Before You Make Your Resolutions: Investing 101

The end of 2022 is already looming on the horizon. You might find yourself looking at your finances and seeing some room for improvement. Before you pull out the new resolutions list, you can set yourself up for financial success in the new year by learning a few of the money management basics. First up: the confusing but important world of investing. Understanding how to invest your money by setting investment goals, picking the right accounts, and diversifying your investment portfolio will help you move past the beginner investor stage before the clock strikes twelve.

Keep Your Goal in Mind

Before digging into the details, consider why you should even be investing in the first place. With timely, wise investments you can avoid having your hard-earned cash devalue over time because of inflation. The power of compound interest that comes with investing gives your money the chance to grow over time.

Every situation is unique, so knowing your goal for investing will help you decide on a customized approach that's right for you. Most people share a few common long and short-term goals for their investments. In the long-term range (5+ years), you may be saving for…

- retirement
- college tuition
- a down payment
- or a big vacation.

On the other hand, if your goal is to make a big purchase quickly, set up an emergency fund, or get some extra Christmas cash, you may be better suited to short-term investing with a high yield savings account or a money market account.

This guide will be for long-term investments that have the most potential for growth, but you'll want to keep in mind your personal timeframe, risk tolerance, and investing goal to help you navigate the next steps.

Explore Your Account Options

Here's where it starts to get tricky. You can invest your money through a variety of investment accounts. Some people prefer to DIY their investment strategy, use a robo-advisor, or get professional help to set up the investment account of their choice. Investment accounts vary widely in their terms for eligibility, contributions, and benefits. Some may be tax-advantaged or better suited for retirement goals, so you should learn the rules for your specific plan to avoid being penalized for taking out money too early or for an unapproved reason.

There are a few major investment account options you should get familiar with:

- **401k** – This option is offered by many employers, often with a company match contribution up to a certain percent. The money is deposited automatically from your paycheck and grows tax-free, until you withdraw it at retirement.
- **Traditional IRA** and **Roth IRA** – The Individual Retirement Account (IRA) option offers tax benefits to investors. The Traditional account allows your contributions to grow tax-deferred, while Roth investments are taxed up-front but grow and can be withdrawn tax-free after five years.
- **Education savings:** The 529 Savings Plan or the Coverdell Education Savings Account give individuals tax perks while saving for college tuition, as the money can be withdrawn tax-free for education-related purposes.
- **Taxable account**: This option, also known as a brokerage account, is great for flexible investments with general purpose goals that are not specific to retirement. Two main types include cash and margin accounts.

Pick Your Investments

Finally, it's time to allocate your money to individual investments. You'll want to determine which portion of your total investment money will go into each of the investment categories available. Within those categories, you should diversify your investments across a variety of industries, company sizes, and geographic areas for the greatest long-term success and security. As they say, don't put all your eggs in one basket!

Investments are most often made into four main categories:

- **Stocks** – These are individual shares, or part-ownership, that you purchase in a company. As the company grows, your investments increase in value over time. Stocks are often associated with investors who have a high-risk tolerance.
- **Bonds** – Bonds are a fixed-income investment with money you lend to a company or the government for a project. Regular interest payments are made to investors. This option is often the go-to for those with low risk tolerance.
- **Mutual Funds** – Mutual funds, index funds, and ETFs - all of these are package deals where you can purchase a set of stocks or bonds all at once, providing instant diversification for your investments.

- **Real Estate** – As another great way to diversify, you can invest in real estate without actually owning a home. Consider REITs or online real estate investing platforms to explore this option.

Whew! You made it. It may feel like a lot to learn, and it is. This is just the tip of the iceberg when it comes to investing. The good thing is you now have the knowledge you need to start making informed decisions with your investments. Look to your community credit union or bank to see the variety of investment accounts or investment advisory options they offer to help you reach and exceed your financial goals.

*The information in this blog does not take into account your particular investment objectives, financial situation, or personal needs. It is not intended to be taken as financial advice. Please consult a licensed investment advisor for further help.