

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



High Beta Stock Investing

By: www.ProfitableInvestingTips.com

With the stock market in free fall and no bottom in sight are there some investments that will do better than others? There are the usual consumer goods stocks like Kellogg that tend to go up when everything else falls. There are also the so-called high beta stocks that are more volatile than the S&P 500 which provide greater profit potential but also carry greater risk of loss. Is high beta stock investing a good idea now or, perhaps, when the market bottoms out?

What Are High Beta Stocks?

A high beta stock tracks with the S&P 500 but has more volatile swings up and down. They are attractive to investors as well as traders because their volatility offers greater profit potential than ETFs that track the S&P 500. The downside is that they can produce larger losses than the S&P 500 as well. SVB Financial Group, Advanced Micro Devices and United Rentals, Inc. have been at the top of the high beta stocks in recent years.

How is Beta Calculated?

The beta of a stock is determined using regression analysis going back typically 36 months. An investor does not need to know how to do these calculations as there are lists of these stocks readily available with an internet search. A beta of 1.0 is the midpoint and means that the stock tracks precisely with the S&P 500. A beta of less than 1.0 means the stock is less volatile than the S&P 500 and a beta of more than 1.0 means that it is more volatile.

Know Why a High Beta Stock is High

When investing it is important to know why a high beta stock is high. The regression analysis that determines a stock's beta looks back 36 months. Like a moving average this is a backward-looking indicator. While it tells you whether the stock is less or more volatile than the S&P 500 it gives you no clue as to why! Here is where you need to do the same analysis that you always do when [investing in stocks](#). Intrinsic value will give you a sense of forward looking earnings and [market sentiment data](#) will help you understand what other investors are thinking.

Screen with Beta

Perhaps the most useful function of beta is as a tool for screening potential investments. By pulling a list of high beta stocks off the internet you have a place to start from for picking potential big winners. Your next task is to understand why these stocks are volatile and if that volatility is going to make them good long term investments or investments that you want for short term profits. There are stocks that cycle violently which can be recurring profit makers provided that you learn their patterns.

Investing in the S&P Instead of a List of High Beta Stocks

We have noted in the past that the vast majority of retail investors should limit themselves to a handful of stocks that they can follow closely. Many who have full time jobs find it easier to follow the overall economy which drives the S&P 500 than to keep track of the many factors that drive several high beta and therefore high risk stocks.

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