5 Stock Market Myths Busted

By

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Myth #1

A market drop makes you lose money

This myth is pretty much all over the news and the media. If the stock market drops 10%, all the media outlets will say that people lost 10% of their money.

But this is completely wrong. **You do not lose money if the market is dropping**. The shares that you have in the market are worth less after the drop, that is true. But if you do not sell them, you have not lost any money. You can only lose money in the market if you sell some shares. As long as you hold onto your shares, you can still hope for a recovery.

The reason this is all over the news is that fear sells well. People are very quickly afraid about these things and the media use their fears to sell more news. This is a bit sad but there is nothing we can do about that.

Only sellers are losers! People that do not sell during a drop, do not lose money.

Myth #2

You should invest in what is hot

A myth that has also been around for a long time is that you should invest in what is hot right now i.e. following the crowd.

But **following the crowd is one of the biggest mistakes** you can make when investing in the stock market. That being said, there are a few problems with this approach. The people who invested early may make a lot of money. However, since much of the followers come onboard later into the game, the possible returns that can be made in the stock is diminish.

Moreover, often, the price of the stock will be driven to unsustainable levels simply by all the people following the crowd. They are all thinking the price will go up forever and most of them did not do any analysis of the stock. When the early investors begin to sell out, the price is likely to fall. At this point, *uninformed* investors get scared and start selling really quickly. This leads to an even quicker descent and ends up in a big correction for the stock

You should never follow the crowd. It is best to ignore as much as possible of financial advice and do your own research.

Myth #3

Bonds are always safe

Many people believe that bonds are always safe.

But this is not entirely true. They may be safer than stocks in some situations. But **sometimes, bonds are actually riskier than stocks**. The problem is that most people do not understand bonds. People understand the yield, but they do not understand how they are valued.

When you buy a bond, you get a guaranteed interest rate over some period of time. If you keep the bond to its maturity, you will have regained your capital plus some interest. However, if you get a bond from a company, it may default on its bond (think bankruptcy). If you invest in government it is much less likely to default, but it is still possible. In case of default, it is unlikely that you get anything in the end.

However, the current value of a bond will change if the interest rates are raised or lowered. If the interest rate rises, your bond will be worth less. On the contrary, if the interest rate lowers, your bond will be worth more. That means that the value of a bond is not fixed. Moreover, the price of bonds can also change as more people or fewer people are interested (supply and demand!).

In the short-term, bonds are indeed less volatile than stocks. However, in the long-term, they may be more volatile.

Myth #4

Stocks That Have Risen Will Eventually Come Down

It's another common myth when it comes to the stock market. It is not *essential* that a company trading at a high price will correct and come down especially when such a company is supported by excellent fundamentals

Therefore, it’s important you research the stock thoroughly before buying it. You should keep a close eye on how the company is performing within its industry/sector, how its performing relative to its competitors etc.

Besides, we recommend not to make any decisions based on short-term returns. One must always look for long-term investments as prices keep fluctuating.

Myth #5

High Risks Equates High Returns in the Stock Market

This statement is not entirely false. We agree that various high-risk investments in the stock market do prove favourable to some traders. However, it doesn't imply that *every* high-risk investment will yield high returns every time.

If this statement was correct; every investor in the stock market would only be trading in high-risk investments. The truth is that high-risk investments carry an equal opportunity of losing big as of winning big in the market.

Again, you require patience, caution, and adequate research to discover a high-risk investment that can yield you higher returns. Do not forget that many well-known investors created wealth by investing in several small, low risk-investments that paid off in the long haul.