The Learning-to-Invest.net Basic Investment Guide

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A note from the author

My purpose in writing this mini-ebook is not to pretend that I am an investment guru. I am not the best of the best, and I'm not trying to pass myself off as the best of the best. I am also not asking for your money for expert advice. I am studying and learning just as you are. My goal is to give you some basic easy-to-understand information that will help you gain a solid basis in investment, a starting point from which you will venture forth, prepared to become more of an expert than you ever imagined.

Your road to financial independence awaits.

Thanks for reading,

Paul

Section 1 :

Why should I bother investing?

A lot of people put off investing for as long as they possibly can, coming up with all sorts of excuses and objections. I'd like to show you that there really is **no excuse** for neglecting your future. Let's address some of the most common excuses and objections one by one."The future is a long way away. There'll be plenty of time later to start investing".

The future may be a long way away, but the earlier you start investing, the more money you can make. *A lot* more. Even starting just a few years earlier, the power of **compound interest** will help your investments grow to tremendously higher levels. Let's say a 20 year old starts putting away $100 a month, and continues to do so until he retires at age 65. At an interest rate of 10% (which is very realistically achievable), he will retire with almost $950,000. But let's say you spend your 20's just partying, and start investing at age 30. At the same interest rate, you'd retire with only $358,000. If you wanted to save as much as your friend who started investing at age 20, you'd have to save about $265 per month rather than $100! I don't mean to scare you if you are in your 30's, because it's never too late. But obviously the sooner you start the less of a monthly burden you will have to bear, and the more your investments will grow over the years. Try playing around with the compound interest calculator at http://www.moneychimp.com and see what you discover.

A lot of people, both young and old, ask me `Why should I bother investing? I can save money in the bank.` The reason is very simple: you can make more money from other investments. Stashing your money in the bank may be very safe and secure, and it may be easy, but the returns (the money you make) will always be pretty damn low. Your returns probably won`t even keep up with the rate of inflation, so by keeping your money in the bank you will actually lose money over time. That kind of eliminates the purpose of saving, doesn`t it?

There are ways to invest that are still not too risky but give returns much greater than your bank account. If you are planning to invest for your future, would you rather have 11% annual returns, or 5% annual returns in your bank account? For long term savings there is no reason to settle for 5%. The investment that offers average annual returns of 11% over time will fluctuate year-to-year, but unless you need the money right away, short term fluctuations should not concern you. If you might the need money in the very near future though, keeping it in your bank account may make more sense.

A lot of people, particularly young people, tell me that investing is boring or lame, or that it`s something that boring old suit-wearing white people do. I feel like smacking these people! Are you telling me that you are too cool to **make *money***? You are too cool to wear brand-name clothes, have a nice car, a hot girlfriend in the passenger`s seat, and be on the guest list for exclusive parties? You are too cool to have power and influence? You are too cool to be in control of your own destiny and would rather be at the mercy of your boss? I didn`t think so! All of your favorite celebrities who act like they don`t give a you-know-what (because that image sells), in reality are **focused and disciplined** and have worked very hard to get where they are. You can, and should, do the same.
Now let's get movin'!

Section 2 :

So you want to start investing? Not so fast!

Ok, so you want to hurry up and start investing but you probably don't know where to begin. Well, there are a few things you should do before you start investing. Be patient, we'll get to the fun stuff soon!

Before you invest, what you need is stability. If you currently have no money saved up, then you don't want to rush off with your next paycheck and start investing it all right away. What would happen if your car broke down, or you got injured and your insurance didn't cover everything, or you were laid off from your job? You need an **emergency fund**, some accessible savings, for those kinds of situations. For a single person no longer living at home with Mom and Dad, 3 months salary is probably the minimum, and for a person with dependents, 6 months salary. I keep 6 months salary in my emergency fund even though I'm single, because that provides me with additional peace of mind. Your emergency funds should be **liquid**, meaning easily accessible. Keeping them in a savings account or checking account is reasonable. You do not want your emergency funds to be locked away in an investment with a minimum time period, and you do not want your emergency funds to be in investments that involve risk. Just save it somewhere safe where you can reach it. And don't reach for it unless you need it. A trip to Mexico isn't an emergency.

You also want to make sure that you have adequate insurance to protect yourself from catastrophic loss should you, God forbid, fall ill or have a serious accident. You do not want to put all of your hard earned money into investments only to have it all taken away because you have medical bills or liability compensation to pay. I know the discomfort you feel in spending your cash on something you may never even need, but remember that insurance provides you with **peace of mind**. Peace of mind is one of

the main components of your quality of life. Less to fear = lower stress = more **happiness**.

For more information on insurance, check out this service that offers 5 Free Health Insurance Quotes.

Next, you want to pay off all your bad debts before you start investing. If you have a mortgage that's fine, because that's something you've planned into your budget for the long term. But paying off bills and credit card should be top priority. Maybe you can invest your money and make 11% interest this year. That sounds great, until you remember that your credit card's interest rate is probably much higher than that, so you would be losing money off of the difference. So instead of investing that money, use it to pay off some of your credit card debt first. If you're like I was, you're probably dying to start investing right away, but getting rid of these pesky debts is absolutely critical. Be patient, make a repayment plan and **stick to it.** During the months (or even years) it takes you to *kill* these debts, you can be a virtual investor and learn as much as you can about the markets and arm yourself with knowledge, so that as soon as your bad debts are gone, you'll know exactly where to begin.

Now that you have insurance and an emergency fund to protect you, and you have eliminated your bad debts, you can now decide how much you can afford to invest each month. Plan your budget carefully and after each paycheck, immediately set aside the money you have committed yourself to investing. This is called **paying yourself first**. Do not pay yourself what is left at the end of the month. Pay yourself first, because that forces you to stick to your budget and keeps you from making impulsive purchases that are not in your best interest. Your budget should allow you to enjoy your life, but stick to your budget and don't compromise your investments, which are a obviously a priority (I know they're a priority to you, because you're reading this!!).

Now you're secure and all ready to **start investing**. Soon we'll be discussing the basics so you know where to begin!

Section 3

Getting Started: Understanding the stock market

Now that we've discussed what you need to do to stabilize your situation through an emergency fund, insurance, and the elimination of debt, it's time to discuss what you're here to learn about: **investing your money** to **make it grow**.

There are many kinds of investment products, but let's start basic and talk about investing in the stock market. We've all seen the stock market on tv. We see guys shouting at each other and getting all stressed out over *something*. But what is going on in that scene?

What is stock?

A stock represents ownership of a piece of a company. One unit of ownership is a share. So if I turned learning-to-invest.net into a company, I could decide to sell part of the company in the form of stock shares. If there were 1,000,000 shares of learning-to-invest.net, then owning 1 share would give you 1/1000,000 ownership of this awesome website! Why would I sell part of my company in the form of shares? Likely because I needed a large amount of money to expand my company. So by investing in the stock market **you are buying ownership in a company**. Are we clear here?

Why are there guys on tv running around screaming and giving themselves migraines over these tiny bits of ownership? Well, stock prices fluctuate constantly, according to **supply and demand**. If lots of people want to buy a stock but few people are selling, then the price will increase. Conversely, if few people are interested in buying the stock but lots of people are selling, then the price will come down. People are always trying to buy and sell at the ideal time to turn as big a **profit** as they can, or prevent as much loss as they can. That's where all the volatility and panic comes from. In the

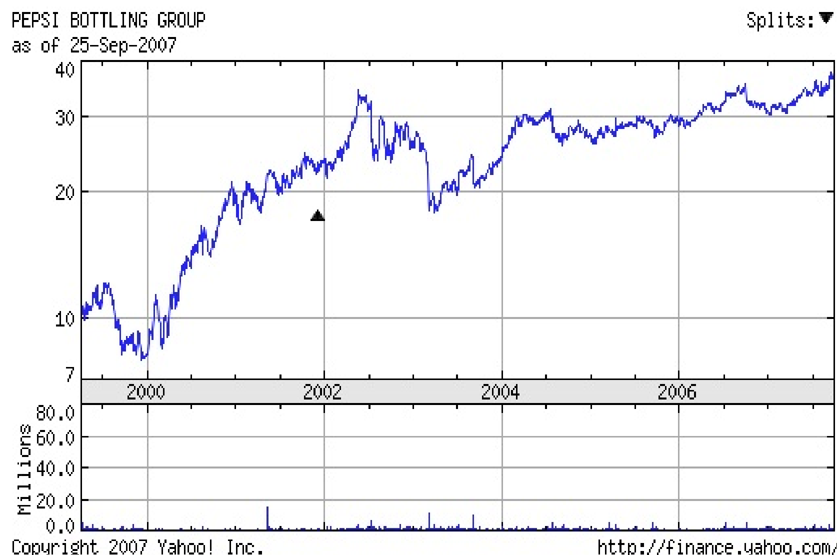

chart shown above, you can see the stock fluctuating according to market forces.

You are probably wondering, why on Earth would I want to invest in the stock market if it's so volatile? Well, some stocks involve much more risk than others. The above example of Pepsi Bottling Group is relatively stable and its general trend is upward. However, the amount of urgency in your investments depends on your goals and strategy as well. Some investors buy stock with the intention of selling it quickly to make a fast buck. To these people, the long term trend of a stock isn't important — they want a short term profit.

These people may also sell to avoid a loss if the stock starts to drop, trying to protect as much of their original investment as they can. A long term investor can afford to **relax** and look at the stock's general trend. When you are first learning to invest, you shouldn't be messing around with buying and selling quickly like that. You want to be cautious and stable until you know what's going on.

A beginner will want to stick with stocks that have a history of long-term stability and consistency. Have a look at some major companies that are household names on Yahoo Finance. Click on "symbol lookup" to search. Have a look at the long term charts and see which companies are the most consistent. I could just tell you, but then you wouldn't learn as much as you will by looking it up yourself. Get into the essential habit of researching before you make a move.

In the next section we'll be discussing the *safest* way for beginners to invest in stocks!!

Section 4:

Investing in Mutual Funds: a good place for newbies to start

How can I invest in stocks? It seems really risky and I don't know where to start.

You can buy individual companies' stocks, but newcomers can be in over their heads trying to research which companies to invest in while learning the basics of investment strategy. A better option for new investors might be **mutual funds**. Mutual funds are **collections of stocks** (and sometimes bonds, which we'll talk about later) chosen by a group of fund managers. This gives you the benefit of having a **diversified investment**, meaning that your eggs are not all in one basket. If one of the stocks in your mutual fund drops in value, it may be balanced out by another stock's increase in value. **Diversification** is one of the central pillars of investment, and should never be ignored (unless you enjoy losing money!).

Another benefit of mutual funds is convenience of payment. When buying stocks, you normally have to buy by the share. If each share costs $50 and you have only $149 to invest, you can only invest $100 (by purchasing 2 shares). Mutual funds will normally sell you partial units, so in a situation like the above, you could invest the entire amount without having money leftover. In addition to that, many funds allow you to make **automatic monthly payments** on a specified date, so that your investment will continue to grow without you lifting a finger.

Mutual funds come in a range of risk categories, and before you choose a mutual fund you should assess your own **risk tolerance**. The longer you are willing to keep your money invested, the more risk you can afford to take, because short term fluctuations won't matter so much to you. If you're not quite sure what your investment goals are yet, it's probably best to start with something low risk as you learn about the markets.

Index funds

There are great funds called index funds which are widely diversified and offer stability for the newcomer. An index fund mirrors the movement of a **market index**, basically an overview of how an entire industry or entire country's economy is doing. For example, the S&P 500 is a US market index that includes the 500 biggest US companies. This index is widely seen as an overview for the entire US economy. An S&P 500 index fund is great for a beginner because it is stable and has had **historical annual returns** of 12%. Some years will be higher and some will be lower, but on average you can expect roughly 12% in interest. You won't get rich overnight, but that interest builds up and compounds. At that interest rate your money will double in less than seven years.

Another benefit of index funds is that they charge **very low service fees** because they don't have to be actively managed. Managed funds sometimes charge huge "load" fees up front or when you sell your fund units, and can charge high monthly or annual maintenance and management fees. These can really eat into your returns on your investment over time! All of those little fees could have been money that was compounding and growing and growing over the years. And on top of that, most managed funds do not perform as well as index funds, even though you are paying them such high fees! Index funds really are the simplest and easiest way for beginners to get their investing foot in the door and have stability while learning the game.

Actively managed funds

As the name suggests, actively managed funds have fund managers who pick and choose the stocks and bonds etc. that make up the mutual fund, depending on their professional assessment of the market situation. Some of these funds do wildly well, and some do poorly.
Over the long term, few funds beat the returns of the general market. Beware of the various fees that may be charged. They can be exorbitant.
To give you an idea, I'll tell you about my own mutual fund portfolio. I have some short term goals (such as buying a house in cash), so I have about 60% of my portfolio in stable index funds (one is a global index, and another is the S&P 500) and bond funds. I have 40% of my investment in higher risk funds (for example, India and China funds) which fluctuate widely over the short term, but which allow me to earn more

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