Beginners guide to investing

How to grow your wealth over the long period

2022

Make your money work for you and grow your wealth

Investing long-term is one of the best choices to put your money to work, build your wealth, and secure your future. But there are also many risks involved, and knowledge is the key to making the best solutions when investing.

Here you will find the most important information for beginners, in an easy-to-understand way, so that anyone can get the basic knowledge and start investing.

Disclaimer – Keep in mind that investing involves risks. Also, Fundvest does not provide any investment recommendations and advice, we just provide information about investing in general. Nobody should influence your decision to invest just your research and preferences, nor do we want to do that.

What questions will be answered:

- Investing vs saving
- Why and when should you invest
- Long-term investing vs trading
- Asset classes
- Investing in stocks
- Investing in ETFs
- Risk of investing

Investing vs. Saving

Investing and saving should be something that a person does simultaneously and start early. Both saving and investing have shared characteristics, but different levels of risks and returns, and how much money you spent on either depends on your goals, financial situation and risk tolerance. Overall, there is a rule, that saving should be a shorter-term thing and investing should be long-term.

Saving

Usually, people save for specific purchases or emergencies and that money typically will be available for them whenever they need them. It's also a low-risk activity, usually you won't lose the value of your money. When you save money, you usually put them in a bank account, and in return, you receive interest from the bank. Banks do provide a safe place for your money and there is a very low risk of losing value, but banks pay a very low-interest rate, so considering a long-term goal to grow your money — the return will be minimal.

Investing

Investing can be simply described as putting your money to work for you for a specific period. For a more specific definition - investment is defined as a financial asset or item acquired to generate income or recognition. People will have a bigger return on investments if they start investing early and diversify their investments. Compared to saving, investing might have a bigger return, but it also carries bigger risks. To limit the risks, people should consider different investment strategies and diversify their investments.

Saving

- Short term
- Lower risk
- Lower return
- Easy access to funds

Investing

- Long-term
- Potentially higher risk
- Potentially higher return
- Access to certain funds may be restricted

Why and when should you invest

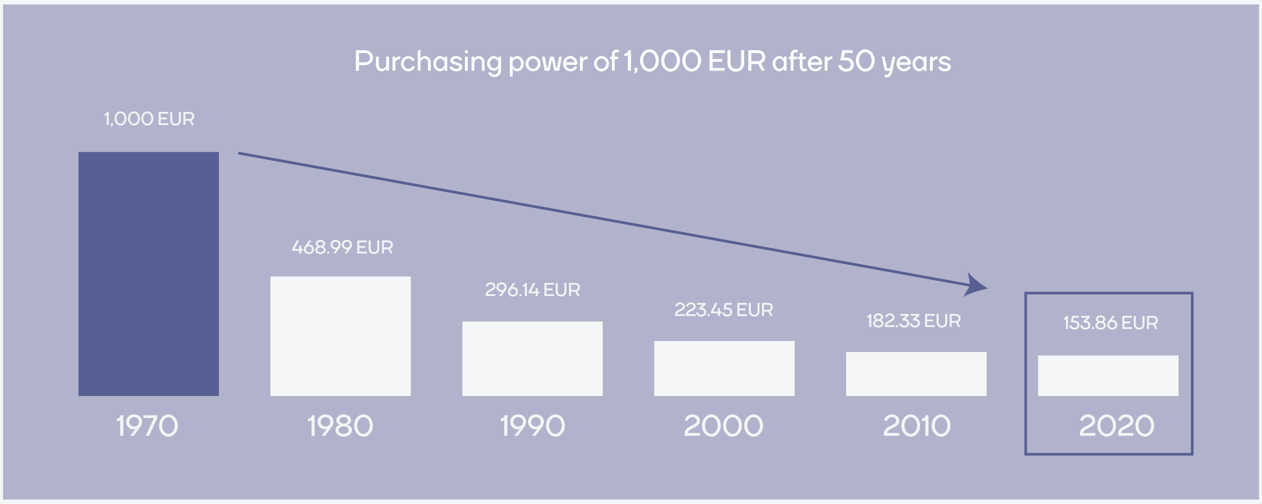
There are a few main reasons why people invest in certain assets:

To create wealth.

As mentioned before investing means putting your money to work. And this is one of the best ways to increase your wealth over time. Wealth might mean a lot of different things to people but investing usually has some financial goals – for example, you want to have money to send your kids to college or maybe you want to have a peaceful retirement and travel a lot. Investing might help you do that, by increasing the value of your assets.

To Beat Inflation.

Inflation is the overall increase in the prices of products over time. If inflation is getting higher and prices are rising, your money will lose value since you will be able to buy less with the same amount of money. One of the ways to beat inflation is to invest your money and make your money make money instead of losing value.

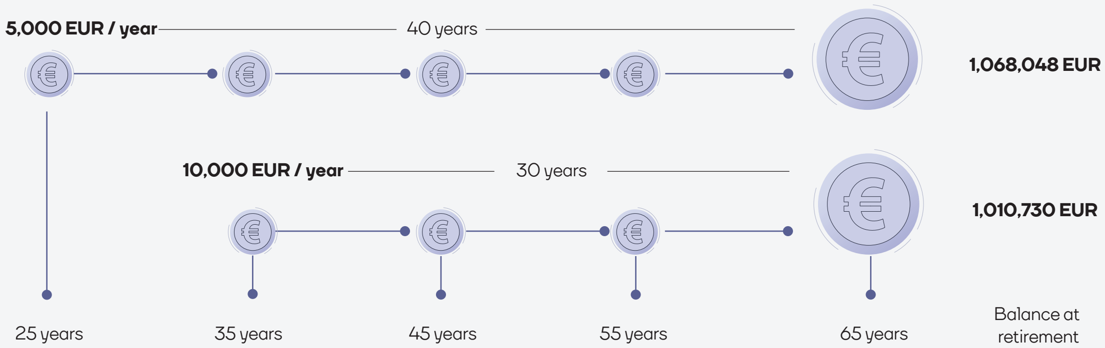


Compounding.

Compound interest is when the interest you earn in saving or investing account is reinvested, resulting in earning more interest. It's easiest to explain with an example – imagine you invest 100 EUR a month for 20 years, and your total contribution results in 24000 EUR over the whole period. Let's assume a 10% interest rate on returns. With this interest rate, your 24000 EUR grows to 69,464 EUR with an annual compound frequency.

When to invest?

The time to invest is now. The sooner you start investing the more money you can earn. This takes us back to compounding interest. The longer you invest and the younger you start you can earn more money by investing less money per month.



Long-term investing vs trading

What is a long-term investing?

It's easy to say just from the name, that long-term investing means holding your investments for a long period (5 years or more). A long-term investment is one of the best ways to make meaningful gains and make the value of your money.

What is trading?

Different from long-term investing, the frequency of transactions is high in trading. Trading refers to a practice where people buy and sell stocks, commodities, and other financial instruments very frequently.

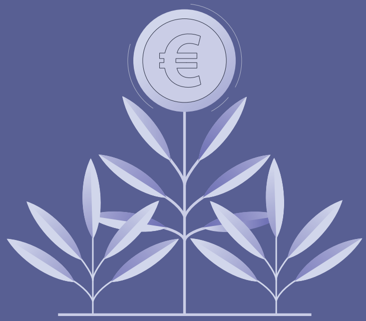
Key differences between long-term investing and trading

	Long-term investing	Trading
Risk and return	With long-term investments you can minimize the risk of price fluctuations and through dividends and compounding returns you can increase your gains over some time.	The risk of trading is higher, but it also can bring greater returns over a shorter period. Traders usually need to invest a larger sum of money over a short period to earn substantial earnings. But investing short-term has a high risk of losing a lot of money if the trade doesn't go well.
Analysis	Long-term investments require fundamental analysis, which is done through analyzing financial metrics, earning reports, ratios, and industry trends.	Trading requires evaluation of stock movement through technical analysis, which includes analyzing statistical trends such as price movement and volume.
Commission	Commission costs can be insignificant in investing long-term since you hold a single asset for many years.	Since traders make several transactions during a short period, their commission costs are usually higher.
Type of assets	In long-term investing people should carefully pick stocks to invest in, ones that could deliver good returns in the future.	Traders usually look for stocks that have higher volatility, this way they can exploit the movements to make profits.

Asset classes

An asset class is a collection of similar investment products. Different types of investment assets are grouped based on similar financial structures and they are traded in the same financial markets and have the same rules and regulations.

Usually, asset classes are divided into these categories:



Stocks or equities

Equities are shares of ownership, that are issued by publicly traded companies, and they are traded on stock exchange markets. You can get profit from these assets through rises in the share price or receiving dividends.

Bonds or fixed-income investments

Investments in debt securities that pay a rate of return in interest. Bonds are issued by a company or government over a set period. Usually, bonds are considered to be at lower risk than shares.

Cash

Cash in your bank account or other money market securities that earn interest over time. This option is best for short-term needs.

Real estate or other tangible assets

Property value usually grows over time. You can either buy a house for yourself or use it for rental, receiving money each month. When the property market is slow it may be difficult to sell these types of investments and get gains. Also, it usually requires a big amount of initial payment.

The risk and rewards

Every asset class come with different levels of rewards and risk that every person should evaluate.

Investing in stocks

What is a stock?

In short – it's financial security, that represents ownership in a company. Stocks are bought and sold on the exchange market. Stock prices are derived from metrics such as free cash flow, book value, dividends, or growth. There are 3 common ways used to evaluate stock price: the DFC model, Relative Valuation, and Fundamental valuation.

Historically, stocks have outperformed other widely available asset classes.

Why people invest in stocks?

- Stocks are liquid as they are being traded on stock exchanges and you can sell them anytime.
- Stocks enable people to have fractional ownership of a company and manage that ownership freely.
- Stocks perform better than other asset classes in the long run.
- Stocks enable speculation opportunities.

What impacts stock prices?

- Fundamentals – interest rate, inflation, political events like wars, all sorts of disasters and pandemics, etc.

- Technical – market trends, moving averages, short floats, support and resistance levels, liquidity, etc.

- Financial information – revenue growth, earnings, dividends, debt to equity, EBITDA. But generally, investors focus on 3 key pillars – profitability, growth and debts.

There are many analyses you can do when selecting a stock to invest in, many measures to look into and different people care about specific ones. You can limit your stock selection, by firstly selecting a country, an industry, or something you are passionate about.

Most important rules when investing in stocks:

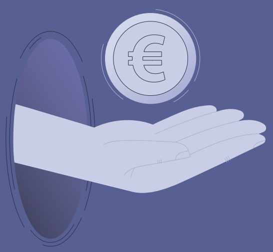
- Diversification – to have a lower risk of losing value and getting better returns, it's important to diversify your portfolio. Don't put all your money in one stock, it's best to have 15 different stocks and relocate your budget to them. Of course, the number of stocks depends on your budget, the lower budget – the lower number of stocks.

- Start early – already mentioned above, the earlier you start the bigger amount of money you can earn.

- Exclude unnecessary risks – currency, commodities, political risks, etc.

- Have a risk management plan – overall before you start investing create your risk management plan, think about portfolio diversification, think about the losses that you might have, and manage your investments over some time.

Investing in ETFs



ETF is an exchange-traded fund with pooled securities, and they give people better access and coverage on different products to invest in. ETF acts like a stock that you can buy and sell whenever you want, but the difference is that when you buy 1 share of ETF you invest in hundreds of companies all at once, depending on the ETF and how many securities are in it.

To illustrate, let's take an example of (IDVY) iShare Euro Dividend UCITS ETF. This ETF follows 30 companies with the biggest dividend yield in Eurozone. That means instead of spending time researching different stocks you can simply buy this ETF and invest in the top 30 Euro dividend payers with one transaction. There are over 8500 different ETFs in the world to pick from. They are usually segregated by thematic or sectors, market caps or regions, and many other aspects. ETFs are a good groundwork to build your investment portfolio, they require less attention and are considered safer investments since you relocate your money to different stocks.

Risk of investing

No matter what type of investment you will choose, it will carry some amount of risk. Every investment, either stock, mutual fund, ETF or others can lose value over time, sometimes even all their value. Your investment value might fall or rise due to specific market conditions, and also due to corporate decisions such as merging with another company. Also, a huge factor of risk is the political and economical conditions of the country where your investment is based. A great example is a war – if a country is included in a war, the stock value of companies in that region can be significantly affected.

Risk and Reward

The level of risk that you will face correlates with the level or return your investments might achieve. If you are ready to take on risky investments, you should be rewarded for your risk with higher returns. Historically, stocks have enjoyed the biggest average annual returns for a long period.

Managing risks

You won't ever be able to eliminate all risks concerning your investments, but you can for sure limit them with two very basic investment strategies:

Asset allocation — nclude different asset classes in your portfolio (stocks, ETF, bonds, cash, etc.). This way you will increase the probability that at least some of your investments will provide positive returns, that might outweigh the losses with other investment types.

Diversification - diversify your portfolio. If you want to invest in stocks, that don't invest in just a few of them, choose a bigger amount and from different categories, this way if one stock drops you won't lose all of your investments since you will have a number of them, same with categories.

To conclude...

Investing is a risky business, but if you have at least basic knowledge and know how to choose types of investment, how to allocate risks, and how to plan your investments it is the best way to try and build your wealth over time.

So before you start investing:

- Choose types of investment that you prefer and choose a few of them
- Diversify your portfolio, buy a number of investments, by categories, etc.
- Plan your investment, you can use auto investment accounts that help you invest constantly a chosen sum of money each month. Also, spend on investments the amount you can spend, so plan your financials, how much you can spend on stocks for example, and how much on your daily needs and savings.
- Carefully choose a platform to invest through, check the prices, how many stocks and other types of investments they offer and how trustworthy they are.