

7 Investing Rules for Amateur Investors

(AND YOU, TOO)

From [SimpleVesting](http://SimpleVesting.com)

Save first.

...or else.

Do not even think about investing until you have a fully-funded emergency fund. The size is up to you (and your spouse, if you have one). What makes you feel comfortable? Is it three, six, or nine months worth of *expenses* in the bank? Notice the emphasis. It is three to nine months of *expenses* not income. The point is to be able to pay all your bills should you temporarily lose your main source of income or have an unexpected emergency. Place these funds in a high-yield online savings account. Opening your bank statement each month and seeing a fully-funded emergency fund is an awesome feeling. Do this first.

Here are six more tips.

Diversify.

...But, don't overdo it.

News flash: A 60%/40% split between stocks & bonds is *not* a diversified portfolio. It does not matter what anyone has told you before, be it your parents, a talking head on television, or your second cousin half-removed who used to work on Wall Street. They are wrong. In addition to stocks & bonds, you must allocate a portion of your portfolio to real estate and commodities. People seem to think commodities are only for expert investors. But, think about it. How often do you use an item made of wood, steel, or aluminum? How often do you eat food made with corn or wheat or wear clothing made of cotton? All these items are based on commodities. See, you actually *are* an expert, you just did not know it. In addition, you do not need 50 different funds in order to diversify. You can diversify with five, at the most 10, mutual funds or ETFs.

Say “yes” to free money.

If your employer offers matching contributions to their 401(k) plan, make the minimum contribution required to get the match. It is *free* money. However, do not go over the matched amount. Most 401(k) plans offer limited investing options. To obtain the *true diversification* you need, you will have to look elsewhere. Next, max out your contributions to a tax-advantaged Roth IRA account. Deposit any additional investing funds into an individual brokerage account.

Don't try to be Warren Buffett.

“Be yourself; everyone else is already taken” – Oscar Wilde

You are not him. Odds are you will never be him. Here is a little secret no one likes to talk about when it comes to the “Oracle of Omaha”.

He has vital advantages which are unavailable to the average investor.

No. 1, he often purchases entire private companies. Could you purchase an entire clothing company (Fruit of the Loom), insurance company (Geico), or restaurant chain (Dairy Queen)? Probably not.

No. 2, he often purchases preferred shares with special dividends and incentives, such as options to purchase stock below market value. Plus, stock picking is hard. The majority of professional money managers cannot do it well. So, avoid trying to pick individual stocks.

Don't give money away.

Are you feeling sorry for your friendly neighborhood mutual fund manager? Don't. She is doing just fine. The average compensation for a mutual fund manager exceeds \$400,000 annually, even though 75% of them fail to beat their market benchmarks. They do not need any more of your money and you should not give it to them. Before you choose an investment, review the prospectus and look for the expense ratio. Ideally, it should be less than 0.5%. If the expense ratio is greater than 1%, you probably need to ditch that fund/ETF and find one with lower fees. As a general rule, stick to *no-load* index mutual funds and index exchange-traded-funds (ETFs).

Don't lose.

In investing, unlike most things, you can actually win by not losing. Let's do the math and see what occurs when you lose. Assume an investor starts with \$100,000 and the market goes down 50% (which, by the way, it did in 2008), she would have \$50,000 left. To get back to even, she would need to *double her money* (100% return). This is unlikely to occur for quite some time. Now that you are convinced you can win by not losing, how do you do it? You use *trend recognition* to exit the market and move to cash during extended down-trends. Choose a simple, mechanical strategy, such as a moving average crossover, and follow it with strict discipline. Think about it. What would happen to a sports team that played only offense? Would you want to be on that team? Doubtful. Your portfolio is your team and contains your hard earned savings. It is up to you to protect it by putting together a defensive strategy as well.

Enjoy life!

“Most of us have two lives. The life we live, and the unlive life within us” – Steven Pressfield

Your investment portfolio is a tool, just like any money is a tool. It is for you to grow and use for whatever purpose you see fit. We invest to live, we do not live to invest. So, stop obsessing over your portfolio. Check it once a month at the most, then, go live your unlive life. Have you always wanted to look for the elusive Red-Eyed Tree Frog in Corcovado National Park in Costa Rica? Do you want to save the whales, climb Mt. Fuji or go on a walkabout through the Australian wilderness?

Go for it!

Learn the skills to enjoy life.

Pura Vida!

What next?

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What Do You Think About the Rules?

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