

# 3 things to factor in before buying shares

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## How many shares should you buy?

Without a proper strategy in place, you can end up buying too little or too much.

Buying stocks on one's own involves homework. But even after the research and zeroing in on the right stock, you are left wondering how many shares to buy. Too many people make costly blunders at this stage. We tell you how to approach the situation.

## Price should not be criterion

Too often, the share price becomes the deciding factor. Some investors tend to prefer buying shares of stocks quoting at a low price, because they get to buy larger quantity of the shares. For instance, if the price of company ABC's shares is Rs 30, one could buy 1,000 shares for Rs 30,000. A pricey stock, on the other hand, will fetch far lesser shares for the same amount of money. So, if another company XYZ in the same sector is trading at Rs 300, one would only be able to purchase 100 shares. This would drive the investor towards ABC's shares, reasoning that holding higher number of shares would fetch higher gains at the time of sale.

This is a flawed notion. If both stocks appreciated to the same extent, the gains in both these cases would also be same, irrespective of the number of shares bought. For instance, a 50% appreciation in the stock price would fetch you gains of Rs 15,000 in both scenarios.

## Follow a portfolio approach

Instead of obsessing over the number of shares to be bought, give weight to the aggregate value of the purchase you need to make. The position, or investment exposure, that you take in any single stock should be guided by your asset mix. For instance, a person with an investible corpus of Rs 10 lakh and preferred asset allocation of 40% to equities may look to invest up to Rs 4 lakh in stocks, which can then be proportionately distributed among a chosen basket of companies.

However, a single stock should not constitute more than 10%-15% of the total. The value of the purchase should be such that the stock weight in the portfolio does not exceed this level. Vikas Gupta, Executive Vice President, Arthveda Fund Management, says, "Put an upper limit for exposure to a single stock up to 10% of your total portfolio. Avoid taking concentrated exposure with large positions in just a handful of stocks". This is to ensure that a sharp drop in the value of a single stock does not jeopardise your entire stocks portfolio. At the same time, any allocation of say, less than 5% of the portfolio will not have any meaningful impact on the overall returns.

## Stagger accumulation

Should you buy an entire lot of the chosen stocks at one go or stagger the purchase? Experts contend that when building a portfolio for the long run, a creeping accumulation strategy works best. Assuming the fundamentals of a company remain in place, one may use a staggered approach to add to the existing holding in the company. This also reduces risk to some extent.

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