INVESTING IS FOR EVERYONE

HOW TO GET STARTED AS A NEW INVESTOR

MoneyWorks MAGAZINE

Want to Invest in the Stock Market But Aren’t Sure How to Get Started?

Speed up your savings timeline: invest. You’ve probably heard that it’s never too early to start saving for retirement – and maybe you’re doing just that, salting away the maximum in your workplace’s 401(k), or in an IRA, Roth or SEP (if you’re self-employed). But did you know that it’s also never too early to consider investing in stocks? With a little legwork, you can dramatically boost the power of your savings by investing a portion of your money in the stock market – even if you don’t have much extra cash floating around.

Risk vs. reward. Stock picking definitely does have its risks, but the opportunities are there for you to make money much faster by investing than by saving alone.

Make your money work harder, faster. If you’d rather leave the stock picking to the experts, consider making a monthly contribution into a stock mutual fund or exchange traded fund (ETF). If you’re more hands-on and are willing to do some research, consider pre-IPOs and penny stocks

Look for Pre-IPOs

Pre-IPOs (IPO stands for Initial Public Offering) is the period just before a company goes public and is traded on the stock market. Pre-IPOs are open only to private investors just before the shares hit the market. Private investors are typically large private equity firms or hedge funds willing to buy large amounts of stock in relatively new and untested companies. Pre-IPOs are also when a company’s value is still fairly low or underpriced. Once the pre-IPO goes public, individual investors like you can find good deals on the next potential Facebook or Uber – but only if you pounce on them before their prices rocket up.

Time It Right

Experts say that it takes most businesses four to nine years to get to the IPO stage.

This depends on the industry, along with the background and visibility of the company's founders. Does Wall Street already know and love the CEO's track record leading other companies? Or is the firm a relatively unknown entity in a new industry, like ride sharing or cannabis? You'll figure this out by methodically staying on top of business and industry news and by analyzing those underlying market trends.

What's the buzz? What new businesses (think industries) are opening up in your area? What new products and services are your friends and family members buying – and are talking about at the dinner table or on social media? You'll have to do your homework to find these soon-to-be household names hiding in plain view.

Once you also understand how the rounds of financing work, it'll make it easier for you to analyze the stories behind the headlines—and be ready to make a move when the timing is right.

Look for certain buzz words that describe earlier rounds of financing. These terms signal successful companies on the rise and could have a pre-IPO or IPO in the near future. Terms to look for include seed capital, which refers to new or start up companies' initial round of capital funding, usually from the business owners' savings and/or money from family and friends.

As the business grows (thanks in part to seed capital) its owners might turn to outside investors, including VC or venture capital firms, to procure rounds or cycles of Series A, B and C funding, which describe the process of how businesses raise capital with help from outside investors.

A Penny For Your (Stock) Thoughts

Another great option for the DIY investor who is comfortable with risk are penny stocks, which typically are any stocks trading for under $5 a share.

In general, penny stocks aren't listed on the New York Stock Exchange or the NASDAQ, instead, they are often traded on the over-the-counter bulletin board (OTCBB) or through the Pink Sheets, a quotation publisher. But beware: Pink Sheet stocks aren't SEC-registered, nor are they under any listing requirements, which means they carry the most risk. You can also work with a broker who specializes in penny stocks or better yet, a broker who you can trust for all your trades. Just be sure to check their fee structure first.

Low-priced "value" stocks are often overlooked by investors, but you can buy $3,000 - $5,000 worth of shares for 20 or 30 cents apiece and hold them until you're ready to trade or sell. Younger people in their 20s and 30s age who enjoy trading may choose to buy and hold penny stocks, since retirement is decades away, and there is potentially more time to recoup any bad investments.

Investing in penny stocks is a riskier strategy than buying a set amount of shares each month in a large mutual fund, but as we said before, with the risks also come greater potential rewards.

Before You Get Started... What Kind Of Investor Are You?

Think about how you feel about taking risks in your life in general, and then how that same approach might impact your investment style.

Do you run and dive head-first into the ocean or do you dip your toe into the surf to test the temperature? Are you more of an active, hands-on investor, or someone who prefers to leave it to an expert investment advisor or, even cheaper still, a robo-advisor?

If you don't mind taking risks, and you've got a longer retirement timeline, you may want to consider going bold and looking for those pre-IPO and IPO opportunities. If you're wary about stock market gyrations, but want to amplify your holdings, you might buy a few thousand dollars' worth of penny stocks and pay close attention to market movements, working with or without a broker. In time, you'll learn how to evaluate opportunities in industries that interest you and follow closely. If you plan to be a DIY day trader, you can take more risks with relatively smaller amounts of cash up front.

No matter what type of investor you are, you'll need to follow the market carefully, read up on what's happening each day, and put the time in to get those stock-picking insights that come with experience.

What are your goals?

You may be motivated and willing to take some risks in order to have the chance at greater long-term rewards. You're okay with a bit of volatility, because you know that market fluctuations are inevitable – and you have plenty of time to ride them out before retiring or reaching your set investment goals.

While we're on the topic of goals, what are your investment goals, exactly – do you know? What do you want to achieve with your money? What do you want to do with your money once you've earned it? Think about how much you'd like to make on your investments and when you'd like to achieve that amount, and then write it down. The act of writing down your goals is incredibly powerful, more so than just saying them out loud or thinking about them (although those are also important steps).

Remember to diversify. Diversification will help reduce your overall risk. Sector risk can easily make up 50 percent of your risk of owning any stock. Mixing the right blend of several different sectors – think tech, health care, food & beverage, aviation, renewables and pharma for starters – is a key part of any investment strategy, regardless of what type of risk-taker you are. Managing your portfolio risk by diversifying your holdings is how you can gain long-term rewards without making yourself vulnerable to inevitable sector risks.

How much money do you need to invest?

Know your account minimums, then set a budget of how much you want to invest each month, and have the funds automatically withdrawn from your checking account each month and into your stock portfolio.

$3,000

Stock mutual funds or ETFs often require a minimal investment around $3,000 upfront to open an account, but there are funds with initial investment minimums of $100. For penny stocks or IPOs, consider starting with $5,000 to $10,000.

A final note on fees!

Before you get going, make some room in your investing budget for mutual fund fees (do an online search for no-cost or low-cost funds) and/or commissions, if you work with a trader or set up an online trading account. No matter how you decide to invest your money, remember to do your research, take the long view and enjoy the ride. Happy investing!