

What to Tell Your New Graduate About Investing

by Richard Band Editor, *Profitable Investing* July 8, 2003

Guess what, grads: The secret to successful investing boils down to three simple principles. Everything else is just elaboration.

Principle #1: Put it in.

It's amazing the number of Americans who think wealth "happens to you," as if by accident. Don't kid yourself. The only dependable way to grow wealthy is to set money aside (save it) and put it to work (invest it).

I recommend saving at least 10% of your income, preferably through automatic deductions from your paycheck or checking account (so you only have to motivate yourself once). I've regularly saved at least 10% of my income, and most often 20%-30%, ever since I landed my first full-time job. I can testify: This habit will make your money grow faster than you ever dreamed possible.

Incidentally, you'll never be able to put meaningful amounts of cash into investments if you're forever in debt. Earn interest, don't pay it. Borrow for the big essentials (like a house) but never for things you can do without--DVDs, sports tickets, lunch at Applebee's. Use your credit card for "toys" only if you can discipline yourself to pay off the balance in full, every month.

Principle #2: Do it now.

The one infallible advantage you have as a young person is youth. Does that sound dorky? Hear me out. If you can earn 8% on the money you put into your investment program (Principle #1), your fortune will double in value after nine years--even if you never add another nickel. It will quadruple in 18 years. After 27 years, it will have grown eight times. After 36 years, when you're just a couple of years older than I am now, your original dollar will have multiplied to \$16.

That's a return of 1,500%! Time is the friend of the young person who starts investing early. Even if, for some reason, you later have to stop making new contributions to your investment program, you'll be light-years ahead of the person who waits until age 30 or 40 to get started.

Principle #3: Spread it out.

You've probably heard stories about the riches some people have piled up by investing in stocks. It's true. Stocks have created stupendous amounts of wealth. But your chances of striking it rich with one or two or even a handful of stocks are slim. Companies can get into trouble, and when they do, their stocks go down--sometimes even to zero (think Enron or WorldCom).

The only sane way to invest in the stock market is to diversify. Spread your risk. Begin with a mutual fund. (Funds typically own dozens, even hundreds of stocks.) One of my favorites, Selected American Shares (SLASX, 800/243-1575), will let you open an account with as little as \$1,000. Selected American has no sales charge, either, so every penny you put in goes to work immediately.

Of course, before you venture any money in the stock market, you'll want to make sure you've got enough cash in a safe place (like the bank) to tide you over in an emergency. But your goal should be to start investing in stocks as soon as you can.

Later, you can add other mutual funds, or choose some individual stocks yourself (perhaps with the help of a newsletter like *Profitable Investing*). When you turn gray and stodgy like me, you'll probably want to own some bonds, too. Maybe some real estate.

But those are topics for another time. For today, it's enough to put it in; do it now; and spread it out. There you go, you're on your way--and you're already looking like a million bucks!