Mark Ting, On the Coast's finance columnist, on why not to put all your eggs in one basket

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There are several reasons for the uptick in DIY investors — some see the recent market crash as an opportunity that only comes along every five to 10 years, while others are looking to stock trading to replace one of their other vices, writes Mark Ting. (Shutterstock)

With many of us stuck at home, activities such as binge-watching Netflix, gardening, and Zoom yoga have become increasingly popular — so has stock trading.

In fact, some analysts point to the flood of stock purchases by DIY — do it yourself — investors as one of the reasons stock markets have rebounded so quickly from the March lows. This, despite veteran investors such as Warren Buffett and Stanley Druckenmiller selling many of their stock positions and appearing cautious in the current market environment.

There are several reasons for the uptick in DIY investors — some see the recent market crash as an opportunity that only comes along every five to 10 years, while others are looking to stock trading to replace one of their other vices. For example, people who used to spend a lot of their time analyzing sports teams for the purpose of betting have shifted their focus and are now betting on stocks.

If you are considering becoming a DIY investor you will need to open a discount brokerage. I use two discount trading accounts, Questrade and Wealthsimple Trade. Questrade offers more in the way of research and recommendations but charges a commission to transact stocks, whereas Wealthsimple Trade is commission free.

At the time I opened my brokerage accounts, these two brokers suited my needs — but this was years ago and it's best to do your own research. There are plenty of useful "brokerage review" articles and YouTube videos to help you make your decision.

You may be wondering, "Why would I pay to trade stocks when there is a commission-free option available?"

"Commission-free" does not mean there are no costs. There is often a 1.5 per cent foreign exchange premium/charge on all purchases of international stocks. To avoid this premium, I mainly buy my Canadian stocks in my commission-free account and my U.S. or international stocks in a commission account.

Depending on the size of the trade, it is often cheaper to pay $5 to $10 per trade rather than the foreign exchange premium charged by non-commission brokerages.

Other considerations are the sign-up bonuses offered, which range from free money to free stocks, as well as the stability of the trading platform. Last March, when trading volumes spiked, several discount brokerages, including the one I use, experienced system outages, freezing all stock transactions at a very critical time.

Avoid over-concentration

My advice to first-time DIY investors is to be prepared for a lot of market volatility and a high likelihood that they will lose money. For beginners, I recommend buying indexes such as the TSX 60 or S&P500, which can be done using Exchange Traded Funds (ETFs), over individual stocks.

A common mistake — one I have made many times — is being over-concentrated in one company or sector.

This often happens when a trend — such as tech, cannabis, or precious metals — becomes "hot." Investors pile into these sectors (buying high) but if the hype doesn't live up to expectations, many exit their positions, usually only after the stock prices have crashed (sell low).

I had to learn this expensive lesson many times before it finally sunk in. I now purposely keep an embarrassingly long list of stock positions in my brokerage account that are in the red with little or no hope of recovering. I use this list as a cautionary tale in case I get overly excited about the prospects of a company or industry. It reminds me that it's OK to invest in my new favourite business — just not everything.

Keep in mind the adage, "don't put all your eggs in one basket."

If that basket drops, the eggs break and you are left with a mess or, for many DIY investors, a lot of losses in their brokerage account.