LCBS-2022-05-03-InvestmentCategories.pdf

DISCLAIMER - I am not a Financial Advisor and do not work for any Brokerage Firm. The opinions given are of my own and are not to be used as professional advice. These are my findings and can hopefully help you to make informed decisions on investing. Consult a Broker or Lawyer before making any investment.

If you read my first post on investing, we covered how one of the best methods to invest is by using an IRA account. There are many advantages of this over just opening a brokerage account. One of the biggest is the tax ramifications of buying and selling stocks, mutual funds, or ETFs. (Exchange Traded Funds). We will discuss bonds in a separate article. These 3 are very similar and are all invested in the stock market. (Some mutual funds and ETFs do invest in bonds.)

If you buy and sell in a short window of time (under one year), you have a short-term gain or loss that is taxed at a higher rate than a long-term gain or loss. By investing in a retirement account, this issue is resolved as you simply pay for the gains when you withdraw the money on a traditional IRA, and on a Roth IRA, you never pay any taxes. Roth IRAs are my choice of platform for investing.

Today let's do a short article on the three main investment types sold by brokerages. Stocks, Mutual Funds, and ETFs.

STOCKS

Stocks are the most highly traded items at brokerages. At the end of 2021, there were 2,529 companies listed on the New York Stock Exchange. On the Nasdaq (smaller companies), there were 3,767. It there are over 6,000 actively traded stocks, most likely no one can tell you for sure what the best buy is on a stock on any day. Some people make their living reading charts and guessing what will happen in the stock market. The volatility of the markets has shown to be high in the first quarter of 2022. An article at Fidelity shows that only 2 sectors made money in the first quarter, those being Energy Stocks and

Utilities. The rest lost from 1% to 11.9%.

So is now a good time to buy stocks? I would be very very cautious. The advantage to buying when the market is down is that you are buying at a lower price which may recover to its earlier price. However, what if we have 3 to 6 more months and the market loses 20 to 50% more? It could happen. So right now I would be cautious about buying separate stocks.

There are so many types of stocks that we will have to get into those in separate articles over the next few months. Some of the most promising stocks are what are called Growth Dividend Stocks. These are those that appear to be growing at a good percentage, and at the same time, paying quarterly dividends of up to 13% or more. Most pay 1 to 4%, but some REITs and gas companies are paying very high dividends. Again don't chase high numbers, but get in the market for the long term.

Part of the issue with buying one company's stock is that if that company begins to lose money or cut its dividend, the price may drop drastically in a short period. So putting all your money in a few stocks is very risky. However, the wider and larger number you have gives you diversification.

That brings us to the last two types of investments for this article.

MUTUAL FUNDS

There are many advantages to owning mutual funds. The first is that they are normally very diversified (many with over 50 to 100 stocks in the fund), and perhaps best of all, they are actively managed by professional fund managers. Many of these are highly trained and seasoned individuals. If you find several different good mutual funds, you can be pretty diversified with just a small amount of investment. Dave Ramsey, the great radio host, believes that a few growth mutual funds purchased yearly will give you an excellent retirement. How can you find those? All of the brokerages have research pages, and they break down the categories of the mutual funds.

When buying mutual funds, don't worry as much about current year returns as the 5, 10, and 20-year returns. Anyone in today's market may show a loss, but if the same manager of the fund has had 10 to 15% returns or higher for over 10 years, we can be sure they probably know what they are doing. All we can do is hit the highlights of these 3 investment categories. I will come back and break down each of these and cover bonds in future articles. Another great way to find good mutual funds is to read some financial magazines like Kiplingers. They list some of the best. www.kiplingers.com

ETFs

The last category I am going to discuss today is ETFs. (Exchange Traded Funds). These have been around for quite a while and are now the most popular investment type. What is so great about ETFs is that there is a flavor for every kind of investment out there. They base themselves on a segment of the market (or the whole stock market or whole world market) which means they can be VERY diversified. I think a person could easily build a winning portfolio with 5 or 6 ETFs covering the broad markets and some bond ETFs. Over my years of investing, my most consistent return on investment year in and year out has been the total stock market indexes.

I will do a review of John Bogle's investment book soon. He is the founder of Vanguard Group and a very intelligent investor who died in 2019. He pushed indexes before we had ETFs and proved that they are a very successful method to invest. His total stock market ETF is VTI and iShares has one called ITOT. Schwab also has a full stock market index which is SCHB. I have a large percentage of my investments in all 3 of these ETFs.

These are some of the simpler methods to get into the stock market and buy a fully diversified investment. I found a large number of great articles about John Bogle. Google him and read a few of his thoughts.

We will get more details about each of these investment categories and bonds in future posts.

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