Forbes

Mitch Tuchman, Contributor
I write about the challenges facing serious retirement investors.

INVESTING | 8/09/2013 @ 5:24PM | 29,120 views

Stock Investing At Lower Risk: A Guide For Beginners

Stock investing can be arcane. Like any specialized pursuit, there is jargon to master, gatekeepers to pass and multiple barriers designed to keep "ordinary people" from infiltrating the business.

(Photo credit: Wikipedia)

Some of this is for good reason. Uninformed investors are a huge danger, mostly to themselves. There are regulations around stock investing meant to protect novices from being fleeced. They work, for the most part.

But investing in stocks also has been made unnecessarily difficult in part to benefit a small band of interested parties: brokers, financial advisers and the like, folks who would prefer that investors stay ignorant and pay exorbitant fees without question.

So, here's a simple breakdown on stock investing I hope will give you a little more gumption when it comes to your own investing, particularly for retirement purposes:

1. Owning stock is owning a company

That's right, you are now an owner. As such, you have rights and responsibilities. You have a right, for instance, to be informed of material changes to the company's prospects for growth and its risk of failure. And the responsibility to read that information.

2. Stocks grow two ways

Most people think about stocks in terms of capital appreciation. They buy it at one price hoping to sell it in the future at a higher price. But stocks also often pay dividends, cash income you collect for being an owner. Combined, capital appreciation and dividends is called "total return."

3. Stocks rise and fall in value

It seems a strange point to make, but what goes up can, in fact, come down. And going up is meaningless if the increase doesn't outpace inflation. Buying a stock whose price seems irrationally (one assumes temporarily) depressed is known as "value" investing. Buying a stock that's rising in hopes that more buyers will jump in is known as "momentum" investing. Both approaches work sometimes, for some stocks, in some years.

4. You will pay taxes

Unless you own your stocks inside a qualified retirement account you will pay taxes on the gains as you sell and on dividends you collect along the way. So your total return has to beat both inflation and the cost of those taxes, too.

5. Stocks can be volatile

This is a key point, and different from No. 3 on this list. Volatility is when an investment rises and falls by a broad percentage in a short period of time. Stocks are generally more volatile than, say, bonds. They also tend to appreciate more over long periods.

Finally, investors should be wary of concentration risk. Most companies do not fail. But when they do their investors lose everything. Owning a large number of individual stocks is one way to reduce the risk of loss from bankruptcy or a corporate collapse.

This article is available online at:
http://www.forbes.com/sites/mitchelltuchman/2013/08/09/stock-investing-at-lower-risk-a-guide-for-beginners/