Investing in Stocks

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Content:

There have been a lot of books written on how to be a smart investor and how to time the market. In fact, many people make a living on developing a "system" to time the market and then sell that system to other people. While there are a lot of indicators that can tell you when to invest and when to get out, one excellent way to invest is to be a "contrarian investor."

A contrarian investor means that you are doing the opposite of what other people are doing. It takes a certain amount of finesse and â€œchutzpahâ€• to be a contrarian investor but it can help you make money, and it can keep you from losing money.

Contrarian investing means that you need to buy when other people are selling and sell when other people are buying. For example, during the tech boom in 2000, the person who made money was the person who sold their tech stocks when everyone else was feverishly buying. Likewise, the person who bought Asian stocks during the Asian flu is seeing -- and will see -- an appreciation in that investment because they've bought what other people are selling.

People buy and sell every day, so how do you know what to buy and what to sell? The answer to this question is to go and look at the cover of investing and stock market magazines at your local magazine store. On the cover, you will see the popular industries that people are snapping up like crazy or dumping as quickly as possible. If you own the popular ones, get out. If you don't own the unpopular ones, get in. The popular ones may go up some more, but it will go down because that's what stocks do: they go up and they go down.

By selling when others are buying you are taking profits easily. By buying when others are selling you are snapping up opportunities at a discount. The concept seems crazy, but it works. Why? Because of the herd mentality. Many investors are undereducated when it comes to investing so they simply follow the crowd. Willingly, they buy and buy stocks that go up in price and are shocked when it comes crashing down because they followed the herd and didn't realize that stocks fluctuate.

Is contrarian investing foolproof? No. And no investing philosophy is foolproof. Contrarian investing is not meant to replace quality research and carefully considered transactions. What contrarian investing is meant to do is to help you take profits when they're available and buy cheap stocks when they're available. It's true that some stocks plummet for a reason but if you combine contrarian investing with some research, you'll be able to buy stocks when they are unpopular and ride them back to the top!

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