

INVESTING

INVESTING FOR BEGINNERS

Grow Your Financial Future One
Easy Step At A Time With
Trading, Investing, Stock Market, and
Mutual Funds



WALDEN MCCLAIN

Investing

Investing For Beginners - Grow Your Financial Future One Easy Step At A Time With: Trading, Investing, Stock Market, & Mutual Funds

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Introduction

Making money is very easy but saving it isn't. Most Americans make a substantial amount of money on a yearly basis but don't put in efforts to save what they make. They decide to live from paycheck to paycheck and have no savings plan in place. It is like having a money tree in the backyard but not nurturing it or collecting the fruits to preserve.

This type of lifestyle gives a unique thrill in the beginning, where there is a lot of money at one's disposal but with time, the plan will simply fail. People will try hard to make enough money but won't be able to meet their monthly expenses.

Continuing on with this spending habit will only leave people with no money saved up for their retirement. So not only is it important to save money now, but also invest it in the right places to increase its value over time.

There are many investment options out there, which are great for beginners. Right from stock market investments to mutual funds, there are several options fit for everybody. This book will help you understand each of these investments in detail and allow you to start investing your hard earned money at the earliest.

But in order to keep the investments going, you will have to save money on a daily basis. There is a chapter on how you can do that and manage to invest your saved money in all the right places.

I thank you for choosing this book and hope you enjoy reading it.

Chapter 1 Investment And Benefits Of Investing

I thank you once again for choosing this book and hope it teaches you a thing or two about investing.

In this first chapter of the book, we will read on the meaning of investments and why it is important for you to invest money in all the right places.

What are investments?

Investments refer to putting your money in a scheme, which will allow it to increase in value over time. So any investment that you make will not give away immediate results and will only be fruitful in the long run. You have to understand that your money is being put away for it to grow in value instead of simply lying in your bank account. To help you understand it better, here is the dictionary meaning of an investment:

the investing of money or capital in order to gain profitable returns, as interest, income, or appreciation in value

So investments are nothing but monetary speculations where you wish to increase your money's worth over time.

You must see a lot of people around you who invest money on a monthly basis. They are doing so only because they wish to have their money grow in value over time. You also must have heard from your well-wishers that you need to save money and then invest it on a monthly basis. These ideals are an important part of establishing a financial security and so, it is vital that you too adhere to these principles. After all, you are not going to work forever and must have a consistent stream of money coming into your life after you retire. There is also a limit on how much you can work and to make up for the times that you don't work, you allow your money to do all the working for you.

Importance of Investment

It is easy to understand that investing money is a good option for anyone but not many people understand what type of investments they have to make. There are several choices out there but only a few are lucrative. These lucrative choices are discussed in detail in this book and will help you put your money in all the right places.

Let us now look at the importance of investing money:

Money on auto pilot

Most of us work on a daily basis and some of us work on weekends as well. We are working so hard just to make enough money and have a good lifestyle. But it is not possible for us to rely on our monthly salary alone and need to put our money on the autopilot mode. This means that we make our money make more money. That sounds slightly impossible but that is exactly what investments are for. They are meant to help you make your money double or triple in value over time. So you don't have to worry about not having enough left for you at the end of the month and can probably take a few days off of work and still have money left with you on a monthly basis.

Gradual increase

Investments give away cumulative benefits. This means that your money from investments keep growing over time and the interest keeps compounding. That is, if you invest a certain amount of money today then not only will that particular amount grow in value with the addition of an interest but that interest will also accrue an additional interest. This form of compounding will make sure that you have a lot of money with every subsequent investment. Even though it will be gradual, you will have a substantial amount of money waiting for you by the time you decide to encash your investment.

Retirement benefits

Everybody needs to retire at some point in time and cannot keep working forever. There will come a time when you cannot physically work for money any more and need a consistent income to lead your day to day life. In order for that to happen, you need a retirement plan. This means that you plan your retirement in such a way that money keeps flowing into your account and all you have to do is kick back and relax. This is only possible if you make smart investment choices for yourself and consistently maintain it to help you when you retire. Those who have a smart retirement plan live happily, as opposed to those that constantly worry about not having enough money when they retire. The choice is yours you can simply save money and lead a life of compromise or invest the money and maintain a lavish lifestyle even after retirement.

Inflation

In this day and age where inflation is rife, it is next to impossible for you to lead a normal life and also save money for the future. If the case is so bad now then imagine what would happen in the future. You have to invest your money in all the right places if you wish to live a financially stable life in the future. You never know what could happen tomorrow and what if your company decides to downsize and send you packing? You have to be prepared for emergencies and it is especially relevant in times of inflation. Your investments will save you and allow you to live a normal life until such time as you find another job or start making a consistent income again.

Wealth building

By making monthly investments, you can build yourself a wealthy empire. There are many stories of how people made millions just by investing in all the right places. You can do so too if you invest money wisely. You can choose from several options and build yourself a wealthy empire and lead a life that you always dreamt of.

These are just some of the uses of investments and as and when you start investing money, you will get acquainted with them.

Chapter 2: How To Save Money On A Monthly Basis

We looked at what investments are and why you need to invest money on a monthly basis. In this chapter, we will look at the various ways in which you can save money on a monthly basis in order to invest them.

Credit cards

When you wish to save money in order to invest it, you have to sacrifice your credit cards. You cannot expect to have enough money with you if you are using your credit cards on a monthly basis. You will end up spending double or even triple of what you plan to spend on a monthly basis. So start by surrendering your credit cards and have just one for emergencies. Do away with all the new cards and hold on to your oldest. Don't carry it when you go shopping and have only cash with you. Use cash to buy your big-ticket items as well.

Bills

It is important to pay your bills on time. Many people default on paying their rent and bills and end up paying a hefty fine. These fines can turn big by the end of the year and you would have wasted a lot of money on it. So make sure you have a reminder or an alarm set to remind you about your bill payments. You can link your checking account to theirs and transfer the money online or have it transferred automatically if you don't have enough time to do so personally.

Bank savings

If you don't have enough money with you to start investing immediately then you can open a bank savings account. Opening an online account will help you keep an eye on the money that you have with you. Transfer a certain sum on a monthly basis and make sure that you don't touch that money. It is money that you are saving for your investments and must use it for that exact reason alone. You can also invest in government or bank bonds if you think you will withdraw money unnecessarily.

Groceries

Most people spend a bomb on groceries on a monthly basis. They end up buying lots of things that nobody eats and wasting a lot of money. This is a trend that needs to be addressed if you wish to have enough money saved to make investments. In order to pay less for your groceries, try using coupons that will help you avail discounts. You must also have a fixed budget that will allow you to spend the right amount of money on your groceries on a monthly basis. If you think you are over shooting the budget then stop immediately and reconsider your expense. The topic of budget is explained in detail in the next chapter.

Entertainment

Most people love to go out and watch a movie or hang out with friends for their entertainment. But doing so regularly can set you back a lot of dollars a month and you will have no money saved up for your investments. In order to deal with this situation, you can buy yourself a good home theater system and invite friends over to watch a movie. You can save a lot of money by doing so. Instead of hanging out with them at the bar or going to the disco, you can choose to play games at your place such as poker and reduce the amount you spend. The idea is not to cut down on the fun that you have but choose alternatives to help you save money on a monthly basis. If you have the habit of taking out food regularly then consider preparing your meals at home yourself and saving on some money.

Gas

Gas for your car is not cheap. You spend a substantial amount of money on gas on a monthly basis, which can set you back several of dollars a month. To remedy this issue, look for a fuel-efficient car that will not require you to fill gas regularly and you will have the chance to save on some money on a monthly basis. You can buy a second hand car that is in good shape to save on money. You can also car pool regularly instead of taking your car everywhere you go. You might wonder if cutting down on necessities such as gas will help you save money but you will be surprised by the actual amount that you can save and will choose to willfully do it on a monthly basis.

Homesteading

Homesteading refers to growing your own produce at home. This will ensure that you have enough food and also save on a lot of money on a monthly basis. It is believed that many Americans who indulge in homesteading save up to \$4000 a year. But that is only possible if you do all the right things. To start with, find yourself a spare piece of land where you can grow your produce. It need not always be your backyard and you can also choose your terrace. You can do container gardening and grow a lot of fruits and vegetables with much ease. Sit down and calculate how much food your family will need and start growing the crops yourself. You can also preserve them by freezing, drying or dehydrating them.

Maintenance

If you maintain a clean house by cleaning it regularly then not only can you do away with your maid but also pay less for maintenance. Do a little dusting and scrubbing every day and you will have a well-maintained house that is clean and in great shape. You can dedicate an hour a day for all the cleaning and maintaining and de clutter every Sunday. Collect everything that you don't need when you declutter your house and sell it on the internet to make an additional profit out of it.

Electricity/ water

Both electricity and water charges can be saved on a monthly basis. You can have a solar panel installed on top of your roof that will help you save electricity. You can easily save a few hundred dollars on a monthly basis by doing so. If you live in a windy city then consider installing windmills that will also serve the same purpose. You can save on the water by making use of rainwater harvesting and collecting the water in an underground tank. You can make use of a motor to send the water to an overhead tank. This water can be purified and used for cooking purposes or also for watering plants, washing your car etc.

Grooming

Most people are conscious of how they look and splurge on beauty products and grooming sessions to help them look good. But it is important to curb on these in order to save money. It is possible for you to cut your hair and do your own nails at home and spend a quarter of what you would at the parlor. There are several online instructions and videos readily available for your reference. Similarly, you can do your own facials, manicures and pedicures to help you further save money on a monthly basis.

Clothing

Upcycling and DIYs are all the rage these days and you should not be left behind. You can easily upcycle your old clothes and make new and trendy outfits out of them. You need not use clothes to make clothes and can make bags, belts, hairbands and other such accessories. Remember, the more you save, the more you invest, so don't refrain from saving as much money as possible on a monthly basis and try to make the most of what you already have instead of buying new things.

Miscellaneous

Similar to the above examples, there are many other ways in which you can save money on a monthly basis. You need not always spend on buying expensive things and simply make do with whatever you have. Once you start saving, you will develop the confidence to do more and more of it on a monthly basis. There will come a time when you will be extremely efficient at saving and have a substantial amount saved up for not just your investments but for your retirement as well.

Chapter 3: Importance Of Budgeting And Sample Budget

In the previous chapter, we looked at how you can save some money on a monthly basis in order to have a substantial sum of money ready to be invested. Remember that you need a good sum to start with and keep supplementing it from time to time to help it grow in value. You cannot have \$10 in your pocket and wish to have a million dollars in 5 years. You need to at least start on \$2000 a year to come into a fair amount of money.

In order to help you plan your finances you need a budget. A budget is a tool that you use to plan out your incomes and expenses and also know exactly where to put your money.

In this chapter, we will look at the steps involved to prepare a budget and also see a sample budget to help you understand better.

1. To start preparing a budget, you need to assemble everything that you will need. This includes all your statements such as your income statements and also your bills and receipts. You will also need a notepad and a calculator. If you are using software to prepare your budget then have that ready too. You really don't want to run around to find these once you sit down to prepare your budget.
2. Next, draw out two columns on the page or make two columns in your excel sheet. The first column should be labelled incomes and the second expenses. Now bifurcate the two columns and write "name" in the first columns heading and amount next to it. You need 4 columns in all. This is the most basic format and is extremely easy to follow and maintain. If you think you need another column such as savings then you can add that in as well. But remember, the more the columns, the more confusing that it will get and so, it is best that you maintain a minimalist column format for your budget.
3. The next step is to fill in the incomes column. Here, add all the incomes that you have coming in a month. This can include your salary, any passive income and other such incomes. You will probably not have any portfolio incomes as yet but if you do, then write down that as well. Don't add anything that you received only for that month and only record those things that you receive consistently. Now total all the incomes and record it at the bottom.
4. Now record all the expenses in the expense column. This includes all the regular expenses that you incur on a monthly basis including rent, mortgage, electricity, groceries, gas, entertainment etc. Don't leave out any. If you have debts to repay then make a note of them as well. Finally, total all your expenses and record it at the bottom of the column.

5. Next, write down the income amount and then the expense amount under it and subtract the two. If you are left with a positive amount then that is your profit or surplus and if there is a negative amount then that is your deficit or loss. Don't worry if you have a deficit as it is easy to fix it but if you have a surplus then the next step will tell you what to do.

6. Once you have the amount with you, you have to do something with the money that you have. You cannot simply see the amount, feel happy and do nothing about it. You have to plan out what you wish to do with the money that you have. Make both a long-term and a short-term plan with it. Your short-term savings plan should be to save money for your short-term needs. Say for example you wish to buy shares in the next 1 year. For this, you have to add money into your short-term account. But suppose you wish to buy a car and a house in the next 5 years then that is your long-term expenses. You have to allocate money for everything that you wish to invest in and not get confused by your own plans. You can avail the help of a friend to plan out your expenses and come up with the best savings to invest plan.

7. If you have a deficit then don't worry as it is possible for you to fix it. All you have to do is adjust your budget in such a way that you kick out all the unnecessary expenses and allow only the important ones to remain back. These unnecessary ones can be expenses such as nights out or clothing expenses that can be cut down. Initially, you need to cut down the expenses to match the income and then further narrow down the expenses to realize a surplus. It might seem impossible but it is easy if you put your mind to it. You can easily have a surplus remaining if you carefully analyze your budget and do away with all the unnecessary expenditures.

8. The next step is to spring into action and divert all the money into their respective accounts. You can open a short term and a long-term account and direct the money accordingly. It is a good plan to invest \$500 into your short-term account and \$1000 into your long-term account. Don't worry if you don't have this much money left with you, with time, you will not just have this money but also make the right investment choices for yourself.

Sample budget:

Monthly Incomes		Monthly Expenses	
Monthly salary	\$1000.00	Rent/Mortgage	\$200.00
Income from garden sales	\$1000.00	Personal loans	\$150.00
		Credit Card expenses	\$200.00
		Utilities bills payable	\$60.00
		Healthcare/Medicines	\$10.00
		Gas/Transportation	\$50.00
		Food/Groceries	\$70.00
		Dance Class fees	\$40.00
		Personal Care expenses	\$20.00
		Clothing expenses	\$30
		Night out with friends	\$170
Total Income	\$2000.00	Total Payable	\$1000.00
Total income	\$2000.00		
(-) total expenses	\$1000.00		
Surplus	\$1000.00		

Here, there is a surplus of \$1000, which the person can split as \$500 dollars for short-term savings and \$500 for long-term savings.

Chapter 4: Investments In The Stock Market

Stock market investments are said to be one of the most lucrative forms of investments in the world. This is mainly because they pay off well and you can increase your money's value within a day.

In this chapter, we will look at the stock market in detail and understand what it takes for a beginner to start investing.

What is the stock market?

The stock market is a place where company stocks are traded on a daily basis. The companies that wish to share their ownership with the public list these stocks in the stock market. It is important for the companies to distribute shares, as they need money to finance their functioning. The shares entitle the owner a part in the company's profits and losses.

Back in the day, only the rich could afford trading in stocks as they had access to the stock market and also the brokers that help in trading. But with time, common people began to trade in stocks. It became easier and easier to trade regularly and start making a substantial amount of money from it.

There was no more waiting for several days for a transaction to go through and it could be done within a few hours. The stocks can be traded both on a physical market such as the New York Stock Exchange and also on a virtual market such as the NASDAQ.

In the physical market, people need to operate through a broker, who will work for a company that is a member of the stock exchange. Not only will he buy and sell shares for you but also advice you on the best ones to buy and sell.

The NASDAQ is an electronic version and there is no need to go through a broker. The trade takes place between two people who can be located in any part of the country.

For beginners, it is advisable to employ a good broker who will help you get started on the stock market. They will help and advice you and prevent you from making mistakes. Once you have your demat account ready, you can ask your broker to buy and sell stocks for you.

Each share or stock varies in value and it keeps fluctuating from time to time. The value is never constant and many factors contribute towards its volatility.

The first one is the demand and supply of the shares. If there is a lot of demand for the share and only a few are available then its value will shoot up. But if there is a lot of supply and the demand is low then the value will go down.

Another factor is the reputation of the company. If the company is well reputed and is making consistent profits, then its share value will rise but if it is under going losses, then its share value will go down. So it is important to understand all these criterions before deciding to invest in the share market, especially for beginners.

When it comes to share market investments, they are of two types namely long-term investments and short-term investments. Both of them come with their fair share of advantages and disadvantages. These two are discussed in detail as under.

Long term investments

Long-term investments in the stock market are quite common and probably the most common of transactions in the world. This is because holding on to stocks for long periods of time invites a capital gain known as dividends. Dividends are extremely useful when you want to see your money's value grow.

Dividends are paid out by the companies whose shares you hold. The dividends are part of the profit that the company has made for a particular year. So say you have 100 shares in Microsoft and they are paying 10% dividend every quarterly. That 10% is your profit or dividend and you will keep getting it until you sell your Microsoft shares.

People invest money in long-term shares because their money will be safe and they will receive a regular dividend. But you need to look for companies that are well reputed and will surely pay a consistent dividend. Even if they incur a loss, preference shareholders will be paid a certain fixed amount of interest all throughout. The same does not apply to equity shareholders but they can avail higher dividends if the company is doing really well.

In order to invest for the long term, you have to be a fundamentalist. This means that you need to go through the company's profit and loss statement to see if they have a lot of money in debt or have none. You should check their dividends graph to see if they have been consistently paying dividends to their shareholders. Most people hold on to these long-term shares for 3 to 5 years or more.

Short term investments

Short-term investments are also known as day trading investments. These are investments that are made for a short amount of time that can vary between a day and a week.

So unlike long-term investments that are held for 5 or more years, these shares are held only for a day or two. These day traders are not interested in the dividend pay out of the company and wish to capitalize on the difference in the share values.

So say you bought 50 shares costing \$50 in the morning and its value has gone up to \$53 by evening. You as a day trader will quickly sell off the shares to realize an instant profit. Day traders try to capitalize on the difference of many such share prices to make a daily profit out of it.

This type is slightly risky as market prices can be quite volatile and it is important to know which shares will do well and which will not. Only experience will help a day trader make the right choices for himself.

When it comes to day trading, the company's reputation does not matter much. If the share prices are rising then it is a good company to invest in. Day traders are not really fundamentalists and will buy the stocks depending on its progress graph.

There are many ways to predict the trend and some of them include using candles, news forecasts, rebate trading, algorithms etc.

Most traders don't care if it is a bearish or a bullish market and trade during the day. But in general, if it is a bearish market then it is better to buy and if it is a bullish market then it is better to sell. But it all depends on the person's risk taking capacities.

If you wish to start day trading then you must hire a day trading broker to help you out.

Chapter 5: Options And Commodities Trading

In the previous chapter, we read on stock market investments and in this one, we will look at future securities.

Future security trading is just like stock market trading except that people bet on the future value of the security. That is, they bet on its rise in value, which will only occur in the near future.

There are two types of future securities that you can try out as a beginner and they include options and commodities.

What are options?

Options trading refer to the trading in stocks by speculating their future value. The option here is to either pay for the underlying asset in full or not pay it at all. So the option gives the trader a chance to safeguard his or her financial investment.

Let us look at an example for the same. Say you wish to buy 100 shares costing \$50 each and are required to pay the broker \$5000 for it. You currently have only \$1000 with you that you give the trader as advance. He agrees to take the money and reserve the shares for you for a month by which time you have to pay the difference to own the asset.

Now in the one-month window you find out that the shares have gone up by \$20 per share and now cost \$70 a share. This is great for you as you only have to pay the trader the agreed value of \$5000 (now \$4000) for the share and when you sell it you make a profit of \$2000. The trader has to sell it to you for the agreed price and not ask any more from you.

But now suppose the share value goes down to \$30 in the one month period. You will obviously incur a loss of \$2000 from the transaction. But, what you can do is, refuse to pay the difference but do away with the \$1000 that you paid as advance for it. That way, you save your \$1000 from going to waste.

That option to not buy the share is your “options trading”.

This type can be extremely lucrative if you know exactly which shares to buy and which not to buy. There can be a lot of shares that will look great when you are buying but will steadily deteriorate. You have to

be careful with such shares and take the advice of the broker to invest in options.

The right to buy the underlying asset within the specified time is known as the call option. The person with the call option wishes for the value of the asset to rise within the agreed period of time.

The opposite of this is the put option, which is the right to sell the asset within the period of time. Here, the person wishes the price to drop within the specified period of time.

Options trading is a slightly advanced way of trading in the stock market and it is best to wait a while before considering taking it up.

What is Commodities trading?

Commodities trading is just like options trading but is the trade of particular assets, namely commodities.

Commodities refer to everyday items that are traded in the market and are priced to be sold. You as a trader need to bet on the rise or fall in the price of the commodity. If you get it right then you will make a profit off of it but if you get it wrong then you will make a loss.

Just like options, the trade ends within a certain period of time, which is better known as the expiry date. You have to take a call on the options within that specified time. If you do not then the deal will stand cancelled.

Some of the most traded commodities include cotton, sugar, rice, coffee, tea, potatoes, onions etc. They are traded in terms of kilograms or quintals. These are part of the agriculture trading. You have to keep following the news on these to know if they will rise or fall in value over the course of the day or month. Say for example there have been heavy rains and the onion crops are nearly destroyed, before this affects the prices of the options you have to sell it off if you have any in your possession or not buy any new stocks.

Metals are also traded in a similar fashion. These include iron, lead, nickel etc. They will also rise or fall in value over the course of the day.

Livestock such as sheep, pork, cut meat etc. are also traded. Their value can also rise and fall depending on their demand and supply. Just like agriculture, many factors influence the price of livestock and you have to follow the news regularly to know if you will make a profit or loss from your investments.

The last type of commodities trading includes energy. This is oil, coal, petrol etc. which are traded.

There is a minimum amount that you have to compulsorily invest when you wish to trade in commodities.

It is considered to be quite risky to trade in commodities. This is mainly because the prices rise and fall steeply and there is just no telling how the market will operate. So don't get over enthusiastic and invest in commodities too soon. Start trading in stocks first and once you understand how the market works, you can choose to trade in commodities.

Chapter 6: Investing In Mutual funds

Apart from the stock market, you can also invest your money in mutual funds. Mutual funds are also investments that will help you increase the value of your money over time. In this chapter, we look at mutual funds in detail and also look at why you should choose them for your investments.

What are mutual funds?

Till now, we have looked at different types of financial instruments such as stocks, options, commodities etc. One other such financial instrument is mutual funds.

As the name suggests, mutual funds are funds that are collected by companies from people looking to invest in the stock market or the securities market. They pool the money together to invest it as a whole and acquire individual units for their investments. These units are allotted to people who have invested their money in the mutual fund.

Back in the day, mutual funds were not too popular as there was no proper awareness or many incidents of people making any profits from them. However, since the last 2 decades, mutual funds have grown in popularity owing to their high rate of return.

As was mentioned earlier, mutual fund companies pool in money and invest it as a whole and distribute a part of it to all the investors. So if you are to invest \$10,000 then your money will be pooled in with the rest of the investors' money and once it is in the market, you will be given a share of the investment.

Most mutual funds invest in stocks and bonds and it depends on which one is proposing a better investment opportunity. The final call lies with the fund manager who will look at the best places to invest the investor's money. If the investor is interested in one particular type of security such as stocks alone, then he or she can request the fund manager for the same.

There are three main ways in which a person who has invested in mutual funds makes a profit. The first way is when the person receives dividends from the profits that the companies make. The second way to make money is by selling the securities from their portion that are doing really well and have shot up in value. The third way is when the fund has a capital gain thanks to an increase in its overall value. So you stand to gain a certain sum of money thanks to holding shares in the investment.

Once you invest in mutual funds, you can check your net asset value at the end of the day.

Aspects of mutual funds

High gain

When it comes to investing in mutual funds, you can expect high gains. This is mainly because the fund manager is an expert and knows exactly where to invest your money. The market can be lucrative in parts and the manager will make sure that your money capitalizes on that opportunity. Many people prefer mutual funds to self-trading as they can easily make more money from their investments and gain different forms of capital gains.

Freedom

When you invest in mutual funds, you can sit back and relax as your fund manager does all the trading and you have to do nothing. This means that you have the freedom to not watch stocks or follow news items and the fund manager does all of this. But there is always the option to do so in order to better your outcomes. But even if you don't observe the stock market then it is still fine as your money is safely interested and will not go away just because you are not observing it.

Diversification

Mutual funds are great as they diversify the risk and you have the chance to maximize your gains. Diversification is very important when it comes to investing in the stock market. With mutual funds, you have the chance to invest in stocks, bonds, securities etc. If you are a solo investor then you will need a lot of money to diversify your portfolio but with mutual funds, you can easily diversify your investments with just a little money as the mutual fund will pool in a lot of money from different investors.

Trans costs

When it comes to buying and selling mutual fund assets, the transaction cost reduces. This makes it a very cost effective option for the people interested in investing in the market. So as an individual, you will be paying less for your securities and it will work out quite well for you. You don't have to pay a brokerage for each and every transaction that takes place and only have to pay the fund manager a certain fee for his or her services.

Risks involved

There was a time when people assumed that mutual funds are the best way to make money from the stock market. But with time, they realized that it is not possible to have a risk free run and there can be a few losses that can come about through mutual fund investments. One of the main risks involved is that you are trusting your hard earned money with someone who will possibly gamble with it. This means that you will probably make better investments with the money as you are cautious about it but the fund manager might not look at it the same way. Many believe that the fund manager is just as capable as you are when it comes to investing and it is better for you to do the investing yourself instead of relying him. Secondly, the mutual fund company needs a lot of money to keep going and for this, they will heavily charge the investors. If the investor is to deal individually then these charges can be avoided, which is not a feature with mutual funds.

Taxation

The capital gains that you receive from your mutual funds are taxable. So you have to check with the company first and also find out how much you will be taxed. If you think you will be left with a profit that is not impressive then you can consider not investing in mutual funds.

Types of mutual funds

There are two main types of mutual funds namely: open-end funds and closed end funds.

Open ended funds

Open-end funds are those where the investor can buy and sell securities at any point in time and there is no maturity period involved. There are three main types of open-ended mutual fund investments that are explained as under:

- Index scheme: as the name suggests, this is a type of investment that follows the pattern of the index. This index is the stock market index like Amex.
- Sectoral schemes: these refer to those investments that are made in particular sectors alone such as the banking sector or the IT sector or the medical sector etc.
- Tax saving scheme: this is for all those looking to avail tax benefits from their investments in the stock market.
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All these are good options for you if you are a beginner and can choose the one that will help you avail maximum profit for your investment.

Closed ended funds

Unlike the open-end funds, here, there is a limit on the buying and selling and the assets come with a maturity period. The investor is allowed to only invest during the opening of a scheme known as the new fund offering.

Chapter 7: Bonds, Precious Metals And Foreign Currencies

In this chapter, we will look at three other types of investments that you can make as a beginner.

Bonds

Bonds are also financial investments that you can make as a beginner. Bonds are issued by the government or companies that are listed on the stock market. A bond is a financial instrument that will not just safeguard your money but also pay you consistent returns.

A bond is issued by a company at a value that is much lower than its face value. This gives you the chance to buy a lot more of the company's shares and capitalize on the opportunity. Although technically you are not buying a share of the company it is comparable as you are lending money to it.

The company or the government needs this money for a project and is raising it by issuing public some bonds. The agreement here is that, they will take your money and invest it in a project and will consistently pay you an interest for it for a fixed time period. Once the time period is up, they will return your invested money in full. This is almost comparable to a bank saving except that you will not have access to your money once you make your investment. You can also sell your bond at a higher price and make a profit out of it.

Bonds are great for beginners as not only will it pay them more money as compared to bank accounts but also not allow them to withdraw money as and when they like.

To buy a bond, you have to check the company's status and look at their balance sheet to see if they will be able to pay you back your money and also pay you the promised sum of money on a monthly basis. If you are satisfied with what you see then you can make the investment.

By investing in the company's bond, you will win over their trust and they might be willing to give you their shares at a discounted rate thanks to your loyalty toward them.

Precious metals

Another type of investment is precious metals. As the name suggests, precious metal investments are those that are made in buying gold, silver, platinum and other such precious metals. These metals grow in value over time and are never priced the time. So by buying some today, you can sell them for a profit tomorrow. Gold and platinum are two of the most traded metals owing to their high demand and high pay offs. If you buy 10 kilograms of gold today at a certain price, you can sell it for a higher value tomorrow. This difference is your profit.

One major advantage of investing in precious metals is that, you have the chance to sell it anywhere in the world without affecting your profit. This is because the value remains the same all throughout and you can trade in precious metals anywhere in the world.

Another advantage is that, unlike the other financial instruments, you become the full owner of the asset and also have physical custody of it. This gives you the confidence of owning something that is real and that your investment will pay off in a big way.

Foreign currency

Investing in foreign currency is another lucrative investment option for beginners. Better known as forex, it deals with trading currencies of different countries. I'm sure you know how currency values differ when they are pitted against each other and this is what the trader capitalizes on. Say for example, the dollar is valued at 50 as compared to one yen that is, \$1 equals 50 yen. Here, it is possible to buy a lot of yens with just \$1. The trader will buy the yen and wait for the difference to rise. Once it does, the trader will sell it off to realize a profit. Similarly, the trader will buy and sell currencies that belong to many different countries. He can also exchange the currencies and acquire a different country's currency.

This is a great option for beginners but there is a limit on how much foreign currency you can possess at any given point in time, which proves to be a hindrance for those looking to make large profits off of their exchanges.

Chapter 8: Precautions To Observe When Investing In The Market

As we know by now, it is easy for you to save money on a monthly basis and direct it towards stock market investments. But you have to be careful when you wish to invest in the stock market and cannot simply blindly follow whatever your broker tells you. You have to be careful, as it is your money that is being traded. Here are the various precautions to observe when you wish to invest in the stock market.

Understand the basics

One of the first and foremost precautions to observe when it comes to dealing in the stock market is having enough knowledge on the subject matter. If you nose dive into it without knowing the basics of trade then you are bound to face losses. You have to understand everything that there is to about the stock market in order to invest in it and realize a profit from it. So do your research and study everything in detail before you pull out your money from your pocket!

Employing a good broker

When you want to invest in the stock market, you need a broker who is not just well versed in the functioning of the market, but also has good client list that is satisfied with his services. Before you employ one, ask to check for credentials and a portfolio of some of the investors that deal with him. Go through the buying and selling that has taken place and analyze the broker's role in it. You need someone who is reliable and capable of making you good profits. If the broker is over charging you for his services then reconsider them.

Diversification

It is extremely important to diversify your investments. This means that you have to invest some money in long term assets, some for short term investments, some for mutual funds, some for day trading etc. You cannot concentrate on only one aspect and need to diversify everything as much as possible. This will not only spread out the risk but also spread out your gains. So try and invest a little here and there and don't stick with only one type of investments. Talk to your broker about it and get them to advise you on the right type of investment combination.

Saving is not investing

Many people have the misconception that saving is investing. The two are completely different. When you save money, all that you are doing is putting it in a safe place and it is not increasing in value. Even if you are being paid a certain interest, it is extremely small and not contributing towards an increase in your overall asset value. Whereas, when you invest your money, your money is doubling or tripling in value or at least inviting a lot more monthly gain as opposed to the meagre interest that you earn through savings. So don't think saving is going to make you rich and you have to invest your money in order to build a wealthy empire for yourself and secure your financial future.

No fancy schemes

When you wish to invest, don't get sucked into any fancy schemes. If it sounds too good to be true then it probably is. There can be schemes that claim you will have the chance to double or triple the money in a month's time. Not only is this scheme spurious but you might also get into legal trouble for taking part in it. So be wary of any such schemes and make sure that you are not giving into false promises made on the internet by unknown sources.

Long term precautions

When you wish to invest in long-term stocks, you have to do a thorough research on the company. You have to be a fundamentalist and go through each and every minor detail of the company. You can request for a balance sheet and go through it. You can also talk to other investors who have the company's shares and find out whether they are getting paid a good dividend on a regular basis. Also remember that your money is going away for a long period of time and you must carefully work it out with your broker to know exactly how much will be invested to acquire long term assets. Most brokers will advise you to buy equity shares or stocks, which is a good idea as you will have the chance to derive better dividends for your investment.

Short term precautions

When you wish to conduct day trading, you have to observe several precautions including understanding the risks involved and knowing when to buy and sell the stocks during the day. You have to know that day trading refers to holding the stocks for exactly one day

Indecisions

When it comes to buying and selling stocks, you have to be confident and take on the spot decisions. Over relying on the broker or being indecisive will affect your money making capacity. In fact, your indecision might cause you to lose money unnecessarily and so, it is best to have confidence and know exactly what you want to do with your stocks and bonds.

Mutual funds precautions

Mutual funds are great for all types of traders but there are many precautions to observe when it comes to investing in them. Many traders will advise you to invest your surplus into mutual funds which is actually a good idea as you will have the chance to diversify the money as opposed to directing it into just one type of investment. But don't get sucked into it and over diversify your investments. Have something that you can control and keep tab of, as opposed to having too many investments that you don't know about. Tracking your money is an important part of trading.

Planning

Remember to always have a financial plan. You cannot go about the investing process smoothly if you don't have a well thought for plan in place. You have to know exactly how much is being traded and what your long-term plans are. Write down all your plans in a book or on your computer and follow up on them from time to time. Those who do not plan will not succeed as much as those who plan out their investments properly. Also, do not copy or try to emulate someone else's financial plans and have your own personal plans that will work best for you.

Conclusion

I thank you once again for choosing this book and hope you had a fun time reading it. The main aim of this book was to educate you on the topic of investing your money in order to see it grow in value over time.

There is no point in sitting with a lot of money in your hands and not investing it to increase its value. You have to look for the best places where you can invest your money and double or even triple its value over time.

We looked at all the options that are available for you out there and also saw how you can save money on a daily basis.

I hope you have understood what it takes to invest in these options and the next step is for you to make the investments at the earliest. If something is not clear as yet then feel free to go through it again, in this book. Remember to diversify your portfolio and invest in as many different types of financial instruments as possible.

I wish you luck with all your investment endeavors.

Good luck