Tips on How to Start Investing

The stock market crashed in 2008 and ushered in the Great Recession. Many who had investments in the stock market sold at huge losses and have stayed away ever since. And many have avoided investing in stocks because of the perceived risk of losing everything. But, the stock market has come back and is at an all-time high! If you missed out on the run up since the crash there is still hope but there are also pitfalls for beginning investors. Here are a few tips on how to start investing.

At What Point Should You Start Investing?

If you are putting money away for a rainy day or for retirement the sooner you start the better your eventual results will be because of the exponential growth that stock investments offer. But first take care of a few essentials. **How to start investing in the stock market** begins with putting your financial house in order. The high points are that the stock market outperforms other investments over the long term. And before you start putting money into stocks you need to pay off your credit cards because the interest you pay on those is more than a beginner can expect to make on his money in the market. Then you need a place to live and the mortgage interest deduction on your home is an excellent investment. And last before starting to invest you need a cash fund of three to six months income so that when you change jobs or have other expenses that you do not need to pull money out of the market just after a correction.

How to Start

Several years ago we wrote about **how to invest $10,000** assuming that you inherit money or have put together that much.

> *In deciding how to invest 10,000 dollars let’s look at investment horizon, risk tolerance, growth versus income, and diversification as the first considerations on the way to deciding* ***what is a good investment*** *for our first stock. How we envision our investments will help us focus on the stocks that fit our needs. If we are looking to save money for retirement we may choose different investments than if we are saving for a down payment for a house and hope to have built up a substantial amount of capital in, lets’ say, five years. Our risk tolerance should be built upon our ability to absorb the loss of our investments in their entirety. Someone close to retirement may want to look at* ***dividend stocks*** *more closely than growth stocks and a younger investor will certainly want to cash in on the exponential growth of a strong growing company. Diversification is always important as it lets us benefit from growth in different market sectors and commonly cushions losses in one stock/sector with gains in another.*

Once you have decided on what approach to take you need to pick stocks. Start with what you know. For example, physicians or pharmacists should be familiar with drugs and drug company products. That sort of specialized knowledge puts them at an advantage in picking stocks. Then a new investor needs to learn to determine **intrinsic stock value**. That is the value of a stock based on forward looking earnings. When that projected value is greater than market price the stock is a buy and when it is lower it is a stock to sell or avoid. No matter how great a stock tip may seem do your own homework before investing. Aim for a mix of dividend stocks that provide cash return as well as growth stocks with the potential for multiplying their value. And pay attention to your portfolio as you go because what was solid stock one month may be a sell the next.