H1: How to Start Investing: A Beginners Guide to Saving and Investing

Whether it's for that next holiday, the perfect home, or a retirement fund, millennials are serious about saving and accumulating funds. However, surveys show that when it comes to investing, Generation Y are more reluctant and less optimistic to part with their cash, compared to their Baby Boomer predecessors. With only 13% investing in stocks, and 30% favoring cash investments, it's clear that they don't consider the investment route as a legitimate or reliable form of generating long-term savings.

Unfortunately, this mindset could lead to a lack of potential income growth and future financial stability. Divam Mehta, financial planner with Mehta Financial Group, probably puts it better than we ever could: "Millennials face the risk of opportunity lost.."

If you're curious about how to avoid that "opportunity lost," and are keen to navigate the uncharted and sometimes murky waters of investing, this guide aims to give you a clear overview of the basics and of how you can get started on creating your own investment portfolio. Investing is the single most reliable way to save money, increase long term financial stability, and grow your income.

It's time to focus on spending more of your time doing the things you enjoy most in life, rather than over-working just to meet the bills.

H2: What is Investing?

The ultimate goal of investing is leveraging the time value of money to generate long-term earnings and passive income over time, and primarily involves bartering a portion of your money today, in return for the promise of more in the future.

There are plenty of investment avenues, from stocks, bonds and mutual funds, to running your own business and buying a home, but the common thread behind investing is to empower you to work smarter, not harder. Thanks to the miracle process of "compounding" and compound interest, investing allows us to reap more in the future, as a result of the choices and actions we take today.

When it comes to investing, it's vital to think long term - but also high yield, if the work is well informed and done properly.

It's also important to note that the world of investing has changed significantly with the advent of technology and the internet. While it's always great to listen to the advice of our parents and grandparents, this isn't going to be enough to allow you to take full advantage of investing in the 21st century. Online banking, digital resources and mobile apps have changed everything - we aren't playing the same game anymore in the financial world, and the big shots have had to come up to speed.

(Even the famed old guard, Berkshire Hathaway, have started to adjust their nearly centuries-old strategy)

Luckily, this change and novelty means more information, transparency, conveniency, and better informed choices.

H2: Why Should I Invest?

Most young people's first reaction to the suggestion of investing is, "I'm not smart or rich enough to invest," or, "I don't know anything about finance and the market, and I don't want to get involved in that shady business."

However, investing is all about benefiting *you* at the end of the day, and that should be your main goal. It's not the same as gambling or playing online poker. There's a common misconception that in order for investing to be worthwhile, they need to be able to earn enormous wealth from doing it, when in reality there are plenty of "average" investors generating small amounts of income which offer a bedrock for your future.

Millennials are also very protective of their earnings, and don't like the idea of "losing" hard earned money towards an entity they are not entirely sure about - the idea of investing in your 20s has a taboo effect. The term "stocks" brings back memories of watching the news as a kid, and wondering what the reporter was talking about at the end of each episode, as they stood beside a complicated graph with arrows going up and down.

"Stocks have fallen" - why would you "buy" something which seems so volatile, out of your control, and arbitrary?

This fear and lack of awareness is what makes people rely exclusively on savings accounts. Compared to the benefits of investments, in the long run this is a mistake. Consider how low the interest rate is on savings accounts, and how much the bank benefits from the chunks of cash you deposit there!

You may not know it, but the banks then take that money and invest it themselves, leaving you with a mere 0.5% interest rate return. Assets derived from investments, on the other hand, can yield rates of return of up to 10%. To put things into perspective, over 30 years, a checkings or saving account would accumulate $200 of interest, while an investment has the potential to earn upwards of $6,000 from the same initial sum of money.

Investing can be as complicated or as approachable as you want it to be. From the outset, the most important concept that any beginner should understand is the process of "compounding."

Compound interest is essentially the interest earned from the interest of further assets. Think if it as a knock on effect or cycle. "Compounding" is a term which describes how your initial investment generates income over time. An asset's earnings, such as interest or capital gains, is reinvested continuously, which allows additional earnings to take place and accumulate.

Compounding therefore allows you to generate income both from the original investment, and the additional earnings generated by the process of reinvestment. So, you're hitting several birds with one stone!

Even better, when you earn interest on both your original investment and any which follow, the value of your original asset increases. This is known as compound interest, which ultimately helps your initial investment grow. Compounding therefore has a strengthening effect and is built slowly over time. It is a crucial and foundational concept in finance, and a can be complicated, too, especially when it becomes the motivating factor driving an investment strategy.

H2: When Should I Start Investing?

H3: Benefits of Starting Young

As the saying goes, "The best time to plant a tree was 25 years ago. The next best time, is now." So, why should you start investing while you're young?

For two main reasons: you have a higher risk tolerance, and you have the opportunity to accumulate more earnings. Someone who places an investment at the age of 35 is not going to reap the same returns in 10 years, as someone who has made a similar investment at the age of 25. This 10 year time difference also allows you to take more risks and play around with investments, if you have the means, as you still have time and earning power to recover in case anything goes wrong. If your investment at the age of 60 goes awry, and leaves you with an empty pocket (or worse), you're in trouble.

Those who invest later in life are therefore naturally more likely to be inherently cautious, and possibly less successful in their investment ventures.

Investing early also cultivates good spending habits, and helps us become more disciplined and responsible towards our finances, as we start to budget and cut expenses where needed in order to meet our investment goals. By saving money, we earn money, and you can't save money if you have poor spending habits!

The relationship between compound interest and durations of time is also crucial. If Jane, aged 25, invests $2,000 annually over 10 years through her company's 401(k) plan, with an average growth rate of 10%, by the age of 65 her investment will be worth $556,197.

However, if John does the same starting at the age of 34, yet over a period of 30 years, his retirement account will only add up to $328,988 by the same age, despite having invested three times as much.
Early investment is proven to improve quality of life, especially through retirement plans, as it reduces later risk-taking and erases the uncertainty of being able to secure a stable, comfortable retirement, buy a home, or pay for your children's education.

H3: Pay Off High Interest Debt First

Before you even think about investing, you have to take care of outstanding debt. Investing while in debt is equivalent to flying with a broken engine - the moment your speed dips a bit you're going to crash.

Let's take an example: putting $250 towards a $1,500 credit card bill with an 18% interest rate will save you far more than paying off a $250 bill at 6%. Good debt, on the other hand, refers to money borrowed for a home or college tuition, which are all investments in themselves which can boost your financial position in the future. Some of this debt may also be tax-deductible, so prioritise paying off that high interest debt.

Small victories will give you the momentum to stick with the program. Consider digging into Dave Ramsey's Debt Snowball method, depending on how bad your debts are.

On a side note, don't be tempted to pay off your high-interest credit-card debt by borrowing from your 401(k) or taking out a home equity loan. This is a bad move in the long run, as defaulting might lead to losing your home, and borrowing leaves you at risk of losing out on valuable tax benefits.

H3: Have an Emergency Fund in Place

Like anything in life, it's important to have some sort of a back up plan in place in case everything goes wrong (although it really shouldn't if you invest properly!). Money guru Dave Ramsey has coined the phrase "emergency fund" and offers the following household advice to novice investors:

1. You should save for three to six months of living expenses.

1. You should keep the savings in a money market account.

1. This fund should be used for emergencies only.

While you may not necessarily have to follow these exact rules, it is without a doubt beneficial for any individual to have some back up funds to reach for in case of unforeseen risks. Emergency funds could also refer to protection through health and life insurance, in case of a setback in earning capability after an injury, illness, disability, or job loss.

Look at your emergency funds as safety nets, so that you don't have to end up borrowing from friends or family, or breaking from your investments altogether with minimal return - and lots of disappointment in its place!

H3: Starting Small is Okay

As mentioned before, a little can go a long way! You aren't a day trader or a professional investor (unless that's your career goal), and the reality is, you can start investing with less than $1,000.

Small contributions build over time - think back to the concept of compounding, and start calculating how you can grow your pennies over the years by taking action today and creating good habits and mindsets!

Just get started.

H2: Investing 101 Cheat Sheet: Basic Investing Terms

Before you start looking into the right investment avenue for your goals, it's important to grasp some basic terminology. Investing essentially involves growing your assets by sharing in the success, growth, and profitability of that asset. In order for your investments to earn and accumulate money in the long run, the assets you invest in need to be successful themselves.

For example, buying a stock of a company is like buying part of that business. Some of the common terms you'll have to know:

- **Stocks**
- **Bonds**
- **Mutual Funds**
- **ETFs**
- **Portfolio**
- **Diversification**
- **Investment Accounts**
- **Assets**

H3: What is a Stock?

The most discussed investment asset an avenue, and a term which you have undoubtedly heard floating around before, are stocks and the stock market. Stocks on average represent the highest level of risk, because they fuel the most significant investment growth. But don't let that put you off!

Also known as equity, when you buy stocks, you enter into ownership interest of corporations and companies. No matter how many shares of stocks you invest in in one company, you become an owner of that company. This comes with its pros and cons - if the business does extremely well, your investment will be well on its way to success. If the business fails, you shoulder the hit.

Corporations, such as Facebook and Apple, or even smaller businesses, sell stock in return for liquidated funds which allows them to then run their businesses and grow.

The best way to profit from being a shareholder in stocks is by holding these shares for a long period of time and accumulating dividends, which allows you to profit consistently no matter how the stock price swings. Capital gains are earned in the stock market when you sell shares at a higher price than you bought them.

H3: What is a Bond?

Owning bonds means owning a portion of a company's (or even a government's) debt, as opposed to owning a piece of the company as is the case with stocks. Purchasing of bonds allows companies to expand. The interest rate attached to the debt is also attached to a purchased bond, which means that the bond will produce a higher yield if the company cannot repay its debt.

Bond prices also fluctuate, and a bondholder receives payment over a period of time and frequency which is decided upon before the investment is secured. This is why bonds are considered less of a risk than stocks, as the bondholder will always be paid first - a stock's value can only be received once it is sold. Basically, if an investor trusts that a company won't default on their debt, them the price of the bond goes up, making it a high yield investment. Many investors move their assets into bonds as they get older, to increase their earnings and income.

Government bonds are considered some of the safest investment instruments.

H3: What is a Portfolio?

Your portfolio is your collection of investments. You can have one portfolio or several, such as one specifically for retirement, and another for college education. You can have one aggressive investment portfolio, and another which is less risk-based.

You can always view the results and current state of your investments and returns in your portfolio, and see which ones are falling or increasing in value. Most investors prefer to have a diverse portfolio, so that they don't put all your eggs in one basket. Your portfolio also tracks the correlation of investments to each other, and displays whether they are working together in harmony.

Technically, everything you own is part of your portfolio - retirement accounts, investment accounts, your home. Savings and checkings accounts do not count as part of your portfolio, however, because they aren't investments, just short term assets.

H3: What Does Diversification Mean?

Diversification is when you own multiple assets. Diversity means you don't put your investment commitments in one place, and take advantage of multiple methods of building wealth.

However, diversification isn't necessarily always a good idea.

Warren Buffet recommends that if you are an experienced investor, you should invest in long-term stocks and have faith in your investments. Some people are afraid that one investment might sink, so they have several. Diversifying reduces volatility, but it also means you can spend less time dedicated to one single investment. It might well be in your interest to wait for the good stocks, if you can identify them, and commit.

"When it's raining gold, put out the bucket, not the thimble."

H3: What is Asset Allocation?

Asset allocation is when an investor seeks to balance risk and reward by portioning out their portfolio's assets according to their goals and the long term outcome of their assets. There are three main asset classes: equities, fixed-income, and cash and equivalents. Each respond and behave different over time, so there is no rigid strategy of asset allocation which everyone should follow.

However, most financial advisors stress the importance of allocating your assets accordingly, and how this decision could be a determining influence on the outcome of your investments.

H3: What are ETFs?

EFT stands for “Exchange traded funds” and refers to a group of securities which you can purchase or sell on a stock exchange, most often through a brokerage firm. There are many advantages to obtaining EFTs and they can help you reach your investment goals. There are several types of EFTs to choose from, and they are normally available on any asset you have invested in.

H4: Stock Funds

Stock ETFs track and certain group of stocks, whose prices adjust several times during the day, as opposed to a normal stock, whose prices change when the market closes. Stock ETFs are an example of diversification, and are both simple and efficient.

H4: Bond Funds

Bond funds are concerned with bonds and similar debt vehicles. Investment bond funds include government, corporate, municipal and convertible bonds. The amount invested fluctuates, and does not have a maturity repayment date like a regular, individual bond.

H2: Types of Investment Accounts

H3: Retirement Accounts

Retirement accounts are very important to help you accumulate savings gradually and in the long run, tax-free, and mostly come from your work paycheck. Self-employed individuals can also benefit from retirement account options and tax savings. Wei-Yin Hu, vice president of financial research at Financial Engines, advises that “If you’re working at a company that offers a 401(k) and they match contributions, you should really save in that plan.”

It’s best to consult your accountant if possible, when choosing the right account plan for your goals. Health savings accounts are also important, as they come with the added benefit of a high-deductible health insurance policy, which can lower the boost of your insurance plan and increase your future retirement earnings.

H4: Employer Sponsored Accounts

Examples of retirement accounts include:

- **401(k) or 403(b) (offered by your employer)**
- **Solo 401(k)**
- **SEP IRA (Simplified Employee Pension)**
- **Simple IRA**

H4: Traditional IRA vs Roth IRA
With IRA, the money accumulates tax-free, and you can contribute to both an IRA and a 401(k) plan. With a Roth IRA, you contribute dollars which have already been taxed, and you do not receive a tax reduction. The money which accumulates after this, however, is tax free. You can choose to contribute to both a traditional and a Roth IRA, and convert from one to the other as you so choose.

H3: Brokerage Accounts

When an investor makes an arrangement with a licensed brokerage firm, allowing the investor to deposit funds and place investment orders through that brokerage, a brokerage account is formed. Any capital gains which result from the account are most often claimed as taxable income. There are a range of brokerage accounts and firms, ranging from full-service, to discount, to online.

H2: 7 Golden Rules for Investing Money

H3: Play the Long Game

Never forget the concept of compounding. Think long-term, and high yield. Just because you invest $2,000 today, and aren’t a millionaire within the year, don’t be disappointed - this isn’t how the investing game works!

H3: Don’t Put All Your Eggs in One Basket

Are you a diversification investor, or will you choose to focus all your energy, attention and investments in one single asset revenue? Make sure you know the pros and cons of each, and don’t be fooled into putting all your eggs in one basket on false hopes.

H3: Make Investing a Monthly Habit

Though at the beginning all this information may be overwhelming, by starting small and staying regular with small investments, you will gradually gain knowledge and confidence, which will reap satisfactory rewards in the long run.

H3: Invest Only What You Can Afford to Lose

Think back to the importance of an emergency fund, and be rational with the funds you have available to you at this immediate moment in time. Ask yourself are you in the best position to start investing, or would it be a better move to focus on repaying your high interest debt before jumping into stocks and bonds.
H3: Don’t Check Your Portfolio Everyday

A watched kettle never boils. The market is constantly fluctuating, and if you check your portfolio and investment value every day, you may lose sight of long term goals, and lose hope on your investments. This will cause anxiety, stress, and might even push you to back out on a potentially lucrative opportunity, because of a disappointing yield on a certain day of the week.

H3: Keep Your Fees Low

Only hire a financial advisor when absolutely necessary, and make sure to shop around for the best fees and value. Particularly with longer-term investments with relatively low margins and capital gains, the last thing you want is to consistently eat into your margins with an advisor.

H3: Listen to Warren Buffet's Investing Advice

We've mentioned Buffet (the "Oracle of Omaha") a few times here, and rightfully so - he has the most proven, and consistently simply investment philosophy that virtually anyone can employ.

"Someone's sitting in the shade today because someone planted a tree a long time ago."

Smart, simple investments in solid companies over a long period of time - in effect, by taking his advice you're simply betting on one thing: the future growth of humanity. That's why Buffet built an investment empire that rivals the wealth of several small countries.

H2: How to Start Investing Today

Luckily, technology has allowed investing and banking to become more trendy and accessible, as it is presented to a general audience in more digestible formats such as apps like Raiz, Mint, and Qapital. All of these platforms offer fun, simple, and informative ways of jumpstarting your investment habits. You might be tempted to go beyond this and expand your interest into any of the asset and investment areas covered in this guide.

As a whole, technology has democratized investing, and lessened the fees involved. One of the most simple, efficient and cheapest ways to invest in the market is through Betterment, which utilises automation and a "robo advisor" to construct and manage investment portfolios, by using algorithms. Any individual can sign up, and Betterment position themselves as the ultimate "online financial advisor, built for people who refuse to settle for average investing." The process is simple and straightforward, and Betterment's thought leadership in this area shines through at every stage.

In the past, investing involved a lot of time and resources. Today, tools like Betterment combine the latest in technology and modern strategy to help all investors, average or ambitious, to get the most out of their funds. It's important to take advantage of your youth (and capacity to quickly learn!) and use the technologies available to you, rather than flying in blind.

Although the word "retirement" is going out of fashion, and young people are increasingly leaning towards pursuing careers which are in line with their passions and which they don't foresee having to quit at any time, the extra cash you can earn from simple investment moves in your 20s will be much welcomed 40 years from now.

Whatever your financial goals and life plans, it's always important to be cognizant about a simple truth: you don't need to sacrifice you & your family's future wellbeing for fulfillment in the present.