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Lecture seven: **Stock Market Strategies**

There are a number of different ways to approach stock investing, but nearly all of them fall under one of three basic styles: value investing, growth investing, or index investing. These stock investment strategies follow the mindset of an investor and the strategy they utilize to invest is affected by a number of factors, such as the investor's financial situation, investing goals, and risk tolerance.

Below, we're going to address the three basic styles or stock investment strategies that investors commonly use to approach investing in stocks.

1. Value Investing Basics

The strategy of value investing, in simple terms, means buying stocks of companies that the marketplace has undervalued. The goal is not to invest in no-name companies that haven't been recognized for their potential – that falls more in the venue of speculative or penny stock investing. Value investors typically buy into strong companies that are trading at low prices that an investor believes don't reflect the company's true value. Value investing is all about getting the best deal, similar to getting a great discount on a designer brand.

When we say that a stock is undervalued, we mean that an analysis of their financial statements indicates that the price the stock is trading at is lower than it should be, based on the company's intrinsic value. This might be indicated by things such as a low price-to-book ratio (a financial ratio favored by value investors) and a high dividend yield, which represents the amount in dividends a company pays out each year relative to the price of each share.

2. Value Investing Long-Term

The value investing strategy is pretty straightforward, but practicing this method is more involved than you might think, especially when you're using it as a long-term strategy. It's important to avoid the temptation to try to make fast cash based on flighty market trends. A value investing strategy is based on buying into strong companies that will maintain their success and that will eventually have their intrinsic worth recognized by the markets.

Warren Buffet, one of the greatest and most prolific value investors of the century, famously said, "*In the short term, the market is a popularity contest. In the long term,* *the market is a weighing machine.*" Buffet bases his stock choices on the true potential and stability of a company, looking at the whole of each company instead of simply looking at an undervalued price tag that the market has assigned individual shares of the company's stock. However, he does still prefer to buy stocks he perceives as "on sale".

3. Passive Index Investing

Index investing is a much more passive form of investing when compared to that of either value or growth investing. Consequently, it involves far less work and strategizing on the part of the investor. Index investing diversifies an investor's money widely among various types of equities, hoping to mirror the same returns as the overall stock market. One of the main attractions of index investing is that many studies have shown that few strategies of picking individual stocks outperform index investing over the long term.

An index investing strategy is usually followed by investing in mutual funds or exchange-traded funds that are designed to reflect the performance of a major stock index

Important tips before taking your decision to invest:

1.Before choosing a stock market strategy, thoroughly assess your financial situation, risk tolerance, and investment goals. This self-review should be the basis of any approach you take.

2.Passive index investing involves putting your money into index-tracking mutual or exchange-traded funds (ETFs), offering built-in diversification and a hands-off approach.

3. Investors who follow growth strategies should review the executive teams of the firms they're investing in and news about the economy and relevant sectors.

4. Momentum investors buy stocks trending upward and short-sell them since they view them as likely to come back down to earth.

5. Dollar/Euro-cost averaging removes the pressure of trying to time the market perfectly. It's a disciplined approach that involves investing consistently over time, regardless of market shifts.