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Don’t Gamble Away Your Money:
Stock Market Problems and Risks

Investors Often Cause Stock Market Problems

With the advent of online banking and online trading, the stock market has opened its doors to virtually every person willing enough to grow their money. And yet, despite this, not everyone has joined the bandwagon. The biggest factor being the potential risk involved in trading stocks.

The stock market is among the most volatile financial institutions in business. And it’s this volatility that tends to be the biggest problem with the stock market. Almost any reason, real or imagined can cause these extreme fluctuations that often affect the stock market’s credibility.

Real factors such as the weather, political instability, political decisions, war, terrorist threats, boycotts and strikes, economic trends and international trade or even company scandals also become factors to the stock market problems.

Bad weather such as hurricanes affects certain industries such as oil production. This then drives the cost of petroleum products higher as production gets limited. This causes a cascading effect that drives stocks of oil companies higher.

Political instability in a country can affect investor confidence thus lesser investing is done. This causes the shares of local companies to slide downwards. Boycotts, strikers and terrorist threats have also proven to be the bane of the airline industry. Shares of airliners have tumbled throughout the years with every terrorist attacks all over the world.

But aside from uncontrollable factors such as natural disaster (or war), the common underlying link that allows these other reasons to affect the stock market so significantly is investor psychology.

Humans are prone to herd mentality. Often, people confirm with the actions and directions of other people. This is a common mistake in investing.

An example of this is during the early 90s when dozens of dot com companies sold their stocks in the stock market. It created an artificial demand for stocks of companies that did not even provide real and concrete services.

These stocks soared in value as more and more enthusiastic investors bought them. This happened up until the time it was realized that these companies did not actually post any considerable profit to sustain the value of the shares.

The stocks then tumbled and virtually lost value as investors frantically sold their shares. This tendency to panic and depend on the direction of others is among the real causes of problems with the stock market.

There are two actions arising from this mentality:

a.) Panic buying
b.) Panic selling

Of the two, panic selling causes the most harm since it causes a steep and quick drop in the value of shares.

The best way to avoid causing these problems is to practice due diligence and to keep a level head while investing.

Stock Market Risks: Is My Money Really Worth It?

So, finally, you have your money you can call your own. Naturally, you want to see your money grow. Saving your money in a bank doesn't entice you, seeing it offer too little growth potential. You want something that gives a little more risk, with the hopes of having a much larger financial return. You turn to the stock market.

But wait! Are the risks involved in investing in the stock market worth my money? Investing is a good tool to increase your money, but you have to keep an open mind and know what to look for. Needless to say, investing in stocks is a risky business. There are some risks that fortunately, you can control.

For example, you must guard against investing in "hot" stocks. True, some get wealthy in investing in "hot" stocks such as the "dot-com" bubble in the 1990s, but when the initial buzz around these stocks begin to slide, so does your investment. Once they fall, they really fall hard in a short period of time. This includes your money and others like you who invested in these stocks. If you really need to invest in these stocks, you have to keep a constant eye on them and try to sell them when they start to level off or drop.

To avoid such risks, you must diversify your portfolio. Basically, it means buying a little bit of a lot of different types of stocks and bonds. In that way, if one stock gets down, another one of your stock might be up and will help you recover some of your losses. It is a good idea to have some stocks in the technology sector, telecommunications, biomedical, and consumer corporations. In time, you could add your portfolio with precious metal and diamond indexes, and some general investment funds.

There are also companies that offer "safety stocks". A sound decision is to have several shares of companies such as this in your portfolio. This is because such stocks rarely fluctuate and most often offer a slow and steady growth, thus giving you an assurance in your investments.

Do not rely on tips saying that this stock is "going to be big" and the like. These tips are often unfounded, and these stocks are almost worthless. Investing in these stocks might give you a higher return but in the long run, these stocks will just give you worries. Read the Wall Street Journal or watch the stock reports on news networks to know more about your stocks. Also check relevant websites to see how your stocks have been performing in recent weeks.

What Are the Pros and Cons of the Stock Market?

Understanding the nature of the stock market, including its pros and cons, doesn't have to be confusing one. Many people fear that in order for them to know the nature of the stock market, they have to understand a gamut of stock and marketing terms and all that jazz.

On the other hand, some people saw behind the veneer of all these economic gibberish, and saw the potentials of what they could get from investing in the stock market.

In a nutshell

Simply put, the stock market is the market to buy and sell stocks and shares. This is where company stock gets traded. The term is also used to describe the totality of all stocks in one country. That is why we hear reporters talking that "the stock market was up today" or that "the stock market went down after the dollar fell to the euro."

What are the pros and cons of the stock market?

One of the reasons why we need the stock market is because it is an important factor for the US economic system to operate. Through the stock market, US companies improve their financial viability and expand their operations by raising funds from selling stocks. Without the stock market, our companies become slower in their growth and might falter in the increasing competition in the US as well as against international companies.

Another reason for the existence of the stock market is that it also has role in personal financial planning. This is because many individuals buy stock shares as part of their personal financial strategies. More importantly, most Americans have a stake in the stock market because retirement programs invest in stocks. It has shown that retirement programs earn a lot more by investing in common stocks than other options such as saving the funds in banks.

Of course, the stock market also has its downsides. Remember that the stock market is not a tool for instant success. True, there are cases of one getting wealthy by investing in the market, but this involves having shares in various company stocks, which means a lot of research, time, and money. One also gets rich when some stocks become "hotter" such as the "dot-com" bubble in the nineties, but when the initial buzz around these stocks falter, the value of these stocks tend to crash.

The Worst Stock Market Investment You Can Make

Investing in the stock market is probably one of the riskiest ventures you can delve into with your money.

It is also one of the most profitable undertakings you may make at the same time.

So it's only normal that you may have reservations about actually trying your luck in the stock market.

The best thing to do is to get a stockbroker to handle your stocks initially. He will be able to give you professional and dependable stocks tips and advice.

It is also a good idea to actually to find a friend or an acquaintance who already has some experience with dabbling in the stock market. He or she will be able to give you stock tips and advice for free.

For instance, one piece of advice a friend might share with you is the worst stock to put your money in. One of the worst stock moves you can make is with variable annuities, using the premium of your insurance.

A variable annuity is an insurance contract that allows you to invest your premium in mutual fund-like investments. This sounds good in paper, but if you look at it a little harder, you'll find that they are bad investments in the long run for the following reasons:

- Tax cuts. Ordinary investments in stocks and mutual funds qualify for low capital gains treatments, thus smaller taxes. Your gains from investing your premium, on the other hand, get taxed as income as soon as you withdraw the money.

- Early withdrawal penalties. Insurance plans are designed for retirement. Taking out money from your premium entails a certain amount of penalty from both the insurance company as well as the government. So if you withdraw your profits, you will be penalized.

- Death benefit. If your stocks are down upon your death, your beneficiaries can get as much as the investments you put in. Unfortunately, if your stocks are up, they get taxed as a regular income.

- Costs. Annuities with insurance features are actually more expensive than ordinary mutual funds. The more insurance features your annuity has, the more annual feels are heaped against it, which naturally eats up your profits.

There are other stock market investments that are not a good choice as well.

There are also specific times when you should not make an investment. Times of natural calamity, for instance, may drive the prices of stocks down, but where there is insurance these could recover to make a good profit.

As always, it is best to diversify where and when you put your money in the market.

Common Manipulations of Consumer Investors

With the advent of online brokers, many individuals are placing themselves in the driver's seat for purchasing stocks and bonds. The process requires a lot of research and little luck. A quick search online can bring an investor all the information they need in order to make decisions.

Unfortunately, there is a lot of misinformation out there regarding investing in the stock market and in reference to specific stocks. The process of manipulating potential investors to scam them out of their money has followed the stock market into the 21st century and online. Many of these manipulation schemes work on a subtle level to sneakily scam investors out of their money.

The first of such scams is called "pump and dump." In a pump and dump scam, the basic method is for a person, brokerage or even a company itself to tout the projected earnings and growth of a company. This false projecting works to lure uninformed individual investors into purchasing stock. These purchases then push up the price of the stock in question. As the price begins to rise, the original scammers sell their stock off to new uniformed investors and retain profits. Once all the hype drives up the price high enough and the accumulation pressure disappears, the stock crashes and the investors lose money.

In many cases, company insiders will hire promoters to get individual investors involved. There are series of press release and false research reports that lure investors into purchasing these stocks. This practice is most common in the world of penny stocks. To avoid the majority of these scams, avoid investing in penny stocks. The hype associated with pump and dump scams is similar between scams.

The fake press releases and research reports always tout the given company as being on the verge of a world changing technology, cure for a disease or fantastic new product. The focus is always on the glorious future of the company, but very little information is given about the company's current status.

The second type of stock market scam is characterized by rumors and traders tricks. Manipulations of stock price can be achieved in subtle ways. Money managers have the ability to start rumors about stocks that they would like to move without paying a large price. The rumor works to lower the price of the stock and create liquidity in that company's stock. The rumors run unchecked and spread through the market like wildfire.

For example, if a money manager wants to purchase some stock in Company A, they can start a rumor that the company is on the verge of bankruptcy. This lowers the price of the stock and allows the manager to purchase it at the desired rate. This works in the opposite way as well. If the manager wants to sell stock for Company B, a rumor can be started about an emerging invention from that company in order to inflate the stock price.

These subtle attempts at manipulation can be the hardest for investors to spot, and therefore the most difficult to avoid. Since rumors are part of the business of the stock market it is hard to track down where the rumors started.

Additionally, there is no paper trail to track down the money managers who practice this sort of manipulation. Fortunately, these inflations or devaluing of stocks are very short lived. Within a short period of time the rumors are proved untrue and the stocks bounce back to their true value. These schemes fortunately never have any long-term impact on the market. Maintaining a long-term investment focus of owning good companies for long periods of time will offset any of these manipulative rumors.

Unfortunately, manipulation is something that investors will have to deal with. It is part of the market and shows no signs of going away. Cheaters and manipulators exist in every industry, and are especially concentrated in an industry that is full of money like the stock market is. However, despite the presence of manipulation millions of Americans have been able to make money through sound investment strategies. By practicing diversification and researching wisely, these manipulation techniques can be avoided by most investors.

The Potential for a New Stock Market Crash

There are many signs pointing to an impending long-term bear market (a period of decline in the value of stocks). The first and most important indicator is the outrageous use of credit that has created a crisis in the United States. As housing prices skyrocket all over the country, homeowners have used home equity credit lines to take advantage of these inflated values.

Consumers have been maxing credit cards and credit lines in order to buy seemingly frivolous items, such as large electronics and luxury vehicles. Living above your means seems to be a national epidemic. What many consumers aren't facing is the reality that this unnecessary spending is using borrowed money, which must eventually be paid back.

The federal government isn't setting a very good example with their own debt at $7.2 trillion. This national debt is growing by $1.71 billion per day. Between the government, business and household debt the country has accumulated over $40 trillion in debts. This is up from $13 trillion in 1990.

The stock market will be affected by rising interest rates. As these interest rates rise, it will become more difficult for debtors to pay interest. Many people will either default or declare bankruptcy. When a large amount of people are unable to pay off their debts it affects the entire economy. The stock market is directly affected as both consumers and businesses slow their spending. Banks, in turn, become insolvent from people defaulting on their loans. The credit crisis that has been created in the country can reach a boiling point in many ways, and that point will drastically affect the stock and bond markets.

The housing market boom has been fueled by mortgage rates that are at all time lows. When these mortgage rates rise, as they are bound to do, the real estate market will become bearish. Prospective homeowners will be reluctant to accept such high mortgage payments, and the inflated housing prices will begin to drop. In addition, housing prices have become so inflated that many families cannot afford to purchase a home.

The housing market has traditionally been a large portion of the foundation for the US economy. Approximately 25% of the economy is in the real estate sector. This makes sense when one realizes that houses are biggest investments most people make in their lifetime. Housing prices are imperative to the success of many major home improvement and home furnishing companies. Any industry related with building, designing or decorating a home can be negatively affected by a drop in the housing market. Most banks also supported by the home loan interest they receive.

There are several studies that indicate falls in the housing market are worth twice as much as falls in the stock market. If the housing market falls 20 percent it will have the effect of the stock market falling 40 percent. The effect on the overall economy of the nation will be felt on a major scale. Given the overvalued real estate market of today, it would not be impossible for a 20 percent crash to occur in the near future.

The Baby Boomers reaching retirement age will also have a potentially limiting effect on the stock market and US economy. Throughout the 1970s, 1980s, and 1990s, the Boomers created massive capital flows into the stock market because of their interest in investments. As this generation group begins to retire, most if not all of them will begin to cash out their stock investments. Social security will be virtually no help so their only option for retirement funds is to cash their stocks in and invest in bonds.

The problem is that the Baby Boomers are the largest and wealthiest population group. Generation X, who is in position to purchase the stocks the Boomers are seller, is a much smaller generation group. Additionally, their buying power cannot compete with that of the exiting Baby Boomers. The increased cost of living has also resulted in less money for the X'ers to spend on investments.

The crash may occur because of the continued outsourcing of jobs. As more people in the country lose their jobs to foreign workers, their inability to pay personal debts will cause them to go bankrupt. In turn, the housing prices will begin to drop as foreclosures become more frequent. Stock prices and trading will be effected negatively and the retiring Baby Boomers selling stocks will also drive prices down. The result is a long bear market.

Amidst All Hype: Stock Market Scams and How to Avoid Them

With all the prices going high these days, people would instantly grab the opportunity on anything that will make them earn money. And this is basically where fraudulent people take advantage of.

Today, there are many scams as there are starts in the sky. They had been so rampant that people became so aware of its alarming condition. But still, even if they know that there is a bound to be a scam out there, they could not yet distinguish what is a scam and how can they avoid it.

In the industry, one of the proliferating scams is the stock market scams. A lot of people are getting enticed to join these simply because their offer seems so hard to resist.

Why? Because who wouldn't resist a "get rich quick" strategy? These are just petty things but are actually bigger problems than what you thought it is.

For people to know what stock market scams are and how to avoid them, here's a list of the common stock market scam lurking mostly in the Internet today:

1. The “Pump and Dump stock market scam

This type of stock market scam is mostly disseminated in the Internet. Here, people usually get to see messages posted in the Internet advocating them to purchase a stock at once. This type of scam also urges those who have stocks already to sell their stocks immediately before the value depreciates.

These deceptive scammers claim that they have reliable sources about a threatening development. They even assert that they utilize a foolproof combination of the stock market and the trade and industry data so as to get some stocks.

The bottom line is that this type of stock market scam is detrimental especially to those who are starting small. In reality, people behind this scam would want to manipulate the stock market through small time businesses because small businesses are easier for them to manipulate.

2. Pyramid scam

Just like its motherboard, this pyramid scam in the Net tries to hoard money from the consumers by letting them invest their little amount of money and grow it really big provided that they recruit more people into the company.

These two are the most common stock market scams lurking in the Internet today, and the only way to avoid them is information. Itís a must that people should be aware of them, know their styles, and how they recruit people. If in case, they cannot determine if it is a scam or not, they should verify the claims from the right people. That’s the simplest thing to do.

Addicts in the Stock Market

What makes gambling so addictive? Easy: quick and easy profits.

What makes the stock market addicting? Easy. See answer above.

Although stock trading and gambling have as many disparities as they have commonalities, the comparison is entirely legitimate. Both deal with playing with money and both deal with risks. Both also have hope and fear components, which often lead to addiction.

According to Paul Ashe, president of the National Council on Problem Gambling, the most gambling performed in the world is performed in the stock markets.

The active investor’s addiction to trading is as strong as any form of addiction. Like gambling, active investing can be extraordinarily exciting for investors who, in turn, get carried away by winning.

Even medical studies confirm the release of the chemical, dopamine, when presented with the opportunity of a rising stock. The powerful allure of monetary rewards leads to the overwhelming urge of trading stocks.

It has been shown through brain imaging studies that the human brain treats the prospect of big profits the same way as the addictive nature of gambling, alcohol, drugs and other addictions.

So what specifically makes stock trading addicting? The reasons may actually be a lot more and may differ from person to person but the following can be considered true with most cases.

Control

Investors appreciate the control they have over their situation and the freedom of making decisions for themselves in terms of trading and buying stocks.

Excitement

Like gambling, trading provides a certain level of excitement by making decisions and risks for the sake of a good return in investment. The more risk they take, the bigger potential for profit, the greater excitement it gives.

Easy return of profit

Casino gambling, lottery, raffle draws provide people a quick and easy way of earning money with minimal effort. This is true for stock trading as well.

Game

Active investors see trading as a game. It has entertainment value, a means of passing time, and the component of winning and losing.

Perpetuation

The problem with addictions such as gambling and active trading is the pitfall of perpetuation. As investors earn more profit with every stock trade, the more they are encouraged to continue trading, and at times investing more and more money. And with every loss, there is the desire to reverse the loss by intensifying their trading.

Investing via the stock market is a good way to grow your finances. But this should be coupled with the responsibility of keeping yourself in check before you cross the line into addiction.

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