Money Matters: 5 tips new investors should know

By Rick Gross

If you are just getting started on investing, it's important to get a grasp on the basics. A proper perspective from the beginning may improve your opportunities for long-term investment success. Here are five concepts that can be helpful for new investors to understand:

1. If you are young, time is on your side

Building wealth through investing is not about getting rich quickly. Rather, it's about taking advantage of what works best for your circumstances. If you have recently entered the workforce and desire to set money aside for the future, your biggest advantage is time. Earnings generated in your portfolio, even if modest in the beginning, can compound over time. Compound interest is a very powerful concept for investors. The more time you give your money to grow, the greater the potential for positive rewards.

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2. Be prepared for market swings

Any variable investment you choose – such as stocks, bonds or real estate – is subject to fluctuation. History shows that markets move up and down over time. Be prepared to see your portfolio suffer losses at various points throughout your investing life. Historically, markets have recovered from negative periods (although in some circumstances, individual investments such as a specific stock can suffer losses and never recover). Try to maintain a long-term view with your investments by not reacting to day-to-day events. If you have significant time to let your money work for you, this can be to your advantage.

3. Find your comfort level in the markets

Markets are unpredictable, so it’s important that you’re intentional about the level of risk you’re willing to accept. You can choose investments that are less susceptible to fluctuations if you wish. When selecting conservative investments, be sure to consider the effects of inflation. Otherwise you may inadvertently be taking on more risk than you realize. Or, if you are willing to ride those swings, you can take more risk with the hope of earning higher returns. But remember, there are no guarantees. To maintain a consistent investment approach, find a level of risk you can live with over the long-term and invest accordingly.

4. Spread your wealth through asset allocation

Asset allocation is the process of spreading your investment dollars across several categories of investments. The mix of categories, or asset classes, you own is an important factor to your overall portfolio performance. In other words, how you divide your money between stocks, bonds, cash, cash alternatives, mutual funds, and other asset classes will determine the outcome, and hopefully return, you realize.

As you select your investments, consider dividing your money among asset classes that respond differently to market forces. This investment concept, called diversification, can help you minimize the effect of market swings. If your investments in one class are performing poorly, there’s potential for your investments in another class to be performing better. Ideally, gains in one class can help offset losses in another, which can help minimize the overall impact of volatility on your portfolio.

5. Make your long-term financial security a priority

It can be challenging to focus on the long-term when you have other pressing financial obligations, such as paying off student loans or building an emergency fund. However, if you can allocate a small portion of your budget to your future goals, you may ease your financial burden down the road. Consider investing a percentage of each paycheck into a workplace retirement plan or an individual retirement account (IRA). You'll become accustomed to living within the rest of your paycheck while the amount you have earmarked for retirement is given time to grow.

A successful investor maximizes gain and minimizes loss. Though there can be no guarantee that any investment strategy will be effective, and all investing involves risk, keeping these basic principles in mind may help you invest more successfully.

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