Neophytes can succeed if they avoid foolish risks

BY PAUL BARKER, VANCOUVER SUN OCTOBER 6, 2010

Charles Whaley, CEO of ProfiTrend Enterprises, says new investors make the mistake of getting into online trading without using a broker first.

Photograph by: Tim Fraser, Postmedia News, Vancouver Sun

Pity the novice online trader who rushes blindly into this business. Unlike the boom years when millions of investors easily -- if often temporarily -- increased their net worth in a rapidly inflating market, conditions today are far different.

Doing your homework before you make that first trade is not only recommended, it's essential.

Charles Whaley, the Toronto-based CEO of ProfiTrend Enterprises, tracks the performance of stocks, exchange-traded funds (ETFs) and indexes. He has been in the trading game for 20 years, and he knows where neophytes go wrong.

"A common mistake would be to go directly to online trading and not try it through a full-service broker first, where you get some advice along the way," he says. "Your trading commissions are much, much higher. But at least you are learning the ins and outs of trading before you jump into the do-it-yourself approach."

Another error is to have unrealistic expectations, he says. "If you meet a trader in a cab or a bar or wherever you happen to be, everyone, myself included, is happy to talk about our successes." But, he notes, rarely does anyone talk about the stock they nearly lost your shirt on.

As a result, the thinking of the novice investor becomes skewed, Whalley says, toward a "lottery mentality."

The investor thinks he can miraculously pick a set of stocks that will magically double or triple his initial outlay in a matter of months.

"You need to do enough research so that you know what your reasonable expectations should be," Whaley says.

Finally, he suggests investors diversify and refrain from putting all their available cash in one "hot" stock. As countless investors have discovered at the end of a boom, that can be a very expensive mistake.

"Diversification is not buying stock from three different gold companies," Whaley says. "For example, you have one gold stock, one bank stock and a manufacturing stock so that at least you have diversification in different industries."

John See, president of TD Waterhouse Discount Brokerage in Canada, says there are many people who jump into online investing without first taking some time to understand what they are trying to accomplish.

Points to consider, he says, include determining your real risk tolerance. Are you willing to put some of your principal at risk and if so, how much?

According to TD Waterhouse, goals and objectives are the building blocks to any sound financial plan: "They help you determine your investment time frame, the amount that needs to be saved and a strategy for selecting the appropriate investments. Goals should be clearly defined and measurable so that progress can be easily monitored."

The company recommends individuals write down their goals and have them nearby to ensure they are on the right track. They should go over the list thoroughly at least once each year to evaluate their progress and make any necessary adjustments to their investing strategy.