How to Build Wealth

As the 2014 stock market threatens to have a major correction there are a couple of important facts to keep in mind. You are in the market to build wealth. **Avoiding overreaction** to market swings is important. When considering how to build wealth, according to an article in Business Insider, timing the market is not so important as time in the market.

Corrections are part and parcel of the investment process, they come and go, and it is imperative to take a deep breath and realize that what is most important for building wealth is not 'timing' the market but rather 'time in' the market. This does not mean that some cash should not be raised, and some risk be taken off the table, which is what we have done — nobody ever booked a loss by taking a profit — but one has to still be engaged because it is very likely that this is only a near-term pause/reversal in what is still an overall uptrend. The trick is not to live in the moment but rather look at the forest through the trees.

The point of how to build wealth is to be there when there are slow stead rises in a stock and when there are big jumps in price. As a rule these increases greatly overshadow the occasional corrections.

Useful Examples

In the 1929 Crash 3M lost 71% of its value and recovered by 1936. In the 2008 crash it lost 50% and recovered in two years. 3M peaked in October 2006 at $94 and today trades at $145. 3M has paid dividends without fail since 1988.

Coca Cola sells for $40 a share today and has paid dividends without fail since the 1980s. Daily Finance gives us a great example of how to build wealth with buy and hold investing. If you had purchased **one share of stock** for $40 in Coca Cola in 1919 and routinely reinvested the dividends over the years it would be worth about $9.8 million today!

The back of Coca-Cola's (KO) proxy statement recently stopped me in my tracks.

It declared that just one $40 share of the company's stock bought in 1919, with dividends reinvested, would be worth $9.8 million today.

Obviously, the time frame (93 years) is more than a decade longer than the average American's life expectancy, so it's unlikely any one person lived long enough to toast their $10 million good fortune. But their heirs certainly were around to thank grandpa for his savvy investment. A similar time frame could be achieved by buying stock today for a newborn child or grandchild.

Keep Your Overhead Low

Owning 3M or Coca Cola for years is pretty simple. Use the dividend reinvestment plan that the company offers and buy shares of the stock every month, quarter or year depending on your investment budget. Contrast this approach to trying to outguess the market buy constantly buying and selling stocks. Every transaction costs money in fees and commissions and not all short term trades will be possible. How to build wealth is to make more money that it costs to invest and to continue doing so year after year.

Pick Up the Pieces after a Crash

There is good evidence that after a market crash the market in general and individual stocks return to their former values and more. If you routinely invest in the market a great time is just after the market has bottomed out. This strategy of **dollar cost averaging** gives you more shares for the buck as the market crashes and decreases your exposure as the market becomes overpriced.

A classic strategy called dollar-cost averaging can help reduce risks surrounding an asset falling in price. The concept is straightforward – you invest a fixed amount of money in an asset once every fixed time period. If the asset's price drops, you will be getting more shares of the asset for the same amount of money, and so if and when the price recovers, you will have spent less per share, on average, than if you had bought the shares at their peak, pre-fall price.

Dollar-cost averaging isn't about losing money as the stock market falls. It's about buying increasing amounts of shares at cheaper prices, which means bigger returns during the rally.

How to build wealth is to stay in the market during good and bad times and pick up bargains as prices fall only reap the rewards of a subsequent recovery and dividends year after year.

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