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Money Smarts

If I had \$100,000, I would diversify my portfolio by investing in stocks, bonds, mutual funds and real estate on a long-term perspective (making it less volatile). I would try to diversify my money because diversification has two advantages: (1) it increases my chance of holding a big winner and (2) it leads to less volatility than just holding a handful of stocks. Investing is a very helpful tool in achieving financial goals in life. It can lead to an increase in income, which in return can be used to get the assets and luxuries that I really want, for example, a car or a sophisticated house. With \$100,000, I would also have the opportunity to create an education account for my upcoming college expenses so that it would not be a burden on my family. There is one thought I have to always keep in mind when investing. The thought is that in any attempt I have to make money, I have to remember that my effort can often lead to losing much of that same money.

My first investment choice would be the stock market. This is because the stock market (S&P 500) has averaged a return of 11% over the years. For example, if I invest just \$10,000 in the stock market, and leave it to grow, I would have just over a million dollars in 45 years. Looking at the fact that retirement age is slowly increasing year by year, when I get to age 70, I would have just over \$2,800,000. By investing that \$10,000 into the stock market and reinvesting my dividends, I can make an enormous sum of money for my retirement. This may not be enough, however, due to inflation playing its role on the economy, but it would be a really good start. I would also look for those stocks that are selling at a cheaper price, compared to the average in the market, and buy

some when nobody wants. I would then wait and hope that the price will go up. I would be doing this with the thought that I may lose my money. For this reason, I would only put about 5% of my money into these types of stock and 25% of my money in the more stable stocks. It is all part of “playing the market”.

My second investment would be in mutual funds. I would target large cap funds because according to the stock market, large caps tend to do better than small cap funds. Knowing that value generally does better than growth, I would try to invest in profitable companies. Mutual funds would help my portfolio become more diversified. My money would also be pooled into an investment company that would then invest it into a variety of securities. In all, about 15% of my money would go into mutual funds. It's a win-win situation.

Another area of investment that I can use to my advantage is the real estate market. Consumers are diving into the real estate market. With new families forming everyday and the surge of enthusiastic, young adults moving out of their parents' house, the real estate market is an investing opportunity that I would invest about 20% of my money in. The market for homes is very liquid right now and will continue to be for a very long time. Everyone has a dream of owning a home someday without realizing the fact that they are diving into an exceptional investment. Real Estate may or may not yield as high of a return as the stock market, but if it does, the return will be to the investor's satisfaction. The catch to the real estate market is that the money I put into the home may be more than what I receive for it. In other words, my cash flow from my expenses, such as repairs and inspections, and outflow of buying the home, may exceed what I might sell

the house for. That is all, however, part of the investing games. It is one component of knowing how to invest so that it will be to my benefit. The most important information, the most important word, I believe, in investing, is allocation. Allocation helps offset the full impact of some types of risk. In fact, it can reduce about 90% of the total risk of investing. I believe that as long as I remember this, I will be well off for my future.

A good section of my allocation that I would also pursue is bonds. For the moderate risk takers like me, about 30% of my cash allocation would also go into bonds. My primary focus would most likely be in investment grade corporate bonds because they are a little more secure than some other bonds. I would also however, invest in municipal bonds, treasury bonds, and junk bonds. Corporate bonds are on the moderate list of investments. Along with corporate bonds are the treasury bond and the municipal bond. The treasury bond is a government bond, so I know that I won't have to worry about it as much. The main reason I would invest into a municipal bond is because it is exempt from most federal, state, and city taxes. It would be one less worry on my mind when tax season comes around. Both bonds yield a return of 6% to 10%, which is indeed a really good return on investment today in our market. In addition to bonds, 5% of my money would go into junk bonds, which are very risky bonds. If not the most risky out of all bonds, junk bonds are not guaranteed. This makes the investor worried. Nevertheless, junk bonds would also be on my investment list because of the yield that they pay. They have a yield anywhere from 10% to 20% on the return. Junk bonds are the perfect place for the moderate to aggressive risk takers.

In conclusion, I believe that my investment ideas will be most profitable for me considering my risk level. I have followed every guideline that I have learned about so far

and have combined them into forming the most beneficial investing strategy. My financial portfolio will be a very good guide in helping to best utilize all \$100,000 that I have.