Bogleheads

Bogleheads® investing start-up kit

*This article contains details **specific to United States (US) investors**. Parts of it are not intended for non-US investors.*
Non-US investors can find related information at Bogleheads® investing start-up kit for non-US investors.

Welcome to the **Bogleheads® investing start-up kit**.

This kit is designed to help you begin or improve your investing journey. If you have not already done so, visit the Getting started page. This will introduce you to the Bogleheads® philosophy, and help you find the right starting point for exploring all of the content in the wiki. Investing is a complex topic and can easily become overwhelming, but we are here to help. Here are a few tips to help you start your investing journey.

- Get organized. Create a document to keep track of your progress. Tip: Bookmark this page so that you can always get back to the outline provided here.[note 1]
- Be patient with yourself. Investing can seem a complex topic but it does not need to be. One of the principles of the Bogleheads® investment philosophy is to invest with simplicity.
- It will take some time to get your bearings. Take it slow, track your progress. Ask for help on the forum (https://www.bogleheads.org/forum/index.php) if you get lost.

In *Investing With Simplicity*,[1] John Bogle said:

> Simplicity is the master key to financial success. When there are multiple solutions to a problem, choose the simplest one.

Investing startup guide

1. Are you ready?
Get your expenses under control.

2. Educate yourself
Ideas worth learning.

3. Investment plan
Plan ahead.

4. Asset allocation
Set your percentage of stocks and bonds. What are you comfortable with?

5. Control your emotions
Recognize how emotions and biases influence decisions.

6. Portfolio construction
Invest in the entire market using low-cost index funds.

7. Maintain your portfolio
Rebalance your portfolio once a year.

Are you ready to invest?

Main article: Getting started

You need to save money to invest. Take a step back and look at the big picture. Investing only comes *after* you have a sound financial footing. Investigate these resources to determine whether you are ready to start on your long-term investing journey.

- Watch this helpful video on how to start with a sound financial lifestyle.
- Pay down high-interest credit cards and other debt
- Establish an emergency fund (saving 6 months of expenses is a common goal)
- If your employer offers a matching contribution on your retirement plan, take advantage of it - even as you work towards the above goals.

Learn about investing

Main article: Book recommendations and reviews

If you have never taken the time to learn about investing basics, you should do that now. There are several easy-to-read books that do not require extensive math knowledge, finance interest, or hours to read. For example, this e-book is a free download: If You Can: How Millennials Can Get Rich Slowly (https://www.etf.com/docs/IfYouCan.pdf)

Taylor Larimore's Investment Gems is a compendium of book reviews that will help you quickly learn what the experts have to say. These reviews are very informative and may also help you decide whether you would like to obtain the book.

There is no general agreement on what are the best first books, but this short list is very popular:

Published	Details
2018	Taylor Larimore. *The Bogleheads' Guide to the Three-Fund Portfolio*. ISBN 978-1-119-48733-3. (Discussion (https://www.bogleheads.org/forum/viewtopic.php?f=10&t=230605))
2017	John C. Bogle. *The Little Book of Common Sense Investing (10th Anniversary Edition)*. ISBN 978-1-119-40450-7. (Discussion (https://www.bogleheads.org/forum/viewtopic.php?t=230617))
2014	Taylor Larimore; Michael LeBoeuf; Mel Lindauer. *The Bogleheads' Guide to Investing*. ISBN 978-1-118-92128-9. (Discussion (https://web.archive.org/web/20211022131027/http://socialize.morningstar.com/NewSocialize/asp/FullConv.asp?forumId=F100000015&lastConvSeq=45960))
2014	William Bernstein. *If You Can: How Millennials Can Get Rich Slowly*. ISBN 978-0-9887803-3-0. (Discussion (http://www.bogleheads.org/forum/viewtopic.php?f=10&t=137266)) (**Free** download (https://www.etf.com/docs/IfYouCan.pdf))
2011	Andrew Tobias. *The Only Investment Guide You'll Ever Need*. ISBN 978-0-547-44725-4.
2010	Rick Ferri. *All About Asset Allocation*. ISBN 978-0-07-170078-8. (Discussion (https://web.archive.org/web/20231003075442/http://socialize.morningstar.com/NewSocialize/asp/FullConv.asp?forumId=F100000015&lastConvSeq=44385))
2009	William Bernstein. *The Investor's Manifesto*. ISBN 978-0-470-50514-4. (Discussion (http://www.bogleheads.org/forum/viewtopic.php?t=44927&start=0))
2005	Larry Swedroe. *The Only Guide to a Winning Investment Strategy You'll Ever Need*. ISBN 978-0-312-33987-6.

Suggested first reads for general financial education:

Published	Details
2011	Allan Roth. *How a Second Grader Beats Wall Street*. ISBN 978-0-470-91903-3. (Discussion (http://www.bogleheads.org/forum/viewtopic.php?t=35236))
2006	Jane Bryant Quinn. *Smart and Simple Financial Strategies for Busy People*. ISBN 978-0-7432-6995-7.

For those residing outside the US (or outside their home country):

Published	Details
2020	*Index Investing & Financial Independence for Expats* (**Free** download (https://boglecenter.sharepoint.com/:b:/s/Bogleheads/EWc_sfrtJbJGqJ575zhejTUB6Bsj8S8UpbUagman-x9Ggw?e=uqbAQe)), supplied by the SimplyFI (https://www.simplyfi.org/about-us) group (United Arab Emirates). Written in a simple, easy-to-understand style, new investors residing inside or outside the US are encouraged to add this publication to their reading list. Discussed in this Bogleheads forum topic: "[Free download] Index Investing & Financial Independence for Expats" (https://www.bogleheads.org/forum/viewtopic.php?t=350532).
2018	Andrew Hallam. *Millionaire Expat: How To Build Wealth Living Overseas*. ISBN 978-1-119-41189-5.
2014	Andrew Hallam. *The Global Expatriate's Guide to Investing*. ISBN 978-1-119-02098-1.

For more recommended reading, see our book recommendations and reviews.

Create an investment plan

Main article: Investment policy statement

Your investment plan should focus on the future and include things like a new car or home purchase in a few years, education expenses for children, and retirement, just to name a few common objectives. All of these goals require money in different time frames, and so you should invest accordingly. Start with a simple investing plan, where your objectives can be something as simple as "I want to retire in 10 years". Write down what the investment will be used for and when the funds are needed. Defining clear objectives will determine how you configure your portfolio.

As you continue with this investing start-up kit you can expand your simple investing plan into a full investment policy statement (IPS). This will describe strategies to meet your objectives and contain specific information on subjects such as risk tolerance, asset allocation, asset location, rebalancing strategies and liquidity requirements.

Set your level of risk

Asset allocation divides an investment portfolio among different asset categories such as stocks, bonds, and cash. Your asset allocation should match your risk tolerance.[2] Risk and return are directly related; that is, a higher *expected* return will need a higher level of risk. Your asset allocation should reflect your unique ability, willingness, and need to take risk. This balance is a key factor in creating a portfolio that will allow you to stay the course during the inevitable market downturns.

Risk tolerance is an investor's emotional and psychological ability to endure investment losses during large market declines without selling or undue worry, such as losing sleep.

Asset allocation

Main article: Asset allocation

Selecting the appropriate asset allocation (ratio of stocks to bonds) *is essential* to designing a portfolio that matches your ability, willingness, and need to take risk.[3] Asset allocation is *one of the most important decisions that investors can make*. In other words, the importance of your selection of individual securities is insignificant compared to the *way* you allocate assets to stocks, bonds, and cash.

Although your exact asset allocation should depend on your goals for the money, some rules of thumb exist to guide your decision.

The most important asset allocation decision is the split between risky and non-risky assets. This is most often referred to as the stock/bond split. Benjamin Graham's timeless advice was:[4]

> We have suggested as a fundamental guiding rule that the investor should never have less than 25% or more than 75% of his funds in common stocks, with a consequence inverse range of 75% to 25% in bonds. There is an implication here that the standard division should be an equal one, or 50-50, between the two major investment mediums.

John Bogle recommends "roughly your age in bonds"; for instance, if you are 45 years old you might hold 45% of your portfolio in high-quality bonds. All age-based guidelines are predicated on the assumption that a person's circumstances mirror the general population's. Because each person's circumstances differ, treat these guidelines as a starting point.

Think carefully about what might make your situation different from the average case, and if necessary adjust your asset allocation to account for the differences.

Set your level of risk tolerance

Main article: Risk tolerance

Investment risk is the *uncertainty* (variation) of an investment's return, which does not distinguish between a loss or a gain. However, investors usually think of risk as the possibility that their investments could lose money.

Investment risk can be managed by diversifying your portfolio. You set your level of risk, the tolerance you have to a decline in your portfolio's value, by adjusting your asset allocation.

To know whether a portfolio is right for your risk tolerance, you need to be brutally honest with yourself as you try to answer the question, "Will I sell during the next bear market?"

Avoid common behavioral pitfalls

Main article: Behavioral pitfalls

Jonathan Clements, former Wall Street Journal columnist said:

> If you want to see the greatest threat to your financial future, go home and take a look in the mirror.

Investing is much more than working with numbers or reading a fund prospectus. Emotions also play a large role. If you let your emotions control your investing decisions, your investing plans will quickly go off-track.

As an example, if you select an asset allocation without taking into account your emotional capacity for risk, you are unlikely to stay the course in a down market or market crash.

Poor decisions are not always caused by emotion or stress; other types of behavior can affect decision-making as well. *It is essential* that you recognize the behavioral pitfalls before committing to decisions which can affect your portfolio or investment goals.

Portfolio construction

Main articles: Bogleheads® investment philosophy and index fund

Rather than trying to pick specific securities or sectors of the market (US stocks, international stocks, and US bonds) that in theory might outperform the overall market in the future, Bogleheads buy funds that are widely diversified, or even approximate the whole market. The best and lowest-cost way to buy the whole stock market is with index funds (either through traditional mutual funds or exchange-traded funds (ETFs)). Bogleheads create a good plan, avoiding attempts to *time the market*, and then stick with it ("stay the course"). This consistently produces good outcomes over the long term.

Keep costs low

One very important consideration in a portfolio is its total cost of ownership. Every dollar paid in fees means less is working for the portfolio owner. It is critical to keep investing costs low. The following pages examine mutual fund costs:

- Mutual funds and fees
- Mutual funds: additional costs

Also consider taxes and interest charges when deciding where to put your investable cash flow:

- Prioritizing investments describes a good ordering.

Example portfolios

We advocate investments in well-diversified, low-cost index funds. The following articles provide examples of simple, broadly-diversified investment portfolios.

- Target date retirement funds - all-in-one funds that adjust the asset allocation over time, aimed for investors who want simplicity of managing their investments.
- Three-fund portfolio - often recommended by Bogleheads attracted by "the majesty of simplicity" (John Bogle's phrase), and for those who want finer control and better tax-efficiency than they would get in a target date fund.
- Four-fund portfolio - Vanguard recommends a four-fund portfolio for global diversification by adding international bonds.
- Lazy portfolios - lists more examples of portfolios designed to perform well in most market conditions. These contain a small number of low-cost funds that are easy to rebalance. They are "lazy" in that the investor can maintain the same asset allocation for an extended period of time without needing adjustments and are suitable for most pre-retirement investors.

Tax considerations

Consider tax efficiency, which is an approach to minimize the effects of taxes on your portfolio. But only consider tax efficiency *after* you select your asset allocation.

- Principles of tax-efficient fund placement

Maintain your portfolio

Main article: Rebalancing

Once you have your portfolio, it is important to maintain your targeted asset allocation. Rebalancing is the act of bringing a portfolio that has deviated from its target allocation back into line. If you are in the accumulation phase, you can accomplish this by adding new contributions to the asset classes that are below their targeted amount. Another approach is to transfer from over-allocated asset classes to under-allocated asset classes. You do not need to do this too often; for example, you can do it once a year or if your funds have deviated (more than 5%-10%) from your targeted asset allocation. Target date retirement funds automatically rebalance for you.

Notes

1. We will do our best to help you navigate the content as you start your journey, but sometimes you might get lost. Get organized.
    - Create a document to keep track of your progress.

- Consider reading through all of the summary content in the start-up kits before diving into the main articles that are linked. This will help you get a broad overview of the whole process before diving into the details.
- For a first reading, when the start-up kit suggests reading content on another page, read the lead-in on that page and avoid clicking further links. Once complete, come back to the start-up kit and continue your journey. This will help keep you on track and prevent the feeling of being overwhelmed.
- Wikis are meant as references and are not designed to provide a step-by-step walk-through. Bookmark this page so that you can always get back to the outline provided here.

See also

- Risk and return: an introduction
- Indexing
- Comparing investments - Basic financial concepts needed for investment decisions.
- Bogleheads forum topic: "Laura's tips on posting your portfolio and asking related questions" (https://www.bogleheads.org/forum/viewtopic.php?t=6212)
- Bogleheads forum topic: "Laura's investment planning overview" (https://www.bogleheads.org/forum/viewtopic.php?t=6211)

References

1. John Bogle (January 30, 1999). "Investing With Simplicity" (https://johncbogle.com/wordpress/wp-content/uploads/2019/08/Investing-with-Simplicity-1-30-99.pdf) (PDF). Retrieved December 3, 2019.
2. "Bogleheads' Guide To Investing (2nd ed.)" (https://www.bogleheads.org/wiki/Bogleheads%27_Guide_To_Investing). Bogleheads. Retrieved December 3, 2019.
3. Larry Swedroe (2010). *The Only Guide You'll Ever Need for the Right Financial Plan*. Bloomberg Press. ISBN 978-1-57660-366-6.
4. Jason Zweig, ed. (2003). *The Intelligent Investor*. Collins Business. p. 93. ISBN 978-0-06-055566-5.

External links

- Asset allocation: Key to your investment climate (https://investor.vanguard.com/investor-resources-education/how-to-invest/asset-allocation), from Vanguard. A tutorial on the approach to configure and manage a portfolio.