Neothink® Investing Guide

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Part One

Investing Quick Start Guide:

The Simplified Guide to Successfully Growing Your Wealth & Creating a Secure Financial Future.

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Introduction

This book contains proven steps and strategies on how to be successful in investing.

Because times are hard, most people are afraid of the future. Most of them are worried that they won't have enough money to survive in the future. Some people see a bleak future because they do not know what will happen to them.

Fortunately, there is hope. You can still maintain your present lifestyle in the future, even if you already have your own family and have several responsibilities. It is not an easy task, though. Investing shows a great promise. In fact, there are people who have become successful in it. The great Warren Buffett is one great example. However, you need not be like him. You just have to take your first step towards investing, so that you can prepare for your unknown future.

This book can help you immensely. Kindly go through each chapter thoroughly, so that you will understand some of the most important investing concepts. If you understand them fully, you can take that first confident step to prepare you financially for the future.

Thanks again for downloading this book, I hope you enjoy it!

Chapter 1: How to Start Investing

I understand that it's not always easy to put money aside after all your bills are paid. I've been there, living paycheck to paycheck. It's easy to talk about investing and saving when you've got extra cash. It's not as easy when you're trying to support a family and worrying about the essentials.

But that makes it even more important to get started now. Even if you're only able to save $50 a month, you can build a great nest egg if you start early enough.

It's called compound interest but is really just a fancy term for making money off your money. Start investing in your 20s and you'll be earning interest on that money for decades as well as earning interest off your interest. The graphic below shows the power of investing early and growth in $50 monthly contributions starting from different ages.

Invest more than $50 a month and you'll see even bigger benefits to investing early.

But the best reason to start investing is to change your role in life. Living paycheck to paycheck means you're always renting from the owners of wealth. Investing in stocks, bonds, real estate and other assets means you are an owner rather than a debtor. You own the assets that other people rent and can control your own financial future.

It's one of the keys to financial freedom, stop renting your life and start owning it!

How to Start Investing for your Financial Freedom

We'll cover how to prepare your budget and how to avoid the biggest investing myths that cost people money.

I've spent my career analyzing stocks and learning how to manage people's investments. The simple truth though is that you really don't need all the technical insight to do very well. In fact, sometimes all the investing strategies cause more problems than they're worth.

That's why I wrote this book and the other three in the series, to share a simple investing strategy that will work for you and your needs as an investor.

It's only through being an owner of assets that you'll be able to achieve the financial freedom that many take for granted. I know it can be intimidating to start investing and planning for your future. You don't have to jump at it with everything you've got but it's so important to just get started.

How many times have you started putting money away for investments, only to withdraw it after a few months? Even if you have managed to keep adding to your investments, how sure are you that you'll meet your financial goals?

Too many people fail to lay the groundwork before they invest their money, only to see their portfolio crumble and their hard-earned dollars disappear.

I use the road trip analogy a lot with investing because it leads to one of the most important but neglected concepts. You wouldn't just get in your car and start driving without knowing where you were going. Why do so many people start investing without knowing their financial destination?

Despite all the time spent talking about what stocks to buy, only a small part of investing is picking the actual investments. It's much more important to understand your long-term goals and the best strategy to get you there. Lay the right groundwork with planning and the right investments will fall into place.

Invest? With What?

Almost everyone agrees with the need to save for their financial goals, but who has the money? Even with low unemployment, the economy never really jumped higher after the financial crisis and wages have only grown at the rate of inflation. It's all you can do to pay the bills and hopefully have enough to treat the family to a night out every once in a while. Besides, you've got social security for retirement, right?

Even if the rules on social security aren't changed, and they almost certainly will have to in order to cover the massive future shortfall, the average check is just $1,230 a month. That may cover a roof over your head and something to eat but you'll be hard pressed if you actually want to enjoy your retirement.

You don't have to put hundreds toward investing every month. We've already seen how just $50 a month can grow to hundreds of thousands. Don't think you can even save that much? Try turning your budget upside down!

Most people start their budget by listing out income and then subtracting expenses. When they finally get to savings, there's nothing left.

Try a different approach to budgeting.

- Start you budget by taking out how much you want to invest each month. The general rule is 10% of your income but you might want to start with a little less to make sure you can meet the goal.

- Then list your expenses out. If there isn't enough money to cover all your expenses, cut from those instead of cutting your savings amount.

- If you've got a little extra after expenses, put some of it to saving and have fun with the rest. Life is about living, not about skimping and sacrificing until your 85 years old.

It's best to start small. Start with a regular contribution of what you know you can afford and then increase it if you can. I have seen too many people jump into investing and expect to put half their paycheck in an account. When bills come due, they end up selling their investments and never really enjoy the benefit of making money from their money.

The best investing you can do is before you begin investing

The question I get asked the most is, "What is the number #1 reason investors lose money?" The answer is easy, because they start investing without a plan.

Without a plan, they don't know how much money they need to meet their goals. They don't know how much risk is involved and how they'll react to losses. As a result, they stumble through years of investing without ever really getting anywhere.

Preparing an investment plan will help you establish key points:

- What are my financial goals?
- How much do I need and how much do I need to invest?
- How much risk am I comfortable taking in my investments?
- What about emergency cash and debt?

Establishing your financial goals is an obvious one but gets overlooked by most investors. What do you want to do with the money? Without something to look forward to, many investors lose the motivation to invest and end up withdrawing money.

Besides putting a dollar amount on your financial goals, which we'll get to, really sit back and think about what life will be like when you get to your financial destination. Build an image around your goal by thinking about where you'll live and what you'll do for fun. This kind of visual exercise is going to help drive you during those times when money gets tight.

For the amount you'll need to meet your financial goals, start with the big expenses like retirement, education and buying a home. Get a good idea of how much you'll need for the big stuff before adding on the smaller goals.

If you plan on changing your lifestyle during retirement, you'll need to plan out how much it will cost. Otherwise, the standard rule is that you'll need between 65% and 80% of your current income in retirement.

Retirement calculators on the internet can be confusing but you don't need to be exact. You only need an estimate for how much you'll need and what kind of annual return you need given the amount you can invest on a yearly basis.

Most people are surprised at the modest return they need when they actually plan out their financial future. To meet my own financial goals, I only need a return of about 4.5% over the next few decades. Had I not known this, I might be tempted to put too much money in risky stocks to try for returns of 8% or more. Why take all the risks with your financial goals if it's not necessary?

Once you know the annual return you need to meet your financial goals, it's time to look at the level of risk you're comfortable with taking in investments.

Most investors just throw money at stocks, not understanding that there are other investments that are less risky and that can provide a stable source of return. Investors end up freaking out when stocks take a tumble and panic-sell at exactly the wrong moment. Understanding your risk tolerance is about avoiding circumstances that will cause you to lose sleep and make bad decisions.

There are risk tolerance questionnaires on the internet, but finding your comfort with risk is pretty easy.

1) How many years do you have until you need to depend on the money?

If you have more than ten years to invest, you'll have more time to take advantage of higher returns in stocks without worrying about a stock market selloff. If you have less than ten years, you can't afford to take a big hit because you might not have time to recover.

2) When you see the stock market and your investments fall rapidly, does it cause you to lose sleep?

If you're uncomfortable with big changes in wealth, you will want to put more money in safer investments.

3) What kind of investments do you usually prefer?

Do you go for the high-flying, risky investments or do you generally prefer the slow-and-steady approach? There's nothing wrong with taking a little more risk if that's what you like but understand your comfort level before you invest.

4) How stable is your income?

You can take a little more investment risk if your income is more certain. Tenured professors have an almost guaranteed income so they can take more investment risk. People that work in the financial sector might take less investment risk because their income can rise or fall quickly depending on the economy.

Knowing your risk tolerance will help decide how much of your money to put in stocks, bonds, real estate and other investments. I've put together a chart of risk in different investments.

We'll get to how to decide the amount of money you put in each later in the step-by-step portion of the book.

You'll never meet your goals if you constantly withdraw money from investments. Besides money for everyday expenses, it's also smart to keep some aside for emergencies. Most people try keeping at least three months' worth of expenses in a savings account to pay for life's little roadblocks.

If this seems impossible, start with a month's worth of expenses and add to it a little each month. The important point is to not touch your investment account.

What to do with debt is also a question I get frequently. You should try to reduce the amount you owe on credit cards and other debt but I have seen too many people put off investing forever because they never get their debt down to where they want it.

A good rule is to pay off debt with interest rates above 10% and make payments on other debt while you begin your investing plan. This will help ensure that you use your money wisely now and still meet your long-term goals.

Action Steps:

- Put a rough dollar amount on how much you'll need in retirement.
- Figure out how much you can comfortably save each month and use a retirement calculator to find the annual return you need to meet your retirement goal.
- Understand your risk tolerance. If you need a high annual return to meet your goals but have a low risk tolerance, reevaluate how much you can save or how much you need to retire.
- Pay off high-interest debt but don't put off investing to be debt-free.

How to Win the Stock Market Game

Winning the stock market game is a matter of knowing which game you're playing.

It's no secret that investors are notorious for underperforming the stock market, realizing returns far below the general market. Data for the ten years through 2013 shows that the average investor earned an annual return of just 2.6% compared to a return of 7.4% for stocks and 4.6% for bonds.

In hindsight, we know why we lose. Investors chase high-flying stocks they hear about on TV only to realize they must have been the last to jump on the bandwagon as the price comes crashing down. Panic sets in and the investor sells out of the stock just before it levels off or stages a rebound.

So why is it so hard to win the stock market game? Why can't investors conquer their bad habits and earn a better return on their investments?

The answer is because most investors are playing the wrong game!

Let's look at the game of tennis. Tennis is truly a game of contrast, you are either really good or really horrible, and your skill level determines your strategy for winning the game.

Two professionals playing the game will need to do everything they can to score points. They each know that the other will make few mistakes so the key to victory will be in taking risky shots for the ace.

By comparison, when my wife and I play tennis, the strategy is very different. I can try for the risky shots and get lucky on a few but, more often than not, the ball is going to go soaring over the fence and I'll be running after it. Since it's more fun to return the ball back as hard as possible, practicing my best guttural grunt as if I were John McEnroe, I make a lot of these errors and my wife usually wins.

She knows the key to winning this amateurs' game is to just concentrate on getting the ball back over the net…and making the fewest mistakes.

It turns out, winning the stock market game is a lot like winning in tennis.

The Professionals' Stock Market Game

Professional money managers are measured against the rest of the managers in their investing style. Around the beginning of the year, you'll see rankings come out placing managers among the 'median' return for their group.

Since everyone is constantly trying to score a few extra percentage points to put them above the median, the professionals' stock market game is about taking risks to beat everyone else.

It turns out that even the professionals have a tough time playing their own game. Data from 2012 mutual fund performance shows that just 39% of professional fund managers beat their index while the average fund return actually trailed the stock market (S&P 500) by a percent after fees.

If the average fund return was only 15%, there's a good chance that a lot of 'professionals' lagged the rest of the market by a wide margin.

Why? Because they are making big bets and losing big when those bets don't pay off. They're trying to serve an ace but hitting the ball into the bleachers!

The Amateurs' Stock Market Game

By comparison, most of us won't face losing our job if our investment returns fall short of the 'average' investor. We only need to avoid making the big mistakes and meet our long-term financial goals.

Just as my wife doesn't have to play like Steffi Graf to beat me at tennis, you don't have to invest like a pro to win the stock market game.

The amateur game is played by understanding the basics and sticking with a simple approach. Don't get caught up in trying to find stocks that will double or trying to beat the market.

The beauty of the stock market game is that you can pick your match. You're free to play the professionals' game, analyzing stocks daily for the slimmest of chances at a few extra percentage points. You're also free to play the amateurs' game, investing for the long-term win on making fewer mistakes.

It's your decision; just make sure you know which game you're playing.

Action steps:

- Understand that investing isn't about huge returns that 'beat' the market. Keep to the basics and a simple plan that will meet your needs without a lot of mistakes.

The Top 10 Investing Basics

We'll cover the top ten basics of investing in this chapter. Whether you've been investing for three years or three decades, remembering these basics will help you avoid the big mistakes that cost people money.

It can be intimidating for new investors to get started because there is so much information out there about investing. People scream at you from the TV and the amount of internet 'analysis' available is enough to make most people put it off entirely.

The good news is that getting started is pretty easy if you just follow the basics. In fact, unless you're working in finance and managing other people's money, the basics are all you'll ever need to meet your financial goals.

Investing Basics #1: Understand what Investing is All About

The most important thing to remember about investing is to understand what investing actually is…and what it is not.

Investing is not gambling and it is not about picking winning stocks that will make you rich. Yeah, sorry about that but it's a truth that the industry doesn't want you to know.

You see, keeping the public thinking that investing is about making huge returns means you're glued to the TV or internet for every piece of information they churn out. That's worth billions in advertising for the TV stations and websites.

Investing is about making money on your money, over a very long time. It's about owning something that will be worth more in the future.

As a stock owner, you actually own a piece of the company in which you invest. Understanding which stocks to buy is really about two questions:

- Do I really want to be an OWNER of that company? Is it a company that will be around forever or is it just a fad?

- Does the investment sound like a 'bet' that the stock will jump or is it based on the idea that the company has solid long-term potential?

Investing Basics #2: TV Pundits and Analysts are NOT there to make you Money

There is good investment advice to be found on TV and online but the vast majority of it is there for one purpose… to be entertaining.

Why? Because viewers and readers are worth advertising dollars. That in itself is not a bad thing, providing investment ideas so that people will visit your blog or channel. The problem is the extreme to which many blogs and TV stations have taken it. The line between investing and entertainment has blurred so much that it's difficult to see the difference anymore.

One successful money manager on TV has been reduced to screaming, leaning on buttons that make all kinds of noises, and throwing things at the camera just to keep his audience entertained.

That's not investing; it's an annoying morning radio show.

It's a happy coincidence if you make money on this kind of investing advice but the goal is to be entertaining and persuasive.

It's ok to check out some ideas in the financial press and on investing websites but before you click that 'buy' button on your investment account:

- Does this investment fit with YOUR personal investment plan and tolerance for risk?

- Have you looked at the long-term potential for the stock or are you solely going off the advice of the analyst?

Investing Basics #3: Investing is all about YOU

One of the biggest things missing from stock recommendations is one of the most important in investing…you!

Your investment plan is about your goals and the risk you'll need to take to earn a return on your money. The problem with following investment advice is that it doesn't take into account if the advice fits with your plan.

Within your personal investment plan, you're going to look at how much you need to meet your financial goals and what kind of risk you are able to take. Not making a personal investment plan is like going on a road trip without knowing the destination or how to get there.

Once you have an investment plan based on your needs, it becomes pretty easy to sort through all the stock advice because it's clearer whether the investment is right for you. You'll trade in and out of stocks less frequently and save a ton of money in fees.

Investing Basics #4: Diversification isn't just something you Think about in Investing

Diversification is your number one tool in meeting your investment goals. It's one of the most talked about ideas in investing but few investors actually do it correctly.

Investment diversification is about owning a wide range of asset classes (stocks, bonds, real estate) and different investments within each asset class. Stocks, bonds and real estate all offer different benefits and react differently to economic factors.

The idea of investment diversification is that, if stocks were to take a tumble, your bond investments would be there to smooth out your total portfolio return. If energy prices dropped, taking stocks of energy companies lower, then your stocks of consumer goods companies might do better.

Everyone talks about diversification but greed keeps most people almost entirely invested in stocks. The average investor holds just 15% of their portfolio in bonds. The fact that older investors hold a much larger percentage in bonds leads me to believe that younger and new investors hold next to nothing in safer fixed income investments.

We'll talk about how to make sure your investments are diversified in the step-by-step section of the book.

Investing Basics #5: If you can't beat them, join them

Investors and the financial press talk so much about 'beating' the market that new investors take the goal as a given. Everyone is trying to earn returns above that of the general market…and few are actually able to do so.

The first problem here is that investing isn't even about 'beating' the market. It's about earning the return you need to meet your financial goals, whether that return is above or below the market return.

The second problem is that constantly trying to beat the market has most investors trading in and out of stocks, paying huge fees and losing money over the long-run.

Don't even worry about how much the market went up or down in any given year. It doesn't matter. Invest according to your own need for return and for your financial goals.

Investing Basics #6: How Many is Too Many?

One of the problems with constantly watching the financial media is that an investor can pick up ten great stock 'ideas' every day. They end up spending hours analyzing each and a portfolio of hundreds of individual stocks.

You really don't need that many stocks to diversify your portfolio and you'll see the fees add up with every purchase. Research by Dresdner Kleinwort found that the risk in a portfolio matched the market risk after about 30 stocks.

That means you've lowered your risk down to the general riskiness of the entire market after just 30 investments.

What does this mean to your strategy? Holding a large portion in a few exchange traded funds (ETFs) will give you exposure to hundreds of companies and all the diversification you need. Use the rest of your money for stocks, say around 25% of your stock portfolio, to invest in ten individual companies. Limiting yourself to ten individual stocks will mean picking only those with the most potential over the long-run.

Investing Basics #7:Don't Supersize your Portfolio

Nearly all brokers or stock investing websites will offer accounts on margin. Margin is just borrowing money to invest more than your portfolio value. If you have $100 in the account, you might be able to buy three times that in stocks.

Investors are tempted by the upside potential on margin investing. A 5% return on your $100 means an extra $5 at the end of the year. That same 5% return on your $100 plus $200 in borrowed money means an extra $15 at the end of the period.

Don't do it! Just don't!

Investing on margin works the other way as well. That relatively minor 5% loss when the market hits a weak patch becomes a much bigger loss when you're using margin. When the stock market lost 50% of its value over the 17 months to March 2009, someone trading on margin would have quickly lost everything.

Those borrowed funds aren't free either. Stock trading sites will charge upwards of 8% or more a year in interest fees, eating away at any gains you make during good times and amplifying your losses during bad times.

I interviewed one reader recently that lost more than $30,000 by investing on margin. Robert got caught in the massive selloff in coal stocks starting in 2014. He started off with just 5% of his portfolio in Peabody Energy, the largest U.S. coal producer, but kept investing more money as the price plummeted.

Even after he was fully invested, he was able to keep plowing money into the stock by borrowing on margin. By July 2015, the shares had tumbled 92% and he was on the hook for huge losses plus the interest on his borrowed money.

Resist the temptation to buy on borrowed money. It's gambling and that's not what investing is about.

Investing Basics #8: Go West young man…Way West!

We've already hit on the idea of diversification but even the most diversified stock investors still fall short in one category, investing in international companies.

While the United States used to be the engine of global economic growth, today the U.S. accounts for just a fifth of the global economy. This fact seems to be lost on investors that have an average of 85% of their investments in companies based here in the red, white and blue.

Sure, U.S. companies get about a third of their sales from customers in other countries so you are getting some international diversification by investing in large American firms. The fact is, there are other reasons to invest in international companies and you need more diversification than that provided by foreign sales to U.S. companies.

- Business cycles don't match up from country to country so buying foreign company stocks means you benefit from growth in one economy when others might be slowing

- Stocks of foreign companies are not as popular with investors so prices are not usually not as expensive as those of U.S. companies

Investing Basics #9: Easy does it

Too many new investors get excited about investing and put every spare penny into the account. They end up putting more in investments than they can afford and need to withdraw money to pay for other expenses.

This sets up the idea that it's easy and ok to regularly sell investments and withdraw money, an idea that will cost you big time over the long-run.

Just as bad, new investors get excited about the idea of making lots of money on their investments and hover over the computer screen watching daily fluctuations. The euphoria of seeing a percent or two gain in one day leads to depression when stocks decline on another day.

All this just distracts the new investor from their long-term investing goals. A lot of new investors end up getting discouraged or burn out on investing, withdrawing all their money and closing the account.

- Deposit only as much in your investing account as you can have locked away for a very long time. A good place to start is between 5% and 10% of your overall budget but your own needs will dictate how much you save.

- Understand that investing is about long-term (greater than five years) goals and that weekly, monthly or even yearly results may not mean much. Watching your investments on a daily or weekly basis is way more stress than you need.

Investing Basics #10: Investing is about what you put in

Returns are great and can add up over a lifetime of investing, but investing is just as much about what you put in.

To be truly successful and reach your financial goals, you need a plan for regular deposits into your investment account. Putting money in every once in a while or just when stocks are going up isn't going to cut it.

That's because a big portion of your overall portfolio is going to be the deposits you make.

In fact, on regular deposits and a 7% annual return, it's not until the 20th year that your earnings amount to more than your deposits. Even after 30 years, deposits account for nearly a third of the overall portfolio value.

Investing is a lot better than a savings account but it is still about regularly putting more money to work. Build regular deposits into your budget and watch your wealth grow steadily over decades.

Investing isn't really that complicated and these ten investing basics are likely all you'll ever need to meet your financial goals. Focus on these ten and don't make investing more complicated than it needs to be.