
STOCK MARKET

DISCLAIMER - I am not a Financial Advisor and do not work for any Brokerage Firm. The opinions given are my own and are not to be used as professional advice. These are my findings and can hopefully help you make informed decisions on investing. Consult a Broker or Lawyer before making any investment.

Back to Basics – Part 2

We began our study on getting back to the basics of Investing last week. If you did not read that article, I suggest you read it first. It is the first article on our new blog site: LifeCanBesimple.blog

Back to Basics in Investing Part 1

We have dozens of articles on our old site which is LifeCanBeSimple.net

I mentioned last week it is important to know HOW TO INVEST, and also what platform to use to invest. Anyone can open a standard brokerage account, but you have so many things to consider concerning your taxes.

If possible, always do your investing in either a 401-K plan or a Roth IRA, or a Traditional IRA. If your employer offers a 401-K, you probably want to start investing there. Most companies will match your first 3 to 5% of your contributions. That means you will immediately have a 100% gain on the money the company matches into your account.

An example of a 3% company match would be if you put in 3% of your $20,000 salary. Your contribution for the year would be $20,000 * .03 percent which would be $600. The company would also contribute $600 making your total year-end balance equal to $1200 plus any dividends or gains you might have had. Not all companies have a match, but if they do, you sure want to contribute up to that matching amount if possible.

Also, realize that companies may not pay their portion of the earnings until you are fully vested. Talk with your HR department or a lawyer or tax planner to fully understand vesting.

If no matching is available on a 401-K, consider investing in an Individual Retirement Account (IRA). There are two types, the Traditional IRA and the ROTH IRA. I am using ROTH IRAs on all 5 of the ones my wife and I currently have, but you may be better off taking the tax deduction on the traditional IRA if you expect to have a lower tax bracket at retirement.

DIFFERENCES in IRAs

Investing requires patience. Warren Buffet, one of the world's most well-known investors, said: "Wealth is a transition of money from the impatient to the patient."

Unless you have patience, you most likely will not do well in investing. You need to look at the 'big long-haul picture." Some people spend all their time looking for a fast dollar. The best way to make money is to study and be slow and methodical. Not losing money should be your number one goal.

When making investments, it is crucial to invest using a Retirement Account. If you don't invest in a retirement account, you will have to pay taxes on both your dividends and your capital gains or losses. A capital gain or loss happens when you sell an investment for more or less than what you originally paid for it. If you held that investment for over a year, you have a long-term capital gain or loss.

If less than a year, it is a short-term capital gain or loss. There is a substantial difference in the amount of taxes you have to pay. Long-term gains are taxed at your current tax rate. Short-term gains are at a higher rate.

When you own an asset or investment for one year or less before you sell it for a profit, that's considered a short-term capital gain. In the U.S., short-term capital gains are taxed as ordinary income. That means you could pay up to 37% income tax, depending on your federal income tax bracket.

You must study tax laws to determine the exact price.

When investing with a retirement account, you don't have to concern yourself with capital gains. If invested in a ROTH IRA, you will never pay taxes on your profits. On Traditional IRAs and 401Ks, when taking a distribution, you pay income tax as you take the withdrawals.

It is up to you to make good decisions and study to make wise investments. I loved what Jim Rohn, a motivational speaker said. "If you don't like the way things are, CHANGE. You are not a tree"

Be smart. If you are not pleased with where you are in life, CHANGE. Change your habits and get on a steady, consistent path.

What is a good investment plan? If you read 20 different investment blogs or books, I dare say all will be different. Who is right? There are many voices crying out for our attention. The Bible says that none of those voices are without signification, meaning they are either good or bad. I listened and tried dozens of them over the past 30 years.

Last year I got really serious and started reading, and I mean a lot. Last year I read 90 books, and this year by June I have read 52 books. Every book has been about investments, mindset, or habits. And all have helped me to get a better idea on how to invest. Is my plan best for you? I can not guarantee you it is the best. However it is a combination of about 20 different plans that I have put together.

Here are 4 common methods to invest.

Plan 1 – Use a certified financial planner (CFP) to make your decisions and put together a logical plan. There is a charge for this service. It can be a fixed amount but normally is tied to the total investment value which ranges from 1 to 5%, sometimes even higher. One thing to be on the lookout for is that the person making the decisions is not making a profit on the funds or stocks they have you invest in. This is my least favorite plan as I am a hands-on person and want control over what I invest in.

Plan 2 – Manage yourself and buy mutual funds that have done well over the years. Magazines like Kiplingers have lists of good quality mutual funds with ratings and percentages they have averaged over 1, 3, 5, and 10 years. Pay more attention to 3 and 5-year averages than just recently, as the market may have been down and all funds dropped during that period. Mutual funds are categorized into many groupings. Some are total bonds,

some are Large Growth funds, and some are balanced funds with both types. There are small-cap mutual funds, medium-cap, etc etc.

Plan 3 – Control it yourself, and invest mainly with ETFS. (Exchange Traded Funds)

Investing with ETFs.

You do not have to pay high management fees and can get every flavor of investments in the various ETFs.   On these, always put a large number of your investments in the total stock market using ETFs like ITOT, SCHB, or VTI.   You can mix in specific industries, bonds, Real Estate Investment Trusts (REITs), and dividend growth stocks.

Reits and M-Reits

There are so many flavors of ETFs that I need to write an article on the many types available.   This is one of my best ways to invest.

Plan 4 – Purchase a mix of them all.   Buy Mutual Funds and Bonds for stability, Then buy a lot of ETFs, and then get into the deeper methods of investing in Preferred Stocks, Block Development Companies, Closed-End Funds, and REITs.   And you always want to invest in Dividend Growth Stocks.

Understanding Preferred Stocks

Using the Preferred Stock Channel.

Explanation of Block Development Companies

Investing with Dividend Growth Stocks

My current investment portfolio is tied mainly to this method with a heavy dose of Preferred Stocks and CEFs purchased at large discounts to Net Asset Value.   Many of these are paying 12 to 30% in dividends.

I have used all four of these methods and what works best for you may be any one of them or a combination of the others.   The reason for my success in late 2022 and 2023 has been the limiting of loss of down markets using Stop Loss orders.

Protecting Your Investments from Huge Losses

Another method many use is to buy the same amount of a specific investment continuously. (Like weekly or monthly). This allows you to have dollar cost averaging. In high markets you buy fewer shares but more in low markets.

A person using this concept is Rachel Richards, the author of Money Honey. She says she has four rules on investing, which can not always be taken into account when doing dollar cost averaging.

Rule #1 – Don't Sell when the Market is Down.

Rule #2 – Don't buy when the Market is High.

Rule #3 – Hold investments for over one year before selling. Preferably for over 5 to 20 years.

Rule #4 – Don't be a control fanatic.

She has followed her rules and has done very well. She only reallocates her investments twice a year. She invests using auto-pilot and lets it run itself.

She uses just 4 ETFs and puts 25% of her monthly investment into each of these categories.

25% to Small Growth Stocks

25% to Mid Cap Growth Stocks

25% to Large Cap Growth Stocks

25% to Global/International funds.

The 4 ETFS she mentioned that she has used were:

IJR

VO

VV

VEA

The last 3 are Vanguard ETFs.

You might make it 20% and put 20% in VTI to make an even more diverse portfolio. VTI is the total stock market index.

So I guess we will close the second article on getting back to the investments. What you do is really up to you. There is no perfect investment plan, but there are many, many ways. What I advise you to do is this. Study, and then study some more. Try things. Don't be afraid to have a few failures. I learned that from several of Robert Kiyosaki's books.

RICH DAD POOR DAD book review on Unfair Advantage.

I have not given up when I have had failures. I kept at it and learned. You can too. Is it easy? No. But you can be successful. You are not defeated until you fail to get back up.

Stick to it. Be determined.

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