INVESTING 101

EVERYTHING YOU NEED TO KNOW

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WHAT IS INVESTING?

What is **Investing**?

To invest is to allocate money in the expectation of some benefit in the future. We are risking our money up front to get some sort of expected gain in the future (monetarily). Of course, there are other forms of investments, but for the purpose of this guide – we are strictly talking about returns on our money.

What is **Speculation**?

Speculating refers to the act of conducting a transaction because you “believe it to be true” without firm evidence, or just hoping to get a large gain but there’s a higher risk of loss.

Which should **we do**?

In both cases, you’re risking money to gain something. In the case of investing, we’re taking a more methodical approach to getting a return on our money, and using the time we do have to our advantage to minimize risk but still gain the best possible amount of return on our investment. Investing tends to go hand in hand with “long term” time horizons.

POPULAR TERMINOLOGY

What is a **Stock**?

A stock, or share of a stock, represents ownership in a company. By buying a share of a stock of said company, you actually own a percentage of the company.

By owning stock in a company, you are a “shareholder”, and it entitles you to a proportion of the company’s assets, profits, and dividends. People buy into stocks in the hopes that the underlying value of the shares appreciates over time as the company’s future prospects show positive signals and growth.

What is a **REIT**?

A real estate investment trust, known as a REIT, is a company that owns and operates real estate that generates rental income. REITs pool money across numerous investors and specialize in certain sectors, such as retail (malls), fast food, health care facilities, etc. They allow you to earn dividends from real estate investments without having to buy the properties themselves.

For example, if you have $5000 you couldn’t buy a shopping mall. But you could buy shares of a REIT and get a proportion of the profits from the cash flows generated.

What is an **ETF**?

An ETF stands for exchange-traded fund. Think of an ETF like a giant cookie jar. Just the jar. Inside of the jar you have cookies (individual stocks and companies). If you buy the ETF, you get a small percentage of ownership in all the existing cookies within the jar.

Often times, an ETF will track an underlying index or sector. For example, you can buy an S&P 500 ETF such as VOO or SPY. By buying 1 share of VOO or SPY, you have ownership in the S&P 500 - every company, and that way the investment is quite diversified. ETFs offer low expense ratios and fewer broker commissions than buying the stocks individually.

What is a **Mutual Fund**?

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. It is professionally managed, also known as actively managed, which means that typically they are more expensive to maintain (you pay a higher fee for owning them per year).

Their aim is to beat the market, although returns do fluctuate widely. I do not live mutual funds because often times an Index Fund (which is a passive-type of fund) has a much lower expense ratio (fee) and often time beats the performance of mutual funds.

POPULAR TERMINOLOGY(CONT)

What is a **Bond**?

A bond is essentially a loan, but as something you can own. It represents a loan made by an investor to a borrower (typically a public institution like the government, or a large corporation). Corporations for example, issue bonds to whoever wants to buy them. The company, in return, promises to pay interest payments to you for the length of the loan. How much and how often you get paid interest depends on the terms of the bond. Interset payments are usually semi annual, and when the bond reaches the end date (maturity date), the issuer repays the principal (the original amount of the loan).

What is a **Commodity**?

A commodity is a basic good, such as wheat, corn, cattle, cotton, lumber, precious metals like gold and silver, coal, oil, natural gas. You can invest in commodities, although sometimes they are in a world of their own - and in general our portfolios covered in this guide for beginners will not include commodities.

I do not love commodities, as I am unfamiliar with them in general, and of the research I've done on Gold & Silver – they are typically POOR investments. I cannot speak for Oil. I like this article on Gold to explain why Gold is typically a bad investment: https://www.forbes.com/sites/johnwasik/2016/11/18/four-reasons-why-gold-is-a-bad-investment/#720000c63a03

What is a **Cryptocurrency**?

It's a digital currency. I think you should own 3-5% of your portfolio in Cryptocurrency. It's just one of those assets that might appreciate tenfold and it's good to have some diversification in the event that cryptocurrency becomes widely accepted or utilized in the future. Crypto currency definitely has a place in the economic system, it's just not super well defined or well known yet.

What is a **Brokerage Account**?

Simply put, it is an account that allows you to buy and sell securities. If you want to be able to buy and sell securities, you need special licensing from the government - and typically brokerage firms have that licensing. You need a brokerage in order to execute a share.

Nowadays, brokerage firms are more or less equal across the board. They'll take care of calculating taxes for you, commissions are low or zero, and the only difference is the type of interface and platform they have to use. The brokerage firm people use typically just comes down to preference.

What are **Options**?

There are two types of options, employee stock options (like the kind you get when you join a company and they give you options to buy their stock), or options trading. The option we're discussing right now are Options when they're referred to as "options trading".

An Option is a type of trade you can do within your brokerage account. It gives you the right, but not the obligation, to buy or sell a stock at an agreed upon price, by a certain date.

Options are complicated, involve risk, and they are very dynamic. Most investors need not touch Options, but I thought I'd at least go over what a Call and Put Option are.

A Call Option allows you to buy a stock at a certain price, by a certain date. So let's say you have a $220 Microsoft Call Option and the current price of Microsoft is $200. Lets say you purchase the $220 MSFT Call Option, you'll pay a Premium (fee). But then, Microsoft share price goes up to $225. The Call Option allows you to buy shares of Microsoft at $220. So you exercise your Call Option since it's "In the money", and you buy 100 shares of Microsoft at $220, and you can immediately sell them on the market for $225. It's important to note that an Option gives you the right to buy 100 shares of the stock for each contract of Option you own. Typically the brokerage doesn't need you to have liquid money available to buy 100 shares of the stock (if you're in the money), it automatically just takes care of the transaction for you and gives you the difference (profit) that you've earned into your account. Confused yet? I know. It took me awhile to understand too. Here's more reading on it: https://www.investopedia.com/terms/c/calloption.asp

A Put Option is the exact reverse of a Call Option. It allows you to sell a stock at a certain stock, by a certain date. So if you have a Microsoft $190 Call Option, if the shares of Microsoft go down to say, $150 - you can pocket the difference between the Option and the share price. You would then hypothetically buy up shares at $150 in the market, and exercise your Option to sell them all at $190.

Common Investing Terms You Should Know

- **Ask:** This is the lowest price an owner is willing to accept for an asset.
- **Asset allocation:** One of the ways to divide up the holdings in your portfolio is to do so by asset class. The idea is that different assets perform opposite to each other, and you can limit some of your risks by allocating your portfolio according to the type of asset you have.
- **Balance sheet:** A statement showing what a company owns, as well as the liabilities the company has and stating the outstanding shareholder equity.
- **Bear market:** This is a market that is falling. A bear market has a downward trend, and someone who believes the market is headed for a drop is often referred to as a "bear". Bear markets can last for a few weeks or years.
- **Bid:** This is the highest price a buyer is willing to pay when buying an investment. Today, electronic trading makes it possible to ask and bid to be matched up automatically and almost instantly.
- **Blue chip:** You might hear reporters and others refer to "blue-chip stocks." Blue chips are companies that have a long history of good earnings, good balance sheets, and even regularly increasing dividends. These are solid companies that may not be exciting, but they are likely to provide reasonable returns over time.
- **Bond:** This is an investment that represents what an entity owes you. Essentially, you lend money to a government or a company, and you are promised that the principal will be returned plus interest.
- **Book value:** If you take all the liabilities a company has, and subtract them from the assets and common stock equity of the company, what you would have left over is the book value. Most of the time, the book value is used as part of an evaluative measure, rather than being truly related to a company's market value.
- **Bull market:** This is a market that is trending higher, likely to gain. If you think that the market is going to go up, you are considered a "bull." Additionally, the term, like bear, can be applied to how you feel about an individual investment. If you are "bullish" on a specific company, it means you think the stock price will rise.
- **Capital gain (or loss):** This is the difference between what you bought an investment for and what you sell if for. If you buy 100 shares of a stock at $10 a share (spending $1,000) and sell your shares later for $25 a share ($2,500), you have a capital gain of $1,500. A loss occurs when you sell for less than you paid. So, if you sell this stock for $5 instead ($500), you have a capital loss of $500).
- **Dividend:** In some cases, a company will offer to divide up some of its income among shareholders. Dividends can be paid once, as a special use of them, or they can be paid more regularly, such as monthly, quarterly, semi-annually, or annually.
- **Dow Jones Industrial Average:** This average includes a price-weighted list of 30 blue-chip stocks. While there are only 30 companies included on the list, many people think of the Dow when they hear that "the stock market" gained or lost. The Dow is often used as a gauge of the health of the stock market as a whole, even though it is only a very small portion.
- **Exchange:** This is a place where investments, including stocks, bonds, commodities, and other assets are bought and sold. It's a place where brokers (buyers and sellers) and others can connect. While many exchanges of "trading floors" most orders these days are executed electronically.
- **ETF:** Exchange-traded funds, a type of investment fund that trades like a stock. Investors buy and sell ETFs on the same exchanges as shares of stock.
- **Index:** A tool used to statistically measure the progress of a group of stocks that share characteristics. This can include a group of stocks, a group of bonds, or a group of other assets.
- **Index Fund:** An index fund is a type of mutual fund that allows an individual to buy investments that mimic the trends of an index. These are generally more passive investments with lower fees than mutual funds.
- **IRA:** This stands for *individual retirement account*. It is a tax-advantaged account. There are several types of IRAs. Anyone over 18 with a job can open an IRA for themselves. However, not everyone will have access to every type of IRA.
- **Margin:** This is essentially borrowed money used to make an investment. You can get credit from a broker to buy more than you have actually money for. The hope is that you will make enough money that you will be able to repay the borrowed amount from your earnings.
- **Market capitalization:** The market cap of a company is figured by multiplying its current share price by the number of shares outstanding. The largest companies have market caps in the billions.
- **Money Market:** A money market account is an interest-bearing account that will usually pay a higher interest rate than a bank savings account would.

Common Investing Terms You Should Know - Continued

- **Mutual Fund:** A mutual fund is managed by a professional portfolio manager that purchases securities with money pooled from individual investors. The fund can hold individual stocks or bonds. Such funds typically come with higher fees than other investments, since the account is actively managed.

- **NASDAQ:** This is a U.S. exchange for buying and selling securities. It is based in New York City. Nasdaq is also an index of the stocks bought and sold on the Nasdaq exchange. (In case you're curious, the initials stand for the National Association of Securities Dealers Automated Quotations.

- **New York Stock Exchange:** One of the most famous stock exchanges is the NYSE, which trades stocks in companies all over the United States, and even includes stocks of some international companies.

- **Personal Investment Strategy:** This is exactly what it sounds like: your personal approach and strategy to investments. There's no single right way to invest. Learn about how investing works. Then define and execute your personal strategy.

- **P/E ratio:** This measure reflects how much you pay for each dollar that the company earns. A company often reports profits on a per-share basis. So a company might say that it has earned $5 per share. If that same stock is selling for $75 a share on the market, you divide $75 by $5 to come up with a P/E ratio of 15. The higher a P/E ratio is, the more there is expectations for higher earnings.

- **Recession:** A recession is defined as two consecutive quarters when a country sees negative economic activity. Usually, this is determined by a decline in GDP (gross domestic product) for two consecutive quarters.

- **Registered Investment Advisor (RIA):** A financial investment advisor that has been through certain training, and that agrees to abide by certain rules, including ensuring that recommendations and trades made on your behalf are in your best interest.

- **S&P 500:** The Standard & Poor's 500 is a stock market index that tracks the value of 500 companies in the United States. It's similar to the Dow Jones in that it is also a stock market index.

- **Stock:** A stock represents ownership in a company. Companies divide their ownership stakes into shares, and the amount of shares you purchase indicates your level of ownership in the company. Stock is bought in the hopes that the company will be successful, and more people will want a stake, so you can sell your stake later at a higher price than you paid.

- **Taxable Accounts:** Account you can use for trading stocks, bonds, mutual funds, etc. Taxable accounts don't carry any tax advantages, so you'll be taxed on your investment income.

- **Tax-advantaged Accounts:** These types of investment accounts come with tax advantages of some type that let you defer or be exempt from taxes on investment income. Retirement accounts — where you can deduct contributions from your taxes, such as an individual retirement account (IRA) — fall into this category.

- **Yield:** This is associated with dividend investing. Your yield represents the ratio between the stock price paid and the dividend paid. A stock trading at $100 per share, with a dividend that amounts to $5 per year, you divide the $5 by $100 and turn it into a percentage. In this case, the yield would be 5%.

Source: https://investorjunkie.com/investing/common-investing-terms-definitions/

BROKERAGE ACCOUNTS

What Brokerage should I use? Here are the most popular free ones:

All of the above Brokerage firms are good to start with. What we really care about are a few things:

- Reliability
- No Fees
- Ease of Use
- Good Customer Support (when needed)
- Good Mobile Interface

The easiest out of all these to use is Robinhood, but sometimes they aren’t the most reliable. In my opinion, I would go with Vanguard, Fidelity, or Schwab for more of a traditional approach. Vanguard is hard to use but has access to low fee index funds.

INVESTING STRATEGIES

Passive vs Active

When it comes to investing, there's "Active Management" – which requires frequent management of your investments, or "Passive Management" – which means you rarely will be making changes to your investment account.

For the majority of people out there, a passive investing style using Index Funds is one of the easiest ways to become a millionaire – so long as you consistently contribute to investing and given a 30-40 year time horizon.

Fundamental vs Technical Analysis

Fundamental analysis – is a method to discover the stock's real or fair market value by using revenue figures, earnings, future growth, profit margins, balance sheets & financial statements. Here's a great resource on fundamental analysis: https://www.benzinga.com/money/fundamental-analysis/

Technical analysis – involves forecasting statistical trends through trading activity such as price, and volume of shares traded. Technical analysts believe past trading activity and price changes of a security can be valuable indicators of the security's future price movements.

INVESTING STRATEGIES(CONT)

Value Investing

- Value stocks trade at prices below where it appears it should be trading at based on financial indicators. Essentially we're looking for stocks that are undervalued, jumping into a position with them, and betting that it goes up over time.
- If a company seems "beaten down" disproportionately due to bad news, this could be a "value stock". Value stocks are subjective to what you deem as a good value.

Growth Investing

- Growth stocks have the potential for a lot of growth in the foreseeable future, but may be riskier depending on the company. Most growth stocks are newer companies with innovative products.
- Looking for companies that grow in nascent markets, or one that seems to be expanding rapidly (an AI stock could be an example of a growth stock.

Income Investing

- Income stocks are looking to add to a fixed income position, which means that they are receiving some sort of payout or cash flow at a regular interval.
- Dividend paying stocks are an example of this.
- These are companies that may not be growing, but consistently paying a dividend in a safe way – an example of this is Coca Cola stock – the underlying value of Coke's stock appreciates at a much lower rate than a growth stock over time, but it consistently pays a quarterly dividend.

Popular Investing Technique – Three Fund Portfolio

A three-fund portfolio is a portfolio which uses only basic asset classes — usually a domestic stock "total market" index fund, an international stock "total market" index fund and a bond "total market" index fund.

From Vanguard's list of "core funds," the funds that are best for a three-fund portfolio are:

Vanguard Total Stock Market Index Fund (VTSAX)
Vanguard Total International Stock Index Fund (VTIAX)
Vanguard Total Bond Market Fund (VBTLX)

Asset Allocation for a Three Fund Portfolio

Aggressive: 60% Total Stock Market Index, 30% Total International Stock Index, 10% Total Bond Market
Moderate: 45% Total Stock Market Index, 30% Total International Stock Index, 25% Total Bond Market
Conservative: 30% Total Stock Market Index, 30% Total International Stock Index, 40% Total Bond Market

As you can see above, the most conservative portfolio we have listed here is still 60% equities, 40% bonds. In the past, a more conservative portfolio might have consisted of 50-60% bonds instead. These days, with bond rates so low, and assuming that this Investing guide targets a younger demographic, our definition of conservative shifts slightly to 60% stocks / 40% bonds instead of heavier in bonds as traditionally might have been suggested.

Assessing Your Risk Tolerance and Time Horizon

Depending on your tolerance for risk, your investing options and strategies can change. Investing involves risk. The more tolerant you are for risk, the more options that are available to you, however – the riskier the asset, the more volatile it is (typically).

My first goal would be to figure out what my time horizon for investing is. The longer the time-frame, the more risky you can be. However, if you need your money to be liquid, let's say you're buying a house in 3-5 years, your investment portfolio may have to be safer because the risk of losing your down payment on a house is too great for you to be taking risks.

Once you figure out your time horizon, and your appetite for risk, you can start to invest in securities or asset classes that match your risk profile.

Lower risk typically is correlated with lower returns.

Higher risk has a higher chance for growth in your portfolio but also a higher chance of losing $.

Vanguard has a great free questionnaire, that shows you your personal risk tolerance. It errs slightly on the conservative side FYI: https://personal.vanguard.com/us/FundsInvQuestionnaire

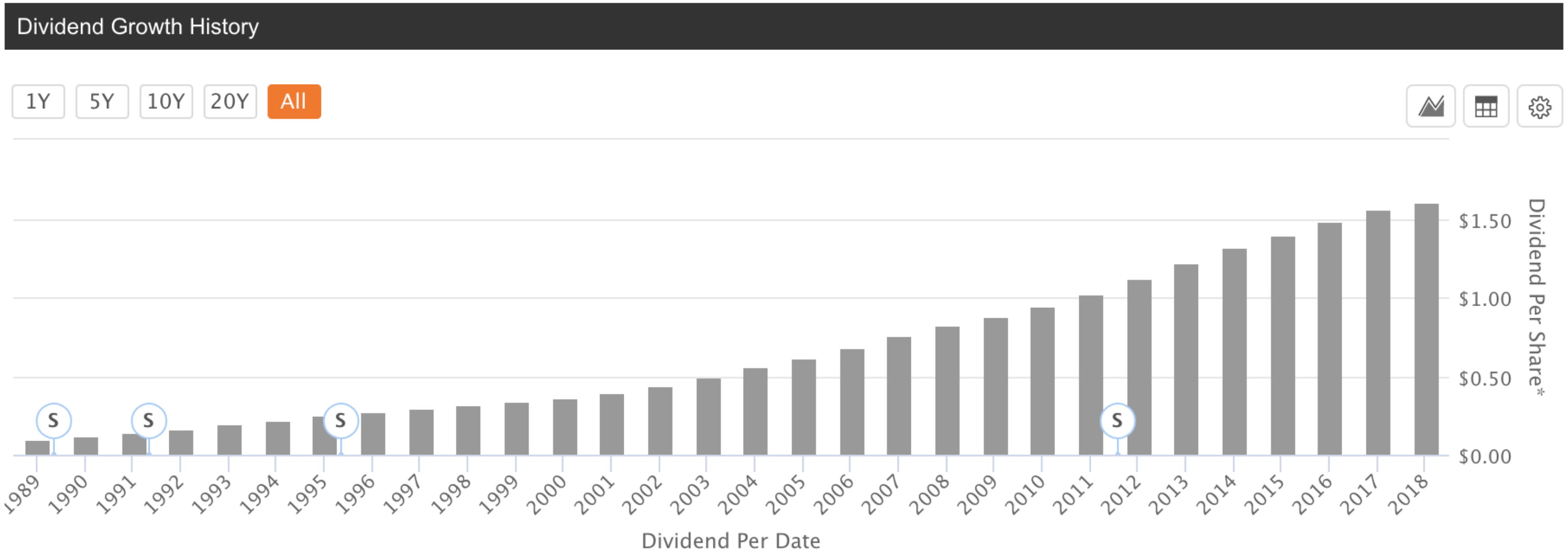
Mainstreetwolf showed me this, so thanks to him!

Dividend Investing

A portfolio with a majority of dividend paying stocks can be extremely beneficial especially when you reach retirement age - it can continue to pay YOU an income while you enjoy your life.

In addition to receiving a dividend from these companies, you'll also partake in any gains (or losses - but hopefully not) of their underlying stock prices.

Here's an example of one of the companies that pays a dividend, Coca-Cola.



Dividend Investing – continued:

Coca-Cola has been paying a dividend for the past 40 years, and growing their dividend over time. Also, I don't see Coca-Cola going anywhere in my lifetime, I think they'll always be business - don't you think?

So in Coca-Cola's case, if you owned 1 share of Coca-Cola, you would receive a $1.5~ Dividend annually. Coca Cola currently trades at $49 per share, making the annual Dividend yield of owning this stock 3.2%.

This would be a great stock to own in your portfolio because of its solid Dividend growth history as well as the fact that their stock price has been slowly appreciating over time.

Another example of a company with a Dividend, that doesn't seem to be going anywhere anytime soon is Apple.

Currently Apple trades at $111 per share, and their Dividend is $0.77 cents.

That means their Dividend cash on cash yield is 0.73%, which I know sounds low - and it is, as a percentage, but the Apple stock has a high potential for growth itself. So not only do you capture gains in the underlying asset (the share of Apple), you'll also get paid for owning it. That's the power of Dividends.

Some other examples of great Dividend stocks to own are: AT&T, 3M, Johnson and Johnson, Home Depot, Lowe's, and Microsoft.

Compounding

If you don't know what Compound Interest is, listen up!

Investing your money as early as possible is so important when it comes to becoming rich. By using compound interest, you can invest and watch the magic of finance do it's work! Compound interest best takes place when you have a long time horizon to allow your money to grow at a compounded rate, and this is what people are referring to when they refer to "make money on your money". In this case, your money is earning money for YOU, while YOU sleep.

Let's say you have two investors:
Investor A: Starts saving at the age of 25, saves $2,000 a year, and assumes a 9% interest rate.
Investor B: Starts saving at the age of 35, saves $2000 a year, and assumes a 9% interest rate.

Look at the difference in end of year balance by the time they're 65 - just by starting early.

Where can you get a 5-8% return? Well - for one, the S&P 500 Index has been historically returning close to 8% for the past 50 years. Some of the best investors in the world, including Warren Buffet - believe in this strategy of investing in index funds and leaving your money there.

	Investor A	Investor B	
Age	EOY Balance	EOY Balance	Difference
25	$ 2,188	$ -	$ 2,188
30	$ 16,617	$ -	$ 16,617
35	$ 37,021	$ 2,188	$ 34,833
40	$ 57,963	$ 16,617	$ 41,346
50	$ 142,089	$ 74,580	$ 67,509
55	$ 222,466	$ 129,961	$ 92,505
60	$ 348,311	$ 216,670	$ 131,641
65	$ 545,344	$ 352,427	$ 192,917

Saving

Saving money is just as important as investing it. Company pensions are a things of the past, of the Boomer and Gen X generation, and who knows where Social Security will be when we reach retirement age.

YOU must provide your OWN financial security, starting with saving. The sooner you start saving and have a safety net to fall back on, your investment options and mindset shifts.

Here are my keys to saving money:
1) **Always pay yourself first** - if you can make it automatic, DO SO. What that means is, if you can automatically siphon a portion of your paycheck into a savings account whenever you receive income, DO IT. Consider this money your safety net, not to be touched. Ideally you want to build up 6 months worth of runway on your personal expenses that you keep as an Emergency Fund - everything after that, you can start siphoning into an account for the purpose of investing.
2) **Set savings goals that will inspire results**: it would be lofty to say that you should save $20,000 in your first year if you're only making $40,000 a year and have $1200 in expenses every month. Instead, set short-term, medium-term, and long-term goals that are achievable. Once you hit that momentum, you'll be unstoppable. Taking our example above, let's say you are making $40,000 a year and your take home paycheck is $2700 a month. Instead of trying to save a dollar amount, try to save 20% of your paycheck every month - $540 post-tax into a savings account. This is a much more achievable goal and you can aim to save $1500 by the end of 3 months, $3000 by 6 months, and $6000 by the end of a year. If you can do this, you've saved up for an Emergency Fund in your first year of saving without even having to increase your income.
3) **Stay disciplined and defer gratification**. If you can stick to your plan, your money is going to grow slowly and steadily. Time can either be your enemy or your friend in this case. With time comes the concept of compounding, which we will cover in the upcoming chapters.
4) **Find a strategy that works for you.** If automatic saving doesn't work for you, and you'd rather save in lump sums when you get say, a bonus - that is fine too. Just ensure that you're following rule 3 which is to stay disciplined.
5) **Saving money means knowing your expenses.** This should go without saying, but this is a cornerstone of personal finance and of investing. If you do not know how much is "going out" on a daily/weekly/monthly basis, how are you going to plan a strategy to save? Tracking your expenses is a basic requirement if you want to be a successful investor.

APPENDIX

Resources

Budget Tracker: https://docs.google.com/spreadsheets/d/1ylh5NEOy0YLvnU_weOBFL-SU50YYISVq7XAiVhBR6C8/edit#gid=123502268

Car Lease Calcuator: https://docs.google.com/spreadsheets/d/1aXE2FBTQZ5Pnyk6x97Bezn-Da9sn4oUv1iNvUBU-n9E/edit#gid=1861593739

Bogleheads Three Fund Portfolio: https://www.bogleheads.org/wiki/Three-fund_portfolio

•WeBull (Get 7-12 Free Stocks worth up to $30,600 when you deposit at least $0.01) ➪ https://a.webull.com/i/HumphreyYang
•Robinhood (Free Stock Valued Up To $250) ➪ https://robinhood.c3me6x.net/qPyKY
•Public ($10 Free Stock) Investing App ➪ https://pblc.co/humphrey