BUSINESS BRIEFS

INSIGHTS AND UPDATES FROM MR. HAWORTH

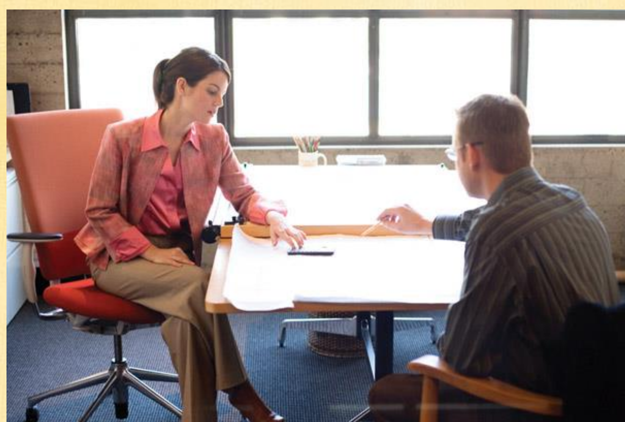
Investing Basics

To increase the chances of long-term financial survival one must not just work for money, but also be able to get money to work for them:

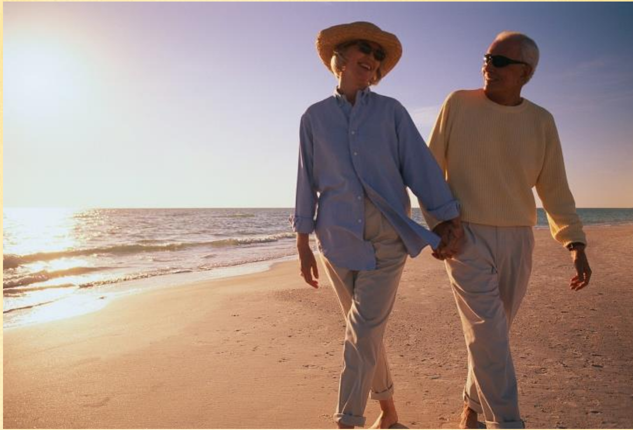
- ***Start Early***. In investing, time is your greatest asset.
- ***Invest Often***. Dollar cost-averaging is a guaranteed way to beat the market.
- ***Diversify***. Don't put all your eggs in one basket.
- ***Reallocate***. Over time you need to take on less risk in your portfolio
- ***Rebalance***. In a volatile market your allocation can get out of balance and need to be fixed.

Soon, the CLEP Accounting students will be working on their investing projects. While these students are performing in-depth research related to investing, the Business Accounting and Digital Literacy students will be introduced to the importance of understanding the investing basics shown to the left.

Investing is an incredibly important topic that is far too often ignored or misunderstood. In these volatile economic times with the looming changes to Social Security and company pensions, it is becoming vitally important that students not only understand investing, but also begin taking those first steps to financially securing their future.



"An investment in knowledge pays the best interest."
-Benjamin Franklin



FUTURE FOCUS

Who will pay for your retirement?
The government? Your employer?
Your kids? The lottery?

Who should invest?

Ultimately, you are responsible for paying for your own retirement. You need to create and initiate a retirement savings plan early on in life or you may be in for a long difficult struggle in your retirement years. If you do not plan for retirement, then do not plan on retiring.

When should I start investing for retirement?

You can begin investing as soon as you turn eighteen, but I do not recommend you start until you have begun your career, have a steady paycheck, and are willing to make at least monthly (preferably weekly) contributions to your retirement funds.

The sooner you start the better. The rule of 72 says that if you take 72 divided by the expected rate of return you get the number of years it takes an investment to double. For example, with an 8% rate of return, your investments will double every 9 years (72 / 8 = 9). Waiting to begin investing at age 30 instead of 22 would cost you one doubling period, which could equate to millions of dollars. Don't wait.

How much should I invest?

If you want to be comfortable in retirement you should invest 12.5% of each gross paycheck for your future (25% if you want to be rich). 12.5% is the same as one hour out of an eight hour day (25% is two hours). Most people already work one to two hours a day for the government (taxes). How about working an hour or two for your future? Sure, you may have to give up some of today's spending to finance your future, but really, what choice do you have? Save now or struggle later.

How and where should I invest?

To have long-term success you have to take a long term approach and get a good return on your investments. No one can predict what the market will do (especially in the short term), but over the long term, the stock market has trended up at an annual rate close to 10%. To achieve these results you have to take some risk. This risk can be minimized by focusing on the long-term, diversifying amongst different types of investments, and taking advantage of buying opportunities through dollar-cost-averaging. These and other topics are discussed more on the pages that follow.

"…be fearful when others are greedy and be greedy when others are fearful. "

- Warren Buffet

INVESTING BASICS

What Will It Take to Succeed

The sooner you start the more your investments will compound. **Compounding** is interest on your interest and it helps your portfolio grow exponentially. If you choose not to start early, not only will you lose out on some compounding, you are also less likely to start at all. You see, if you wait to save and invest, you will have already become accustom to a life-style that you may not want to give up. Start early and make it automatic.

Pay-yourself-first through payroll deductions to a 401(k) with every paycheck or via automatic bank transfers to a Roth IRA every week or two. If you do it automatically, you can set it up once and forget it.

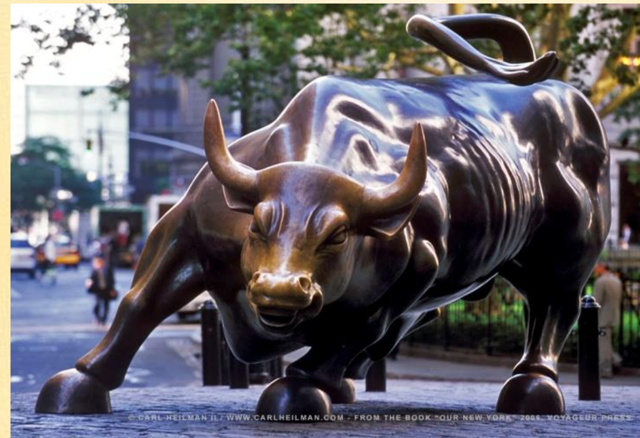
Investing the same amount each week is called **dollar-cost-averaging** and it allows you to beat the market. You'll buy more when the price is low and less when the price is high and thusly your average cost will be less than the average price. The lower your cost, the less you have at risk.

Diversification is the same as not putting all of your eggs in one basket … except for one difference: in investing when one basket does poorly the other ones tend to do well. When large companies struggle, small ones do well. When the U.S. is down, foreign economies tend to do well. Diversification allows you to lower your risk without sacrificing too much potential reward.

Asset allocation is also key to managing risk. When you're young you have time to ride out the ups and downs of the market. As you get closer to retirement you need to take on less risk. A simple rule of thumb is to take 110 minus your age to determine the maximum percentage of your portfolio that should be invested in stocks.

In volatile markets, it is likely that you will have to **rebalance** your asset allocation at least once per year. For example, if stocks are doing well you may find that your allocation has become too risky. You need to sell some of your high priced stocks and buy some low priced bonds. This periodic rebalancing forces you to buy low and sell high and will further help you to beat the market.

In a nutshell: automatically invest your Roth IRA in the Vanguard Target Retirement 2055 to easily accomplish everything described above.



"Spending time in the market is better than trying to time the market."

-Wall Street adage