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The Easy Guide To Investing

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THE EASY GUIDE TO INVESTING

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If you've ever done any research into financial security, the topic of investing has undoubtedly come up. From retirement plans to passive income, drawing up a sound investment strategy is one of the smartest ways to put your money to work for you. That said, it can also be incredibly complicated for beginners to understand, which makes it more than a little intimidating.

Truth be known, a solid knowledge of the basics and a tailored approach may be all you need to get your investments off the ground. If books and websites full of financial jargon aren't your style, you're not alone. That's why we've compiled this guide to answer all of your most urgent questions, and add a little common sense to your dollars and cents.

What is INVESTING?

According to those in the know, the precise definition of investing is “the act of committing money or capital to an endeavor with the expectation of obtaining an additional income or profit.” Sound a little heavy? In everyday terms, it really just means that you’re taking money that you already have, giving it to an organization to hold on to, and having them pay you back more than you gave them for your trouble.

A simple example of this would be to think of a startup business. An entrepreneur has an idea for a product, a prototype, and a business model. What they don’t have is the money it takes to pay a production team, a marketer, or even to rent a warehouse or office space for the company. You come along and spot them a little cash to help cover these expenses, and they give you a share of their profit in return.

WHAT MAKES IT VALUABLE?

If you’ve ever had a credit card, you’re likely already familiar with the concept of interest. In essence, interest is a percentage of a total amount of loaned money that is tacked on to that total when it’s paid back. Charge up your credit card, and you’ll likely be paying back more than you spent as a financial “thanks” for access to the funds.

Now, we’re going to talk to you about the concept of compound interest in investing. When you make an investment, you’re loaning an organization the funds to use and waiting for them to yield a profit. When they do, a little slice of that pie is yours for providing them the cash. If you add that profit to your original investment and leave it where it is, it becomes a larger investment, and the profits it returns become a larger slice of pie. Leave it for long enough, and as your investment grows, so does your profit.

What are the main types of INVESTMENT?

Now that you have a handle on how investing can turn money into more money, you're probably wondering what types of investments (or "investment vehicles", as they're sometimes called) are out there.

STOCKS

Simply put, the term "stock" illustrates the style of investment we've already defined in this guide—you give an organization a sum of money in exchange for a portion of their profits. Individual stock investments in one company are referred to as "shares", meaning that you can purchase one or more shares for a set rate that may go up or down over time depending on the market and the business' performance.

BONDS

Bonds operate similarly to stocks, but with a few key differences. The first is that, instead of shelling out for shares in a company and hoping it does well, bonds come with a more specific repayment plan. The reason for that is because you're essentially giving the company a loan, making you a debtor that they must repay, with the addition of interest. Another noteworthy difference between stocks and bonds is that you will frequently find bond opportunities in local and national government as well as private companies, whereas stocks are generally found in private organizations alone.

MUTUAL FUNDS

Mutual funds encompass both of the above investment types, but are generally viewed as a much more accessible means of investment for beginners and those on a budget. These vehicles are made up of a stock "portfolio", which includes various stocks and bonds from various entities and companies. To invest in a mutual fund, you purchase shares of that fund, meaning that your investment is split up among all of the organizations in the portfolio and are not all flowing into one company. The best part? These shares are sold to a large number of investors, meaning that the individual cost per share is usually less than investing in all of those same companies on your own.

ETFs

An ETF (or exchange-traded fund) is an investment vehicle that operates very similarly to both traditional stock and mutual funds. Like the stocks we've already covered, you can trade for ETFs on stock exchanges, and both are available for purchase through investment brokers. Like mutual funds, on the other hand, they offer you a wider range of assets to invest in than individual shares allow, and they are designed to keep initial purchase costs low.

BANK PRODUCTS

If you're looking for an easy, no-fuss approach to investing, you may not need to look any further than your local bank! Savings accounts are typically easy to set up and link to your checking account. Some savings accounts may not even require an initial deposit amount to get started, so creating this interest-generating asset can be as easy as signing a piece of paper. While this doesn't involve the rush of trading for stocks and bonds, it can employ another concept we touched on earlier: compound interest. Many banks offer a set percentage of interest on their savings account, and if you leave it in there when it arrives, you begin to earn interest on the existing interest they paid you.

RETIREMENT FUNDS

One of the most common investment vehicles available is a retirement fund, and one reason for its popularity is how much it's referred to in our daily lives. Companies frequently offer a 401(k) or IRA to their employees as part of a benefits package, which allows you to take a set percentage of your paycheck and deposit it into the fund. The way that money is invested depends on the type of fund you have, but with the standard 401(k), you're looking at several mutual funds making up your portfolio. One tip with these types of funds? Don't set it and forget it. Review your investments annually to make sure they're living up to your goals, and don't be afraid to make adjustments along the way.

3 Ways to Make Smart Investments

So, we've talked to you about the fundamentals of investing, as well as letting you know some vehicle options you have at your disposal. Now, are you feeling ready for a little strategy? We've got 3 ways to make smarter investments right out of the gate, so you can emerge into this new arena with confidence.

1. Invest based on research, not emotions - If there's one area where it's wiser to choose mind over heart, it's definitely investing. After all, we're talking about finances, and managing cold, hard cash requires a firm understanding of the facts. Decide on your fiscal aims, research the best way to achieve them, and avoid nervously tracking your portfolio's growth on a daily basis. Try to approach this process as rationally as possible, and base your decisions on the tried-and-true.

2. Invest for the long term, not the short term - While a lot of the topics we've covered in this guide are designed for long-term investment, you may find short-term options available to you in your research. Our tip? Avoid instant gratification in favor of investments designed for the long haul. Why? Short-term investments do tend to yield higher profits, but can also be dicey and hard to navigate, as the market tends to shift rather quickly. When you're making long-term investments, you have time on your side, and can better recover from any sudden dips that may immediately cost you.

3. Diversify your portfolio - One of the most important things to remember when investing is that variety is your best friend. Putting all of your financial eggs in one basket is risky, both because you cannot predict how a company will perform or how the market's fluctuation will impact it. Spreading your investments out into different organizations and vehicles can help protect you from loss if the stock market dives or a business goes under, which is part of what makes mutual funds and ETFs so attractive. Whether you choose one of these options or you go it alone with individual investment, make sure you're pursuing different avenues.

If you've read all of this and still feel nervous about investing on your own, that's okay! It can be a tough thing to plan out, and you certainly don't have to DIY it if you're not sure what investments to make. We're here to help you with an investment strategy that makes sense for you, and that can be a load off of your mind. Book a call today, and let us take the guesswork out of your future financial security.