be influenced by a number of factors including company news, economic developments, and investor sentiment.
- ▶ There are many different approaches to investing. Some of the main approaches include value investing, growth investing, and dividend investing.
- ▶ There are two main forms of stock analysis. Fundamental analysis involves looking at all available information to determine whether a stock has profit potential. Technical analysis involves looking at chart patterns to determine if a stock is worth buying.
- ▶ Risks of investing in stocks include market risk, stock-specific risk, and liquidity risk.
- ▶ Investing in stocks on eToro is a straightforward process. eToro's platform is easy to use and offers zero commissions as well as low minimum investments.

GLOSSARY

CAPITAL GAIN

A profit generated from a rising stock

CFD

Contract for difference. A financial instrument that enables you to profit from the price movements of securities without actually owning the underlying security

COMMON STOCK

Shares of ownership in public corporations

DIVERSIFICATION

Spreading your money out over many different investments to lower portfolio risk

DIVIDENDS

Cash payments that some companies make to shareholders out of their profits

GOING LONG

Buying a security

GOING SHORT

Selling a security

INVESTOR SENTIMENT

The general mood of investors

LEVERAGE

Using capital borrowed from a broker when opening a position to increase the potential return of an investment

MARKET CAPITALISATION

The total value of a company's share

MARKET RISK

The risk that the whole stock market falls

RISK

The amount of capital exposed on any single trade

RISK MANAGEMENT

Focusing on risk when trading in order to minimise losses

SPREAD

The difference between the buy and the sell price. This is also the cost of placing the trade

STOCKS

Investments that represent ownership in a company

STOCK EXCHANGE

A market that connects stock buyers with stock sellers

STOCK SPECIFIC RISK

The risks associated with a particular stock

STOP LOSS

An order designed to minimise losses

TAKE PROFIT

An order to close a trade at a certain profit level

eToro is a multi-asset platform which offers both investing in stocks and cryptoassets, as well as trading CFDs.

CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. **75% of retail investor accounts lose money when trading CFDs with this provider.** You should consider whether you understand how CFDs work, and whether you can afford to take the high risk of losing your money.

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Guide accurate as of July 2020