INVESTING IN THE STOCK MARKET

A GUIDE FOR BEGINNERS

STEPHEN COX

About the Author, Stephen Cox……...

My name is Stephen Cox. I am the Managing Director of Share Navigator, a global online stock-market training company dedicated to helping people learn the art of trading stocks and options.

Here is a small bit about me:

- **Full Time Trader and Investor:** I trade a real life portfolio and share all my investments and trades with my subscribers. In 2016 the portfolio delivered returns of just over 19%.
- **Stock Market Trainer and Mentor:** I train people from all walks of life in the art of investing in the stock market. I work 'one to one' with investors and mentor them during the investment process.
- **Education and Qualifications:**
    - First-class Honours MBA majoring in Finance
    - Registered Stock Broker
    - Graduate member of the Institute of Bankers

This eBook is short and sweet and designed to set beginners on the right path to investing in the stock market.

If at any stage you have any questions please contact me via email:

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Enjoy the book and happy investing!

Stephen

A word on Online Trading…….

It's easy to do….. Online trading makes it easy for you to buy and sell shares in a matter of seconds. Now you can trade stocks from a click of a button from your phone, tablet or desktop.

It's cheaper….. Because all of the middlemen are removed, online trading allows you to trade the stock market at a fraction of the cost of traditional stock brokers or banks. If you are going to be a self-directed investor you need to trade online. It's cheaper and quicker!

Practice in a simulated environment first ……. We all want to make money and quickly! Before you get too excited and start buying stocks, I would recommend that you start in simulated trading account first. Prove to yourself that you can invest sensibly and profitably before risking your hard-earned cash.

Be smart, practice first!

Don't have a simulated trading account?
[Click here] and request a [FREE TRIAL]. I will get you setup with a simulated trading account.

Rule 1: Don’t Put all of your eggs in 1 basket……

The first basic rule of investing is to spread the risk around. The biggest mistake you will ever make is to invest too much money into any one stock. Even Warren Buffett gets it wrong!

So don’t ever get ahead of yourself. Be smart. Diversify your risk!

Let me illustrate this with an example. Below you will see five stocks. You will see that most of the stocks had excellent returns for 2016 but there was one stock, Gilead, which underperformed.

Stock	Buy Price	Current / Sales Price	Dividends Paid 2016	Total Returns for 2016
Apple	**$94.19**	**$130.05**	**$1.14**	**40.5%**
Southwest Airlines	**$41.46**	**$55.42**	**$0.30**	**34.4%**
Royal Caribbean	**$76.67**	**$96.75**	**$1.34**	**27.9%**
Stryker	**$100**	**$125.76**	**$1.19**	**26.7%**
Gilead	**$84.68**	**$69.80**	**$1.41**	**-15.9%**

Consider two different type of investors:

1. **Risky Steve:** Wants to win big and fast!

1. **Smart Pat:** Is happy to make consistent returns over a longer period of time.

Risky Steve

Steve wants to make a fortune quickly. In 2016, he had $5,000 to invest. He decided to invest all $5,000 into Gilead. Gilead is an excellent company with excellent fundamentals and the valuation looked good.

But Gilead performed badly during the year and fell 15.9%.

Risky Steve lost $795. His portfolio is now worth only $4,205. Although Gilead is an excellent company, the mistake Steve made was to invest all of his money into one stock.

Even great companies have a bad year! He should have diversified his risk. Now, consider Pat.

Smart Pat

Pat has $5,000 to invest. Pat is a more level-headed investor and is happy to make consistent returns over time. Last year he decided to invest equally into Apple, Southwest Airlines, Royal Caribbean, Stryker and Gilead. This meant that Pat invested $1,000 into each of the five stocks. At the end of 2016

- $1,000 invested into Apple was worth $1,405
- $1,000 invested into Southwest Airlines was worth $1,344
- $1,000 invested into Royal Caribbean was worth $1,279
- $1,000 invested into Stryker was worth $1,267
- $1,000 invested into Gilead was worth $841

Pat generated a total profit of 22.7% for 2016 (even with Gilead in it). This is the equivalent of a profit of $1,136! His portfolio is now worth $6,136.

The reason Pat performed better than Steve is because Pat built a less risky investment portfolio.

You may be of the opinion that Risky Steve could have made a fortune if he invested everything into Apple. He would have made a 40.5% profit. That is true, but the issue is that Steve needs to get lucky all the time with this type of strategy. When he gets it wrong and in my experience even the best investors in the world get it wrong, he will lose a lot of money.

These losses may erode all of his previous gains and more.

The Lesson…...

Although Gilead was and still is a very good company, it had a really bad year in 2016 and fell in value. This can happen with any company, it doesn't matter how good it is.

If you committed yourself to investing just in Gilead, you would be suffering a loss of $795. But by spreading your risk around four other stocks, this loss was more than offset by the gains in the four other stocks. The result was a less risky portfolio which delivered a nice 22.7% profit.

Diversification works

1. Diversify your risk by investing no more than 5% or 1/20th of the value of your portfolio in any one stock. For example, if you have a $5,000 portfolio, invest no more than $250 in any one stock.

2. Invest in stocks from different industries. For example, do not invest in 20 banks. Spread the risk through different sectors and industries….Airlines, Energy, Healthcare, Technology etc..
3. Always remember that you do not have a crystal ball and neither does anyone else. Things can go wrong in the short term for any company.

Rule 2: Know your Investor Profile……..

In order to set yourself up for success in the stock market you need to know what type of investor you are and what type of risk tolerance you have.

As a general rule of thumb, the greater the reward, the greater the risk you must take. Most people don't want to lose money but would like to make a lot. Unfortunately, there is no such thing as a free lunch in the stock market. In order to profit, you must take some degree of risk.

Finding that balance between risk and reward is critical. Taking a reality check now will set you up for success in the future. You need to identify your tolerance for risk.

Take 5 minutes to complete this Investor Profiling exercise………

Answer the following 12 questions. Write down the number of the answer to each question which most accurately reflects you. There is no right or wrong answer here just answer honestly for yourself.

Question 1: What is your major goal for investing in the Stock Market?

1. Secure retirement income
2. Stability for retirement but I don’t like fluctuating returns
3. I don’t mind short term volatility but want long term growth
4. Maximise growth of the portfolio over the long term

Question 2: How long do you intend letting your investment grow?

1. Under 3 years
2. 3-7 years
3. 8-12 years
4. More than 12 years

Question 3: During the next 5 years what portion of your portfolio do you intend to withdraw?

1. 100%
2. 75%
3. 50%
4. Less than 25%

Question 4: What is your current age?

1. Over 70
2. 55-70
3. 35-55
4. less than 35

Question 5: Which of the following best describes your family income?

1. Under €30K
2. €30K-€45K

3. €45K-€75K
4. Over €75K

Question 6: What is your family net worth after deducting all loans, mortgages etc…?

1. Under €30K
2. €30K-€50K
3. €50K-€125K
4. Over €125K

Question 7: How would you rate your overall financial situation?

1. Not Good – No Savings, or very little savings and large debt
2. Okay – Some savings and manageable debt
3. Mostly Debt Free and saving regularly
4. Secure – Debt Free

Question 8: Other than stock market income what other income will you have at retirement?

1. Nothing
2. Rental property
3. Other savings/pensions
4. Myself & partner savings, pensions and investments

Question 9: How would you rate your investment knowledge?

1. Minimal
2. Modest – Know a little but not much experience
3. Good – I've been investing a while and survived at least one crash
4. Very Good – Experienced and comfortable with the ups and downs of the

market

Question 10: Stock markets have crashed in the past and recovered but recovery can take a while. How long can you wait for a recovery?

1. Less than a year
2. 1-2 years
3. 3-4 years
4. Over 4 years

Question 11: What level of short term risk are you comfortable with?

1. Less than a 20% drop
2. A 20%-30% drop
3. 30%-40% drop
4. More than 40%

Question 12: The stock market is about weighing up risk and reward which best describes you?

1. I always consider how much I lose first
2. I consider the loss more than the reward
3. I consider the reward more than the loss
4. I only focus on reward

Now add up all of the numbers to the answer of the 12 questions above.

Investor Profiling Results.......

Look at the table below and you will be able to identify what type of stocks are for you.

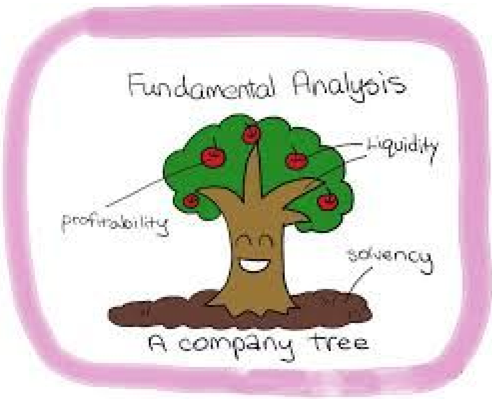
PROFILE SCORE	INVESTOR TYPE	PORTFOLIO TYPE
12-20	Very Conservative	High Dividend Yield
21-25	Moderately Conservative	High Dividend mixed with Large Cap Value stocks
26-33	Value Investor	Large Cap Value Stocks
34-41	Moderate Risk	Large Cap Value Stocks mixed with Growth Stocks
42-48	High Risk	Growth stocks

Now that you know your investor profile, you can start looking for the types of stocks that suit your investor profile. This is really important as it stops you from investing in companies that do not meet your investor profile.

Where to find stocks that fit my profile?

If you would like to start buying stocks in your simulated account visit our website www.sharenavigator.ie and sign up for the FREE Trial. You will also get access to our ‘Stocks Watchlist’ and you will see our stock tips. You can practice with these stocks until you get comfortable finding stocks on your own.

Rule 3: Invest in Fundamentals not charts!



The fundamentals of a company will drive the share price. Technical Analysis/Charts do not offer you any statistical advantage when buying shares.

Charts are a 'get out' for lazy investors who are looking for quick and easy ways to find reasons to buy or sell a stock.

Charts can be very useful to get a picture of the 'past', but that is all you will get, **charts are not** a predictor of the future.

If you want to gauge the future value of a company you need to do a bit of research - there is no shortcut. It will ultimately boil down to the expected future growth rate of the sales and profits of a company.

This is not rocket science. It is a process of the asking yourself some very basic questions and more importantly answering the questions:

1. What does the company do and how do they make money?
2. How big is the company?
3. How long has the company been in business?
4. How competitive is the market?
5. Does the company have a track record of delivering sales and profit growth? Growth is the key word.
6. What are the debt levels of the company?
7. Does the company pay a dividend? What is the Dividend Yield? Is the

dividend sustainable.

8. What are the future sales and profit growth projections?
9. How is the company valued versus their competitors of similar size?
10. How volatile is the share price?
11. Does the company fundamentals fit my investor profile?

Let me give you an example of fundamental research we did on Apple before we invested in 2016. We sold less than 1 year later for a 39% profit!

Apple research example………...

I invested in Apple on the 5th May 2016 and sold it in February 2017 for a gain 39%.

Here was my basic research on Apple from back in May 2016. This report was released to my subscribers on May 5th 2016.

Stock Name:	*Apple Computers*
Ticker Symbol:	*AAPL*
Current Stock Price:	*$94.19 (May 5th 2016)*
Target Price:	*$120*
Upside potential:	*27%*
Dividend Yield:	*2.5%*
Stock Exchange:	*Nasdaq*
Market Cap:	*$521 billion*

Business Summary: *Apple Inc. is one of the world's largest makers of PCs and peripheral and consumer products, such as the iPod digital music player, the iPad tablet, the iPhone smartphone, and the "Apple I Watch," for sale primarily to the business, creative, education, government, and consumer markets. It also* *sells operating systems, utilities, languages, developer tools, and database software.*

Financial & Investor Data:

Here is the main financial data for Apple for the past 6 years.

	2010	2011	2012	2013	2014	2015
Sales (Billions)	$65	$108	$156	$170	$182	$233
Earnings Per Share (EPS)	$2.16	$3.95	$6.31	$5.66	$6.45	$9.22
Dividends Per Share	$0	$0	$0.38	$1.63	$1.81	$1.98
Profit Margin	21.5%	23.9%	26.7%	21.7%	21.6%	22.8%
Long Term Debt (billions)	$0	$0	$0	$17	$29	$53
Average PE ratio	15	12	12	12	13	13

Analysis of the financial data above:

- ***Sales Growth:*** *Excellent historical Sales Growth rising from $65 billion to $233 billion.*
- ***Earnings per Share Growth:*** *Excellent historical EPS growth rising from $2.16 per share to $9.22 per share.*
- ***Dividend Growth:*** *Apple Inc. has only in recent years paid out a dividend to shareholders. Whilst Apple Inc. doesn't have a long track record of paying dividends, the recent activity suggest that the company will*

continue to increase their dividend payout to shareholders. As of 2016 Apple Inc. has in excess of $200 billion in cash to distribute to shareholders.

- ***Profit Margins:** Evidence shows that the management team at Apple Inc. are holding their profit margins steady at 21%-22%. Although pricing pressures are starting to emerge.*
- ***Long Term Debt:** Apple Inc.'s Debt has risen substantially to $53 billion over the past 6 years. For a company of Apple Inc.'s size and given the fact that they have $200 billion in cash we consider this to be a positive development from the management team. Borrowing money at today's extremely low interest rates and investing in projects to yield higher returns is a positive for shareholders.*
- ***Average PE:** Apple Inc. has traded at a multiple of 12-13 times earnings over the past 6 years.*

Recent Earnings Report & other news…….

- ***Carl Icahn:** On April 27th 2016 Billionaire Investor Carl Icahn added to the negativity surrounding Apple Inc. by announcing to CNBC that he sold his entire position of Apple Inc. citing China as a cause of concern. He also went on to say that Apple Inc. was still cheap at these prices!*
- ***Earnings April 26th***
    - ***Profits:** Apple Inc. reported lower than expected earnings of $1.90 per share…below analyst estimates of $1.97 per share. This was down 18.5% from the same quarter in 2015.*
    - ***Sales:** Apple Inc. reported lower than expected sales of $50.6 billion below analyst estimates of $51.5 billion. This figure was down 12.8% on the same quarter last year.*
    - ***Iphone Sales:** Down 16% year over year*

- ***Ipad Sales:*** *Down 19% year over year*
- ***Mac Sales:*** *Down 9% year over year*
- ***Services:*** *Up 20% year over year*
- ***Iwatch, Ipod:*** *Up 30% year over year*
- ***Geographical:*** *China Sales down 26%, US sales down 10%, European sales down 5%.*
- ***Share Repurchase Programme:*** *Apple Inc. announced that they are adding another $50 billion to their share repurchase programme. This is a positive development for investors and will be a net positive for earnings per share going forward.*
- ***Dividend Increase:*** *Apple Inc. announced an increase in Dividends of 10%. Again another positive development for investors.*
- ***Iphone 7:*** *To be released later in the year.*

Sales and Profit Outlook…………..

Estimates for Apple Inc. have been lowered since their recent earnings report.

- ***Sales Forecasts:*** *Sales for fiscal 2016 are set to fall to $215 billion from $233 billion in 2015. This represents a fall in sales of -7.7%. Sales growth is forecasted to pick up again to $226 billion Fiscal 2017.*
- ***Earnings Per Share (EPS) Forecasts:*** *The average earnings per share (EPS) estimate for Fiscal 2016 is $8.77 down from $9.22 in 2015. This represents a fall in profits of -4.8%. Estimates for Fiscal 2017 indicate a return to growth at $9.15 per share.*
- ***Share Price Outlook:*** *Estimating the future share price is a difficult task. The basic share price formula:*

  Share Price = Earnings Per Share * Price to Earnings Ratio

We believe that the share price will be under pressure in the short term (next 2 quarters). However, thereafter the market will refocus on the valuation of Apple Inc. and their considerable cash reserves. Erring on the side of caution we have applied a multiple of 10-13 times 2017 earnings in order to get to our 18 month target price.

- ***Low Target Price** = $9.15*10 = $91.50 (possible 3.6% fall from current share price)*
- ***High Target Price** = $9.15 * 13 = $119 (possible 25% rise from current price levels)*

Risk Management………..

As with any stock investment, there are no guarantees. Circumstances and fundamental outlook can change for the better and also for the worse. A smart investor will allocate less than 5% of their portfolio in this stock. For example, if we have $10K in our portfolio. We will invest no more than $500 in this stock.

If you are totally new to investing, the above may seem like a lot to take in but don't worry it is pretty easy to do. If you decide to take a free trial of our membership then we show you step by step how to do this research and we also give you access to our stock research.

Rule 4: Have a Target 'Buy' Price and a Target 'Sell' Price

The example with Apple gives you an idea of the some of the basic research you need to do <u>before</u> you invest in a company. This is how you identify potential 'value'. When you do this, your success rate in the markets will soar. Too many people invest on a tip from a friend or because a chart looks like it is giving a buy signal. This is not smart.

We all have companies that we love ……. Google, Facebook, Amazon...the list goes on.

- But are they good value?
- What price should you buy them at?
- What is the future growth potential look like?
- What is the target price for the stock? This is the one question most amatuer investors fail ask and answer.
- You need an exit strategy...at some point stocks can become too expensive and it's time to get them out of your portfolio. We sold Apple at $130.05. We felt at that stage the value was not longer there in the company with the information on hand. Since then Apple has risen further to $160. Hindsight is a wonderful thing… am I annoyed… no...because I have set rules that I follow, the information available at the time suggested a stock that was fully valued. Remember...you do not have a crystal ball… follow your value investing principles and you will do just fine over time.

Rule 5: **Evaluate the Stock at Earnings**

Every quarter publicly quoted companies make an 'earnings' announcement. This is where the company informs the market and investors as to how their sales and profits have performed for the past 3 months.

During an earnings release the company will also guide their expected performance for the next quarter and in some cases the next year. This allows you then to reassess the fundamentals of the company.

And hence re-assess your target selling price.

Let me give you two examples of this:

1. **Apple:** After we invested in Apple in May 2016 there were two earnings releases. As a result of those earnings announcements we changed our target selling price from $120 to $130. This was because sales of their I-Phone had increased more than expected.
2. **Gilead:** After we invested in Gilead we re-forecasted our target price down to $75 from $92. This was because the company issued a profit warning.

The fundamentals should dictate your selling price. Keep reassessing the company fundamentals on a monthly basis and adjust your selling price accordingly.

Summary….

Follow these five rules and you will be on the right path to successfully investing in the stock market. Even, better get some practice in a real-time, real-world simulator. Take a FREE TRIAL of our stock market training simulator.

Summary……...

1. **Diversify your risk** - Do not put all of your eggs in one basket.
2. **Know your investor profile** - This will help narrow down the stocks you should be look for.
3. **Find stocks that meet your investor profile** - we can show you how.
4. **Don't invest based on a chart** - there is no advantage to you!
5. **Invest in the fundamentals** - we will show you how to do this.
6. **Find quality stocks at the right price to buy** - we will show you how.
7. **Have a target price for every investment** - This will keep you focused and remind you of why you are investing in the company.
8. **Get educated** - like everything in life, there is a right way and there is a wrong way. Learn the right way!
9. **Take a free trial** - You have nothing to lose and everything to gain!

I hope you enjoyed this very brief introduction to the stock market. If you would like any further information please visit www.sharenavigator.ie

Disclaimer

This report does not constitute financial advice. This report is to be used in the context of education and training in the stock market. The purpose of the report is to highlight the evaluation process when investigating a stock. Members of Share Navigator can then use their personal Simulated Trading Account to practice buying and selling shares.

The value of investments may rise as well as fall. Past performance is not a guide to future performance. The risk of loss in trading securities, options, futures and forex can be substantial. You should consider all relevant risk factors, including your own personal financial situation, before trading or investing.