# *Investment* VEHICLES

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# First-time investor?

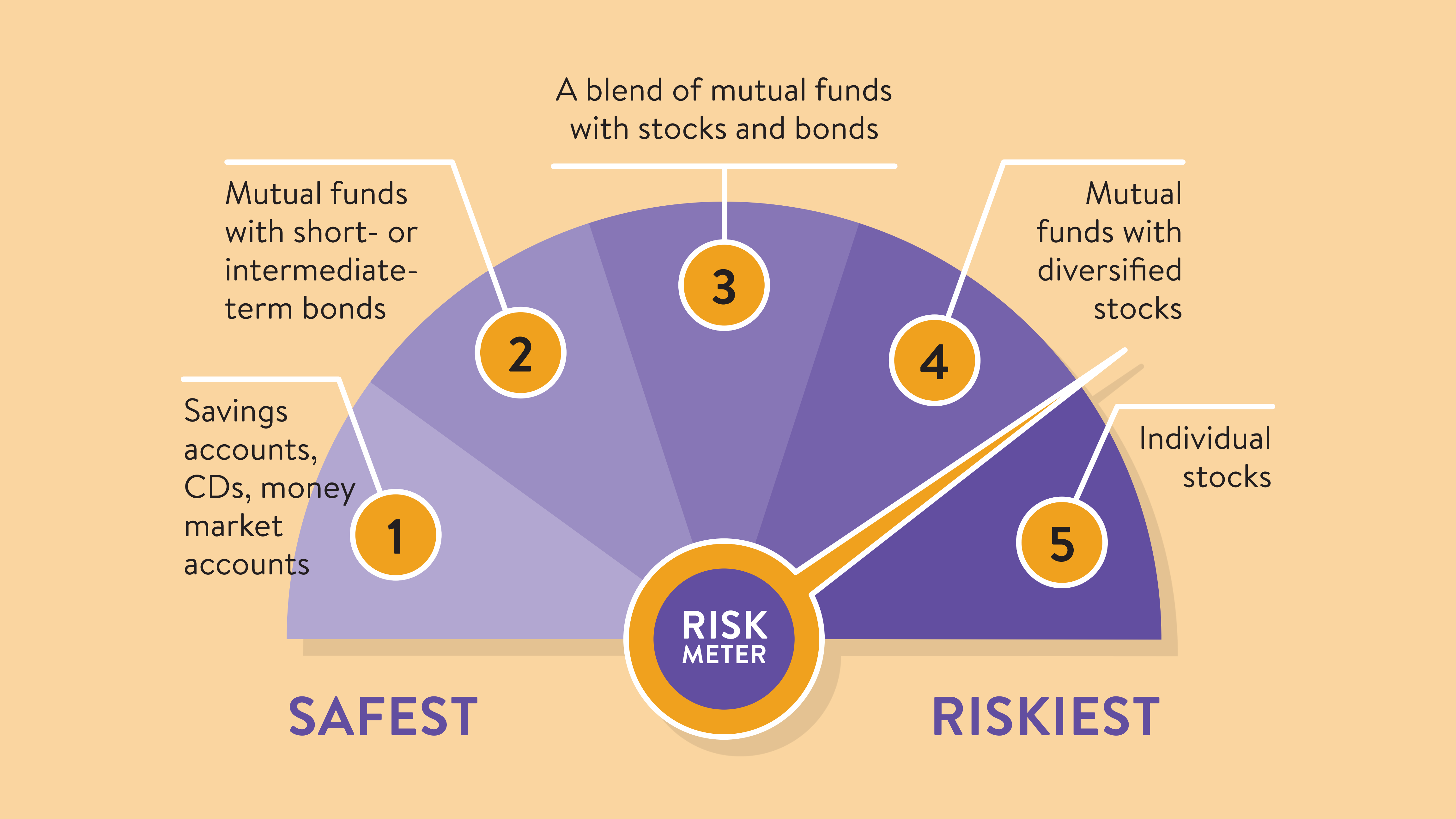
Do your homework before investing your hard-earned cash

**Unless you can predict the future, investing is a risky business**

Know your goals, your needs and your tolerance for risk before you put your money at stake

STEP 1

# UNDERSTAND THE RISKS OF DIFFERENT TYPES OF INVESTMENTS


A blend of mutual funds with stocks and bonds
Mutual funds with short- or intermediate-term bonds
Mutual funds with diversified stocks
Savings accounts, CDs, money market accounts
Individual stocks
1
2
3
4
5
RISK METER
SAFEST
RISKIEST

## Stocks and bonds are the two main vehicles that you are likely to invest in


A bond is a debt security—the issuer owes the holders a debt, and is obliged to repay the principal and interest

**More stable**

**Lower potential gain**

**Risk of issuer not paying you back**


Stock is capital raised by a corporation through the issuance and distribution of shares through financial markets

**Less stable**

**Higher potential gain**

**Risk of company failure**

If trading individual stocks and bonds feels too risky to you, investing in mutual funds is another option to consider


**A mutual fund is a collection of stocks or bonds**

Your money is pooled with the money of other investors into a fund that is invested in anywhere from a few dozen to hundreds of different securities

Managed by an expert fund manager who reports to a board of directors

Provides you with professional money management as well as instant diversification

STEP

2

# ESTABLISH YOUR GOAL TIMELINE

**The time horizons of your goals will have an impact on where you put your money**

- With a shorter time span, a more conservative investment vehicle is typically in order
- With a longer horizon, your investment has time to weather more risk

## 3 YEARS

### NEW CAR FUND

Savings account or a mutual fund with short-term bonds

## 15 YEARS

### KIDS COLLEGE

Balanced mutual funds

## 30 YEARS

### RETIREMENT

Stock-focused mutual funds

STEP

# 3

## START EARLY IN LIFE, START SMALL AND KEEP GOING

**When you are starting to invest, it is best to start small and take risks only with money that you are prepared to lose**

You'll have two main choices for actually investing your money

| ADVISOR | DIY |
|---|---|
| Utilizing the services of a financial advisor at your bank, credit union or specialized investment firm is the traditional way to invest in stocks, bonds and mutual funds | Direct investing, self-directed investing, do-it-yourself investing—no matter how you describe it, investing on your own is a real option today, thanks to technology |

| ADVISOR | DIY |
|---|---|
| Purchases and trades are facilitated through your advisor | Trades are conducted by you through an online discount brokerage |
| Broker commissions and maintenance fees can be expensive | Typically lower fees and more transparency; you are closer to the process |

| ADVISOR | DIY |
|---|---|
| Educated professionals are guiding you | Learning and research are totally up to you |
| Less time on your part | Can be time-consuming |

| ADVISOR | DIY |
| --- | --- |
| Less stressful, as you are relying on a proven coach | Your emotions can get the best of you |
| Even though you are relying on expert advice, there are no guarantees | Your personal decisions and mistakes can be costly |

# AVOID THESE FIRST-TIME INVESTOR MISTAKES

## Jumping in feet first

The basics of investing are quite simple in theory—buy low and sell high

However, don't be fooled by this overly simplistic view of the financial markets

It is important to study up before jumping in

## Playing penny stocks

At first glance, penny stocks seem like a great idea—with as little as $100, you can get a lot more shares in a penny stock than in a blue chip stock that might cost $50 a share

Unfortunately, what penny stocks offer in potential profitability has to be measured against the volatility that they face

## Going all-in with one investment

Investing 100% of your money in a specific market, whether it's the stock market, commodity futures, foreign exchange or even bonds, is not a good move

It is better to diversify your risk by putting your dollars into a variety of investment vehicles

## Investing all of your cash reserves

Studies have shown that cash put into the market in bulk, rather than incrementally, has a better overall return; however, this doesn't mean you should invest all of the money you have

You should always have cash available for emergencies and other opportunities

## Chasing news

Investing based on news is a terrible move for first-time investors. Trying to guess what will be the next revolutionary product or basing a decision on a rumor of earth-shattering earnings is not a recipe for success

Rather than following rumors, the ideal first investments are in companies you understand and have personal experience with

## INVESTING CAN BE RISKY

**Investments made in stocks, bonds and mutual funds carry the risk of losing money, even when made through a financial advisor or financial institution**

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**Sources:** AARP, *The New York Times*, Investopedia, Morningstar

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