How to Get Started Investing in Stocks and Bonds

Compiled by Dennis Millburn 12/30/18

Disclaimer: The following is a summary of general information available to you from various sources and not advice to you by the compiler.

* If your company has a 401K or 403b and has a matching program – maximize your contribution and make sure you are diversified with various funds such as index funds not just your organization’s company stock.
* The following is applicable to your company selection but more for private investments.
* Understand that investing is a lifetime commitment in preparation for and in retirement.
* Understand that the stock market is not playing the lottery but buying proportional ownership into companies. Fluctuations occur due to economic and political actions and individual and corporate investor’s reaction to those.
* Determine your risk tolerance. The younger you are the longer time you have to weather THE ups and downs of the stock market.
* Don’t buy individual stock unless you are a professional or fulltime investor, buy a fund or index fund that has many stocks to add diversity to your investments.
* An index fund is one that tries to mirror a certain benchmark like the S&P 500.
* Select a proper allocation of funds based on your age. When younger, it is best to have more stocks. As you get older, allocate a higher percentage to fixed income investments, bonds and/or real estate invest trusts (REITS).
* Those allocations might be 70% stock/30% bonds, 60% stock/40% bonds, 50% stock/50% bonds.
* Stocks can be Large Capitalization (big companies), Mid-Capitalization (medium sized companies), Small Capitalization (small companies), International companies (which may be US as well as solid foreign companies). You can select a percentage of each of these to make up your stock allocation.
* Bond funds usually will be either short-term or long-term bond funds.
* Once selected, find brokerage firms that offer those allocations and look at their investment effectiveness over 5 years, 10 years and since Inception. Pick one that has a consistent track record because the market WILL fluctuate each day, week, month and year, but you want a company that is fairly consistent over the long range.
* Options are: Fidelity, Vanguard, Fisher, T.D. Ameritrade and Charles Swab.
* You must use a brokerage firm but you do not need a financial planner to invest your funds for an additional fee, you can do it yourself with a little self-knowledge. Kiplinger or Money magazine can give you basic knowledge to do it yourself.
* Look at the annual fees charged to be a part of that fund. Just a few fractions of a percent difference with compounding interest can make a huge difference over several years.
* Start small, BUT DO START! with the idea that these will be invested over a 10 year period, however, most companies have a minimum dollar amount to invest and then you can add smaller amounts each month. .
* “Dollar cost average” means puting in the same amount each month for that long range period regardless of the what the market is doing, daily, monthly. Remember you are diversified with many stocks NOT individual stocks.
* Do not try to time the market. Over the life of the stock market there has never been a 10 year period that has had a loss. The average of the stock market growth is 8% the bonds are closer to 2%. Be consistent and disciplined.
* Once or twice a year “rebalance” which means go online or call and ask that your original allocation % of stocks and bonds be adjusted, the reason is if the stock market is going up very fast you then lock in those gains into fixed income, if you have those in your portfolio.
* Make sure you have cash available to you for emergencies and large purchase needs, you do not want to pull out money from investments and lock in any losses if the market happens to be down at that time for an emergency.

The Kiplinger magazine shares “Words of Wisdom” from Warren Buffet a well-known Billionaire investor. 5/2018 This is a summary.

On keeping costs low: “Performance comes, performance goes, *but* fees never falter”

On buying and holding investing: “If you aren’t willing to own a stock for ten years, don’t even think about owning it for ten minutes.”

On Investing Strategies: “The ‘know-nothing’ investor who both diversifies and keeps his costs (fees) minimal is virtually certain to get satisfactory results”.

On his wealth: “My wealth has come from a combination of living in America, some lucky genes, and compound interest”.

On Stock Advice: “We’ve long felt that the only value of stock forecasters is to make fortune-tellers look good.”