

# Basic Investing Strategies

# Learning Outcomes

- Maintain emergency funds
- Setting short-term and long-term financial goals
- Buy and hold strategy
- Dollar-cost averaging (consistent investing over time)
- Diversification (don't put all eggs in one basket)
- Asset allocation (balancing stocks, bonds, cash, etc.)
- Index investing (why it works for most beginners)

# Importance of Emergency Funds

To build financial stability as you begin to invest, having an emergency fund is a necessity. Having money saved helps to:

- Protect against unexpected expenses
- Prevent debt accumulation
- Reduce emotional decision-making
- Support risk-taking
- Provide liquidity and stability

**Rule of Thumb:** Keep 3-6 months of living expenses in a highly liquid, easily accessible, and low risk account before investing.

# Setting Short-Term and Long-Term Financial Goals

Setting short-term and long-term financial goals is a key part of financial planning because it gives structure, direction, and motivation to how you manage money.

Having both short and long term goals:

- Balances present needs with future security
- Motivates consistent financial habits
- Guides financial decision-making
- Enables better investment and risk strategies

# Buy and Hold Strategy

For highly risk averse investors who are not interested in active trading, they can use the *buy and hold strategy* for investing. Instead of frequently trading, the idea is to stay invested and let time and compounding work in your favor.

## Key components of the buy and hold strategy:

- **Long-Term Commitment:** Investors hold assets for years or even decades.
- **Passive Approach:** Minimal buying and selling, unlike active trading.
- **Compounding Growth:** Earnings (dividends, interest, capital gains) get reinvested, leading to exponential growth over time.
- **Market Resilience:** Trust that markets, despite ups and downs, trend upward over the long term.

# Diversification

Diversification means essentially “Don’t put all your eggs in one basket”. This concept is one of the most fundamental financial strategies because it acts as security and protection for your investments.

Strategic importance of diversification:

- More consistent performance of investments
- Captures growth across markets
- Reduces risk exposure
- Encourages disciplined investing

# Index Investing

Index investing is a strategy often used by beginning investors. This is a passive investment strategy where you can invest in a portfolio of companies and their overall performances instead of individual companies.

For example, you can invest in an index fund that replicates S&P 500 (one of the most popular market indexes) which means you would essentially buy a small portion of all of the companies tracked by S&P 500.

Benefits of index investing:

- Low cost diversification
- Simplicity and accessibility
- Long-term growth aligned with the economy