Unbiased Financial Information Provided by Financial Wisdom.

Making Your First Investments

You may already be making investments through your retirement plan at work, but at some point you may have funds that you want to invest on your own. This article focuses on some simple issues you should consider and provides some details on how to take that step.

The decision to invest
Investing is really only done for one reason – you want to earn more on your funds than what you can earn by leaving your money in your savings account or insured Certificates of Deposit at your bank or credit union.

Investing in stocks (equities) or bonds (fixed income) involves risk. There is the risk that the value of stocks you own may go down as well as a risk that the bonds may quit paying interest, may not be repaid on maturity or that their values may decline while you own them. You decide to take those risks in the hope that the increased return (more than what you can get on a CD) justifies the risk.

It does not always work out that way, but, over time, the average returns of equities and fixed income investments have been better than the returns of lower risk (or guaranteed no-risk) ways of investing. However, the year of 2008 was a bad one for stocks with the S&P 500 index falling 38% while it has risen every year since then. Here is some information to help you put the risk/return consideration into perspective.

Period	Total return of large company stocks	Total return of long term government bonds
Year of 2018	4.8%	-0.57%
5 year average return – 2014 to 2018	8.5%	3.2%
10 year average return – 2009 to 2018	13.1%	3.6%
20 year average return – 1999 to 2018	5.6%	6.0%
Best year since 1998	32.4% in 2013	28.2% in 2011
Worst year since 1998	-37% in 2008	-14.9% in 2009

How does investing work
The actual mechanics of investing can be a bit complex, mainly because different types of investments are handled differently and because there are different types of companies you can choose to make investments through. Here are some of the basics:
Buying stock through a stock broker – You tell your broker to buy 100 shares of XYZ stock at a certain price. The broker sends that order to the New York Stock Exchange

(NYSE) and the order is executed very quickly (usually within seconds or minutes). If the stock is traded on the NASDQ (in the over the counter market), the broker sends the order to a trading desk and the order is executed.
Buying a stock online without a broker – You provide the details of the purchase online and the order is sent to the NYSE or a NASDQ trading desk and the order is executed.
Buying a mutual fund through a stock broker – You tell your broker to buy a certain number of shares or a certain dollar amount of a mutual fund. The broker sends the order and the order is executed at that day's closing price.
Buying a mutual fund directly from the mutual fund company – You can usually do this over the phone or online with the order executed at that day's closing price.

Creating a beginning investment strategy
First, understand that investing should be a long-term process. Markets fluctuate and you should try to have at least a 5 to 10 year time horizon for your investments. That is not to say that you should hold all your investments for that long, but if you expect to need your investment funds in the near term, perhaps you should keep your funds in more liquid and safer forms.

Next, you should practice diversification. Diversification means that you should not have too much of your money in any one particular investment. Many professionals suggest that you own stocks in at least 5 industries with 2 or 3 stocks within each of those industries. That way, you are not overly exposed to one part of the economy or any one company.

You should also consider how you divide your investments among different types of investments. How you divide your investments among stocks, bonds and cash investments is called asset allocation. It can serve as a logical starting point for your investment strategy. Individuals should base their asset allocation on their time horizon and risk tolerance. Here are some sample allocations based on age.

Sample Asset Allocations

Age	**Stocks**	**Bonds**	**Cash**
30's	65%	25%	10%
40's	60%	30%	10%
50's	50%	40%	10%
60's	30%	55%	15%

You will note that the chart shows younger individuals having more stocks with the percentage being reduced over time. This is only logical. While you are younger, you can take a longer term approach – you have more time to recover from declines in your investments and you have more time to try to participate in the long term performance trends of different types of investments.

The numbers in this chart are only sample guidelines and you may want to vary from them depending on your feelings about risk and other aspects of your situation.

Deciding what to buy
Choosing individual stocks to buy is often the most difficult part of the investment process. You want to buy stocks that will go up in value, but there are no guarantees. Thousands of professionals spend their entire careers trying to find those winners. There are many books and evaluation services available that can help you learn to make better choices.

Another way to invest in equities is through mutual funds. The concept of a mutual fund is quite simple. A mutual fund is a company that makes investments in other companies. You buy shares in the mutual fund. Your money is pooled with money of other investors and the mutual fund buys a diversified portfolio of stocks or bonds of other companies. The investment manager, or portfolio manager, is responsible for the buy, sell and hold decisions of the fund.

Your benefits include any distributions the fund makes from interest or dividends it receives and distributions of the fund's realized capital gains. You can usually have any distributions made to you in cash or reinvested for additional shares. You also have the benefit of rising mutual fund share prices if the values of the underlying portfolio rise. However, if the value of the underlying portfolio falls, the value of your mutual fund shares will fall as well.

Most libraries have information on mutual funds and you can get information on most mutual funds from their website. As with individual stocks, some will perform better than others. And even the best managed mutual fund will probably go down in value if the overall stock market falls. Even though past performance is no guarantee of future results, be sure to examine a fund's performance and level of expenses before you consider buying it.

Monitoring your investments
Along with watching how your individual investments are doing, you should also review your asset allocation on periodic basis to make sure it still matches your objectives. You may have added more funds to certain sectors as you get older and your risk tolerance can change. Usually an annual review is enough. Rebalancing generally makes sense if your actual allocation has deviated more than 5% from your objective.

You may want to consider reviewing your asset allocation on a semiannual basis. Here is a chart that can help. Be sure to include all your investment assets.

Asset	**Stocks**	**Bonds**	**Cash**
Retirement plans	$	$	$
IRAs	$	$	$
Investment accounts	$	$	$
Bank accounts	$	$	$
Mutual funds	$	$	$

Total	$	$	$
Allocation %-ages	_____ %	_____ %	_____ %

Compare these allocation percentages with your current asset allocation. Using asset allocation can help provide some discipline to your investment strategy.

This article is meant to be educational only. Every individual must consider his or her specific situation when making investment decisions. The services of a qualified professional can help in this process. Remember, past performance is no guarantee of future results.