Investing FOR BEGINNERS

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STOCK-MARKET 101

SOME USEFUL DEFINITIONS

Congratulations!

You now have A LOT of information at your fingertips that the VAST MAJORITY of the population do not have. Well done for finding out your net worth – was it a shock or a pleasant surprise?
Either way, you now have something to aim for. If you have a negative net worth, your first goal is to get to 0 net worth. If you are already there, the next goal is to get to where you should be for your age. And if you've already achieved this (well done!), then you need to get to where you want to be, and this may well look ridiculously impossible to reach, but I promise you it won't be. Baby steps and persistence will get you there. How fast is up to you!

Isn't that reassuring? Your goals are firmly up to you. Can you feel the control?!

I'm still not ready to show you how to invest yet. Instead, I'm going to go into a few fundamentals of investing first so you have a working understanding of the stock market.

The good thing is that you don't have to understand everything in order to invest in the same way that you don't have to understand how the engine works in your car in order to be able to drive it.

So here is what this book will cover:

- **The History of the UK stock market**
- **Terminology**
- **Index Trackers and Exchange Traded Funds**
- **Online stock brokers and how to choose one**
- **The accounts you can invest in**

A (Brief) History of the Stock Market

Stock exchanges are not new. They have been going for hundreds of years in one form or another. In the 1600s, investors of expeditions to the “new world” realised that if they clubbed together in a joint-stock company, they limited their liability of loss. Expeditions were costly, risky affairs, and if one person sunk their fortune into one, there was no guarantee of a return on that investment. By crowd-funding large amounts of money could be raised in order to fund more and more expeditions to bring back riches like never before.

The Dutch were far better than anyone at this concept because they were able to gain strong trust in their financiers; they repaid their loans on time, and in full. You could say they had the "best rating" credit score.

Your credit score in today’s world is evidence of how much a bank can trust you as an individual to borrow money. Repay your loans on time and in full like the Dutch, and you’ll improve trust in you too!
As time has gone on, the power of trading stocks in well, pretty much anything has become big business. Money can be traded in gold, silver and oil. You can buy a small piece of Disney, or large slice of Sainsburys. In exchange, the company gets your cash to grow, and when they do well, they reward you with dividends to give you a rate of return on your money (a bank would call it interest rate and it’s a slightly different concept which we will go over later.).

Its overwhelming and unnecessarily complicated, but hopefully you'll feel much clearer after this course.

The world's stock markets are HUGE! According to money.visualcapitalist.com, there are 60 major stock exchanges in the world, with a total value of $69 trillion. That is more money than I can even contemplate. The most amazing thing is that this is all on the basis of trust. The value of individual stocks are as we say they are. When investors go crazy for a share of a company, the price is pushed upwards (supply is low, therefore people have to pay more to get it). When investors decide that a company is no longer worth investing in, they sell, and the price goes down (too much of something left lying around means the price goes down to compensate). **Its basic supply and demand**.

All I am suggesting is that you put a small amount of money into this trillion dollar "game" in order to take advantage of the process – because IT IS possible to make money from stocks.

But we're not going to do this willy-nilly. We're not gambling. We are going to be going through THE RULES that sophisticated investors use in order to stay safe.

That's enough of a history lesson. Hopefully it has given you a better understanding of why we have stock exchanges and how we can use them.

> "I'm not afraid of storms, for I'm learning to sail my ship"
>
> — Louise May Alcott

Some Definitions

Stock Market – where stocks and shares are held and categorised. The sub categories include sectors like health care, utilities and financial.

You can think of this like a massive warehouse of products, waiting to be bought and sold at the exchange.

Stock exchange – a place where you can buy your shares of a company or other commodity such as gold. There are 60 in the entire world. The UK stock exchange is called the FTSE – Financial Times Stock Exchange, and it started in January 1984. If you live anywhere other than the UK, take a look on google to see what the exchange is in your country.

In America there is the New York Stock Exchange and the NASDAQ (National Association of Securities Dealers Automated Quotations). In Australia there is Australian Securities Exchange, and in South Africa there is the Johannesburg Stock Exchange. Take a look at your country and see what you can find!

Think of the stock exchange as a supermarket, like Sainsbury's or Tesco where you pick items off the shelf to buy.

Online Broker – a platform for buying stocks and shares. You cannot go into the FTSE and demand to buy shares. You have to use a go-between. Like having click and collect from Tesco. Someone takes your money and buys the stocks you want. Obviously, this kind of service costs money, so the aim of the game is to get this service as cheap as possible.

On the online platform you open several accounts so you can park your money to buy stocks and shares. Each account has different pros and cons which we will go through later.

Think of your online broker as a go-between that helps you buy your shares online.

Index – This is a list of companies within the stock market that are available to buy shares in. There are thousands of companies in the stock exchange, and it would be really hard to follow them all. Indexes take selections of the companies to make it easier to trade with on the stock exchange.

For example, the FTSE 100 is an index of the largest 100 companies in the FTSE stock exchange.

"Passive" Investing – these are the "products" that we are looking for on the shelves when we buy stocks and shares. Different products have different properties, but essentially do the same thing – allow you to buy tiny pieces of a lot of companies within the stock exchange WITHOUT needing to have huge amounts of money to do so. Essentially, they boil down to two types of product. The Index tracker (or mutual fund), and the exchange traded fund

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> "Great minds discuss ideas, average minds discuss events, small minds discuss people"
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> — Eleanor Roosevelt

Passive investment products to look for

Here is a break down of the two products I will be talking about at length.

	Exchange Traded Funds	Index (Mutual) Tracker Funds
Example Funds	Vanguard S&P 500 ETF	HSBC FTSE 250
Monthly installments	Yes	Yes
Can buy in bulk	Yes	Yes
Low Cost	Yes	Yes
Made up of?	A collection of shares that tracks the ups and downs of the stock market using clever computer programming	A collection of shares that tracks the ups and downs of the stock market using clever computer programming
Price changes?	Many times throughout the day – you could buy low at breakfast, and sell high by the close of play. This makes them more flexible to traders.	Once a day – everyone gets the same price for that day REGARDLESS of what time they bought them
Costs	Can be cheaper to own than index trackers, but beware the cost of trading – the platform I use charges £11.95 PER trade. So if you only invest £100, this is over 10% of the amount you put in (and the money is taken out of what you invest)! If you put in £1000, this drops to just over 1%. Ongoing charges should be way less than 1%.	On my platform these are free to purchase, but the ongoing charges are slightly higher. They should still be less than 1% though.

Now you have to be careful. I'm talking about the funds that ARE NOT actively managed by a stock broker- you know, the kind of "Wolf of Wall Street" type character who has a potty mouth and lots of money.

Their job is to try to buy and sell stocks on a frequent basis so that your money climbs higher than the stock market as a whole. This is near enough impossible to do, and people like Warren Buffet will tell you this himself. He recently won a million dollar bet that an index tracker fund would beat an actively managed hedge fund over a 10 year period from 2007-2017. The money he has won has gone to a charity providing after-school and summer programs for girls aged 5-18 (this makes me like him even more!).

According to Tony Robbins, in his book "unshakable", the so-called experts running actively managed fund fail to beat the market 80% of the time! I'm willing to bet that we definitely won't either, so therefore, the funds I'm teaching here are not managed. Someone has created a clever computer program that follows the ups and downs of the stock market. There is no constant buying and selling going on, and therefore no excessive fees.

The FTSE 100 is a good example to illustrate what these awesome funds do. Lets say Ms. X decides to start her own fund up to sell on the stock exchange. It can be an ETF or an index fund, it doesn't really matter.

She calls it The Ms. X FTSE 100 Fund.

She tells her computer to create a package that includes the top 100 companies in the FTSE at that time. She then puts this package for sale on the exchange which people can buy. Its a bit like buying a hamper full of different goodies - you get a little of a lot of things. All the computer does is to check that the top 100 companies are still in the package. If this has changed, the computer programming will adapt, and everyone who bought the original package will get the new version automatically.

If the market goes up, so does her fund. If the market goes down, so does her fund. Its not claiming to beat the market like active stock brokers do.

So how does it make money for me I hear you ask?!

Without fund managers, there are very small fees. This means a big chunk of cash isn't going to the brokers and their fast lifestyles. It stays in your pocket. Fund managers buy and sell all the time. This is associated with costs. You have to pay these costs out of the money you are investing with. Again, another thing eating away at the money in the account. Fund managers don't always make the best/right decisions. Last time I checked, they didn't have crystal balls or time machines. Sometimes they get it wrong, at your expense.

With a computer doing the work and no one fiddling, you spend more time IN the market, and have a much better chance of winning overall. This equals more money for the stuff you really want to be getting on with in life when you come to use the cash.

What to look for in a good platform/online broker

There are vast numbers of platforms out there. I only have personal experience with one – Hargreaves Lansdown. The reason I picked it is because it pretty much allows me to buy whatever I need to and put it into whatever account I want to. I only have to remember one set of passwords, and its so easy to use.
The downside is that it isn't the cheapest platform you could use.
There are others, and plenty of people will offer you different advice about who to choose. The most important points are:

- Do you find it easy to use?
- Can you buy ETFs and Index Trackers/Mutual Funds from it?
- Can you find the relevant information about each fund easily?
- Can you open different types of account? SIPP? ISA? LISA? Junior ISA? Etc.
- Is it impartial? As in, you can pick whatever fund you like, from whichever company you like without restriction?
- Can you invest on your own without being pestered every 5 minutes by someone on the phone wanting to offer "advice", likewise, if you need help, is it available easily?
- What's the minimum amount you can invest?
- What are the fees and are they reasonably comparable with other companies?

This is money.co.uk has a good article on this for comparison purposes.

Only you can know what you prefer to do. A lot of my teaching will be based around Hargreaves Lansdown, because I believe it ticks a lot of the boxes above, and I can start investing from £25 per month. Customer service is good too.

Its not necessarily the cheapest company to use, but I use it for all the other qualities I listed above.

I'm not in any way affiliated with the company, but it would be silly of me to try and teach you about something I'm not familiar with, so I'm sticking with what I know and trust. Of course, you are entirely free to use whoever you want, and hopefully the rest of the investing principles in this course will help you to do so. Aside from the broker, there won't be a huge amount of difference anyway!
If you want to go with another company, that's ok too, and certainly if you live in another country, you'll need to look at what is available there for you. Google will be very helpful in this instance. Also, ask other people on Facebook. There are hundreds of groups dedicated to all sorts of topics. I'm sure if you did a search you could find some for your location for recommendations. Just be wary about differing opinions, and form your own judgement. I've asked all sorts of questions online when I've needed help with things like Bitcoin purchasing or choosing a broker account for example, but I haven't necessarily followed every piece of advice I have received.

> "I love to see a young girl go out and grab the world by the lapels. Life's a bitch. You've got to go out and kick ass"
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> — Maya Angelou

The accounts available on a good online broker platform

The table on the next page compares the different types of accounts that are on offer on a platform. I started with a Stocks and Shares ISA because this account will give me the greatest flexibility (and the money you get out of it is tax free!). If you have an ISA open already, you can transfer it across to your new broker if you want to.

Now, which one you pick will be completely down to your circumstances. I personally have chosen to use up my ISA allowance as much as possible first. This is because I can then use this account when I want to retire, tax free. I already pay quite a bit into a pension in my work place, but once I've paid off my debt, I'll be saving a lot more into both a SIPP and an ISA to get the tax advantages associated with both to top this up. If I'm fortunate enough to be earning more and therefore have more to invest, I'll then use my fund and share account.

It may be different if you're self-employed, and like the idea of off-setting your tax. Why not approach an accountant if you haven't done already and ask them? With all of this, if you're really not sure, and have a substantial amount of money you would like to invest, an impartial adviser may be the right person to speak to.

Somewhere like unbiased.co.uk would be a good place to start.
Some of them won't even look at you though unless you have enough cash, so be warned! If in doubt, start with the ISA. Tax free savings with tax free growth is an amazing gift that we shouldn't waste!

	S&S ISA - Stocks and Shares ISA	SIPP - Self-invested personal pension	F&S - Fund and Share
Description	UK Tax-free savings account. The amount you're allowed to save goes up every year. 2017/2018 its £20,000.	An account you can use for a pension. It can be additional to the pension you get at work, or your only pension if you're self-employed.	A standard account that you can invest into when you've used up your allowances.
Advantages	• All money in the account can be withdrawn tax-free. Any growth the money in the account makes is also tax-free • You can transfer your old cash ISAs into a stocks and shares ISA for free and start making your money work!	• Good for tax purposes. By contributing to a SIPP, if you're a higher rate tax payer, you can gain up to 45% extra to you contribution from the government. • Money left in a SIPP can be inherited free of tax.	There are no limits to how much you can put into these accounts.
Disadvantages	• The limit of how much you can put into the account. • Once the money is removed, you can't put it back in and expect it to be tax free. Once its gone, its gone. • You have to be aged 18 or over.	• Max amount you can put into any pension over your lifetime (including your work pension) is £1 million. The excess is taxed. • The money cannot be withdrawn until you reach 55. • Only the first 25% you withdraw is tax free. Anything you withdraw above this is taxable. • There is an annual cap on how much you can contribute and depends on your income.	No tax perks!

So there you have it! Now you are familiar with a few important distinctions and definitions, shall we move onto the next part of the course?

No worries if you're not ready yet - take your time to take it all in. I'll still be here when you're ready to move on.
if you're stuck, email me: info@thefemalemoneydoctor.com