5 Steps to Becoming a Savvy Investor

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Introduction

These days, most people can't reach their retirement goals on their employment income alone. The cost of living is just too high. That's why investing is so important: because it allows you the opportunity to put your money to work *for you*. Through investing, you can potentially grow your money *and* seize opportunities for additional income. But it's not enough to simply invest. You must invest *wisely* if you're to reach your financial goals. But that can be easier said than done. For this reason, everyone *must* take the time to educate themselves on the basics of good investing.

There's a lot of resources you could turn to. But to get you started, we've narrowed it down to just 5 easy Steps you can take, to become a Savvy Investor.

Step 1: Understand the concept of risk

The fact is all investing comes with risk. Just as proper investing can bring increased wealth, making a mistake can take it from you. All investors have to understand the balance between *too much* and *not enough* when it comes to risk. Yes, there is such a thing as not enough risk. To put it simply, if you never take on any risk, then there's really no possibility of reward. Remember, investing is a means to reaching your financial goals. But if your investments are not earning a high enough return, reaching those goals becomes much more difficult.

Of course, *too much* risk is never a good thing either. The more risk you take on, the higher your chances of losing what you can't afford.

For that reason, remember this rule of thumb: *invest for need before you invest for greed*. Determine what your own needs and goals are, and what kind of return you will need to accomplish them. That's a good starting place for determining what kind of risks you can afford to take.

Step 2: Learn more about your personal retirement savings

For many Americans, most of their investing comes in the form of a retirement savings plan like a 401(k) or IRA. In fact, nearly 80% of full-time workers have access to an employer-sponsored retirement plan such as a 401(k).[4] For this reason, it's clear that plans of this sort are an invaluable tool. But many people don't give them the attention they deserve. For example, studies show that many investors have no idea what's even in their 401(k), what their options are, which investments they've selected, or how much risk they are taking on.

So if you have some sort of personal retirement savings plan, take the time to really understand how it works and what you're trying to accomplish with it. By taking these steps below, you can get the most out of your personal retirement savings plan … and by extension, the most out of your investments.

- Be able to understand the different investment options available to you so you can choose the *right* options for your specific needs and goals.
- Be able to tell how much risk you are taking on and how you may be able to decrease it.
- Be able to decipher the fine print so you'll know exactly how much you're paying in fees.

Step 3: Create a financial plan

When you make investing part of an overall financial plan, it's easier to understand what you're doing and why. It's easier to feel comfortable with your purpose for investing. While there's no one-size-fits-all type of plan, most good plans should contain:

- Your goals. What do you want to accomplish? What do you want to protect? Who do you want to take care of?
- Your current financial situation. How much money are you bringing in? How much is being spent on current expenses?
- Your needs. What will it take to meet your expenses *and* reach your goals, especially compared to your current situation?
- The steps you intend to take to fill those needs and reach those goals. What habits need to change? What are you going to invest in, and when?

Step 4: Talk to your family about your investments

Investing doesn't just affect you … it affects your entire family. It's important that everyone be on the same page so that there are never any misunderstandings, miscommunications, or unpleasant surprises. This is especially true regarding spouses and partners. If your partner currently handles all the investment decisions, explain to them that you want to be involved. If *you* currently make all the decisions, take time to involve your partner. This way, you can reduce the risk of fights and hurt feelings, which can have a serious impact on reaching your goals … not to mention your personal happiness

Step 5: Consider hiring a qualified, experienced financial advisor to help you

All the steps I just outlined are simple to understand, but that doesn't make them simple to follow. Furthermore, the points I've covered here just barely scratch the surface of investing. That's why many investors seek to hire a financial advisor. What can a good advisor do?:

- Help you create an investment strategy that's right for *you*—with the right investments and the right level of risk.
- Answer your questions and help educate you further so that you can make informed decisions.
- Hold your hand to get you through those periods when the markets are particularly volatile.
- Perform the research, handle the transactions, and take care of all the other heavy lifting that comes with investing, that many people have neither the time nor the inclination for.

When it comes to hiring an advisor, you should always take your time, shop around, and do your due diligence. Different advisors have different levels of experience, specialization, and even competence. Therefore, make sure any advisor you decide to work with can explain what they do and why. Make sure they are properly licensed and credentialed. Finally, pay attention to the level of interest they show in you. Are they asking lots of questions? Are they trying to learn everything they can about your personal situation? Or do they simply seem intent on selling you something? The answers go a long way to determining whether that advisor is right for you.

Appendix

What Really influences the Risk Number?

Investors come to independent advisors for unbiased and personal financial guidance. Common knowledge routinely says that younger investors are more likely to be comfortable with risk, but is that accurate? Then as an investor ages goes up, the trend indicates that their investment portfolios move down into increasingly conservative investment selections So, Riskalyze offers the findings below that show that it's not in the best interest of an investor for their risk tolerance to be gernalized based on their age or on market trends.

Finding#1: Risk is independent of age

Finding#2: Risk numbers hold steady over time. An investor's tolerance for risk does not significantly drop as they age.

Finding#3: Risk numbers are independent of the Market. While there is some correlation to risk numbers dropping with a market drop, it's not overwhelming.

Conclusion: If a Risk number is independent of age and market movement, it's reasonable to believe that Risk Number is a personality and behavior-based assessment. Individuals deemed more open to new experiences and who could be classified as extroverts, were found to be more risk-prone.

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