THE FINANCIAL FREEDOM SERIES

# The SIMPLE 60 MINUTE GUIDE TO INVESTING

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## A WORD FROM MONTY

Investing is one of the smartest way to secure your financial future and to begin letting your money make more money for you.

Contrary to what you may think, investing is not only for people who have truckloads of money; you can get started investing with just a little bit of money and a lot of know-how. By formulating a plan and familiarizing yourself with sound investing principles, you can quickly learn how to start investing.

This guide is not intended to be a complete resource on investing. Rather, it's meant to be a "booklet" to help you get acquainted with investment principles. I hope that you'll take this quick tour and then go on to learn more about investing. There's a lot of information on investing at your library and on the internet.

Thanks for taking time to read this guide. To your freedom.

Monty

# INVESTING BASICS:

**Financial planning is a pre-requisite for a secure and comfortable future and investment takes the center stage in that process. What exactly do we mean by investment?**

**By definition, investing is an act of committing money to a specific task, project or endeavor with the expectation of obtaining a profit or additional income. In simple terms, investing is putting your money to work so that it can bring back more money for you.**

**Investment is one of the most important things we learn about as we grow up. Different people have different approaches to it. What to invest in, how much to invest into an asset, and when to liquidate that asset for profit - all these things are a part of investing to grow your wealth.**

Why does anyone invest? What is the need for putting away your money away in a venture or an asset that may deteriorate when you can actually save it in the form of cash in your bank? Well, the answer is simple - to get higher returns and get more money for the future. People invest for five main reasons.

- Get control over their life
- Become financially independent
- Support personal causes, goals and aims
- For financial aid during emergencies
- Tax advantages

Right from our childhood, we are told that we need to "earn" money. So we get ourselves a job and start earning money. But we can only earn so much money with a job. So, when someone wants more money to enhance the quality of life or to meet certain basic needs and expenses, what do they do? Do they work more to earn more? Even if they do, they can only work for a limited time as each day has only 24 hours.

That is where investing comes in. Investing is routing the money you earn, into different productive channels so that you get more money back. People

## WHY SHOULD YOU INVEST?

Investing allows you to potentially grow your money at a higher rate than a savings account. And if you can grow your money faster than a savings account can, you will have more money for your various financial goals over time. A few people may stumble into financial security. But for most people, the only way to attain financial security is to save and invest over a long period of time. You just need to have your money work for you. That's investing.

With investing, your money earns money. Someone pays you to use your money for a period of time. You then get your money back plus "interest." Or, if you buy stock in a company that pays dividends to shareholders, the company pays you a portion of its earnings on a regular basis. Now your money is making an income.

Another way to invest is to buy something with your money that could increase in value. You become an owner of something that you hope increases in value over time. When you need your money back, you sell it, hoping someone else will pay you more for it.

"It is not necessary to do extraordinary things to get extraordinary results."
-Warren Buffett


## WHICH WOULD YOU PREFER?

If you use the Rule of 72 and invest $50 per month into the S&P 500 Index over the next 30 years, you can potentially grow your money to $96,299! If instead you just add the $50 per month into your savings account earning 1%, you can potentially grow your money to $20,870. HUGE difference! Which would you prefer?

# INVESTING: THE BASICS

invest to secure their future financially. As mentioned earlier, investment is putting your money to work so it grows and empowers you to live your life comfortably. Proper investment planning ensures that you always have money when you need it, and so that you don't need to depend on anyone else for financial assistance.

Now that we have a few basic questions about investing answered, let's move on to discussing different investment types and the risks and benefits of each.

Ready to go?


## DO YOU THINK LONG TERM?

Over the long term, stocks have historically outperformed all other investments.

Stocks have historically provided the highest returns of any asset class -- close to 10% over the long term. The next best performing asset class is bonds. Long-term U.S. Treasurys have returned an average of more than 5%.

What is your investment timeframe, long or short?

# DIFFERENT TYPES OF INVESTMENTS

Now that you know why people invest, the next thing to learn about is how they invest, or what they invest into. Depending on your financial goals and your personal goals, you can choose from different types of investment vehicles. Of the many types of investments, we cannot simply say that one is best. The best investment option for you depends on your investment objective - why you want to invest and what you expect from it. In this section, you will be introduced to the different types of investment vehicles that you can choose from.

**STOCKS**

Stocks or equities are investment vehicles that allow you to own a small share of a company. As a shareholder, you will be entitled to vote during the shareholder's meetings, and also potentially earn a dividend, which is a part of the profits that the company makes, on your shares. Compared to other forms of investment, stocks are volatile, which means their prices keep changing. The value of the stock you buy keeps changing every day as it depends on the performance of the company, the industry and the stock market in general.

Also, there is no guarantee that the price of a stock you invest in will only go upwards in the future. The price could increase by tenfold, or it could go down drastically to less than your purchase price.

**BONDS**

Bonds are fixed-income securities, which are founded on debt. Unlike stocks, bonds are the debts you give to the company. So when you buy a bond, you are actually lending money to the company, or the government, depending on the type of bond you buy.

# INVESTING IN

## BONDS


The money you put in the bond will be with the company for a certain period of time, and the company or the bond-issuer agrees to pay you a certain amount as interest for the loan you extend.

Bonds are generally safer when compared to stocks, as the return on investments for bonds is virtually guaranteed, unless the issuer defaults. The fact that bonds are somewhat risk-free is what makes them so attractive to many investors. Also, the return on investment is smaller due to the smaller risk that accompanies bonds investment.

**MUTUAL FUNDS**

A combination of stocks and bonds, a mutual fund is one of the most popular forms of investment today. When you invest in a mutual fund, your money will be going into an investment pool that is distributed among a variety of stocks and bonds. You can invest in different types of mutual funds based on the company the stocks or bonds are issued from, the industry, the country and the risk involved.

Mutual fund investment allows you to put your money into multiple investment vehicles even if you do not have the needed time or experience for it. Once you make an investment, the mutual fund is managed by an investment manager.

*(continued on next page)*


## BUYING & SELLING

The New York Stock Exchange, sometimes referred to as “the big board,” is the oldest and largest stock exchange in the United States and is one of the world's foremost auction markets. An auction market is a market in which buyers indicate the highest price they are willing to pay and sellers indicate the lowest price they are willing to accept. Electronic trading technology is now used to facilitate the majority of trading in a high-speed and high-volume operation, but human traders still play a role, and the way opening and closing prices are set continues to be based on supply and demand in a modern-day auction style format.

"An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative." -Ben Graham

## WHAT IS A PONZI SCHEME?

**A Ponzi scheme is an investment fraud that pays existing investors with funds collected from new investors. Ponzi scheme organizers often promise to invest your money and generate high returns with little or no risk. But in many Ponzi schemes, the fraudsters don't invest the money. Instead, they use it to pay those who invested earlier and may keep some for themselves.**

**With little or no legitimate earnings, Ponzi schemes require a constant flow of new money to survive. When it becomes hard to recruit new investors, or when large numbers of existing investors cash out, these schemes tend to collapse. Ponzi schemes are named after Charles Ponzi, who duped investors in the 1920s with a postage stamp scheme.**

# WAYS TO INVEST MONEY:

Besides these, there are alternative investments that you can consider.

### CERTIFICATE OF DEPOSITS

The Certificate of Deposit or CD is perhaps the simplest of investments, in which you simply park a lump sum amount in your bank and the bank pays you an interest on it. The CD has a lock-in period and after it matures, you get the principal back as well as the interest. Owing to the low rate of risk in this investment, the returns from this investment are also low.

### PRECIOUS METALS

Precious metals like platinum, gold and silver are quickly gaining popularity as alternative investment vehicles. You can invest in your choice of precious metal depending on how much you can afford to buy. The price of these metals usually depends on the underlying supply and demand. You can invest in tangible metal or paper metal, depending on your convenience and goals.

### REAL ESTATE

A real estate investment is an investment that is tied to physical property, like a house or land. Usually, the price of property goes up with inflation, but not always. Also, real estate investment requires you to bring in large sums of money for purchasing the assets and also for their maintenance.

# BALANCING RISK AND RETURNS

Investments offer returns, but they also come with risks. That is one of the basic tenets of investment. Risk and returns from investment are for the most part, directly proportional. That means, the higher the risk, the higher the returns, and the lower the risk, the lower the returns.

A balanced investment portfolio is one where the amount of risk is not more than the returns it carries. A balanced investment strategy also aims at retaining the capital while fetching the investor enough returns to reward their risk-tolerance.

The bottom line is that you should avoid putting savings that you cannot afford to lose into investments.

# WHAT ARE YOUR INVESTING PRINCIPLES?

In a world of over 16,000 stocks and mutual funds to choose from, it is not surprising that many investors lose sight of what investing is all about. To make matters worse, Wall Street spends billions in advertising revenue each year to try to convince you to focus on hot stocks and cool mutual funds and ignore the principles of investing.

Before beginning any investment, it's wise to base your decisions on sound principles. Here a few to get you started:

Always do your homework as knowledge is power. Understand personal finance matters that could affect you. Understand your current investments and the risks associated with them. Be cautious when evaluating the advice of anyone with a vested interest.

Lastly, remember the words of Ralph Waldo Emerson - "As to methods there may be a million and then some, but principles are few. The man who grasps principles can successfully select his own methods. The man who tries methods, ignoring principles, is sure to have trouble."

# WHAT DO I NEED TO DO BEFORE I START INVESTING?

To invest, you need money. To be precise, you need money of your own. Borrowing money to make an investment is not a sound strategy. So before you invest, you need to get your finances in order. Here is how you can do that:

**TAKE STOCK OF YOUR INCOME AND SPENDING**

Assess where you are today in terms of your finances. Create a sheet containing your income and expenditures. When you have debts, your priority should be to pay them off before you invest. That will save the money you pay as interest. If it is a long-term loan, like a mortgage, then you should deduct the installment amount from the income and then set aside money for investment.

**ORGANIZE YOUR SPENDING**

Create a budget and stick to it. That way you can save enough money to invest in your chosen investment vehicles. If you feel that any of your expenditures can be avoided, without causing any kind of discomfort to yourself, then try and avoid it. You can use the available money for investing wisely.

**SET GOALS**

The next step is to have a clear idea about where you want to be financially after a certain period of time. Make a detailed list of how much money you want to have in your bank account and what kind of assets you wish to own. Evaluate your debts and figure out how much you need to save each month to be able to have no debts whatsoever in the future. Make a list of credit cards, auto loans, student loans and other personal loans or mortgages and set a target for paying the debt on each one of them by a specific time period.

Once you know what your financial standing is and what you want to achieve with investments, you can start planning to reach there!

**philosophy**

The do-it-yourself approach may not be suitable for everyone. If you try it and it's not working, or you're afraid to try it at all, or you don't have the time or desire, then you should seek professional assistance. If you want others to handle your financial affairs for you, remain involved to some degree, to make sure your money is being invested wisely.

## I'M READY, WHAT IS THE BEST WAY TO START? IT STARTS WITH SAVINGS.

How do you start investing money? The key to investing is savings.

An effective savings strategy coupled with a smart investing strategy will help you to meet your financial goals.

Every dollar saved now helps you to control your current consumption by which the size of the income that you think will be required for retirement is lowered. Also, through the power of annual compounding, it increases the size of the nest egg you'll have for retirement.

To achieve any goal in life, one needs to be disciplined. Similarly, saving and investing too requires discipline. A disciplined approach helps you to remain focused on your financial goals. Formulate a plan and review it periodically to ensure that you are on the right track.

Save first, then invest.

# INVESTING MYTHS

There are myths about everything, and the financial world is no exception! A number of people fall prey to these misconceptions and end up losing a lot of money. To prevent that, you must know what investment really is and what it is not. Here are a few myths and realities about investing that you should know about.

**I DON'T NEED ADVICE**

One of the major rookie mistakes is not seeking advice from experienced investors or financial experts before making a big investment. You may have done your research and gathered all the data, but there is a possibility that you have missed an element that the experienced eye can find. This does not mean that finance experts or professionals are always correct. But getting a second opinion on your investment plan, especially from a successful investor is a good idea and can help you prevent costly mistakes right in the beginning.

**GOOD COMPANIES WILL GUARANTEE RETURNS**

Another myth is to believe that just because a company is into philanthropic activities and also offers quality products and services, its share price is likely to grow in the future. The company may be a good one, but that doesn't mean it is making profits. If the "good" company is incurring losses or struggling to survive, there is no way it can pay you any dividends. Also, just because the company is performing great right now doesn't mean it will continue to perform that way in the future.

**I CAN CONTROL MY INVESTMENTS ENTIRELY**

Agreed, that you can make your own investment choices. But that does not mean you are in control of what the outcome will be. No matter how carefully you make your investment choices, there will be certain external factors like market performance, the performance of the company and economic conditions of a country that will affect the value of the asset.

**RISK TOLERANCE GOES UP AS YOU AGE**

Age has nothing to do with your success rate as an investor. You could be young and still make the best investment decisions or

## ARE MUTUAL FUNDS THE BEST BET?

The mutual fund industry spends millions on their advertising and sales force to convince you that this is true. The fact is that many mutual funds consistently underperform the index they follow, they cost too much and advisors make a large chunk of their income from them. Often they are sold on the bases that they are run by professional money managers who spend a lot of time studying the markets.

One of the disadvantages of mutual funds is turnover. Turnover is the percentage of a fund's holdings that change over a year due to buying and selling. The turnover of the average actively managed mutual fund is approximately 85%.

That means the average mutual fund holds a stock for just 10 months. That constant buying and selling takes a big toll on returns due to commissions and spreads. In addition, high turnover effectively forces more yearly capital gains taxes onto fund investors, further impacting returns. Turnover and taxes can be the long-term investor's worst enemies. As with all investing, do your research before investing your money.

# INVESTING
## MYTHS (CONTINUED)

you could be an experienced investor and still lose money. Whether or not you can tolerate risk to gain high returns from your investments depends on the choices you make and not your age.

**INVESTMENT PROS KNOW HOW TO BEAT THE MARKET**

Investment pros or experienced investors who have been in the trade for long are not superhuman. They cannot control the outcomes of their investments. Even a seasoned investor experiences losses from time to time. No skill can help an investor beat the market or succeed in every investment they make.

**ADVICE FROM INVESTMENT CLUBS IS ALWAYS CORRECT**

There are a number of investment clubs that offer tips or advice to their fellow investors. These clubs are also known for sharing valuable information. It is important to remember that there is no one-size-fits-all advice when it comes to investing. What may work for one investor may not necessarily work for another. So, even if the advice that a club gives you may be correct, it may not be right for you.

## Achieving Long-term Investing Success

"To achieve long-term success over many financial market and economic cycles, observing a few rules is not enough. Too many things change too quickly in the investment world for that approach to succeed. It is necessary instead to understand the rationale behind the rules in order to appreciate why they work when they do and don't when they don't."
-Seth Klarman

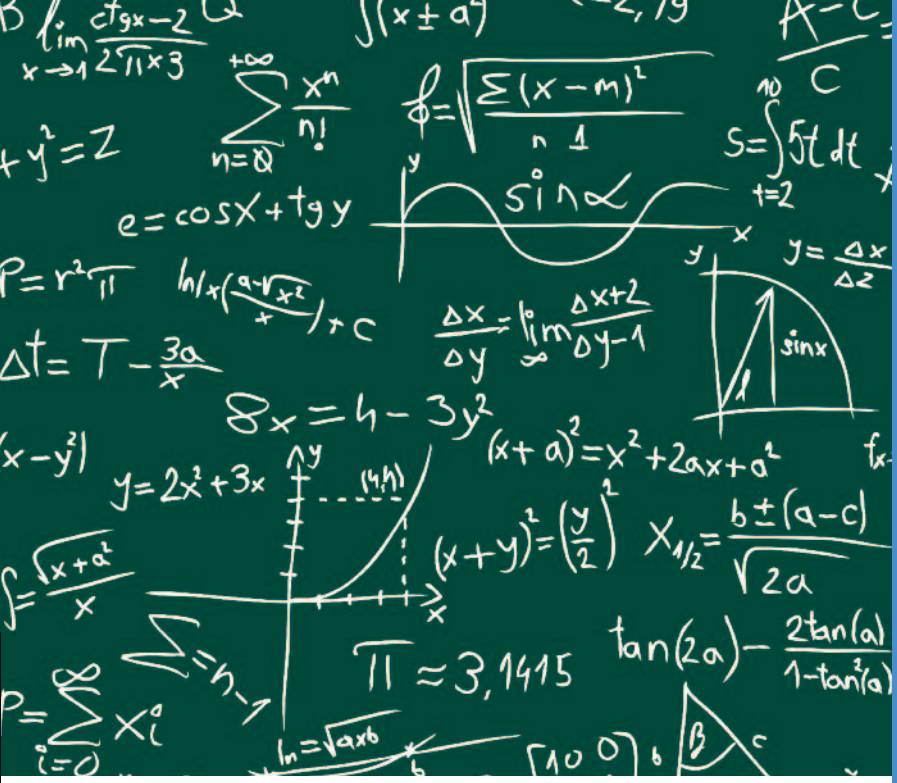
## TICK TOCK GOES THE CLOCK

Time can be one of the most important factors determining how much your money will grow.

If you saved $5 a week at 8% interest starting from the time you were 18 years old, by age 65, your savings would total $134,000. If you wait until you are 40 years old, you'll have to save $32 a week to have $134,000 at age 65. In fact, just one year's delay – waiting until you're 19 years old to start saving $5 a week at 8% interest – will cost you more than $10,000 by the time you're 65.

# BE PATIENT. IT TAKES TIME!

**"In our view, though, investment students need only two well-taught courses-How to Value a Business, and How to Think about Market Prices. Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily-understandable business who's earnings are virtually certain to be materially higher five, ten and twenty years from now."**
**-Warren Buffett**



# THE TRUTH ABOUT INVESTING

The truth about investing is that it is not gambling but there is at least one similarity. If you gamble or invest your money, there is no guarantee you will get it back. But if you make a planned investment, there is a possibility that you will get your capital back, along with some great returns. While gambling is about putting your money on something with the 'hope' that you will win, investment is having the knowledge and skills that will give you a better chance of earning real money. Investing is not about putting your money on a random stock or asset. It is about placing your money on an asset after thorough analysis with a reasonable expectation of making profit. Even then, there is no guarantee that you will consistently make profits. You may be able to pick a stock that outperforms, but all the stocks you pick may not outperform all the time.

# WHAT ABOUT STOCK MARKET PREDICTIONS?

"The considerations upon which expectations of prospective yields are based are partly existing facts which we can assume to be known more or less for certain, and partly future events which can only be forecasted with more or less confidence.

It would be foolish, in forming our expectations, to attach great weight to matters which are very uncertain. It is reasonable, therefore, to be guided to a considerable degree by the facts about which we feel somewhat confident, even then they may be less decisively relevant to the issue than other facts about which our knowledge is vague and scanty. For this reason the facts of the existing situation enter, in a sense disproportionately, into the formation of our long-term expectations; our usual practice being to take the existing situation and to project it into the future, modified only to the extent that we have more or less definite reasons for expecting a change.

The outstanding fact is the extreme precariousness of the basis of knowledge on which our estimates of prospective yield have to be made. Our knowledge of the factors which will govern the yield of an investment some years hence is usually very slight and often negligible. If we speak frankly, we have to admit that our basis of knowledge for estimating the yield 10 years hence of a … [business enterprise] … amounts to little or sometimes to nothing; or even five years hence." - John Maynard Keynes

# INVESTING: STOCKS AND BONDS

Investing in stocks and bonds may not be as difficult as it seems. However, it is not all that simple either. An investment portfolio with both bonds and stocks can be a balanced one, provided you make the right choices. If you've always wanted to buy stocks and bonds but didn't know where to begin, then this section can help you.

**HOW THE STOCK AND BOND MARKETS WORK**

Understanding how the stock and bond markets work is the first step to investing in these assets. Think of it like a stage for performance. If you have no knowledge about what to do on the stage and no skills that can help you perform, then you will simply lose to the competition.

Both the stock and the bond markets form an integral part of the US financial system. Their overall performance affects the economy, and also those who have put their money into stocks and bonds. A stock or bond market may seem chaotic and intimidating to a first time investor. But once you understand how the markets work, you'll find that trading in stocks or bonds is not that difficult.

**STOCK MARKET**

Where will you go when you want to eat a pizza? A pizzeria, of course. Just like a pizzeria specializes in making and selling pizzas, the stock market is where you can buy and sell stocks of a particular company. So if you want to buy stocks of a company, you go to the stock market. However, an individual investor does not interact with the market directly. To be able to trade on the stock exchange, an individual investor has to go through a brokerage.


The stock market is where you can invest in the shares of a publicly traded company. Every country has its stock exchanges, where the companies in that country can get listed. Investors can select stocks of any of the listed companies to trade in. All purchases and sales of stocks by an investor are routed through the broker and the stock exchange.

**BOND MARKETS**

A bond market is where bonds of different companies or government issued bonds are traded between individual investors. There are different bond markets in different regions of the world, where different bonds are bought and sold. Although the process of bond trading is a little complicated, the bond market makes it easier for investors to purchase and sell bonds.

Both the stock and bond markets make it convenient for traders to transact electronically. In both the markets, investors can trade the stocks and bonds in exchange for cash, which is settled after a specific turn-around-time. Unlike share trading, bond trading mostly happens between institutions, which trade in bonds on behalf of their clients.

## WHAT IS YOUR RISK PROFILE?

"To thine own self be true."
-William Shakespeare

How comfortable are you with market swings? Are you a risk taker, willing to throw money at a chance to make a lot of money or would you prefer a more sure thing? What would be your likely response to a 20% drop in a single stock in one day or a 30% drop over the course of a few weeks? Would you sell it all in a panic? The answers to these and similar questions will lead you to consider different types of equity investments, such as mutual or index funds versus individual stocks. It pays to know your "risk profile" before beginning any investment activity.

# STOCKS & BONDS

**INVESTING IN STOCKS**

In this section, we will learn more about how to get started with stock trading. Right from understanding what stocks are, to learning how to trade stocks of different companies on a stock exchange, this section will give you a complete overview of how to trade in stocks. So let's begin at the beginning, with the definition of "stocks".

**DEFINITION OF "STOCK"**

A stock can be defined as a type of security that helps a company raise capital by offering a share in the company's ownership to the buyer of the stock. Stocks, also known as equities or shares, also represent the investor's claims on part of the assets and earnings of the corporation. Stocks are issued by the company at a certain price, after which they are traded on the stock exchange. A person who buys the shares of a particular company becomes its shareholder.

Anyone with a brokerage account can buy and sell shares of any public company they like. Earlier, stocks were issued in paper format. But now, all stocks are stored, bought and sold in their electronic format, which means you can buy and sell shares sitting at home, using your computer and the internet.

Unlike what many people think, shares are not all about making quick trades that result in windfall gains or devastating losses. They are not the short-term trading instruments unlike what some people may think. In fact, they can help an investor gain profits when they are considered as long-term investments.

# INVESTING:
## KNOWING THE BASICS IS KEY TO SUCCESS

**TAKE IT ONE STEP AT A TIME**

The basics of investment aren't rocket science. They can be mastered by almost anyone, taking one step at a time. Before you get started though, make sure to think through your plans for a financial emergency such as a layoff or illness. Before investing, consider setting aside a reserve fund of at least six months' living expenses.

### UNDERSTANDING STOCK PRICES

The price of a stock is the cost at which it is sold and bought. Stock prices are not usually fixed, as they are dependent on a number of factors like the performance of the company and free market forces.

These free market forces often trigger the short term price fluctuations, making the stock investment volatile.

The free market forces we are talking about here are the demand and supply of the stock in question. Just like the cost of a product is affected by its supply and demand, the price of stocks is also affected by their supply and demand on the exchange. If the number of a company's shares in circulation is less, and there are more people who want to buy them, then the cost of those shares may go up. In addition to supply and demand, other elements like the performance of the company and the estimated or target price of the share also affect the price of shares.

Here, the target price is an estimated price that the company's stock is expected to reach by the end of a certain period. For example, if the current price of a stock is $5 and its estimated price after a year is say $15, then a larger number of investors would want to buy that company's shares with the expectation of making a profit of $10 per share after a year. At the same time, those who hold the shares are not likely to sell it before it reaches the estimated price. So here, there are more people who want to buy the

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"I have no data yet. It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts." -The Adventures of Sherlock Holmes.

# STOCK
## PRICE MOVEMENTS

shares than those who want to sell. This results in increase of the share price.

Likewise, a company's performance also impacts the demand and supply of stocks, thereby influencing its prices. For instance, if a company has been doing good and has managed to post profits beyond expectations, then people are more likely to invest in that particular company's shares owing to its performance. Based on this factor, the price of the stock may go up. The value that the stock delivers to you depends on how its price has fluctuated over a period of time.

It is important to understand that consistency in the performance of the company cannot be guaranteed. Also, you shouldn't solely rely on analyst estimates to buy shares, as they are also prone to errors. Share trading has its own risks, which means there is no guarantee about which way the

## THE POWER OF COMPOUNDING

A 20-year old can achieve a million-dollar portfolio by age 65 if he or she invests just $67 per month (assuming an average annual return of 11 percent). Said another way, that 20-year old will invest, over the course of those 45 years, less than $37,000 in order to create a $1 million portfolio. That's the power of time. That's the power of compounding.

# DIVIDEND INVESTING
## BASICS

stock price will move. The risk in investing cannot be completely eliminated. But you can try to minimize the risks by investing after thorough research of the company and the performance of the stock.

**WHAT ARE DIVIDENDS?**

Dividends are the amount of money that a company pays to its shareholders for a specific period. Dividends are nothing but a part of the company's earnings, the size of which is determined by the board of directors of the company. The dividend is usually announced as $X per share. So, if you have a hundred shares of a company that is offering a dividend of $5 per share, then your total dividend will be $500 for that specific period.

Some companies also quote their dividend in terms of a percentage of the market price of the equity. Dividends are often offered by companies that are stable and established. Even if the price of the company's stock does not move up by much, then the dividends that a company offers can make up for that. Dividends can be in the form of stock, cash or property.

It is important to note that not all companies offer a dividend on their shares. For instance, high growth companies re-invest much of their profit to sustain the growth rate. Such companies may not offer any dividends to their shareholders.

# BENEFITS & RISKS OF STOCKS

## IS INVESTING IN THE STOCK MARKET CONSIDERED RISKY?

There are two major risks for stocks. One has to do with stock volatility; namely, the ups and downs of a stock's price over time. The other is the risk of losing some or all of one's investment in a stock due to a serious and permanent decline in the business prospects of a company. Ownership of stock in the right companies can hold significant potential for financial reward. Like other investments, stock ownership tends to follow a risk versus reward tradeoff. In other words, in return for accepting greater risk, an investor who buys stock in a company anticipates the chances of financial reward will be greater than owning other types of assets such as bonds. While it is quite easy to lose money owning the wrong stocks, purchasing the right stocks and then holding onto them over the long term can be very profitable.

As a stockholder of a company, you are a part owner of the company. So your investment in a company's stock is directly linked to the performance of the company. That means your investment in stocks will only be as strong as the companies they belong to. If the company you choose is performing poorly in the market, the returns on your investment will not be great and vice-versa. Among the top benefits of investing in stocks are:

• You can take advantage of a growing economy. A strong economy can make it easier for companies to grow and earn profits, which have a direct impact on the stock prices.
• Stocks can be a good long term investment, and to stay ahead of inflation. According to several studies the average annual return on stocks is around 10%, which is greater than the average annual inflation rate of 3.2%.
• Stock trading is easy, as the process of buying and selling takes place online. There is no hassle of storing physical share certificates anymore, which makes it better than tangible gold or silver investments.
• Stocks offer two types of earnings - in the form of dividends and in the form of profits that the investor could make with increase in share prices.
• You can diversify your investment and leverage risk by investing in stocks from different industries.

Understand the risks of investing before you start. If you don't understand the risks, then you shouldn't invest.

## KNOW THE RISKS BEFOREHAND

**When you make an investment you could lose all of your money – in some cases, more than you invested. Before you make any investment, understand the risks and decide if they are risks you are comfortable taking. While stocks have historically performed well over the long term, there's no guarantee you'll make money on a stock at any given point in time. Although a number of things can help you assess a stock, no one can predict exactly how a stock will perform in the future. There's no guarantee prices will go up or that a company will even stay in business.**

# INVESTING: RISKS

• You can also invest in stocks of multiple companies at once through stock indices.

Risks of investing in stocks:

• One of the most common risks of investing in stocks is the commodity price risk. This is simply the risk of a total swing in the price of the stock due to any reason. While a swing in the upward direction can be beneficial to the investor, a downward movement of the stock price can lead to major losses.
• Headline risk, which is the risk of decline in the share price of a company due to bad press or publicity, is yet another risk that the investor faces. You may think of buying the shares of a low profile public company to protect from this risk. The fact is that no company in the world that is publicly traded is free from this risk.
• Every company has a credit rating that it is awarded based on its performance. If the business is not able to maintain the rating with its offerings, that can have an impact on its stock prices. The credit rating of the company is also a worrisome factor, because that can also impact the price of its stock.

• Inflation and a rise in interest rates are two factors that can affect the costs that a company has to bear. Increasing financial costs and interest rates can make it difficult for the company to earn profits, which is not good news for shareholders.

The fact is, every business in this world has some risks, which affect the shareholders of the company.


# STOCKS: BUY & SELLING

## HOW DO YOU MEASURE SUCCESS WITH INVESTING?

Return on investment (ROI) is a measure of the profit earned from each investment. It's calculated as a percentage. In simple terms, the ROI formula is:

(Return – Investment) / Investment

It's typically expressed as a percentage, so multiple your result by 100.

Buying and selling of stocks happens through the stock market. If you have seen a stock market on TV and are worried you will have to be there and shout at the top of your voice like those traders do, you've got it all wrong. Trading stocks is easy and does not require you to go to the stock exchange. As a beginner, you need not worry about the intricacies of how a brokerage firm operates and how the stock exchange manages to hold a billion shares and enable transactions between buyers and sellers. Here are a few simple steps that will explain how you can buy and sell stocks electronically.

• Before you invest in stocks, you need to understand the rule of thumb of stock trading - you generally want to buy stocks when the price is low and sell when the price is high. That is the only way to make profit via stock trading.

• To be able to buy or sell stocks online, you need a brokerage account. Brokers are middlemen who enable you to trade in shares. Trading here means buying or selling shares of a company.

• During account opening, you are required to deposit a certain amount into your brokerage account. Once there are funds in your account, you can make a purchase. The process of buying a company's stock electronically is simple - all you have to do is select the company, determine the number of shares and set the amount at which you want to buy the shares. Once you do, submit the request for the broker to process it.

• To sell the shares, you should go to portfolio page of your trading account, where you can see the list of equities you hold. Select the shares

# SETTING GOALS

you want to sell and submit the order.

• The brokerage processes your requests to buy or sell and forwards it to the stock exchange. The exchange takes around 2-3 days after the transaction to process your request completely. Once it is done, the stocks or the money will be reflected in your account.

Make sure you understand how to use the broker's trading platform before you get started. Have a brokerage agent explain the functionality of the system so that you can trade stocks on your own.

**UNDERSTANDING STOCK INVESTMENT FEES**

The brokerage account you have signed up with for equity trading will charge a certain amount as fee for the services offered. These charges are usually a percentage of the value of your transaction and are collected when you submit a request to sell or buy. So, when you purchase shares, the investment fee is included in the total amount you pay for the stocks. The amount is directly debited from your brokerage account. When you sell stocks, the fee is deducted from the amount that is credited to your brokerage account. Some brokers also charge an annual fee for management of your accounts.

## REMEMBER THE FUNDAMENTALS

"The minute you get away from the fundamentals – whether it's proper technique, work ethic, or mental preparation – the bottom can fall out of your game, your schoolwork, your job, whatever you're doing."

-Michael Jordan

## SET A GOAL

Whether your dream is to retire and live on the beach or to travel the world, it helps to have an investment plan. The first step in developing a sound investment plan for your goals is to get specific in your goal setting. If one of your investment goals is a comfortable retirement, you'll need to know your income needs. A 2007 Retirement Confidence Survey by the Employee Benefit Research Institute states that only 43% of those surveyed had calculated how much they might need to invest for retirement. Without calculating your retirement income needs, you won't know whether you're on target to reach your investment goals.

# COMMON MISTAKES TO AVOID WHEN INVESTING IN STOCKS

Trading in stocks can be overwhelming for the first time investor. When you have doubts about trading or are confused about the process, you tend to make mistakes that can prove to be costly. If you don't want to lose money even before you get started, here are a few mistakes that you should try and avoid when investing in stocks.

• Investing in stocks of a company because of the brand value of the company alone.

• Blindly following investing advice or leads from other investors.

• Getting greedy - not cashing out in time to lock-in profits.

• Investing in a company's stock before considering its earnings potential.

• Giving into the hype - just because a company spends thousands doesn't mean it's stock offers good returns.

• Purchasing a stock just because of its low price.

• Purchasing a stock only for the dividend promised by the company

## DON'T FORGET BEN'S TIMELESS ADVICE

"Acquire Riches by Industry and Frugality."
-Ben Franklin

## BEING PATIENT PAYS OFF

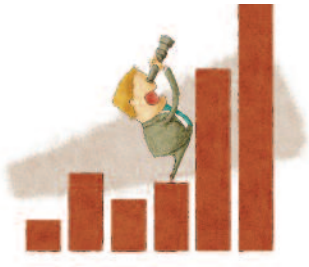
"A few major opportunities, clearly recognizable as such, will usually come to one who continuously searches and waits, with a curious mind, loving diagnosis involving multiple variables. And then all that is required is a willingness to bet heavily when the odds are extremely favorable, using resources available as a result of prudence and patience in the past."
-Charlie Munger

# BOND INVESTING:

Investing in bonds may seem to be slightly more complicated than investing in stocks, when in fact the opposite may be true. The low risk factor involved in bonds investing makes this investment option a preferred one for many. Here is more information about this type of investment.

**DEFINITION OF A "BOND"**

A bond can be defined as a debt investment, wherein the investor offers a loan to an entity that wants to raise funds. In the simplest of terms, a bond is nothing but a fancy IOU that the entity borrowing money offers to the investor and agrees to pay back the principal along with interest. The interest is often fixed, which makes bonds a fixed-income security.



**UNDERSTANDING THE DIFFERENT TYPES OF BONDS**

Bonds can be categorized into three main categories - government bonds, corporate bonds and municipal bonds.

• Government bonds

Government bonds are those offered by the federal governments of a country. The United States federal bonds are called Treasuries, which are further divided into Notes, Bills and Bonds. A treasury bill has the shortest maturity time, ranging between 13 weeks and a year, while the treasury bonds have a maturity period ranging between 2 and 10 years. Treasury bonds are those that have a maturity period of over 10 years. The interest paid on treasuries is usually tax free.

• Corporate Bonds

Corporate bonds are issued by corporate entities and companies that want to raise capital. These bonds are riskier than the government bonds, which are considered to be safe for investing. Interest on these bonds is usually higher, owing to the high risk factor. However, the interest you earn on these bonds is taxable.

• Municipal Bonds or Munis

Municipal bonds are usually tax-saving bonds issued by state and local agencies and governments. These bonds are long-term bonds that have a maturity period of up to 30 years and a

# BOND INVESTING: BUYING AND SELLING

minimum investment of $5,000. Some of these bonds issued by the state governments are also exempt from local taxes, which make them one of the tax havens that Americans rely on. Munis are generally not as risky as corporate bonds, but there is always a chance that the local government defaults on the payment.

Besides these main bonds, there are mortgage-backed securities, inflation-indexed treasuries, and zero-coupon bonds you can invest in.

## BENEFITS AND RISKS OF BONDS

A bond is one of the safest of investments you can choose from today. This is owing to the fact that a bond is a debt investment and the issuer has an obligation to pay the bond holder first in case of bankruptcy. The cases of bonds issuers defaulting are rare, although it is a possibility. In that sense, you can say the bonds come with their own set of risks. Here is an overview of the benefit and the risks that come with bond investing.

### The benefits of investing in bonds

• Compared to stocks, bond investments are safer. They are considered as a safe haven for your savings.

• The rate of interest offered on bonds is greater than that of the interest offered on savings.

• The returns from bonds are generally predictable, you earn your interest in bonds slowly, but steadily.

### The risks or disadvantages of bonds

• Bonds also come with interest rate risk, where the rate of interest and the price of bonds are inversely related.

• Another risk of investing in bonds is the inflation risk, which is linked to the interest rate risk. This means when the rate of interest goes down, the price of the bond goes up and vice versa. Also, the bondholder will lose money on the investment due to inflation, when the purchasing power of money goes down.

• Default risk is another disadvantage with bonds. This can be high in corporate bonds.

## HOW TO BUY AND SELL BONDS

Treasury bonds, notes and bills can be purchased directly from the federal government, while the corporate bonds can be purchased via a broker. Bonds are usually traded between institutional investors than by individuals. However, if you understand how the bond markets work and are confident about trading on the market, you can buy and sell bonds online.

You can also sell bonds online, through the brokerage firm you have registered with. Or you can approach a bank that is willing to buy bonds.

Do you have the will to endure?

## SUCCESS REQUIRES PERSISTENCE

**There is no such thing as cheap success. If we want to succeed, we have to pay the price. And the road to success is long with a lot of obstacles. No wonder most people stop at one point or another after running into the obstacles. Only a few people have the persistence to keep moving forward, and these are the few people who succeed. Persistence is essential. In fact, persistence is one of the most important characteristics successful people share in common. There is no other way to succeed but by developing persistence in our life.**

# BOND INVESTING:

**UNDERSTANDING BOND INVESTMENT FEES**

You don't have to pay a fee when you purchase bonds directly from the federal government or governmental agencies. If you want to trade in bonds via a broker, you will be charged a certain percentage of the transaction amount as brokerage fee.

**COMMON MISTAKES TO AVOID WHEN INVESTING IN BONDS**

As an amateur, you are prone to making mistakes for a number of reasons, lack of experience being the main one. If you want to avoid losses, here are a few mistakes you should be wary about.

• Buying bonds based solely on the yield they offer.

• Investing in high risk bonds thinking all bond investment is safe.

• Investing only in government bonds or treasuries.

• Not diversifying enough.

• Considering only the coupon rather than the actual yield to maturity value.

These are just a few mistakes you could make when investing in bonds, if you rush into investment. The best way to avoid them is understand how bond investing works and invest slowly and carefully.


## DO YOUR HOMEWORK BEFORE INVESTING

"Not everything that counts can be counted, and not everything that can be counted counts." -sign that hung in Albert Einstein's office at Princeton.

# INVESTMENT PRIORITIES

Now that you know how to invest in stocks and bonds, you may be all set to get started, right? Wrong!

You have missed the most important step so far, of investing. Before you plan your investments, you need to ask yourself an important question - 'why am I investing?'

If you have a clear answer to this question, then you have your priorities right and are ready to set goals for investing. Otherwise, here is how you get started.

**WHAT ARE YOUR FINANCIAL PRIORITIES?**

You may have a ton of loans that you want to clear off. Or you may want to save enough money for your child's education or to start a business of your own. Whatever the reason for your investments, you need to be clear about it.

So pick up a pen and a paper or open a document on your computer and start writing. Make a list of all your financial priorities and arrange them in an order so the most important one is on top. If your most important priority is to clear off your debts in a year's time, then you need to seat an investment goal to meet this financial need.

**SETTING GOALS**

The next step is to set goals to be able earn the necessary amount of money to cover your financial priorities. Keeping in mind how much money you want to make, you need to select an investment option. It could be stocks, bonds or a fund that will help you raise the necessary amount of savings for your needs.

Once you have a goal, you can make investments that will help you reach these goals.

# INVESTMENT RECORD KEEPING

## INVESTMENT RECORD KEEPING

So you are all set to invest in your choice of stocks and bonds now. Let's say that you do. How would you know if you are going down the right path? How will you know if you are actually progressing?

Unless you have a really great memory and can remember every detail about your investments, you should make it a habit to maintain a record of your investments. Here is how you can do that:

## CREATE AN INVESTMENT TRACKING SPREADSHEET

The simplest way to make a record of all your investments is to create a spreadsheet with columns like the name of the investment, the type, the amount you have invested, the maturity date, if any, of the investment and so on. You can keep adding to the sheet as and when you make more investments.

Make it a point to review the investment record every once in a while, to know if you are on the right track. If you're not making as much profits as you should be, then it is time to revisit your investment strategy and modify it as required.

## USE ACCOUNTING OR FINANCIAL MANAGEMENT SOFTWARE

Another way to keep a track of your investments is to get automated financial planning or management software that you can install on your computer. Some software is available for free while some come at a price. If you have a smartphone, you can also install an app for managing your investments from wherever you are.

Compared to manual record keeping, online or automatic record keeping enables you to manage and assess the progress of your investments efficiently.

## THE BEST INVESTMENT

The most important investment you can make is in yourself. Very few people get anything like their potential horsepower translated into the actual horsepower of their output in life. Potential exceeds realization for many people…The best asset is your own self. You can become to an enormous degree the person you want to be.
-Warren Buffett

# WHERE TO GET MORE INFORMATION

The 60 Minute Guide to Investing is an ebook that focuses on the basics of stock and bond investing. The aim of this book is to get you started and empower you to trade in stocks and bonds by yourself. For further education about investing, please refer to the websites mentioned below.

www.investopedia.com/university/beginner/
www.money.cnn.com/investing/
www. beginnersinvest.about.com/

Also, here's a short list of books you may want to read to increase your knowledge of investing:

*The Intelligent Investor* by Benjamin Graham.
*The Little Book of Common Sense Investing* by John Bogle.
*Stocks for the Long Run* by Jeremy Siegel.
*How to Make Money in Stocks* by William J. O'Neil.
*One Up On Wall Street* by Peter Lynch.
*Security Analysis* by Benjamin Graham and David Dodd