

Why do Investors Lose Money? – 34 Questions to Help You Figure it Out

Today I want to ponder an existential investing question.

The question is this – Why do retail investors lose money in the stock market?

I have my own ideas but rather than have you sail through a fog sit through a long article to provide you with a seemingly plausible answer, let us do it a little differently. No answers from me today. Instead, I have questions. Many questions. 34 of them to be exact.

Today, let us indulge in a spot of Socratic Enquiry and see where this leads us.

I do hope these questions lead to some pondering of your own. If you are serious about investing, you should make time to examine them. The questions I have asked are straightforward ones. It is how you answer them that will make all the difference.

Here goes:



Buying

1. Why do investors lose money?
2. Could one of the reasons be – because investors tend to buy 'high'?
3. Why do you think investors often end up buying high?
4. Could it also be because that is the time where everyone is buying and it is comfortable to follow the crowd?
5. Would you agree then that following the crowd is a bad strategy for successful investing?
6. How do you resist not following the crowd then?
7. Perhaps when investors buy 'high', many a times they have no inkling of what is 'high' and what is not. That is, they do not know how much the company is really worth. Is that the case with you?



8. Investors might also think that valuing a company is a very confusing and difficult process. Would you agree?

9. If an investor does not know what is the true value of the company he is buying, should he be investing at all?

10. If that is the case, is it better not to invest and put the money into very safe instruments such as fixed deposits or Singapore Savings Bonds?

11. Why do so many people still insist on investing their money in stocks then?

12. Is it because everyone is buying stocks, and since it is so easy to buy stocks, that there is no harm in giving it a shot?

13. The more recent stocks that you bought. Do you remember how and why did you end up buying these them? Is it because your family, friends and colleagues mentioned them in a conversation?

14. Do you have high hopes that the stock will do very well after researching?



15. Have you already decided to buy the stock and is simply 'researching' for the sake of confirming you beliefs? Or are you really doing independent critical analysis?

Selling

16. When you first buy a stock, do you already have an idea of what price to sell it?

17. If you do not have a profit target, how are you going to know if it is even a good buy or not?

18. If you do have a profit target, do you usually sell when it hits the target? Or do you hang on to see if it will go up some more?

19. On the other hand, do you sell when the price drops and it gets too painful to bear?

20. Is it painful for you when the price of your stock drops? Do you think there is a good way of avoiding this pain?



21. Do you know that stocks can lose up to 50% when the market crashes? (Yes, even blue chip counters!) Are you prepared to lose up to half your initial investment when that happens? Will you lose sleep if that happens?

22. If you will, perhaps investing in stocks is really not for you?

23. Or perhaps you are investing with money you shouldn't?

24. Another reason investors always give for selling when the price falls is that they do not know how much lower the price will go. Is that your consideration as well?

25. What if you have a very clear idea of the fair value of the stock you are holding on to? Will it give you more conviction to hold on to the stock when the price goes down?

Investing

26. Is investing an emotional activity for you?



27. Do you think that should be the case?

28. It is often said that 90% of the retail investors lose money while only 10% are profitable. Do you agree?

29. Which camp do you belong to? Are you part of the majority or do you belong to the tight band of profitable investors?

30. Why do you think the majority of people lose money?

31. Could it be a lack of knowledge? Or the speed of information? Or is it something else?

32. Do you think investing is more skill or luck? Why do you say so?

33. What do you think are the qualities that make a good investor?

34. How do you think an investor can go about developing these qualities?

