A guide to picking shares

If you're interested in shares, but aren't sure how or where to start investing, we can help. This short guide is designed to give you a few ideas and our exciting new share-picking game is then a great way to practice your skills. We hope you enjoy it.

Getting started

When you're looking for ideas to invest in, it can help to have a starting point. Here are three things to consider.

Invest in what you know

If you keep your eyes open, you may spot investment potential around you before it is picked up on by the professionals. For example, you might notice that the designs or quality in a certain clothes shop have improved recently or you might hear more of your friends talking about a particular make of car. This sort of information could suggest a company is on the up before it feeds through to their bottom line.

Look for companies with hidden strengths

The market doesn't always get things right – and it has a tendency to over-react. This can mean you may spot companies with share prices that are less than they are really worth. It can be a good idea to search for these businesses, as they may have strong long-term potential, plus their share prices could rise more quickly when the market realises they are undervalued. That said, our game only lasts for three months, so when you're playing it, you may want to find companies with the potential to give you high returns in the short term.

Think about income

While you may want to focus on fast-growing companies with the aim of winning our game, it's not the only way to invest for the long term. Many companies return some of their profits to investors in the form of dividends and if you reinvest these payments, they can really add up over the years – and potentially play a significant role in any returns you achieve.

Do the research

You can have fun with a share-picking game but it still makes sense to do some research. This will help you get ready for choosing shares with your own money in future. Here are our six steps for finding and analysing potential opportunities.

1 Learn some of the lingo

There's a lot of jargon in the investment world and you don't have to understand it all. However, it can help to know some of the basics, such as bid-offer spread, dividend yield and PE ratio. Quite simply, the bid-offer spread is the difference between the buying and selling price of a share, while the PE (price-earnings) ratio is an indicator of how expensive the share is. It tells you, in a nutshell, how much the company is worth.

The dividend yield is a good way to compare companies if you want an income from your shares. It is calculated by dividing the annual dividend pay out per share by the share price and tells you what sort of percentage income return you can expect.

2 Start with a focused approach

Pick an industry or sector you're interested in. This way, the research you do into one company can inform your views on others as well – helping you make more informed decisions. Once you've found an opportunity or two, you could then broaden your approach to other areas.

3 See what the experts say

There are lots of experts out there (some more knowledgeable than others). These include newspapers, specialist financial sites and investment companies. For example, we have a range of articles and other insights on **our website**. Reading a range of opinions won't just develop your own knowledge, it can help you spot areas where you think the markets may be making a mistake.

4 Review your ideas in detail

At this point, you may have a few ideas that you like. Now, it's time to take a closer look at what they do, whether they do it better than everyone else and how good their management is.

5 Crunch the numbers

You can find market and share data on lots of websites, while annual reports will give you more detail about individual companies. A business may sound like the right investment, but this is the time to make sure – and to check if they're available at the right price. (Don't forget, you can always wait for later if they're not.)

6 Consider what may be ahead

Finally, try to understand what may lie ahead for a company, its industry, its customers and the countries where it earns its money. Even if a business looks attractive on all other measures, it may not be a good investment if its industry is about to be disrupted and it doesn't have a plan in place. Alternatively, it may be in an excellent position for growth that turns it from a good opportunity to a great one.

Remember diversification

Focusing all your investments in one area should mean you perform well above average if it does well, but you'll be well below if it does badly. This could be a good strategy for a three-month share-picking game, but when you're investing your own money for the long term, it can pay to be 'diversified'.

This means spreading your investment across businesses of different sizes in different sectors and even countries, so you reduce the overall level of risk and give yourself a better chance of steadier returns – though, as with all investing, this is not guaranteed.

The value of investments and the income from them can go down as well as up so you may get back less than you invest. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. Direct shareholdings should generally form part of a well-diversified portfolio of other investments.

To find out more go to **fidelity.co.uk/shares**

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