Five Easy Steps to Start Investing Today

BROUGHT TO YOU BY:

wealthplicity

Meet Tom Lauman

SENIOR VICE PRESIDENT
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Tom Lauman graduated from UVA's McIntire School of Commerce with a degree in Finance. Outside of the classroom, he was one of the captains of the rugby team. Later Tom received his MBA from Loyola University in Maryland.

Tom spent the first fourteen years of his career as a buyside trader, first with a hedge fund and then on a number of institutional money manager's trading desks. He was the Head of Equity Trading at ASB Capital Management for ten years, where he was responsible for all equity trading for an investment firm managing over $10 billion in assets, executing equity and derivative transactions across multiple investment strategies.

Tom switched to trading risk at Legg Mason (now Stifel Financial). A year later he transitioned to a senior role as a sales trader, eventually becoming Managing Director. For over twenty years, Tom managed information flows, executed equity transactions and developed relationships with many of the largest and successful hedge funds, pension funds, mutual funds, and institutional money managers in the country.

With forty years of experience across all aspects of investing, Tom has helped numerous clients build wealth and achieve their financial goals through sound investing.

Welcome to Investing!

No matter where you are in your financial life – whether you are just starting and trying to figure it out, re-evaluating an existing game plan, or close to retirement – investing is crucial to wealth creation and sustainability.

Unfortunately, in this era of constant data and instant analysis, investing can appear complex and intimidating. It seems that the hardest part of investing is making it simple. However, investing can be made easier when broken into defined steps.

We call these simple steps "GARTA":

1. **G**oal determination
2. **A**vailable funds
3. **R**isk tolerance
4. **T**ools
5. **A**ction

While at the outset investing may seem difficult, with the correct guidance and information anyone can do it!

What is an investment?

An investment is the utilization of resources – time, money, effort – to obtain something back, known as the return. When you paint your house or change the oil in your car, you are investing your time and effort, and in return you have a more attractive place to live or a longer lasting car.

A financial investment utilizes an amount of money over time that will provide a return. Simply put, it is the use of money to make more money: you are postponing the present use of some of your money with the expectation that the invested money will grow over time.

Investing is different than speculation. All investments have a degree of speculation: the utilization of money over a time period to obtain a return. However, speculation attempts to profit solely on short-term price dislocations, with little regard for fundamentals such as earnings, debt, cash flows or product. An investment requires more information and longer time horizons, which also helps minimize risk.

Risk is the chance for loss of some or all the invested money, and there are degrees of risk in every investment.

When investing in stocks, there are predominantly three types of risk.

1. **MARKET RISK:** The overall stock market may rally or sell off due to macroeconomic reasons, such as interest rate movements, inflation or taxes to name a few.

2. **COMPANY RISK:** Considers issues specific to that company, such as earnings, debt, product line and competition.

3. **LIQUIDITY RISK:** Refers to the ability to convert the investment back to cash; basically, the difficulty of purchasing or selling the stock.

Those investments with higher risks require a higher return than those with lower risks as the potential for loss is greater; you should be compensated more for taking on a greater risk. Understanding these risks will greatly help you along the way on your investment journey.

GARTA **STEP 1:**

Goal Determination

The first step in investing is to determine what your goals are and within what time frame you want to achieve those goals. These goals will be different for each investor, varying by their age, capital available and income levels.

Investment goals are found within a number of broad categories:

- **LIFESTYLE:** making sure your financial needs are covered for your lifetime
- **SECURITY:** protecting your investments from excessive financial risk
- **SUITABILITY:** maintaining a balance between returns and personal risk tolerance
- **VALUE:** minimizing the costs associated with managing your investments.

These categories are also divided into long-term (such as buying a house, paying down student loans, saving for retirement) and short-term (buying a car, travel, paying off credit cards).

This is important: the more specific the goal, the easier to identify and more effective will be the necessary investment. Also, as these goals will be ever-changing as your needs change throughout your lifetime, your investments will need to change as well. (Our Financial Life Calculator is an amazingly effective tool for defining, ranking and adjusting your goals and investments throughout your life.) Determining and clarifying your goals is the first step towards successful investing.

GARTA **STEP 2:**

Available Funds

Once you have set your goals, you need to decide the funds you have available to invest. We all have certain fixed costs that reduces our income: rent or mortgage, car payments, credit card debt, phone and cable bills, and these are all before gas, food, gyms or other personal needs and enjoyments. This can seemingly leave little discretionary income to invest.

Do not lose hope! The wonderful nature about investing is the ability to grow small amounts of money into larger ones without the need for complex or overly risky strategies. Let's see how.

In the old days - when interest rates were above 5% – you would have a savings account that provided you with compound interest. Compound interest is basically making interest on the initial interest paid over time.

For example, if you put $100 in a savings account giving 5% interest, after one year you would have $105, but after the second year you would $110.25 as you received the added interest on the $5 you gained in that first year. The interest of the prior year is added to the principal. The higher the interest rate the greater the impact and growth. And that keeps building for as long as you leave the money in the account.

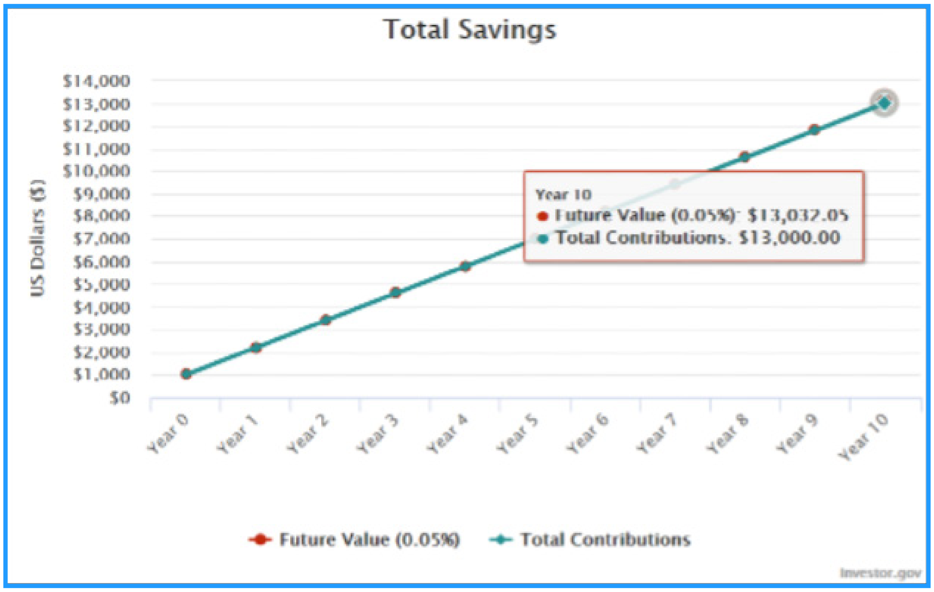
However, in the current near-zero interest rate environment, growth in savings accounts through compound interest is limited. Fortunately, there is an alternative: investing in stocks. Over the past 100 years, the stock market has averaged roughly 10% per year.

In reality, the market may fluctuate dramatically year to year; however, the longer you stay invested in the market the closer your results will be to the average return. Comparing the different impact of compound interest between a current savings account and the stock market, the advantage of investing becomes clear.

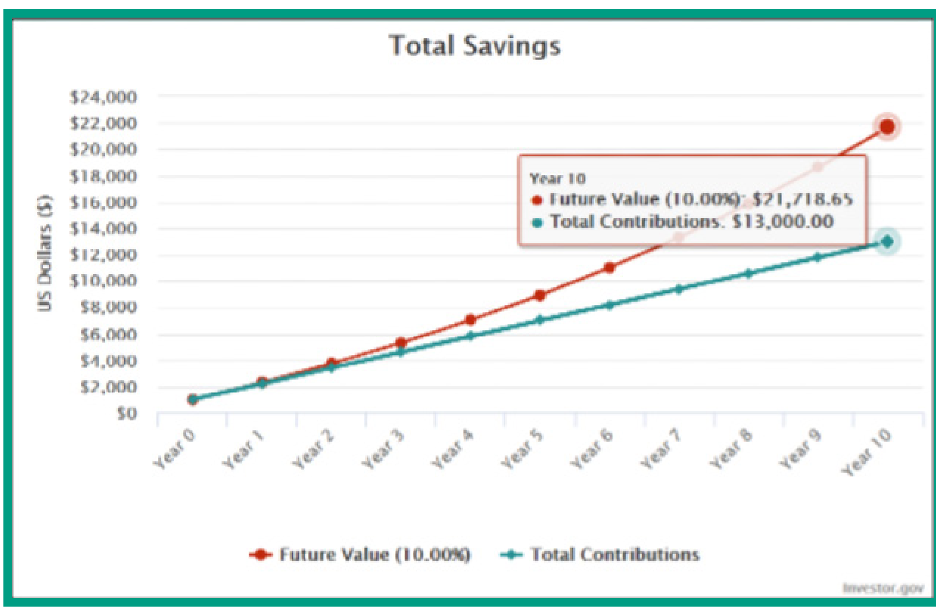
Savings account vs. Investment Account

With a $1000 initial deposit/investment and a $100 monthly contribution over 10 years, utilizing a .05% current savings rate and a 10% average stock market return, the total returns (using a Compound Interest Calculator) are:

Savings account = **$13,030**



Investment account = **$21,700**



The investment account grew 67% greater than the savings account!

As demonstrated, investing can be a powerful tool to increase wealth and does not require large amounts to get started. The key to this step is to figure out how much discretionary income you have available to invest.

Funds can also be re-allocated from personal consumption (one less latte or beer a week) or from "underachieving" funds, similar to the savings account discussed above. A good place to start determining your readily available cash and potential re-allocations is with a basic budget defining your fixed costs and your discretionary spending per month.

Creating a simple budget will help identify the current and potential funds you will have to invest each month. And just as your goals will change throughout your financial life, so too will the funds available to invest change.

Paid off debt, wage increases, bonuses all increase the amount of capital you can invest. It is important to periodically evaluate your discretionary income so you may increase your investments and grow your wealth. Now that you know how much you can invest; you need to know how much you are comfortable investing.

GARTA **STEP 3:**

Risk Tolerance

Step Three requires a self-audit. As mentioned in the beginning, all investments contain risk in varying degrees with higher risk investments providing better returns. Unfortunately, there are no online calculators or cookie-cutter, one-size-fits-all methodology to assess your risk tolerance. While there are universal factors such as age, income and existing capital that help determine how much risk you may willing to tolerate, everyone – even with similar circumstances – have different thresholds of risk they are willing to accept. There are three basic financial risk profiles:

1. **CAUTIOUS:** avoids risk; fears loss of capital; invests in cash and government bonds

2. **PRUDENT:** manages risk; risk tolerant; moderately increases risk to achieve goals; in corporate bonds and mutual funds

3. **RISK TAKER:** embraces risk; utilizes high risk to achieve goals; predominantly invests in stocks, ETFs and options

The truth is that most people are a combination of these various risk profiles, and that is perfectly fine. There is no one "correct" level of risk tolerance. It is a matter of personal comfort with a blend of the risk profiles and investment allocations. There is an old saying that you "invest to the point where you can sleep at night." Often the body tells the truth that the mind ignores!

That said, generally the younger you are, the greater your disposable income or the larger your current level of savings and investments are, the more risk you may tolerate. This is because you have more time and capital to overcome market declines.

As these factors change over time, your risk tolerance will adjust also. Those with average to above average risk tolerance should be more in stocks and mutual funds rather than low risk investments like corporate bonds, government bonds or cash.

The key to this step is striking the correct balance between where you are in your financial life, what your goals are, and how much risk you are willing to bear in order to achieve those goals.

GARTA **STEP 4:**

Tools

Now that you have set your goals, quantified the available funds to invest, and are comfortable in a risk profile, the next step is to figure out the best "tools" to utilize. These tools are the numerous investment strategies available, plus the multiple and various avenues available to implement these strategies.

If you follow the financial news or delve into investing websites, there seems to be a multitude of investing strategies, some complex and indecipherable. In order to differentiate (and sell) many "strategists" add their own modification, thereby "creating" a new strategy. But take courage, my friend! There are truly only a handful of basic investment strategies.

These five strategies are Value, Growth, Income, ESG, Balanced

1. Value investing

Emphasizes fundamental analysis to identify an undervalued stock compared to the company and industry historical measures and trends. This strategy tends to have a long-term outlook as the investor waits for the company's valuation to normalize. Value investing works best in rising interest rate and moderate-to-down economic environments as investors seek market risk protection.

2. Growth Investing

Looking for stock price appreciation that comes from the expectation of above average revenue and profitability growth. This growth expectation is the key to the Growth strategy. It does not worry about the current stock price or current fundamentals. Where Value investing looks to the past to predict future gains, Growth investing relies on future profit forecasts to determine present value. These portfolios are weighted towards disruptive innovators and emerging market companies found in Large, Mid and (mostly) Small Cap sectors.

3. Income investing

Depends upon securities - stocks and bonds - that provide a steady flow of income in the form of dividends or interest payments. These investments provide a reliable income stream with minimal risk. This strategy is not as concerned with price appreciation or market movements as it is with a regularly generated income.

4. Environmental, Social and Governance Investing (ESG)

Sets standards of corporate behavior to determine which companies to invest in. These companies must be considered stewards of nature; they must treat their employees, customers and suppliers with fairness and dignity; and they must have leadership and management philosophies and policies that promote and sustain diversity and equality throughout. Previously, many successful companies inherently followed the ESG standards. However, there is a growing demand from without and within the investment community for all companies to explicitly state their support and practice of these standards. ESG investing seeks companies that do good and do well.

5. Balanced Investing

The last investment strategy tool may be the most utilized: the Balanced strategy. This a blend of some or all the other four strategies to provide the best mix to match with your goals, available funds and risk tolerance. A Balanced investment strategy portfolio also minimizes risk through diversification by spreading your investments to different risk exposures. As investors progress through their financial life, the balance between risk and return versus income and safety shifts. Understanding these different investment strategies will help make your portfolio allocations easier.

GARTA **STEP 5:**

Action!

Like investment strategies, you also have multiple avenues to take action and put those strategies to work. You can work with a full-service, traditional broker. You can use an online broker. Or you can download a trading app. A simple analogy to understand the basic differences is trying to get somewhere by Uber, e-bike, or walking. In an Uber you put in your destination (goal) and the driver, algorithms and car take care of the directions (strategies) and motoring (implementation). On an e-bike, you figure out the destination and directions, but you get some help with the motoring. When you walk, you do it all!

The avenue you choose to invest through depends upon your investment knowledge, and the amount of time and effort you are willing to invest into your wealth creation. If you want a full-service broker to handle your portfolio, you should research the various firms and interview several brokers.

Ask questions about strategy, costs, performance and references. You need to be comfortable with and trust the person and their firm with your hard-earned money. If you choose an online broker, understand any fees or restrictions associated with trading, holding or moving your funds.

And if you are using a free trading app, understand the risks and restrictions associated with your account. Also, this choice is not permanent, and you may change brokers or apps as necessary. When it comes to your money, you need to be an educated consumer as well as an educated investor.

Conclusion

This simple step-by-step process has hopefully helped you decide your Goal determination, Available funds identification, Risk tolerance evaluation and Tool compilation. You are now ready to Act! It is time to pull the trigger and invest. But as every investor should remember, just as the markets are dynamic and fluid, so too will be your goals, funds and risk tolerance throughout your life. As Vince Lombardi said, “The man at the top of the mountain did not fall there.” It takes work to get to the top. The great news is that with The Financial Life Calculator and the easy GARTA process, everyone can start investing and create your own mountain of wealth!