



IF I HAD \$100,000 TO INVEST

“To earn the highest returns realistically possible, you should invest with simplicity”, says John Bogle of the Vanguard Group, the 2nd largest mutual fund company in the world. Investing is the process of putting money into a business for the purpose of obtaining income. As a young investor my primary financial goal is to consistently obtain income outside of my future employment earnings. I believe the most efficient way to realize this goal is to make investments based on simplicity while constantly looking to educate myself on future financial opportunities. With access to \$100,000 I would invest in several asset classes including index funds, mutual funds, stocks and bonds. Doing so should raise my chances of producing income, and decrease the likelihood of loss from bad investments.

According to finance specialists bad investments aren't the fundamental cause of big losses, however, it is the lack of more simplistic investments which cause investors to miss out on big returns. Index funds are low cost investments that allow investors to keep most of their money free of taxes or charges while allowing the average investor to accumulate wealth without the fees of managed funds. Index funds are extremely beneficial to novice investors like myself as well as investors who are wary of operating in the broad financial markets.

Since I am basing my overall investment strategy on simplicity I believe the best place to start is with index funds. Index funds weren't only designed for frugal investors; they were established to aid investors in the process of diversification. Diversification is the act of spreading investments across different asset classes. By doing so I will reduce the risks of losing money as a result of events effecting a single asset class, this according to Harry Markowitz's Modern Portfolio Theory (MPT). Index funds are automatic diversifiers and relieve novice investors like myself of the duty of researching hundreds of

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companies in huge indexes like the S&P 500, Dow and the NASDAQ. Professional market analysts say that the inherent risks of index funds are entirely limited to the financial markets. Index funds that are titled “enhanced”, “plus” or “managed” are adjusted by people seeking higher returns on investments. These funds can cost me valuable returns by making my investments too intricate or trying to time the market.

I believe that when it comes to investing in index funds, the rewards will continually outweigh the risks if I remain patient and plan for the long run. Low cost, consistent returns, and automatic diversification are the main benefits of index funds and investing in a long term passively managed index fund would allow me to produce more income for investing. Out of \$100,000 I would most likely invest \$20,000 in a long term index fund for a minimum of 10 years, at an average annual return rate of 6.39%. In 10 years my initial investment would have compounded to around \$37,000.

Financial markets are as numerous as the investors seeking solid returns from their investments. In fact, no market has been more solid than the mutual fund market. Established in the Netherlands in 1822 and expanded to Boston in the early 1900's mutual funds have continued to be reliable investments. While researching mutual funds on [stocks-investing.com](http://stocks-investing.com) I learned that more than 80 million people or roughly ½ of American households invest in mutual funds. Mutual funds are group investments that are managed by professionals who do the research on all of the individual stocks chosen for investment. These professionals know how to spread the risk out effectively for maximum portfolio diversification. Mutual funds allow complete liquidity which means I can access my money at any time with the same value prior to investment.

In 2003 mutual funds accounted for 45% of investment company assets which totaled \$ 8.1 trillion according to the Investment Company Institute (ICI) which is a national association of U.S investment companies. Technical analyst state that mutual funds are used as a forerunner to detect economic trends in all financial markets. Mutual funds, however, are subject to return taxes, management fees, administration fees and various unknown and or useless fees which could affect my return. Since mutual funds are group investments, a miscalculation by the fund managers can hurt the whole group, but these loses are spread out amongst everyone who invested in that particular fund. Out of \$100,000 I would invest \$10,000 in a short-term mutual fund for a minimum of 5 years, at an average return rate of 6%. After 5 years my initial investment would have compounded to about \$12,000. Veteran investors believe that mutual funds are strong investments that can help investors diversify their portfolios and secure returns.

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Perhaps the most ambitious investment option available to novice investors is the stock market. While the risks of investing in the stock market are well documented so are the returns. One example of the security and success found in stocks is the recent impact of Apple/Macintosh's "Ipod". Apple sold 14 million "Ipod" devices in 2005 compared to sales of 4.6 million in 2004, nearly tripling their sales in one year. According to Business week online the 52 week range for Apple's stock rose from \$31.65 to \$86.40 per share. For Apple's investors, market research and analysis paid off in a major way.

What interests me the most about stocks is that they represent equity, or ownership in a company. Shareholders can make decisions relating the operation of the business, with proper advisory from the company's board of directors that is. For diligent investors who know how to research effectively stocks have the potential to pay substantial returns, while owning a diversified stock portfolio can generate even greater returns. U.S. economist note that identifying the growth patterns of stocks through technical analysis can make the difference in the size of the returns I receive from my stock market investments.

During my research I have learned that stock market investments are classified as either passive or active. Active investors are constantly trading stocks to increase their individual financial returns, while passive investors listen to news and observe trends of the market to invest according to their individual goals. Most stock investors are fully aware that following trends in the stock market without proper research can lead to great loses. To maximize my opportunities of success I would be sure to seek assistance from reputable researching companies before attempting any stock market investing. Taking into account the length of my investment horizon I would focus on long-term investments in the stock market so that I can earn money through compounding interest. Out of \$100,000 I would consider investing \$40,000 in stocks at an average annual return rate of 12%. At that rate my initial investment would have the potential to compound to nearly \$1,070,000 in 30 years.

In contrast to the risk associated with investing in the stock market, I would strongly consider investing in bonds. Bonds are fixed income investments that pay steady interest rates for investing in a company or government's debt. The company or government has an obligation to pay the investor his/her money by a certain date. The time set for paying back the money is called the maturity date. Different bonds have different maturity rates called coupons. According to market analysts, bonds are excellent for investors seeking ways to balance out their portfolios.

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I have learned that for the most part local and state government bonds are a low risk investment. Municipal bonds or “munis” have been reliable investments in U.S markets for many years. In the early 1940’s during WWII, bonds were issued to support the war effort of American troops. Over time economist saw that the bond market was successful when all other markets failed and during times when the economy was weaker. Federal bonds have the lowest risks, but pay relatively smaller interest rates in comparison to state government bonds. The projected growth of a city like Orlando, for example, should provide a steady safe return on any investment that I would make in its bonds. U.S government bonds give investors the security of a steady income guaranteed by the government itself. I would choose to invest in bonds to meet some of my long term financial goals and to generate steady income and develop a more diverse investment portfolio. I would most likely invest \$20000 in a municipal bond for 10 yrs at an average annual return rate of 10%. In 10 years my initial investment would have potentially compounded to \$39,000.

As a young investor, I have many great opportunities to make profit from investments. My investment horizon is several decades long, enough time for me meet my financial goal of obtaining income outside of my future employment earnings. In following my investment philosophy of establishing simplistic, long-term investments I can accumulate enough principle to pursue bigger investment opportunities in the future. Additionally, if I study the trends of the financial markets and enlist the help of professionals, I can identify the investments I feel comfortable with and hopefully maximize the earning potential of the \$100,000 that I began with.