Risks Associated with trading in Stocks

1. **Returns are not guaranteed:**

   Trading in Stocks does not guarantee returns. There is no guarantee that investors will make money in stocks' trading. Although a number of things can help investors to assess a particular stock but no one can predict exactly how a stock will perform in the future. There is no guarantee that prices will go up, a company will pay dividends or a company will even stay in business.

2. **Money may be lost:**

   Stock prices can change often and the investors must keep in mind that they might lose all of their money when they buy and sell stocks. Investors are exposed more to risk if they do not plan to invest for the long term. If investors use leverage to invest in stocks, like buying on margin then they could lose more than they invest.

   There are always ups and downs in the stock market. A stock price that changes quickly is more "volatile". This makes a stock riskier and the investor could lose more money if he/she had to get his/her money out on short notice.

How to Manage Risk

1. Diversify your Portfolio

Investors are advised to hold a diversified stock portfolio. Following feature should be considered before buying stocks:

a. **Type of Industry/Sector** – Before buying stocks it must be considered that which industry/sector is performing well. Companies in one sector might slump while companies in another sector might be rising.

b. **Type of stock** – Preferred stocks tend to offer lower risk and returns as compared to common stocks. But they pay a fixed dividend unlike common stocks. Investors must choose both for their portfolio.

c. **Company Size** – It is advisable to invest in a larger, more stable company with a long history and good track record. Investment in a smaller and newer company can offer the potential for higher growth but it is usually risker that a larger and stable company.

2. Make Long Term Investment

The stock market is subject to short-term fluctuations, as well as bear markets but stock market has historically performed well over the long term. If investors will buy stocks with money that they may need soon, they may be forced to sell in a period when stocks' prices are down, hence, they will lose money. Therefore, investors are advised to buy stocks for long term.

3. Don't try to time the Market

Trying to time the market can be a risky strategy. Investors may hear about a stock that is climbing higher and higher in price. When more investors decide to jump in and buy the stock, they drive prices up even more. The price can fall just as fast as investors start to sell to book big gains. Other investors make the mistake of selling as soon as a stock price falls. But they don't lose money on a stock until they sell it. If they hold on, the price may come back up.