Considerations When Investing

By: www.ProfitableInvestingTips.com

Success in investing leads to increased wealth and security. Success in investing comes from making sound decisions, paying attention, and taking the time to learn about what t invest in and how to invest. We have written about how to invest successfully and so has the SEC. The U.S. Securities and Exchange Commission (SEC) and a posting entitled Ten Things to Consider Before You Make Investing Decisions. The bottom line is that you need to make individual investment decisions grounded in a well-considered investment plan. Here are our thoughts about considerations when investing.

What to Do Before You Invest

The point of investing is to create and increase wealth so that you can live a safe and comfortable life, do the things that you want, and retire in financial security. Along the way you will want to purchase a home, perhaps a business, and send your kids to college. To this you need to consider the time line for each of your investments and start investing as early as possible. But, before putting a cent into investments it is wise to pay off credit card debts, invest in a home, and put money aside for a rainy day.

Investments Versus Credit Card Debt

It is not uncommon to pay 18% to 20% on credit card debt. Meanwhile, the best you will get form a CD at your bank will be around 1%. Although your goal for investments will be to make a 20% ROI, that is difficult and very rare for an investment beginner to achieve. So, before you use dollar cost averaging to put money into the stock market, start making payments to nibble away at your credit card debt until it goes away. Then, start putting money into an emergency fund sufficient to cover three to six months of expenses.

Home Ownership and the Mortgage Interest Deduction

Over the years it will cost you less to live if you are paying a mortgage than if you are paying rent. The Federal deduction for interest on your mortgage is one of the best deals around and you will end up owning your home. For most people, the largest asset they have going into retirement is their home. Your first investment after paying down your credit card debt and putting away money for a rainy day should be to buy your own home. You may only own one home during your life or you may own several but if you keep equity in your home it may be your best asset when you retire.

Personal Financial Roadmap

Successful investing does not start with a tip on social media and striking it rich. It starts by drawing up your own personal financial roadmap. This includes looking at your debt, examining your spending habits, thinking about your life and financial goals, and making decision about how to get where you want to go. Set up a personal budget that puts money into paying your bills including your home mortgage, paying down credit card debt, putting cash aside in a bank account for emergencies, and having money each payday, month, or quarter to invest.

Determine Your Risk Tolerance

There are ways to invest without losing money but they are all interest bearing investments like Treasuries and CDs which currently pay negative real interest rates due to increasing inflation. This situation has sent more and more people into the stock market looking for better returns. Unfortunately, not all stock market investments work out so well. When the Covid-19 pandemic hit, hospitality, travel, and other sectors were hit much harder and longer than tech stocks. If you want to limit your risk in the stock market the best route is typically to invest in an ETF that tracks the S&P 500 or Russel 2000. Such investments have outperformed managed accounts over the last decade since the financial crisis.

Mix of Investments

When you start out investing, your mix of investments should be your emergency fund, the "fund" for paying down debts, and your home mortgage. As you have sufficient cash to invest elsewhere, an ETF that tracks the S&P 500 is a good idea and is, in fact, what the famous investor Warren Buffett recommends for those who do not have the skill, time, or interest to choose individual stocks. An important part of your investment mix should be with tax-deferred vehicles like a personal IRA or a 401k offered by your employer. Work-related plans often include a contribution by your employer and should never be overlooked.

Considerations When Investing - Portfolio Balancing

In general, investors should have a portfolio that is heavier in stocks and other riskier investments early in their investment life and steadily add interest-bearing investments like Treasuries, CDs, and corporate bonds as they near retirement. In our article about rebalancing your portfolio we discuss the "rule of 100" in this regard. Although the stock market provides the best returns over the long haul it can go negative for years as well. The point of balancing is to have a mix of stocks that will not all go down at once and interest-bearing investments that will provide cash to live on in retirement no matter what the market is doing.

Considerations When Investing - Dollar Cost Averaging

One of the most important considerations when investing is how much to invest and how often. Since the vast majority of normal investors are not skilled at timing the market or picking the next fantastic stock, the best approach is to use dollar cost averaging to fund your purchases of ETF shares, dividend stocks via a dividend reinvestment plan, and CDs or another interest-bearing investment. By doing this you invest the same amount it time, buying fewer shares when stock are expensive and more shares when they are cheap.

For more insights and useful information about investments and investing, visit www.ProfitableInvestingTips.com.

Disclaimer: Trading and investing involves significant financial risk and is not suitable for everyone. No content on this document should be considered as financial, trading, or investing advice. All information is intended for educational purposes only.