5 Keys to Investing Success

By the Editors of
Kiplinger's Personal Finance

There are no secrets. Here you'll find well-known methods of successful investors.

The breathtaking, roller-coaster performance of the stock market that accompanied the bursting of the housing and credit bubbles was a stark reminder of a fundamental truth about investing: It involves risks. One way to learn about investing is with the booklet *5 Keys to Investing Success*. Here's a sample of the information in the booklet:

Investing continues to offer the best means to achieve long-term financial goals. To be successful means learning to limit risks, not avoid them completely. Among investors who suffered the most from the market meltdown of 2007-09 are those who bailed out and then missed the remarkable rally that saw stocks in the S&P 500 index deliver a return (appreciation and dividends) of nearly 25% a year over the next four years.

Your task is to create an investing plan that suits you and then stick with it. One thing you'll learn is that there are keys to success, not secrets. In truth, there are no investment secrets.

Key #1: Make Investing a (Good!) Habit

The best chance to acquire measurable wealth lies in developing the habit of adding to your investments regularly and putting the money where it can do the most for you. The rewards can be considerable.

Suppose your goal is to have a nest egg of $250,000. You've got 20 years to get there and $5,000 to start. What's a reasonable return to plan on, and how much more will you have to contribute along the way?

Since 1926, the stocks of large companies have produced an average annual return of about 10%. (Remember, that includes such lows as the Great Depression, the stock slide that followed the September 11 terrorist attacks and the financial crisis of 2007-09.) If we assume a long-term annual return of 8%, you'll need to add $382 a month to the initial $5,000 to reach your quarter-of-a-million dollar goal in 20 years. If you can earn 10% annually, $279 a month will do the trick.

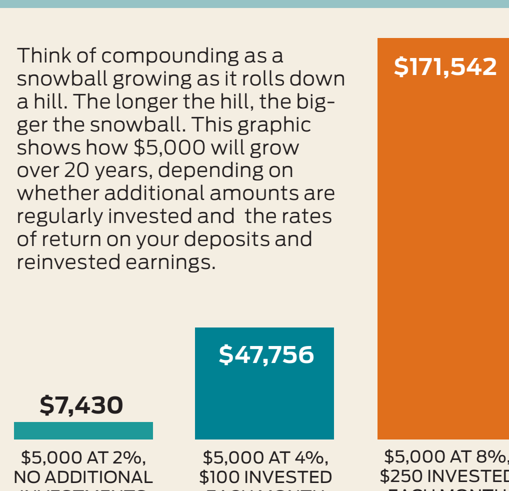
Key #2: Set Exciting Goals

Investment goal-setting is an intensely personal affair. But if you set generalized goals, such as "financial security" or "a comfortable retirement," you're going to have trouble measuring progress along the way. You may even struggle to maintain interest in the project. Vaguely defined investment goals can lead to half-hearted efforts to achieve them.

Better to set goals you can grab onto, goals that excite you. Instead of "financial security," why not "$500,000 net worth by age 60"? Instead of "a comfortable retirement," why not "an investment portfolio that will yield $2,000 a month to supplement my Social Security?" Now those are real goals. You can put a price tag on each one as an incentive to keep up your investing discipline.

Setting investment goals is a lot like reading a map: Before you can get to where you want to go, you have to figure out where you are. The 5 Keys booklet includes a personal balance sheet to do just that.

THE MAGIC OF COMPOUNDING



Think of compounding as a snowball growing as it rolls down a hill. The longer the hill, the bigger the snowball. This graphic shows how $5,000 will grow over 20 years, depending on whether additional amounts are regularly invested and the rates of return on your deposits and reinvested earnings.

Key #3: Don't Take Unnecessary Risks

Most people would say that risk is the chance you take that you'll lose all or part of the money you put into an investment. That's true as far as it goes, but it doesn't go far enough. A more complete definition

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About the Investor Protection Trust

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5 Keys to Investing Success

Spread your investments around and you'll increase return

of risk acknowledges the availability of investments carrying virtually ironclad guarantees that you will get all your money back plus the interest promised you: Treasury securities or certificates of deposit in federally insured banks or credit unions, for instance. Also, with all investments, even government-guaranteed ones, you run the additional risk that your return will be less than the inflation rate. So, risk is the chance you take that you will lose money or that your money will lose value by earning less than the rate of inflation.

A key question for investors is: What is a prudent risk? The answer depends on your goals, your age, your income and other resources, and your current and future financial obligations. A young single person who expects his or her pay to rise steadily over the years and who has few family responsibilities can afford to take more chances than, say, a couple approaching retirement age. The young person has time to recover from market reversals; the older couple may not.

Key #4: Keep Time on Your Side

A penny saved is a penny earned—or so the adage goes. In fact, a penny saved may be more or less than a penny earned, depending on when it is earned and how it is saved. The reason is rooted in a concept called the time value of money.

Which would you rather have, $10,000 today or $10,000 a year from today? Of course, you'd choose to take the money now. Not only is a bird in the hand worth two in the bush, but $10,000 you have to wait a year for will be worth less due to the effects of a year's worth of inflation. And you will have lost a year's worth of earnings you could otherwise have captured. Understanding the time value of money is central to making solid investment decisions.

Key #5: Diversify

Simply put, diversifying means not putting all your investment eggs in one basket. No investment performs well all the time; when one thing is down, another thing tends to be up. By spreading your investments around, you're likely to increase your overall return and reduce your risk at the same time.

Some investors diversify by selecting a number of investment vehicles and dividing their money equally among them. For instance, they might set up a portfolio consisting of equal parts cash (money-market funds, CDs, Treasury bills), bonds, U.S. stocks, foreign stocks, and real estate. Once a year, they adjust the mix to maintain the dollar balance, taking the gains from the winners and spreading them out among the losers. Although it might sound crazy to sell some of the best performing investments to invest in the laggards, think of it as selling high and buying low.

More information. To read the full-length *5 Keys to Investing Success* booklet, visit www.investorprotection.org or contact your State Securities Regulator's office.

WHERE YOU STAND NOW: YOUR PERSONAL BALANCE SHEET

Use this worksheet to calculate your current assets, liabilities and net worth. When you know where your current net worth is coming from, you can see where your financial position is strong and where it is weak. This worksheet helps lay the necessary groundwork for setting your investment goals and making plans to reach them.

ASSETS

Cash in savings accounts	$______
Cash in checking accounts	$______
Cash on hand	$______
Certificates of deposit	$______
Money-market funds	$______
U.S. savings bonds	$______
Market value of home	$______
Market value of other real estate	$______
Cash value of life insurance	$______
Surrender value of annuities	$______
Vested equity in pension plans	$______
Vested equity in profit sharing	$______
401(k) or 403(b) plans	$______
Individual retirement accounts	$______
Keogh plans	$______
Stocks	$______
Bonds	$______
Stock mutual funds & ETFs	$______
Bond mutual funds & ETFs	$______
Real estate investment trusts	$______
Other investments	$______
Collectibles	$______
Precious metals	$______
Estimated market value of:	
Household furnishings	$______
Automobiles and trucks	$______
Boats, recreational vehicles	$______
Furs and jewelry	$______
Loans owed to you	$______
Other assets	$______
TOTAL ASSETS	$______ A

LIABILITIES

Balance owed on mortgages	$______
Home-equity credit line debt	$______
Auto loans	$______
Student loans	$______
Other credit lines	$______
Credit-card bills	$______
Other debt	$______
TOTAL LIABILITIES	$______ B

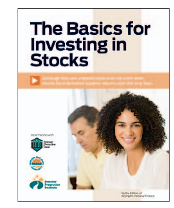
CURRENT NET WORTH

(A minus B) $______

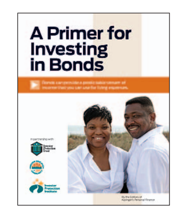
MORE INFORMATION ABOUT INVESTING

The following booklets from the Editors of *Kiplinger's Personal Finance* magazine and the Investor Protection Trust are available at your library and offices of State Securities Regulators.

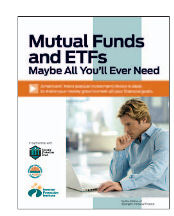
Five Keys to Investing Success
Make investing a habit
Set exciting goals
Don't take unnecessary risks
Keep time on your side
Diversify



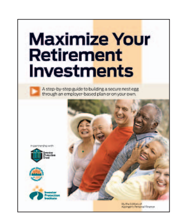
The Basics for Investing in Stocks
Different flavors of stocks
The importance of diversification
How to pick and purchase stocks
When to sell
Key measures of value and finding growth
What's your return?
Consider mutual funds



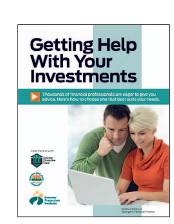
A Primer for Investing in Bonds
How do bonds work, anyway?
How much does a bond really pay?
How to reduce the risks in bonds
Going the mutual fund route



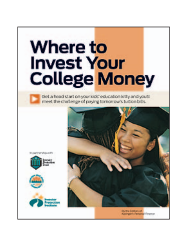
Mutual Funds and ETFs: Maybe All You'll Ever Need
Mutual funds: The best investment
The different types of funds
How to choose funds
Assembling a portfolio
Sources of mutual fund information
Where to buy funds



Maximize Your Retirement Investments
Three key rules
Creating the right investment mix
Investing on target
Best places to save
Guidelines for saving at every life stage
Getting the money out and creating an income stream
Protect your money: Check out a broker or adviser



Getting Help With Your Investments
Do you need a financial adviser?
Who's who among financial advisers
How to choose an adviser
How to open an account
5 questions to ask before you hire an adviser
What can go wrong
How to complain



Where to Invest Your College Money
The basics of investing for college
Investing in a 529 savings plan
Locking in tuition with a prepaid plan
Other tax-favored ways to save
Tax credits for higher education
Save in your child's name?

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