

# START INVESTING WITH ONLY \$1,000

So you have \$1,000 set aside, and you're ready to enter the world of investing. In this article, we'll walk you through getting started as an investor and show you how to maximize your returns by minimizing your costs.



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## What Are the Account Minimums?

To the inexperienced investor, investing may seem simple enough - all you need to do is go to a brokerage firm and open up an account, right? What you may not know, however, is that all financial institutions have minimum deposit requirements. In other words, they won't accept your account application unless you deposit a certain amount of money. Some firms won't even allow you to open an account with a sum as small as \$1,000.



### Stocks

Stockbrokers come in two flavors: full-service and discount. As the name implies, a full-service broker provides much more in the way of service, but it only deals with higher net-worth clients. It's common to see minimum account sizes of \$25,000 and up at full-service brokerages.

This leaves the \$1,000 investor with the option of a discount broker. Discount brokers have considerably lower fees, but don't expect much in the way of hand-holding. Fees are low because you are in charge of all investment decisions - you can't call and ask for investment advice. With \$1,000, you are right on the cusp in terms of the minimum deposit. Some discount brokers will take you and others won't. You'll have to shop around.

You also could purchase shares directly from a company through direct stock purchase plans (DSPPs). Some of these plans have a minimum initial investment amount restriction, which often ranges between \$100 and \$500.



With the advent of online trading, there are a number of discount brokers with no (or very low) minimum deposit restrictions. You will, however, be faced with other restrictions and see higher fees for certain types of trades. This is something an investor should take into account if he or she wants to invest in stocks.

## **Mutual Funds and Bonds**

If mutual funds or bonds are investments you would like to make, it is simpler in terms of minimum deposit amounts. Both of these can be purchased through brokerage firms, where similar deposit rules apply as for stocks. Mutual funds also can be purchased through your local bank, often for less than \$1,000 when you have an existing relationship with the bank.

If you want to purchase government bonds, this can be done straight from the government through TreasuryDirect. The only restriction here is the minimum purchase amount of the bond, which costs \$100 for most treasury securities and programs.



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# Learn the Cost of Investing

Before you open an investment account, you must also consider the costs that you will incur from purchasing investments once the account is open. In most cases, every time you purchase an investment, it will cost you money (through commissions.) With a limited amount of funds, these transaction fees can really put a dent on your \$1,000.

Investing in stocks can be very costly if you trade constantly, especially with a minimum amount of money available to invest. Every time that you trade stock, either through buying or selling, you will incur a trading fee. Trading fees range from the low end of \$5 per trade, but can be as high as \$10 for some discount brokers. Remember, a trade is an order to purchase shares in one company - if you want to purchase five different stocks at the same time, this is seen as five separate trades and you will be charged for each one.

Now, imagine that you decide to buy the stocks of those five companies with your \$1,000. To do this, you will incur \$50 in trading costs, which is equivalent to 5% of your \$1,000. If you were to fully invest the \$1,000, your account would be reduced to \$950 after trading costs. This represents a 5% loss before your investments even have a chance to earn a cent!

If you were to sell these five stocks, you would once again incur the costs of the trades, which would be another \$50. The round trip (to buy and sell) these five stocks would cost you \$100, or 10% of your initial deposit amount of \$1,000. If your investments don't earn enough to cover this, you have lost money by just entering and exiting positions.

## Mutual Fund Fees

There are many fees an investor will incur when investing in mutual funds. One of the most important fees to focus on is the management expense ratio (MER), which is charged by the management team each year, based on the amount of assets in the fund. The MER ranges from 0.05% to 0.7% annually and varies depending on the type of fund. But the higher the MER, the worse it is for the fund's investors. It doesn't end there: You'll also see a number of sales charges called "loads" when you buy mutual funds.

In terms of the beginning investor, the mutual fund fees are actually an advantage relative to the commissions on stocks. The reason for this is that the fees are the same, regardless of the amount you invest. Therefore, as long as you meet the minimum requirement to open an account, you can invest as little as \$50 or \$100 per month in a mutual fund. The term for this is called dollar cost averaging (DCA), and it can be a great way to start investing.

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## Reduce Risk with Diversification



Diversification is considered to be the only free lunch in investing. In a nutshell, by investing in a range of assets, you reduce the risk of one investment's performance severely hurting the return of your overall investment. You could think of it as financial jargon for "don't put all of your eggs in one basket."

In terms of diversification, the greatest amount of difficulty in doing this will come from investments in stocks. This was illustrated in the commissions section of the article, where we discussed how the costs of investing in a large number of stocks could be detrimental to the portfolio. With a \$1,000 deposit, it is nearly impossible to have a well-diversified portfolio, so be aware that you may need to invest in one or two companies (at the most) to begin with. This will increase your risk.

This is where the major benefit of mutual funds comes into focus. Mutual funds tend to have a large number of stocks and other investments within the fund, which makes the fund more diversified than a single stock.

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## A Small Step Toward a Large Future

It is possible to invest if you are just starting out with a small amount of money. It's more complicated than just selecting the right investment (a feat that is difficult enough in itself) and you have to be aware of the restrictions that you face as a new investor.

## The Bottom Line:

You'll have to do your homework to find the minimum deposit requirements and then compare the commissions to other brokers. Chances are you won't be able to cost-effectively buy individual stocks and still be diversified with a small amount of money. Given these restrictions, it's probably worth starting out on your investment journey with mutual funds. However, like all aspects of investing, it's up to you to do the research and figure out the strategy that suits you best.

If you are looking for more information about how to make small investments, Investopedia's Advisor Insights tackles the topic by answering one of our user questions.

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