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50 rookie mistakes to avoid as a stock market beginner - a thread.

1. Watching CNBC and acting on the recommendations provided by the "analysts", "experts" and "fund managers" who appear on TV.

Remember, most of them don't even beat the benchmark index on an annual basis.

2. Giving too much importance to Moneycontrol articles and recommendations. Moneycontrol profits off of noobs. They depend on you to make their money. They get paid by buy side firms who want to dump their positions, and sell side firms whose clients want to sell.

They also get paid to propagate rumours (albeit subtly) about stocks that the buy-side firms want to buy (albeit at lower prices) and sell-side firm clients want to buy. So, if you see a recommendation on moneycontrol, that marks the distribution phase (most of the times).

3. Listening to colleagues, friends, and family on what to invest on, where to invest, what stocks to buy. Usually these are also people who have no real expertise, but started a year or few months ahead of you. They only talk about their winners, you get very excited.

4. Listening to social media "experts". People on Twitter, Youtube, etc., even if they look like they are trading crores, or managing hundreds of crores, have different reasons for trading/investing in something. Typically, following them is the path to the butcher's shop.

5. Coattailing - buying because a big investor/billionaire has bought or selling because that person has sold. You never know their rationale. You also don't know if it was a short term trade or a long term investment. You will not know exactly when they start exiting.

Without knowing any of these details, following someone big into investments usually ends up disastrous. I followed JhunJhun into Prakash Industries, only for my capital to depreciate. He can take the loss. One investment like titan will recoup all these losses. Not for us.

6. Investing in stocks based on freely available screeners. Screeners are there to just screen the stocks based on preliminary criteria. Screening is just 10% of the work. 90% of the work goes into researching about the company, governance, board, their business model, tailwinds,

company's guidance going forward, what the company is investing money into, what kind of future is there for their product, whether they are going to disrupt or be disrupted, etc. So, jumping into screened stocks without in-depth analysis will be certain death for your equity.

7. Learning few ratios and investing in stocks based on that. I have seen (and done) people investing based on PE ratio or some other ratio as a standalone metric. These ratios are there to just guide your analysis process and not to be taken as sole metrics for investment.

8. Putting money in mutual funds based on number of stars on moneycontrol/valueresearch websites or based on economic times recommendations. Unless you want to lose 30-40% of your capital in a year or two (average to worst case) don't do this.

9. Paying for workshops. Most workshops are worthless. Ask for the workshop agenda. Contact previous workshop attendees and talk to them about how successful they are, following what's taught in the workshop. Then decide if you want to spend.

10. Following the trades of telegram/twitter/youtube traders. Whether they make money trading or through social media or by selling courses - you never know. And even if it is a legit trader, you don't wanna be the dog waiting for someone to throw a fish. Learn how to fish.

11. Following a youtube channel, see some setups that the guy/gal claims is profitable, jump into trading them directly. Unless you have thoroughly backtested a setup, don't trade anything. First rule of capital markets is preserving your capital. Don't be dumb.

12. Starting off naked selling options watching expiry traders post super duper profit screenshots. This is the quickest way to blow up. Guys like PR Sundar can do it because they got so much money, and always have cashflow through dumb twitter and dumb youtube. You don't.

13. Paying so much for workshops without vetting the trader's track record. I heard that a popular trainer/workshop conductor who charges upwards of 50k+ for his workshop, doesn't trade more than 10 lots. And JP Morgan bought his strategy? People still believe in that?

If you attend someone's workshop, make sure you vet the trader thoroughly and make sure they are actually a trader who makes some money through training, and not a trainer who makes some money through trading. First ensure they are actually profitable in reality.

Ask for IT returns, broker reports, trade log, 10 year track record. You have no business taking mentorship from someone who hasn't even seen one full economic and market cycle. If you do consider someone as an exception, make sure if what they provide is unique.

14. Handing over your money for someone else to invest/trade, attracted by jargon, doing no background check. I did this mistake with Minance, some people did with other "algo trading" firms. I see many people doing the same now. Same thing, different names, different bakras.

15. Paying for advisory services, especially those out of Indore. If you fall for these sms or call scams, you deserve to lose all your money. If you pay for telegram advisory, you deserve what happens. One can write an entire 10k word essay on how to choose a financial advisor.

16. Paying for telegram channels and subscriptions. 99% telegram channels are shit. There, I said it. Nothing wrong with paying if you're actually learning something useful. But more often than not, you're only helping someone make a living cheating others.

17. Buying a system that's being sold as profitable and trading it immediately. Unless you have thoroughly backtested a system you won't have confidence in trading any system. Especially if it is a blackbox system, you'll cut and run at first sign of trouble. So, always backtest.

Plus, most systems that are being sold, aren't even as profitable as the sellers claim they are. Otherwise wouldn't they be holding on to the edge as long as they can? Or they sell their system without the optimisations that make it very profitable and you won't know that.

18. Investing in IPOs based on media recommendations. If an IPO is hot, or some popular analyst has recommended it, and broking houses have recommended it in their analyst calls, you get in with multiple demat accounts of family members to bid. Absolutely not advisable.

You may strike good returns with one or two such investments. But without doing proper analysis, just going by someone else's recommendation will surely get you into losses sooner than later.

19. Trading with borrowed money. Don't do this. Don't take loans to trade. Don't borrow money from friends/family to trade as a beginner. You will lose your money and your friend/family member's relationship.

20. Signing up with the cheapest broker. This one's tricky. But, just because a broker is very cheap with charges, doesn't mean they are the best. There are several other parameters to watch out for. If you want to trade, the cheapest broker is usually the worst in some cases.

If you want to do this as a profession, sign up with a decent full service broker. Doing this before burning your hand with amateur/cheap brokers will help preserve your capital. Zerodha may or may not be an exception, that's upto you to decide.

A broker like Zerodha may be good for investing. Definitely not recommended for trading with their litany of errors. Choose your broker(s) carefully.

21. Trading with only one broker. Having all your funds tied to only one broker is also dangerous. If the broker goes down momentarily, your positions will be in a jeopardy. If the broker goes out of business, your money goes too. Look at how many people are still begging Karvy.

22. Taking excessive leverage. Just because you can trade 10 times the account size doesn't mean you should. Not even if you have a solid plan. If you get caught at the wrong end of the trade or an event, you'll be wiped clean and it will be wiped cleaner than TIDE does in ads.

23. Signing up with brokers who offer excessive leverage. Yes, I am talking about brokers like Alice Blue. If their RMS goes Kaput or if a highly volatile flash crash of sorts happens, these brokers will shut shop in a day. Don't take the risk of trading with such brokers.

If you definitely have to trade, keep only 10% of your capital in the account, and take full 10x leverage to trade. Keep remaining in bank account ready for transfer if needed.

24. Trading based on a friend or a fellow trader's position without knowing their timeframe or rationale. You may be long on a stock on a hourly timeframe and your friend may say he's short. When you exit based on his opinion and then stock goes up, you'll hit your head.

Then your friend would say he's short on the 10m timeframe or daily timeframe. Unless you know the rationale don't trade your friends'/peers' positions. Stick to your thesis and let it play out. If you lose, at least it will be your loss.

25. Holding directional overnight positions in options bought near expiry. No explanations necessary. If you're a beginner, don't touch directional options, especially near expiry. If you want to know why, go and learn from the Natenberg book.

26. Averaging down your losers. Classic repetitive mistake. Beginners think if they get a better average price, they can sell on rise. So, if a stock goes down, you buy more of it. This is great if you know what you're doing, but you're a beginner and you don't.

Run away from anyone who tells you should average down on your losers to exit sooner when it rises. I got this advice from an otherwise intelligent person. Don't equate general intelligence to intelligence in the markets. Markets require a counter-intuitive approach more often.

27. Selling your winners early. You'd rather book profits early so that you get it into your account lest it goes down and profits go poof. Unless you let your profit makers run and cut your losers early, your account will never see ascending curve.

28. Holding onto losers in the account, hoping they will rebound (they usually don't), and then selling them at cost if they do. You usually get caught with a swing trade that turns a loser without stop loss, then you think "i ll hold this for long term, it should come up".

You think you will sell at cost. You hold for many years, and finally when you exit at cost, you curse the stock and your fate. I have seen people holding their losers for YEARS (>5). Pathetic approach towards trading. Cut your losers fast and early. Always have Stop Loss.

29. Investing in cyclical stocks at the end of the bull cycle, without any knowledge. More often than not, noobs and amateurs get caught in the distribution phase, doing (1) and (2) in stocks that are at end of their bull cycle. And then you do (28).

30. Buying penny stocks. Oh, this is a 4 rupees stock. I'll buy 1000 of these. If it becomes 900, like it became for Jhunjhunwala's Titan, I'll make 9 lakhs. This is usually gambling, like a lottery only. Most often, this 4 rupees goes down the drain.

These penny stocks are also usually illiquid. Someone dying to get out for years sold them to you. It's like that comedy where if you take your hand off the cannibal's head, he will bite you. So you have someone else place his hand before you take yours.
https://t.co/dj8i4Pzorn

31. Putting all your money in one trade with conviction. This is usually a HERO or ZERO thing. So many traders do this. Some are lucky. Most are not. You don't want to take the chance of being on the wrong side, do you? Don't do this.

32. Buying stocks that are overheated. Back in 2017, lot of people got caught in Alankit, FCL, Graphite, HEG, etc., towards the lag end of the bull cycle. They were overheated, giving upper circuits until the day they started getting locked in lower circuit everyday.

People couldn't get out until after several 5% lower circuit on open. Many people I know lost a lot of money getting into stocks like that. FCL, Future Retail, Rain Industries, HEG, Graphite, Philips Carbon, Meghmani, Alankit, Vakrangee, etc.

33. Trading based on announced results. Usually a certain result level outcome is expected and price adjusts to price in that expectation much before results come out. More often you find the market doing the exact opposite of what price should do with the outcome of results.

That's because the smart money moved in before you. They are moving out as the dumb money (you) move in. Don't trade results unless you're sure of what you're doing, you have a clear cut strategy to do so. Otherwise, sit out.

34. Keeping your cash idle in your broker's account. Put it in a liquid fund/overnight fund or something where demat is involved, without much volatility. Don't keep cash idle in your broker's account. If your broker goes bust and you have idle cash, your cash is as good as gone.

Plus, if you can park your idle cash in mutual funds or liquid funds and get some interest, why not use that feature instead of having your broker earn interest in that cash? The idle cash that you see as cash in your account actually sits in broker's bank account, remember that.

36. Jumping into algo trading without knowing the hurdles behind it. I have been hearing from few many traders who jumped in, even with programming prowess, lost a good chunk of money not foreseeing different edge cases, or because system had technical issues or exceptions.

Unless you have a way to thoroughly test your algo system for all possible cases, manual execution is still better, at least at beginner level.

37. Investing in stocks that have fallen a lot, thinking they are cheap. This kind of investing is usually called costly investing, coz the reason a stock fell was because many found the stock costly and it could still be costly while you consider buying.

Fall begets fall.

38. Avoiding getting into stocks hitting all time highs thinking they will come down. There's a wee bit of a difference between overheated and those that hit ATH. Some stocks hit ATH only to go higher and higher. Especially the first time a stock hits and breaks out of ATH.

Buy high sell higher is the momentum motto. Following momentum, you also get to ride the trend as it forms and get out as it ends and you don't get caught holding burning coal.

39. Not studying the basics of the approach you have and jumping in with half knowledge.

As a beginner with a clean slate, you have 50% odds of winning each trade. But just as you start learning things about the market, each lesson you learn will increase or decrease the odds.

Whether your odds increase or decrease depends on what you learn and who you learn from. You surely won't increase your odds by jumping into trading/investing with half baked knowledge. If you get into something, go to the fullest depth and master the theory first.

Once you master the theory, then look at practical applicability, see how it plays out in practice, and then decide how to tweak your knowledge to fit your trading/investing style, and fill the gaps that arise as you go.

40. Paying for data without verifying the data source. So many people buy data in the hopes of backtesting, even spend thousands of rupees, but usually want to cut the amount short, so go through shady sources. They usually end up getting data for cheap, but with errors.

And they don't even have the faculties to find out such errors and work with such erroneous data for most part. If you decide to pay for data, either buy as a group of traders from a single reputed source, or buy from someone who bought from such source. Don't take shortcuts.

41. Investing in unlisted companies and private firms without knowing the actual valuation and other metrics. Grey Market Prices - no one knows who sets them. It's the grey market brokers and the spread is usually huge. Paytm goes for 8000 bid 9500 ask today. Unfair.

But that's how the reality is. And some people got shocked when they bought reliance retail for over 700 and reliance said it was only worth around 350 based on their valuation. So, don't get into unlisted unless you do your homework.

42. Buying IPO applications in the grey market. It's like buying the lottery purchased by someone else, by paying them some amount. This is also usually gambling, I'd advise against it.

43. Switching approaches every few weeks. This is in a way also considered system jumping. One month you're an intraday trader. One fine day your intraday position turns swing. Another day you get vexed and decide to become a value investor. Next year you chase momentum.

This will teach you many things. But it will also take a lot of tuition fees from you. You will be left with lessons and no money. What good is that?

44. Reading a book on strategies and applying those strategies right away. More often than not, the strategies that appear in the book no longer work. Otherwise intelligent traders won't publish such strategies. Either that or they aren't scalable. Don't trade right away. TEST!

45. Allocating all your savings to equity investing or trading. A certain portion of your savings has to be put away for long term, and rainy days. Don't make the mistake of putting all your money in, even if you make this your profession. You never know when the music stops.

46. Trading in futures or stocks without hedge, using leverage. Futures are usually called "leveraged instruments". Applying leverage on top of leverage is a recipe for disaster. Don't do that. Don't trade stocks using leverage without hedging, at least until you're consistent.

47. Not keeping track of your portfolio. Some of you buy and think you're going to keep them forever. Easy when they are in 10% profit. Not so easy if they are 40, 50, 60% in loss. Keep track of your portfolio, set stop losses, monitor strictly based on the timeframe of trades.

48. Believing too much in the quotes from Warren Buffett or someone similar, usually legends in the industry. WB's favorite holding time is forever. Just that there aren't any companies that one can hold forever. He himself bought and sold many companies and didn't keep forever.

So, don't take their quotes or cookie cutter advice at their face value. Look at what they do, not at what they preach. They preach for the media and the dumb money (you). Anyone who posts their quotes regularly, stay far away from those accounts.

49. Not considering index funds. As a beginner, doing SIP in index funds is one of the best things you can do for the longer term appreciation of your funds. It's not sexy. It's not thrilling. It usually works. At least some variations of it do. Do your research and learn how.

50. Giving up way too early. I made these mistakes between 2015-2018. Almost all these mistakes, barring three or four. I was that much of a noob. Don't be that noob. Don't be how I was in 2015. Avoid making these mistakes, and even if you do, don't give up.

Almost always, the moment you give up is a tad bit too early. If you only spend some more time putting pragmatic effort with solid risk management, you'll succeed. So hang in there, and don't give up.