Investing Principles Made Simple

Description

You do not need to be an accountant or a financial wizard to handle your investments. There are some basic principles to follow, known as the KISS principle. KISS is generally know to stand for â??Keep It Short & Simpleâ?• but I think the acronym can also apply to investing:

K â?? Keep invested

I â?? Invest in stocks

S â?? Self-direct your investments

S â?? Small investments possess an advantage

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K â?? Keep invested and donâ??t become discouraged

There are lots of people who enter the stock market, get burned, drop out, and then hand their finances over to a broker or mutual fund seller. That is the wrong thing to do. Losing money in the stock market is all a part of learning how to invest.

I have lost thousands on bad investments but I have also made more thousands on good investments. I still come out ahead because the good investments are that much better and I have invested wisely. The worst thing I could do is become discouraged and drop out of the market.

Investing is like any skill. It takes practice and knowledge to master. You need to keep investing and learning. The trick is to start small and increase your investments as your mastery develops.

Consistent contributions are critical especially if you are depositing into a retirement account. Every contribution will help reduce your taxes payable and all of your gains are allowed to grow tax-free.

I â?? Invest in stocks and instruments related to stocks

The best place to park your money is in stocks. There are thousands to choose from but for long term planning it is best to pick sold big capital stocks that are the basis of your long term plan.

You can invest in mutual funds but be prepared to get poorer results. Diversification is taken to the negative extreme in these financial instruments and the fund has to overcome its own hefty management fees before it can even turn a profit for you. You can find better results by investing in a few sold companies and in Exchange Traded Funds.

Stocks come in five basic varieties. You want to avoid the last one and invest in the others depending on your investing philosophy.

a) Blue-Chip Stock â?? Solid companies whose steady profits allow it to pays out dividends. These should make up a majority of your stock portfolio.

b) Growth Stock â?? Typically technology or biotechnology companies that grow and expand. Rarely do they pay out dividends because they plow their profits back into the expansion.

c) Value Stocks â?? Companies that the market has undervalued. The market is not always rational and sometimes these companies make great buy-out opportunities for other firms.

d) Mad Money Stocks â?? Very speculative stocks that are not making any profits but have a product you believe in. Depending on your investing constitution, set aside 0-10% of your portfolio for some speculative fun.

e) The Dregs â?? Companies that are losing money, revenue, and leadership. Avoid these unless you are interested in betting against their decline in what is called shorting.

Some investment firms will value stocks by the size of the company in stock value. That is useful to tell you how big a company is, but it would be like valuing the denomination of dollar bills a $100 is always worth more that a $20 bill. Two companies might trade for $100 but in actual fact the worth of the company behind the stock price is like a $100 bill in US money and a $100 bill in Mexican money. They are not worth the same amount.

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General Motors is one of the largest publicly traded companies but should not be considered a blue-chip. GM has had declining revenues, has debt problems, and faces very stiff competition from the Asian automakers.

S â?? Self-directed accounts ensures lower trading costs and control

Get a self-directed/discount brokerage account. Do not go with a stock broker if you have every intention of taking control of your financial future.

This allows you to both save money and act in contrarian ways when the rest of the market is panicking. It is possible to double your money on stocks that everyone has given up on. The fact is most investors operate on fear and emotion. You can win in the stock market if you are one of those people who blink last.

S â?? Smallness can be an advantage in the investing world

Not having millions of dollars is an advantage you can leverage to your benefit. Large institutional investors like pension plans and mutual funds cannot enter the market without hurting some of their investments. You on the other hand, can purchase stocks at great prices without driving up the price. You can also get out of a stock investment without worrying about driving down the price.

Having millions of dollars to invest has its own set of headaches, one you likely want to experience, but until then, you should take advantage of your smaller size as an investor. Nimbleness has distinct advantages in the stock market. Enjoy it while you are still small.

There you have it: the KISS principle for the investing world. Hopefully, you will be inspired to take control over your investments with these principles.

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1. Business Beller

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2. Smart Money Management

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