### What is Stock Price and Guideline for Investment Decision

The term stock price refers to the current price that a share of stock is trading for on the market.

Every [publicly traded company](https://corporatefinanceinstitute.com/resources/knowledge/finance/private-vs-public-company/), when its shares are issued, are given a price – an assignment of their value that ideally reflects the value of the company itself. The price of a stock will go up and down in relation to a number of different factors, including changes within the economy as a whole, changes within industries, political events, war, and environmental changes.

### Stock Price Changes for a Company

Aside from the other things that make any stock price change, there can be issues within a company that cause its stock price to move in either direction.

### Guideline for Investment Decision

### 1. Investing Strategy

It’s important to know what kind of investor you are and adhere to the principles of your investing strategies. What kind of investor are you; value, contrarian, growth at a reasonable price, growth, or momentum?

### 2. Invest With a Margin of Safety

If you buy an asset for less than its real value you have a [margin of safety.](http://www.arborinvestmentplanner.com/margin-of-safety-chapter-20-the-intelligent-investor-book-review/) One of my favorite sayings is: Price Matters! The best plan to lower risk is to buy investments at a price that is lower than the real or intrinsic value.

### 3. Asset Allocation

Your [asset allocation](http://www.arborinvestmentplanner.com/asset-allocation-what-why-how/), how you divide your portfolio among different asset categories, will be the biggest determinant of your investment returns. I find this is where many investors fail because they put little thought or effort into their asset allocation strategy.

### 4. Diversification is Vital

[Investment diversification](http://www.arborinvestmentplanner.com/investment-portfolio-diversification-definition-examples-advantages-2/) in small numbers provides enormous benefits. In other words, five investments is much better than two, ten investments is better than five.  However, the marginal benefits of adding additional investments decreases as the numbers get larger until the costs become greater than the benefits.

### 5. Invest For the Long Term

Short term investing is one of the biggest downfalls of current investing strategies. The truly great investors realize if you buy an investment at a favorable price it may take time for the market to recognize its true value.

### 6. Use Compounding to Your Advantage

Compounding or [exponential growth](http://www.arborinvestmentplanner.com/what-is-exponential-growth-double-time-and-the-rule-of-72/) (they mean the same thing) is a powerful financial concept. Understand how it works for you and why [dividend growth compounding](http://www.arborinvestmentplanner.com/dividend-growth-compounding-versus-interest-compounding/) multiplies the value of compounding.

It’s equally important to understand the devastation of reverse compounding. The more of your portfolio you lose the harder it is to make it back because you lose your principal.  A 10% loss only requires an 11% gain to get back to break-even. However, a 50% loss requires a 100% gain to get back to break-even.

### 7. Employ Risk Management Strategies

Because it is so important to not lose your principal you must employ [risk management strategies](http://www.arborinvestmentplanner.com/portfolio-risk-control-strategies-focus-on-what-you-can-control/). Portfolio volatility is an investment return killer. If you don’t control risk you will suffer greatly in bear markets. Avoiding large portfolio drawdowns should be one of your preeminent investing principles.

### 8. Anticipate Market Volatility

Despise portfolio volatility but embrace market volatility. You can control portfolio volatility but you cannot control the inevitable volatility of investment markets.