THE STOCK MARKET & INVESTING BASICS 101

Investing Basics 101

1) Investing For Beginners
2) The Five Basics You Should Know
3) The Investors Ten Commandments
4) The Power of Compounding
5) Asset Allocations
6) The Portfolio and Diversification
7) Diversification & Lower Risk
8) Do The Rich Have a Secret
9) Avoid Making Big Mistakes
10) Saving Early & Becoming Rich

Investing Basics 101

Investing For Beginners

Investing for Beginners

What Is Investing and Why It Matters?

You need to invest your money. It simply doesn't make sense not to. Even if you only invest 5% of your money, it would still be worth it.

You understand that investing is smart and that a lot of people have made a lot of money doing it. The problem is, you never took an investing 101 class, you're scared to lose all of your money, and you don't want to do the work.

Good news is, we're about to tell you that all of your concerns are bull-----

You can understand investing, and if you read this whole guide, you'll have the basics you need to get started. You don't need to be scared to lose all of your money if you look long term and follow the average Investor's Commandments.

You also don't have to do all the work, nor do you have to give away all of your gains to avoid doing the work. You'll be relying on automation and letting the computer do it for you.

After you read this guide for new investors, the only thing left for you to do will be to ***take action***. Don't worry; we'll guide you through the process in the following articles of our investing series.

Consider this your investing for beginners 101 cheat sheet. We explain the basics of simple investing and aim to inspire the proper mindset you need to succeed.

Enough chit-chat – let's get started.

Investing and Why You Should Care

Investing, at its heart, is the trading of your money today for a lot more money in the future.

The investing we talk about revolves around the stock market. That said, putting your money into a business you create, or a home you will live in, can also be considered an investment.

Investments by definition are high yield over the long term. Operative word being long term.

There are people who are afraid of the market. One common approach of people who fear the market is that they put the majority of their money into a combination of ***checking*** and ***savings accounts***. I'm sorry, but the joke's on them.
As it turns out, banks don't like to give away their money. That mindset is reflected in the interest rates of checking and savings accounts.

When you deposit your money in the bank, the bank turns around and invests that money at 7% a year or more. After they collect their profit, they give a tiny shaving of it to you.

But wait, that's your money they are investing, you deserve a bigger cut!

The only way to combat the bank taking advantage of you is just to invest it, yourself.

Investing Basics 101

The Five Basics You Should Know

Five Basics You Should Know About The Stock Market

No one likes to lose money. Moreover, the pain threshold of some is greater than it is with others. However, when you invest there are several things you should know to increase your chances of winning. That's the subject of this article. Although there are numerous details and caveats, this article will help you understand the basics of how the stock market works and why stocks react as they do. We'll also discuss five things that every investor should know. Let's dispense with the mystery.

What is a Stock Market?

The stock market is a complex system where shares of publicly-traded companies are issued, bought and sold. When you invest in stocks, you will make money or lose money. It's rare to lose it all, unless of course you invest in a company that goes bust. You could say that the stock market is a group of people pitting their expertise against one another.

The Stock Market is an Adversarial System of Trading

The stock market is a collection of millions of investors with diametrically opposing views. This is because when one investor sells a particular security, someone else must be willing to buy it. Since both investors cannot be correct, it is an adversarial system. In short, one investor will profit and the other will suffer loss. Therefore, it's important to become well versed on the investment you are considering.

What Makes Stock Prices Go Up and Down?

There are many factors that determine whether stock prices rise or fall. These include the media, the opinions of well-known investors, natural disasters, political and social unrest, risk, supply and demand, and the lack of or abundance of suitable alternatives. The compilation of these factors, plus all relevant information that has been disseminated, creates a certain type of sentiment (i.e. bullish and bearish) and a corresponding number of buyers and sellers. If there are more sellers than buyers, stock prices will tend to fall. Conversely, when there are more buyers than sellers, stock prices tend to rise.

Why is the Stock Market so Difficult to Predict?

Let's assume stock prices have been rising for several years. Investors realize that a correction will come and stock prices will tumble. What we don't understand is what will trigger the selloff or exactly when it will occur. Therefore, some investors will sit on the sidelines holding cash, waiting for the opportune time to get in. Those who are willing to assume the risk may jump in because the return on cash is so low and it hurts to earn zero while watching stocks move higher. This begs a couple of key questions. If you're on the sidelines, how will you know when to get in? If you're already in, how will you know when it's time to get out? If the stock market was predictable, these questions could easily be answered. However, it is not. There are actually three issues an investor should consider. The first is understanding the point at which stock prices are fairly valued. The second issue is the event that will cause a downturn. The final issue is understanding the human decision-making process. Let's briefly look at these. Stock Valuation

The actual price of a stock is determined by market activity. When making the decision to buy or sell, the investor will often compare a stock's actual price to its fair value. For example, if a stock is trading at $30 per share and its fair value is $35, it may be worth purchasing. Conversely, if it trades at $30 but its fair value is $25, the stock would be considered overvalued and the investor would be wise to avoid it. What is a stock's fair value and how do you calculate it? Ideally, it would be based on some standardized formula. However, there are many ways to derive this figure. One method is to combine the value of a company's assets on its balance sheet, minus depreciation and liabilities. Another is to determine its intrinsic value, which is the net present value of a company's future earnings. We have briefly discussed two methods. There are a number of others. Because the methods yield a slightly different result, it's sometimes difficult to know if a stock is overvalued, undervalued, or fairly valued. And even if it is overvalued, that doesn't mean investors will suddenly sell and the price will fall. Actually, a stock can remain overvalued for quite some time. This is also why it can be problematic to make buy/sell decisions based on where the price of the stock is in relation to some moving average.

Triggering Event

Knowing which event will cause a trend reversal is analogous to seeing around the corner of a solid brick building. Need I say more?

The Human Decision Process

This is the most interesting of the three. Inside every individual there is a logical and an emotional component. We may analyze a situation using our logical side but when it's time to act, we refer to our emotions. For example, when purchasing a car, we might research the engine, fuel efficiency, amenities, or other items. But when it's time to decide, we often ask other types of questions. Such as, how do I look in the driver's seat? Does the car match my image?

When making investment decisions, since there is an investor on the other side ready to buy what you're selling or selling what you want to buy, you must be able to process the relevant data and make a good decision. However, it's impossible to know everything you would need to know and process it without any bias. For these and other reasons, we will make a sub-par decision at times. This will occur even with the most analytical individuals.

When is the Best Time to Buy and Sell?

The two most important decisions an investor will make are when to buy and when to sell. The best time to buy is when others are pessimistic. The best time to sell is when others are actively optimistic. When buying, remember that the prospect of a high return is greater if you buy after its price has fallen rather than after it has risen. But caution should be exercised. For example, after the stock of fictitious Company X declined by 30%, 40% or more, the first question to ask is why. Why did the stock fall as it did? Did other stocks in the same industry experience a decline? If so, was it as severe? Did the entire stock market fall? If the broader market or other stocks in the same industry/sector performed relatively well, there may be a problem specific to Company X. It's best to adopt a buy/sell discipline and adhere to it.

Summary

The stock market is a complicated place for which the novice investor is not particularly well suited. Avoid the "hot tip" talk around the water cooler or in the lunchroom. Stock prices rise and fall for reasons which can be complex. Since the only sure bottom is zero, when you invest, consider adding protection (i.e. stop orders, options, etc.). It takes years to become well versed on the financial markets and on stocks in general. You may want to find someone you trust and seek their guidance. It may seem like an unnecessary expense but heading into unfamiliar territory alone can often cost us more than we expect.

Investing Basics 101

The Investors Ten Commandments

The Investor's Ten Commandments

If a 7% return is average, then the average is pretty awesome.

Fortune Favors the Bold.

1. Think Long-Term

When you look at investing on a personal scale, it's very rare for a sudden move in price to mean very much. Unless something cataclysmic happens, things will balance out so be patient.

2. Invest What You Can Afford

While you can always sell your investments, it would be better if you left them alone and let them grow. Invest as much as you can while reducing the chance you'll need to sell your investments to cover basic expenses. The goal is to always keep a few months expenses around in case something happens and invest the rest.

3. Buy What You Believe In

Don't listen to the radio, don't listen to a friend, listen to yourself. If you do not know or understand what you're buying, don't buy it. Even if you do understand it, only invest in something that you personally believein.

4. Do Your Own Research

Maybe you love bananas but if you don't understand the banana business you either figure out how it works or don't invest in it. Is the banana business profitable? Are they innovators or just people milking an existing product line? You get the point.

5. Set It and Forget It

We're not day traders here so we're not going to try and be like them. We invest in the future and our style reflects that. The goal is to automate the investment process so you can spend your time living, not managing money.

6. Consistently Contribute

The truth is, very few people can perfectly time the market and I'm sorry but you're not one of them. That's ok though because you can beat it with Dollar Cost Averaging. Contribute every month to your investments and it won't matter if you buy at the peak or bottom of the market. He who can stay the course wins.

7. Be Fearful When Others Are Greedy

The first half of our favorite quote from Warren Buffet. When everyone is a winner you should be concerned. If you or your friends are making quite a lot of money very quickly with your investments, act very conservatively.

8. Be Greedy When Others Are Fearful

The best time to buy is when the world is on fire. Don't be delusional, be realistic. Are the fires real or just the typical knee-jerk reaction of the media? We're bargain hunters, not suckers.

9.Find and Remove Frivolous Fees

Rule: *A bank will always try to trick you into pang fees. Be vigilant* and tireless when it comes to reducing your fees. When the stakes are highest, so are the fees. Even a 1% fee can become significant over the long-term.

10. Diversify

If it can fail, it will fail. That's why we always plan ahead for failure. Diversification is your investing 101 cheat code for riding the market. Invest in many different things so no single failure can ever shut you down.

Investing Basics 101

The Power of Compounding

The power of compounding

Make your money work for you

Investing is not magic, but the power of compound interest can make you a believer. Learn how compound growth can accelerate your money over time.

One powerful penny

If you want to wow someone with a cool math trick, start with a choice: For the next 30 days, you can either get $10,000 a day or a single penny that doubles in value each day. Anyone who chooses the penny understands the power of compounding interest, or money earning more money over time. Because while that $300,000 seems like a sweet deal, it only takes a couple of weeks for those doubling pennies to start growing very quickly. In 30 days, they would grow to a total of more than $5 million. This may be why Albert Einstein reportedly called compound interest "the most powerful force in the universe."

Smart investing allows you to take advantage of this powerful force, helping you build your savings more quickly than you would by simply putting money away over time. Understand how compound interest works, can make it work for you.

Why compounding is not simple

If you have taken a loan or have debt, you may know all about how interest works when borrowing money. The same concept can help you make sense of how it grows.

Start with simple interest, which is the amount earned based on what you have to start with, known as the principal. For example, if you have $10,000 and earn a simple interest rate of 10% per year, you would get $1,000 in interest.

Compound interest is based on a combination of the amount you start with plus what you earn. The money made in the first year adds to your balance, and that total informs next year's interest. Again, if you have credit card debt, you may already know how quickly compound interest can grow. Some credit cards compound monthly, or even daily, making it more difficult to get out of debt.

Interest earning interest

How does compounding work to an investor's advantage? In this case, if your investment of $10,000 earns 10% per year, the $1,000 you would make brings your balance to $11,000. The next year, if you earn 10% on that amount, you would earn $1,100. That is added to your balance, which increases how much you earn in the next year, and so on.

Of course, if you are investing in stocks that rate of return is not guaranteed. Your returns may be lower, or even negative, in some years. In other years, you may see even greater gains.

The earnings can grow even more quickly if your investment is held in a tax-favored retirement account (one that isn't taxed until you withdraw the money in retirement). Add in regular contributions, and it's easy to see why accounts like 401(k)s and individual retirement accounts can be powerful tools for saving.

Smart investing is not magic, or even tricky. History shows the longer you stay invested, the more time your potential earnings get to compound and the greater your potential growth. That's why financial professionals often recommend that the best time to start investing is as soon as you can. It's also a great strategy to stay invested for the long term.

Investing Basics 101

Asset Allocation

Asset Allocation

Asset allocation is 100 times more important than stock picking… and I'll explain why.

Imagine you're taking cross country road trip. You and a friend will drive from New York City to Los Angeles… and see lots of sights along the way.

Let's also say that you'll buy a new car for the drive.

I think you'll agree that on a trip that long, a car's comfort and reliability are critically important. You don't want to get a back ache by the time you reach Illinois… and you don't want to break down in Oklahoma.

You'll probably also agree that the quality of the car's stereo system is of secondary importance to the car's reliability. Even with an average stereo, you can make the trip just fine. You and your friend can talk.

When it comes to reaching your goals as an investor, this road trip contains an important lesson. That's because when it comes to investment success, asset allocation and stock picking are like your car's reliability and your car's stereo.

Asset allocation is 100 times more important than stock picking… and knowing how to practice intelligent asset allocation is one of the most important investment concepts you'll ever learn.

This essay will show you how to harness asset allocation's enormous power.

How Asset Allocation Works

Asset allocation is the part of your investment strategy that dictates how much of your wealth you place in broad asset classes like stocks, bonds, cash, precious metals, and real estate.

Over the course of your career as an investor, asset allocation will have a much, much greater impact on your wealth than will stock picking. Again, the ratio will be at least 100 to 1.

Since most individual investors spend their time trying to find the best stocks to buy, they don't spend any time learning what sensible asset allocation is...

and take crazy risks with their retirement savings.

The most important aspect of asset allocation is using it to diversify your holdings across private businesses, public stocks, real estate, precious metals, cash, insurance, and other financial vehicles.

Ideally, you want a diversified mix of assets that greatly limits your exposure to a big decline in one asset class.

Intelligent asset allocation means you DON'T bet the farm on a single stock or a single asset class.

The Asset Allocation Hall of Shame

For example, you may be familiar with the catastrophic losses suffered by some employees of Enron.

In the late 1990s, Enron was considered the world's most innovative company. Its executives were the superstars of corporate America. So, some Enron employees placed all their retirement savings in Enron stock. Their asset allocation was "100% Enron."

When Enron was revealed as one of the biggest frauds in American history, its stock went to zero. The employees who bet the farm on Enron were completely wiped out. *These people became victims of their own absolutely horrible, incredibly risky asset allocation.*

Or, consider people who went "all in" on real estate in 2005 and 2006.

Back then, the U.S. real estate mania was in full force. Real estate was considered a "can't lose" bet. So, many people put all their savings into real estate... and even took on loads of debt to "leverage" their returns.

When the real estate market crashed, these "all in" real estate players were wiped out.

At the heart of their downfall was totally stupid asset allocation.

They bet the farm on one asset class that was in a bubble.

Also, realize that if you get your asset allocation terribly wrong and go 100% into the stock market when it is extremely popular and expensive (like it was in 2000), stock picking will not help you.

Most every stock you buy – no matter how good it sounds – will turn out to be a losing investment for a long time. As we've detailed in other essays, *you can make a terrible investment in a great company if you pay a stupid price.*

If you keep a huge portion of your wealth in a single asset class – whether it's stocks, bonds, oil, gold, real estate, or whatever – you leave yourself exposed to a large decline in the value of that asset class. You make yourself financially "fragile." You leave yourself vulnerable to what happens with that one business, market, or asset class.

Is it Time to Change the Game You're Playing?

Now, to be fair, most fortunes are built with big bets on one single business – called "concentrated bets."

But if you've "won the game" and built up a substantial amount of wealth with a concentrated bet (like a lucrative private business or a lucrative career), you've actually started a new game.

It makes sense to climb down a few rungs on the risk ladder and focus on "preserving" your wealth through intelligent diversification instead of "building" wealth with an aggressive (and risky) concentrated bet.

There's no "one size fits all" asset allocation strategy that is right for everyone. When you (possibly with the help of a financial advisor) think about your right "mix," you must consider your age, risk tolerance, cost of living, and financial goals. A 55-year old who wants to pay college tuition for three children will think about asset allocation much differently than a 32-year old with no family.

However, most of us have a similar end goals. We want to own a diversified collection of assets that throws off lots of income… even when we are not actively working. We want to buy high quality assets for bargain prices… and make "once decision" financial moves we don't have to change for decades. We want our financial empire to be crisis-proof and inflation-proof.

Again, having all that means being diversified across private businesses, stocks, bonds, real estate, cash, precious metals, and insurance. It means NOT risking it all on one single company or stock market.

A Great Asset Allocation Discovery

There are many well-known asset allocation strategies that can provide you with excellent diversification. Some of them come from brilliant financial minds like hedge fund managers, Ray Dalio and Rob Arnott.

Most of the commonly-used strategies recommend owning a mix of assets like U.S. stocks, non-U.S. stocks, government bonds, gold, real estate, commodities, and private business.

It's not uncommon to see a recommended asset allocation with a moderate risk-tolerance to be 30% – 40% in stocks… 10% – 20% in real estate… 20% – 30% in bonds… and 10% – 20% in commodities and gold. The percentages vary from model to model… and depending on the investor's age.

It turns out, if you get the basic idea of "diversification" right, the fine details don't matter much.

Our friend, Meb Faber, is a master of using computerized analysis to evaluate

investment and asset allocation strategies. In 2013, Meb performed a comprehensive study on how various asset allocation strategies have performed over the long-term.

Meb discovered there isn't much difference in the long-term results of the best strategies. The returns of these asset allocations – though very different in construction – all posted long-term returns that were in the same general ballpark.

But Meb's study did reveal something that greatly influenced returns…

Fees.

Meb found the amount of fees investors pay to own investments has huge effects on long-term performance... a much larger impact than the specifics of any given strategy.

Meb's findings are stunning to many people. He found that fees, not specific asset mixes, have the largest effect on investor returns. In other words, get a good general asset allocation... and then *focus on driving your investment costs and fees into the basement.*

We highly recommend Meb's book *Global Asset Allocation: A Survey of the World's Top Investment Strategies*. If you're interested in learning more about the critical importance of keeping your investment fees low or picking a "set it and forget it" asset allocation, Meb's book is a great resource.

Let's come full circle...

Prior to reading this essay, what was your take on asset allocation? Did it play into your investment decisions at all? Or might you have considered yourself only a "stock picker?"

If your answer is the latter, we hope you now understand the shortfalls of such an approach.

Over the course of your career as an investor, asset allocation will have a much, much greater impact on your wealth than will stock picking. The ratio will be at least 100 to 1.

To repeat for emphasis: The most important aspect of asset allocation is using it to diversify your holdings across private businesses, public stocks, real estate, precious metals, cash, insurance, and other financial vehicles.

Intelligent asset allocation means you DON'T bet the farm on a single stock or a single asset class.

Please take a look at your own mix of investments. If you're betting the farm on just one stock or real estate deal, consider making a change and getting to safer ground.

Investing Basics 101

The Portfolio and Diversification

The Portfolio and Diversification

Whenever you read about investing 101 you're bound to hear the words Portfolio and Diversification.

We describe four general types of investment vehicles: Individual Stocks, Stock Funds, Bonds, and Bond Funds.

Sure there are many more investment mixes, but we didn't want to distract from the ultimate point of the illustration. To show what diversification looks like.

Diversification is, at its simplest, a way to describe owning multiple types of investment assets.

To go a bit further, diversification describes a whole slew of investment categories.

For example, one of the biggest investments people make in their lifetimes is purchasing a home. However, a home is but a single piece of property with a very specific geographic location in a single city/town. This could be considered very risky because what if the area floods or becomes less popular or the home collapses. This is especially important if you own real estate in the future. The best way to account for these scenarios is not to worry yourself sick but to ***diversify***.

This means contributing to a tax-advantaged account like a 401k and IRA. These accounts will both save you money now and earn you higher returns in the future.

We know you'll get awesome returns?

We know because they are accounts which are locked down forcing you to invest in the very long term. We'll go into more depth on this long-term investing idea in the next section.

You'll also notice that we have Betterment as types of accounts on that list. We list Betterment because it's the single best and cheapest way to invest automatically in the market average – something we're obsessed with. Their easy to use the platform is great for new investors. Their retire guide will tell you exactly how much you need to save to meet your future goals.

As for the Brokerage account, this is your playground if you choose to play.

In your Brokerage account, you can take risks on companies like Apple or Tesla or invest in high performing Mutual Funds or ETFs (exchange-traded funds) that we discuss on the blog. Why do this?

Maybe because you're interested and want to see if your gut instincts can help build your wealth faster. This is something we encourage but only under the umbrella of diversification. See, on the illustration above, the brokerage account amounts to at most 1/5th of your overall portfolio.

Diversification is smart because you both protect yourself from failure and position yourself to take advantage of multiple robust methods for building wealth. **To not diversify is just stupid.**

The Triumph of the Average Investor

The beauty of the market is that it's anything if not consistent. When you ignore the thing's the media blows out of proportion on a daily basis, the movement of the market can really be explained by its three base components. Productivity growth, the short-term debt cycle and the long-term debt cycle.

Productivity Growth

This is equivalent to technology getting better, faster and us constantly learning from our mistakes. We will always be able to do more with less time and resources than we were able to in the past. That is productivity growth in a nutshell.

Short-Term Debt Cycle

This cycle is defined by a growth period and then a recession period. These cycles last about 5 – 8 years and should explain why you always feel like the market is booming and busting (because it is). The short-term debt cycle peaks when loans become more expensive (interest rates go up).

Following the bust, rates reset at a nice low level to start the cycle over again. What causes the short-term debt cycle bust? It's caused by when the payments of debt in the market exceed the income in the market. This leads to a recession, otherwise known as negative growth.

Long-Term Debt Cycle

This is similar to the short-term debt cycle only much bigger and it takes much longer to play out – typically 50 years. Consider September 2008 before Lehman's collapse as the peak of the long-term debt cycle.

The long-term debt cycle peaks when the economy is saturated with debt and it literally can not take on any more.

This causes massive deleveraging, a process where the large amounts of debt unwind although not without a lot of lenders losing a lot of their money.

Why are we telling you all of this?

We're telling you this because it's important to understand that the market works in cycles. It will constantly go up and down, up and down. Once you know and understand the market you can stop fearing it and start using it to your advantage.

The one truth is that in the long term, productivity will go up so over the long term so will the stock market. This graph is on a roughly 100-year scale. It's easy to understand all zoomed out but when you're in the thick of it, it's hard to see where you are in the cycle. Don't worry, all you need to do is ***hold*** on the long-term and you will do just fine.
Now, that's a lot of information and we didn't even mention The Average Investor and what that means.

The Average Investor

The Average Investor is someone like me or you who don't try and time the market – buy low and sell high. What's the point? It's going up over the long term and who has time to obsessively check stock prices?

Not only does The Average Investor not try and time the market but they also don't try to beat the market. They just try and achieve average returns. Luckily for The Average Investor, the market average is conservatively at 7% (10% on the high end).

To see what that means just refer to the first graph in this article. It says that if you invest a certain amount of money for 30 years, at the end of the term you should expect it to be more than 7 times larger than your initial investment.

Translation: Average is pretty damn good.

Basically, being an Average Investor is a great financial goal because it doesn't involve a lot of work or stress and locks in a nice healthy return over the long term. What more could you ask for?

We called this section *The Triumph of the Average Investor* because the majority of the big market winners, in the end, are playing the same long-term investment strategy (including our hero, Warren Buffet). Why gamble all of your money in Wall Street's casino when the financial goal is to grow your money, not lose it all?

Why You Don't Need a Financial Advisor

Everyone wants to be the success story where only a handful of years investing results in a mountain of wealth. The truth is, that does not happen often and is very unlikely to happen to you. The problem is when people don't have patience – they start to seek out shortcuts. One of the most common shortcuts we hear about is people hiring a financial advisor.

There are plenty of reasons why you shouldn't hire a financial advisor – these are a few of our favorites:

Nobody Will Care About Your Money More Than You

Who do you think will work harder to build your wealth? Some person you just met or yourself? A financial advisor's compensation is rarely if ever tied to your success. The majority of their income is based upon the amount they get you to invest so pony up and hope they care.

The Ability to Avoid Fees

If you wanted a single investment that has you covered from a performance and diversity standpoint you could always go with something like a Vanguard Lifecycle fund and pay as low as 0.15% in fees and that's it. *On a side note, we* *have a list of our favorite Vanguard funds. and investments for beginners that you should probably check out if you know what's good for you.*

If you go with a financial advisor you'll still pay the Vanguard fee and then you'll also pay a fee to the financial advisor. This graph below illustrates what 1% in fees look like over the course of your lifetime. That's of course if you could ever be so lucky as to escape with only 1% in fees.

You Might Not Get the Best Financial Advisor

Have you ever thought about why this person wants to be your financial advisor? You don't have millions of dollars and you likely don't have hundreds of thousands of dollars either. The advisors who are actually good get the big clients and the not so good ones are managing the money of small fish like you.

Interestingly, less than 25% of financial advisors can beat the market average (market indexes like the S&P500). Chances are, the financial advisor you pick will not be one of the top 25%.

Would you even be able to tell the difference between a good financial advisor if you had a chance to sit down and talk with 100 of them? **Chances are you'll go with the best salesmen.** Better you invest yourself than give your money to someone who doesn't care and likely won't beat the market either. The good news is that this is neither difficult nor time-consuming because most of the time we're just going to mirror the market average. No need to get fancy, plus we only invest long term.

Start Investing Simply

Get started with set-it-and-forget-it style investing. Diversify across a whole set of investments based on your level of risk. The only decision you have to make is what level of risk you're willing to take.

Investing Basics 101

Diversification And How it Lowers Your Risk

Diversification & how it can help lower risk

Variety makes all the difference

You've heard the advice, "Don't put all your eggs in one basket." But think about exactly why that's not recommended. The heavy basket could break ... the eggs could crack ... there are so many potential mishaps that could be avoided by having a few more baskets on hand. That's how diversification works. It doesn't eliminate an investor's risk but can reduce the chance of everything falling apart.

Embrace the unknown

You might enjoy following the market and researching companies. But anyone who watches the market has seen a single stock's value rise or fall rapidly. It could be because the market had a good or bad day or because the company showed a profit or loss. Also, stock markets usually have an inverse relationship with bond markets. When one is down, the other might be up — or at least not down as much.

It's impossible to predict which company, industry, region or investment type (known as asset class) will do well in any given year. With a diversified portfolio invested in a range of options you don't need a crystal ball. If a single category suffers a setback, your other investments may help compensate for that loss. Diversification may not boost your overall return, but it can help your portfolio fluctuate less.

Find a basic balance

Many investors start by dividing their money among investments that historically haven't moved in the same direction. You might hold some stocks, some bonds and some cash.

Stocks can be riskier, but they have often provided higher long-term returns. Bonds typically pay regular income and haven't gone up and down as much in value. Generally, they are considered more conservative investments than stocks, with lower rewards.

You can diversify even further within each type of investment by owning more than one type of stock or bond. Companies of different sizes might have different results. Different bond types carry different degrees of risk and return. International stocks or bonds can also help reduce the risk of focusing on a single region's economic condition. Keep in mind that investing outside the U.S. involves its own risks, including currency fluctuation and price volatility.

Consider your options

A mutual fund makes it possible to invest in many different companies or types of bonds. A single investment bundles a collection of investments. There are many types of mutual funds, but you could start looking at them by category. There are stock mutual funds that focus on different parts of the market, as well as bond mutual funds that invest in specific types of bonds.

Stock funds may invest according to:

- **Company size**: Mutual funds may invest in large, medium and small companies. Those that invest in big, well-known companies are large-capitalization (large-cap) funds. Small-cap funds invest in new, rising companies. Mid-caps fit somewhere in between.

- **Sector**: A mutual fund may focus on a single industry. Sectors include technology, health care or utilities, for example.

- **Region**: Some funds invest inside the United States. Others look for opportunities around the world.

-

Types of bond fund investments:

- **Government bond funds** invest in bonds backed by the U.S. Treasury or other U.S. government entities.

- **Mortgage-backed bond funds** invest in pools of mortgage debt sold by banks or federal institutions.

- **Municipal bond funds** invest in projects backed by certain states or municipalities. If your town builds a new bridge, for example, it may use muni bonds to pay for it.

- **Corporate bond funds** invest in company debt. When corporations want to raise money without issuing stock, they can use bonds as a way of borrowing money from investors.

- **International and global bond funds** invest in bonds from governments and companies around the world.

Spread the wealth

If you own many mutual funds but they're all in the same category, that's not diversification. A diversified portfolio spreads your money over different asset classes. In the stock portion of your portfolio, a U.S. fund will tend to perform differently from an international fund. A large-cap fund may balance some of the exposure of a small-cap stock fund. You may want to own government bonds to help reduce risk, municipal bonds for tax-exempt income, in addition to corporate bonds for income and so on.

And you can't predict how each asset class will do year to year. Emerging markets, for instance, may have the highest returns one year, but U.S. stocks might be the place to be in the following year. Next year: Who knows? You can see why it makes sense to hold investments in more than one category. Learn more about asset allocation to understand how the pieces fit together.

Investing Basics 101

Do The Rich Have An Investment Secret

Do The Rich Have an Investment Secret?

Many Americans – average folks working to build a comfortable life – assume the "rich" have a secret. It seems they know something about "how the world works" that the rest of us don't. If these regular folks could just figure it out, they'd be wealthy, too. They'd live with less stress, more time, and more money. And money, after all, gives you the freedom to do what you'd like to do.

It turns out the wealthy do harbor a secret – three of them, in fact. Today, were going to share them with you.

The secrets we're going to show you are the time-tested foundations of wealth. Everyone who has built lasting financial security has done it this way (though they may talk about it in different terms).

And these secrets not only build wealth, they allow you to use it to live the life that you want to live. You don't need to be rich, though. You don't need to pursue money at all costs. But having financial stability gives you freedom. Reducing stress improves your health. And understanding how to manage your income makes for better relationships with your family and loved ones.

But before we start, I need to give you three warnings...

First, the steps we're going to share isn't an investment. Nor do they involve any "tricks" in the tax code that make the IRS go away forever. No exotic security, sophisticated trading strategy, or convoluted legal structure is going to vault you into the upper class. Second... this is an all or nothing strategy. You need to follow all three of these steps together or they simply won't work. Third, patience is essential. You will see results on Day 1, but the true power of understanding wealth only becomes apparent over time.

If you really internalize this way of thinking about things, it will change your life. If you'd like to understand how to truly build wealth, and use it to live freely, here's how you need to think...

1: Save Religiously

You know you should save. But it's hard. Life is expensive. Most folks think, "If I just had a little more income, I could start saving." But be honest: If you got a $10,000 raise for the year, what would you do with it? The frank answer is that you'd spend every dollar.

But saving money and using it to increase your personal financial freedom does make lasting improvements to your well-being and quality of life. As you'll see, money saved generates future income. Income is what sets you free. And freedom is what truly makes us happy.

The key to saving isn't about raising your income. It's not about saving a penny here and a penny there. It's about understanding yourself better and shaking all the frivolous desires from your mind.

Once you've got that down, you can set your money to work for you...

Different for each person.

A good rule of thumb is to choose one or two things you truly enjoy spending money on. Then cut back to just the basics on everything else.

When you learn to stop buying things that don't make you happy, you'll have the *freedom to enjoy the things that do... like time or relaxation.*

All you need to do is give up the things that don't make you happy in the first place. I think everyone should start by socking away at least 10% of your annual income. Try to bump that up to 15% as you get comfortable with your savings plan.

2: Invest for the Long Term

Being a diligent and disciplined saver is a critical first step... But it alone isn't enough to put you on the path to wealth. You must learn to be an investor. Think about this...

Imagine you work hard and aggressively set aside 20% of your earnings in cash for 30 years. After that Herculean effort, you've saved up... six years of income.

Not too impressive. Twenty percent is a high savings rate. But it won't do squat to set you up for retirement if it sits in cash.

If you don't invest the money, it's barely worth saving at all.

Why do you need to invest? Because real freedom comes from income. And income comes from invested savings.

The core concept of successful investing is simple: Grow your savings to a point at which the interest from your investments will generate enough income to support your lifestyle without having to work. Eventually you reach a "tipping point" at which your savings will hit a critical mass. This simply means that you don't have to work anymore – unless you choose to-because the interest and growth being generated by your account give you the income you need for your life. This is the pinnacle we are climbing toward.

Starting to save is often a problem of priorities, learning to invest is a problem of inaction. You need to overcome that fear and inertia and get invested today.

The good news is, the simplest and most straightforward investing plans are ideal for beginners – especially when adjusted for fees and risk.

Even if you lack a passion for learning about investing, you can still devise a simple plan out of three principles that we've listed below:

Invest in index funds: There are two types of funds. Actively managed funds have a portfolio manager who tries to find the best investments and beat the market. Index funds simply track the market.

Hiring high-priced experts may sound like a good idea. But it turns out, active managers are terrible. A recent study by Morningstar found that only one in five large-cap funds beat the market over the last 10 years. Dozens of other studies have shown the same.You don't need funds with active – and expensive – management. Index funds perform better and cost less.

Avoid fees and taxes: One of the reasons index funds work better for individual investors than "actively managed funds" is the fees involved. Fees and taxes only take a little bit of your money at a time, but add up to tens or hundreds of thousands of dollars over the years.

Investment funds charge annual management fees. For expensive funds, this can be around 2% of the account value. But index funds can charge as little as 0.16%. Use cheap index and tax-advantaged accounts like 401(k)s and IRAs when you can.

Make consistent investments at regular intervals: We've all heard to "buy low, sell high." But how do you know what's low or high? Investors have a million ways of trying to answer that question. But one simple way to take the calculations out is to invest a consistent bit of money at regular intervals, like once a month or quarter.

As a result, you'll necessarily buy more shares of a stock when markets are cheaper and fewer shares when markets are more expensive. Taking the calculations out by keeping your investments consistent lets the costs average out, which practically forces buy-low-sell-high success. (If you want to sound smart at your next cocktail party, you can call this a "dollar-cost average"

The entire concept of building wealth and freedom requires that you earn a return on your savings. And if your spending comes out of your savings, you'll never enjoy it. It's only when you hit the crossover point when the income you generate can cover your spending that you can truly enjoy the freedom that wealth can bring.

But folks who invest too aggressively run the risk of undoing all their good work. That's why you must...

3: Obsess About Risk

Many people who get started investing focus on the possibility of big returns. They're drawn to the chance (however remote) of doubling or tripling their money in a short amount of time. I could rattle off dozens of investments with the potential for a high return right now. Some readers would gobble them up.

But most successful investors pay far more attention to the other half of the risk-reward ratio... Return means nothing without considering risk.

Take a look at electric-car maker Tesla Motors (TSLA). The company could dominate the future of cars. It builds well-engineered cars – with occasional hiccups – and has sold more electric vehicles than anyone in history. It

That potential has made it a popular stock. People like to own it, and it gets tons of attention in financial media. The company is already valued at $33 billion.

But consider that traditional carmakers Ford and General Motors are valued at $54 billion and $49 billion, respectively. Ford sold 6.6 million vehicles in 2015, and GM sold 9.9 million. Tesla delivered 50,000. Tesla has 67% of the value of GM, but sells 0.5% as many cars.

Tesla may take over the world. But with a valuation of eight times sales and no profits, any misstep along the way will send shares straight downward. Tesla has the potential for high returns, but the risk is extraordinarily high.

It takes a lot of effort to save up $2,000 or $5,000. When you take big risks, you can wipe it out in a flash.

Risks lead to losses. Losses lead you to question the wisdom of saving and investing. You need to avoid risk by investing in quality stocks. (Owning index funds eliminates a lot of this decision-making.) But more important are the concepts of diversification and asset allocation.

Here's why...

Diversify.

<u>You should never put more than 4%-5% of your portfolio into a</u> <u>single stock.</u> When you invest in a basket of stocks with big upside only a few need to go right to boost your returns. Likewise, if one stock falls quickly, your losses will be smaller. (Positions in funds can be larger because each share

Represent's partial ownership of multiple stocks. It's another good reason to own index funds. They provide automatic diversification.)

As the stocks you invest in get riskier and more expensive, you should put a smaller percentage of your capital into them. For example, I'm not going to invest in Tesla. But if you believe in its potential, it's not crazy to have 1% or even a half percent of your capital in Tesla's stock.

Having a diversified portfolio means you're not going to double it in one year – but it means it won't get cut in half, either.

Asset Allocation.

You also need to diversify across asset classes. Stocks, bonds, real estate, gold, and other investments move in different directions and are influenced by different economic factors. By holding multiple asset classes, you reduce your risk and increase the return you get per "unit" of risk you take on.

When you obsess about your risk, and not your return, you end up with a strategy that works over the long haul.

Perfect Harmony:

Why don't most folks get rich? Because they don't follow all three of these tenets at once.

As we pointed out, savings without investment don't grow – and worse, they'll get eaten away by inflation.

However, if you try to invest but save only a little, your balance will look too puny to keep you excited about it. And if you still love to spend, you'll soon find yourself tapping into your brokerage account

Finally, losing money will obviously wipe out your savings. But it may also discourage you from investing.

Only by following all three of these tenets can you successfully set yourself free from living paycheck to paycheck.

If you were to find folks with enough cash to live how they'd want to live, you'd find almost all of them followed these tenets...

Even folks who had all-star careers or built businesses that paid them well *needed to mind these tenets to hang onto their wealth.* Others saved, invested, and were careful about it.

If you haven't started down that path already, you should today.

Because It's never too late!!!!!!!

Investing Basics 101

Avoid Making Big Investment Mistakes

Avoid Making Big Investment Mistakes

You don't have to be a sophisticated investor to avoid making big investment mistakes. You can do so by applying a little bit of common sense.

Here are the five biggest mistakes most investors make...

1) Being swept away by exciting stories.

The business my boss got suckered into had an amazing story. A company in Central America was turning beach sand into gold. The company had "proof" of their success – in the form of audited financial statements, geologist reports, and endorsements from investment experts.

My partner even went down there to see the operation. He saw the sand going in and the gold dust coming out.

I *didn't invest because the story sounded so fantastic.* I *remember telling him,* "This sounds like alchemy." I didn't know anything about geology or gold, but I didn't need to. The story *itself* was just too crazy.

When I hear stories like that nowadays, I'm totally turned off. One part of my brain might get excited, but the smarter part tells me, "Stay clear!"

2) Investing in businesses you don't understand.

My boss was a sophisticated investor. He had his own seat on the stock exchange when he was in his 20s and had been successfully investing since that time. But he knew nothing about gold mining.

His ignorance allowed him to be duped by the reports and the fraudulent factory tour. The scam was exposed by a few people in the mining business. They understood the industry and knew how to read reports with the sophistication of experience.

If you don't understand the business you're investing in, you're investing blindly.

3) Allowing salespeople to be bully you.

I mentioned that I made some bad investments early in my real estate career. They were due to a combination of the two mistakes I just enumerated. Plus, I buckled under pressure from a real estate broker who also happened to be my landlord and – I thought – my friend.

I agreed to make the investments even though I had a hunch they wouldn't work out. I ignored my instincts because she was so good at manipulating my emotions. Nowadays, whenever someone tries hard to sell me something, I take that hard-selling as a signal: Stay away!

4) Investing in trends too late.

Insiders call this the "bigger fool theory" you would think anybody with common sense wouldn't fall victim to this impulse. But millions of Americans (including bankers and brokers) did when the only chance of making money is to find "the bigger fool."

5) Investing without a way to limit your losses.

Sometimes, even if you use your common sense – and avoid the five mistakes I've already explained – you can lose money because something unpredictable happens. To avoid this, I have a rule: I never get into an investment unless I have a way out.

When you're investing in a business deal, that "way out" might be a buy/sell agreement. When you're investing in real estate, the way out is the income you can get from renting it if you can't sell it for any reason.

When you're investing in stocks for yearly gains or income, the way out is the trailing stop loss. There is always a way to limit your downside as long as you identify what that is before you make the investment.

Those are the five biggest mistakes investors make. As you can see, they're all pretty obvious – the kind of mistakes we can avoid by applying common sense. Avoiding these mistakes is part of how to get richer, year after year.

Seven Basics of long-term investing

Why investing should be a long-term commitment Everyday ups and downs in the market can distract you from your financial goals. Having a strategic, long-term focus is the secret to success as an investor. These tips can help.

Beware of emotional investing

Feeling dissatisfied with your investment returns? You are probably not alone. But the reason why may surprise you. It's not that average investors aren't paying attention to their investments; instead they may be too focused, and at the wrong times.

As with so many things in life, emotions are partially to blame. When the stock market is climbing to new heights, it's normal to want to jump in for fear of missing out. When stocks fall fast, it makes sense to want out at any cost. But these instincts can lead to poorly timed decisions.

Focus on time not timing

Attempting to move in and out of the market at ideal times is known as timing the market. It's generally not recommended because it's nearly impossible and can have serious consequences. Quitting when the going gets tough could mean locking in losses. If the market rebounds (and historically it always has) you miss out on the next upswing. And reinvesting when the market hits another peak is like buying something when it's no longer on sale. It's important to consider how the market has traditionally behaved. It has good years and bad, but generally has trended upward over time. Of course, past performance is no guarantee of future results, but the market has done particularly well over longer periods of time.

Go for a goal

One way to take emotions out of investing is to start with a goal. Defining your reasons for investing can help you manage your expectations. For example, if your goal is in the near term, and you're investing money you will need in five years or less, stocks probably aren't for you. The volatility will almost certainly wrench your emotions because you have too much at risk.

If your goal is for something like retirement, and it's 10 or more years away, the risk of stocks may be more tolerable. You may also want some bonds, which can help smooth out the impact of stock market swings. A thoughtful mix of investments, or asset allocation, can help you stay invested even when the market acts up.

Make good habits automatic

Your long-term plan could also include a commitment to steadily invest a fixed amount regardless of market conditions. For example, you could automatically transfer $100 from each paycheck into your investment portfolio. This helps you make investing part of your routine, instead of something you do on a whim. Automatic investing also helps you do something called "dollar cost averaging," which is investing at different prices. When investment values are down, your money will buy more shares. It's like taking advantage of bargain prices. Making automatic contributions to a retirement plan is a prime example of dollar cost averaging.

Limit the updates

Another strategy for softening the emotional impact of a downward market is to check the value of your investments only at regularly scheduled times. Rather than looking every day, you could review your account statements quarterly or annually. Focusing on long-term results makes you less likely to have kneejerk reactions to day-to-day market swings.

Maintain perspective

There may be moments when you want to react. History has shown that stock market declines are an inevitable part of investing. And these drops are more common than you might think. The S&P 500 Index has typically dipped at least 10% about once a year, and 20% or more about every six years, according to data from 1950 to 2019.[2]

During those dips, it helps to remember that every S&P 500 decline of 15% or more, from 1929 through 2019, has been followed by a recovery. The average return in the first year after each of these declines was 54%. You wouldn't want to miss that. While past results are not predictive of future periods, those rebounds can make it worth waiting out the drops.

Keep calm and stay focused

The bottom line is that emotional reactions to market events are perfectly normal, and it's no surprise that we may get nervous during periods of uncertainty. But taking impulsive actions can mean the difference between investment success and shortfall. Remember, you can't control what happens, but you can control how you react.

Investing Basics 101

Saving Early and Becoming Financially Rich

When you start saving early amazing things will happen!!

You can get a financial head start by doing three simple things...

The First Step: Living your life right!

This one is straightforward. You need to spend less than you earn. If you don't save your money, you'll never have any and you'll never get anywhere. This isn't a matter of intelligence or study. It's a matter of discipline

The Second Step: Start saving early and contribute each and every month.

See example A and B below….

The Third Step: Open and always contribute to your Roth.

You should start your Roth even if you've got a little credit-card debt and before really taking on any new debit. Later in life it will produce tax free money for you. And I don't know anyone in his right mind who would turn down free money**...Yet it's becoming more apparent to me that folks entering the workforce have no clue about Roth's and seem oblivious to their tremendous advantages.**

When you start earlier, you get the benefit of compounding growth!

Example: Let's say two investors each deposit $2,000 into an account earning and reinvesting 10% dividends..

.Investor A starts at age 26 and makes a $2,000 deposit each year until he retires at 65.

Investor B makes his first deposit at age 19, then adds $2,000 for only the next six years.

For simplicity, imagine their stock portfolios show no share-price appreciation. They just crank out 10% dividends each year. On their 65th birthdays, the two investors compare the balances in their accounts.

Investors A & B....

Investor A (Starts at age 26 & makes a $2,000) (deposit each year until age 65)

Investor B (Makes their 1st deposit at age 19, then) (add's $ 2,000 for the next six years)

	Investor A	Investor B
Contributions	**$ 80,000**	**$ 14,000**
Acct. Balance @ 65	**$ 973,704**	**$ 944,641**
Earnings	**$ 893,704**	**$ 930,641**

Even though Investor B only made seven contributions, he made more money than Investor A, who made 40 contributions.

The trick is, Investor B started seven years earlier. So on the day Investor A made his first contribution, Investor B had already accumulated more than $20,000, and his portfolio was earning more than $2,000 a year in dividends.

The earlier, the better. Sooner is better than latter, more sooner is best...

Why? Because people who fail to plan.

Plan to fail!!! So just do it now.

Become Financially Independent in Seven Years or Less

You are whatever age you are and your net worth is meager. Your income is barely sufficient to meet expenses… And those expenses are going up. What can you do?

Should you give up your dream of retiring comfortably one day? Should you accept a future of increasingly meager existence? Should you grow bitter and curse the powers that put you in this situation?

Or should you take responsibility and make some changes?

That last question was rhetorical, of course. But sometimes, people don't really understand their options. Things happen in life that we can't control. But *we can control the way we respond to them…*

It's easy to understand that when you are halfway through your life and barely making ends meet, it seems like the only chance to become financially successful is to win the lottery (either an actual lottery or the stock market equivalent of one). So it may be frustrating to hear people tell you that you can't turn $25,000 into $500,000 or $1 million by investing in stocks.

However others believe that anyone who has modest intelligence and a positive attitude can become financially independent in seven years or less if they are willing to work incredibly hard.

You do not have to give up on your dream of being wealthy. You always have the ability to change your financial life. It will just take a bit of time and patience. And it will require you to change some of the thoughts and feelings you have about wealth and your relationship with money.

Here are four simple ways to get started…

1. **Accept the fact that you are solely and completely responsible for your current financial situation.**

Before you react defensively, read that sentence again… We didn't say you are the cause of your situation. We said you are responsible for it.

By taking responsibility for your current condition, you also assume responsibility for your future. Nobody can change your fortune but you. And nobody else will. The sooner you accept that reality, the sooner you will shed the anger and blame and begin to feel financially powerful.

Know one is giving you a pep talk. They're telling you the truth. Many people have done it. It is a simple adjustment of your thinking, but it is extremely powerful. It works instantaneously. Without it, you cannot move forward, even by a single inch.

2. Set realistic expectations.

Some people say they don't want to make 10% or 15% per year on their money. They think returns like that are "ho-hum." They want some incredible stock tip or a secret get-rich-quick technique. Many experts say this person will never become wealthy.

You must realize that 10%–15% is a high rate of return. Warren Buffett – the most successful investor of all time and one of the richest people on the planet – has averaged 19% on his investments over his entire career. Check out his stock Berkshire Hawthaway (BRK)

The journey to millions of dollars is earned $100 at a time. You must be willing to accept this fact to move your financial life forward. Your financial life is like a train that has stalled. And right now, you want to be driving it at 100 miles per hour. But it can't go from zero to 100 miles per hour in no time flat. Inertia is against you. Be happy with 10 miles per hour now… and then 20… and then 30. This is how wealth accumulates: gradually at first, but eventually at lightning speed.

3. Thoroughly understand the difference between spending and saving.

With every paycheck you get, cover your necessary expenses first (bills, mortgage, etc.). Then, put some money toward saving. This includes what you

use to invest, as there's no distinction between good savings and good investing. What you save, you can leverage to create additional income.

Only after you have "paid yourself" by saving should you add to your "spending" account.

4. **Recognize that your net investible income (the amount of cash you have after spending and saving) is the single most important factor in determining how quickly you will become wealthy.**

Commit to adding to your income with a second income. Make an honest count of the number of hours each month you devote to television and other nonproductive activities. Devote them to wealth building instead. Cast aside the comfortable shoes of victimization. Put on the working boots of a financial hero.

It's not fun to realize, in the midst of your life, that you haven't acquired the wealth you want. But the good news is your past doesn't have to be the news of your future... unless you allow it to be.

You can change your fortunes today by doing the four things listed above.

You are only 50, not 80. You have plenty of time to increase your income and grow your net worth. Why do you assume all is lost when – as any 80-year-old will tell you – you have a whole wonderful life ahead of you... a life that can be rich in a hundred ways?

So make a plan for your financial future and work that plan to the best of your ability.