How To Start Investing

Paying the rent or mortgage for your home, utility bills, loan payments, funding the children's needs and the occasional holiday might sometimes make it seem like it's impossible to save for the future.

However, once you've mastered budgeting for those monthly expenses (and set aside money as an emergency fund), it's time to do something with your surplus money.

The tricky part is figuring out what to invest in — and how much.

If you are new to the world of investing, you'll have a lot of questions – And that's where someone like myself comes in to help you through the process of getting started – So here's a mini-guide to start that process:

- Why Start Investing Now?
- What Can I Invest In?
- Which Strategy Will Be Best For Me?
- How Much Should I Invest? And Where?

Why start investing now?

Starting to invest as soon as possible is one of the best ways to see solid returns on your money - You cannot leave your money under the mattress forever!

You probably can't count on a state pension to provide enough income for a comfortable retirement, so having your own long-term savings will be crucial.

Even for shorter-term financial goals (like saving for your child's education), investments that earn higher returns than a traditional savings account could be useful.

There will be ups and downs in the market, but starting to invest, even just a little each month, as early as possible means you will have a long time to ride these bumps out.

But even if you are not so young and haven't got started yet, it still makes a lot of sense to start investing – As the famous saying goes: Better late than never!

What can I invest in?

To put it simply, you choose what to invest in.

I will take time to understand your needs, your goals, your current situation, your risk profile, your timescale, areas you would be comfortable to invest in – And areas you would not be comfortable with – And then provide you with some options to ensure the correct outcome for you.

During this time it will be very important for you to understand each investment instrument and how much risk it carries – Be assured that I will explain this clearly and fully to you.

But to give you an idea, there will be many investment instruments for you to choose from. The most popular include:

Stocks

A stock is a share of ownership in a company. Stock prices move based on investors' evaluation of the company's performance, including leadership changes, new product releases or how it's doing financially.

Companies issue stock to the public to raise money to grow or pay off debt. Stocks are also known as equities.

Bonds

A bond is essentially a loan to a company or government entity, which agrees to pay you back in a certain number of years. In the meantime, you get interest (coupon).

Bonds are generally perceived as less risky than stocks because you know exactly when you'll be paid back (at the end of the bond's term) and how much you'll earn in coupon.

However, bonds are traded throughout the life of the bond, and may trade at more, or less (at a premium, or a discount) than face value on a given day.

If you pay a premium or discounted price, this will impact on the overall profit whilst you hold the bond.

Mutual Funds

A mutual fund is a mix of investments managed by an individual company. When you invest, you don't choose specific stocks or other securities; the mutual fund does it for you.

The inherent diversification of mutual funds makes them generally less risky than individual stocks, but there are mutual funds available at all risk levels.

Popular mutual funds include index funds, which follow the performance of a particular stock market index, and money market funds, which invest in short-term, low-risk assets.

Others focus on specific markets, such as energy, or financial companies.

Exchange-Traded Funds (ETFs)

An exchange-traded fund (ETF) is a collection of securities—such as stocks—that tracks an underlying index. The best-known example is the SPDR S&P 500 ETF (SPY), which tracks the S&P 500 Index. ETFs can contain many types of investments, including stocks, commodities, bonds, or a mixture of investment types.

Both mutual funds and ETFs hold portfolios of stocks and/or bonds and occasionally something more exotic, such as precious metals or commodities. A key difference is that most ETFs are index-tracking. Mutual funds can track indexes but most are actively managed

So Which Strategy Will Be Best For Me?

Your strategy will depend on your saving goals, how much money you'd like to invest (either in a lump sum or on a regular basis) and how many years you plan to let your money grow.

Mark Waldman, a personal finance professor at American University in Washington, D.C. has the following view.

“The longer the time frame associated with your goal, the higher percentage you should have in stocks.”

“Whilst it’s not that simple, it’s very true that the stock market can be unpredictable, with huge ups and downs depending on how well the economy is doing, but you’re far more likely to make more money there than with less risky assets (like bonds, or keeping cash in a savings account).”

“To put it in a nutshell - Over almost the last century, most stock market’s average return is about 10% annually.”

“The data is very clear. It shows that over any period of time longer than, say, 10 years, S&P 500 index funds (or similar from other countries) outperform all other kinds of mutual funds.”

“Picking specific stocks can be complicated, so consider investing in an index fund, which mirrors the performance of an entire stock market index. An index fund is a good option for new investors because it provides diversification, or a way to reduce investing risk by owning a range of assets across a variety of industries, company sizes and geographic areas.”

How much should I invest? And where?

If you don’t have a detailed budget, at least make a list of all your expenses: what you spend monthly on bills, loan payments, food and entertainment. Only invest once you know you can pay your monthly bills and you’ve saved at least three months’ worth of living expenses in an emergency fund.

An ideal goal would be to invest 10% to 15% of your earnings a year, but if that’s not realistic due to your personal situation or what you are comfortable with, starting with any amount lower than that is better than doing nothing with the money!

To Conclude…

Investing may seem scary, but it doesn’t have to be.

I will research your options carefully and only provide you with investment choices that I know you will feel comfortable with, making the decision not as scary as you may currently feel it is.

To finish, the most important piece of advice I could give is this:

You are working towards your own personal, specific financial goals, be it long term or short term.

The best thing you can do is to start investing and then to stay confident and calm, even during unprofitable years in the stock market. Adjust your portfolio to the current situation, but don't ever get out of the market, no matter what - Because despite the occasional bad year you can see from history that in the long term you will get positive returns that will help you to achieve those financial goals.