

TITLE

Investing in stocks for your future

ARTICLE

Investing in stocks can be a good way to provide for your future. You can take a small sum out of your wages, investing it to build a portfolio of quality investments and deliver an income you can enjoy later in life.

Depending on how much time you have until you wish to start living off your investments, you will need to decide what amount you can set aside. The more you invest, the faster you can reach your saving and investment goals. Conventional wisdom suggests putting aside 10% of your pay, but in reality that will take 30-40 years to become enough to live off. If you wish to retire early, you will need to be more aggressive with how much you allocate towards achieving financial independence.

With investing in stocks there are many different strategies to choose from. Some prefer to allow the professionals on Wall Street to invest on their behalf and try to choose between thousands of mutual funds managed by fund managers. Because of the cost of active management and research, over 80% of those managers fail to match the market return, net of fees, over the long term. For that reason, more people are choosing either to manage their own investments or purchase index funds.

Index funds are either mutual funds or exchange traded funds (ETFs) that invest in a collection of companies that make up an index. The S&P 500 index or Russell 1000 index are two such indexes. The former invests in five hundred of the top US businesses as selected by the S&P Index Committee; the latter invests in the largest one thousand companies by market capitalization. The benefits of investing in stocks via indexing is that the annual fees are very low and there are no front or back-end sales loads (commissions). This means more of your capital can grow through compound growth over time.

For the more adventurous, you can perform your own research and invest in individual companies that are listed on the stock market. This carries more company specific risk as your money is invested in one business and not one thousand businesses, as is the case with a Russell 1000 index fund, for instance. You can mitigate some of this risk by spreading your money around a selection of stocks across different business sectors, like financial, energy, transportation, real estate, etc. Diversifying globally can also sometimes help as the timing of market returns can vary from stock exchange to stock exchange and company to company.

Lastly, If you wish to invest in individual stocks, it is advisable that you do some more reading on the subject. Benjamin Graham's "The Intelligent Investor" is a classic primer on investing from the father of security analysis and is highly recommended.