S&P 500 stock index
1973-2023

STOCK MARKET INVESTING CRASH COURSE

Think of investing as a flight, spanning decades of your life.

In your 20-30-'ties you are in the take-off and climb phase, investing in your education and career.

In your 30-50'ties you are in the cruise phase where you invest toward financial independence because earned income will stop at some point, either due to age or by your decision to no longer rely on it. (financial independence)

In your 50-60'ties you are in the descend and approach phase. You continue to invest but begin strategizing around tax and withdrawal strategies and likely change your asset allocations.

There is a whole industry telling you that this is complicated, but for most of the time it is not. Only in the descend and approach phase do you need expertise. Then preferably "fee-only" versus "yearly percentage of asset" advisors.

Over the long haul - decades not years - stocks return more than bonds, so we will focus on this asset class.

In aggregate, they go up because of population growth and productivity gains. Stocks also go up as a response to general inflation because they represent fractions of ownership in real companies owning real assets, producing real things or services.

Some decades are better than others depending on demographics, interest rates, economic cycles…or politics.

Here is what the average investor can do - and while at it – rank in the **+90th** percentile of all actively managed funds in terms of market returns over time.

1) Invest in stock index funds.

Very few people are savvy enough to consistently pick the right companies and sectors to invest in. Warren Buffet has repeatedly said that for most investors the best option is to invest in a stock index fund like the S&P 500 or a broad-based index like Vanguards VTSAX which covers the entire U.S stock market.

2) Dollar Cost Average.

It is impossible to time the markets and consistently buy stocks when the market is low, and then sell at the top. The solution is to Dollar Cost Average (DCA). This is to invest the same amount every week or month. Do this on autopilot, preferably by automatic transfers from your checking to your investment account.

When you DCA into a rising market, you get less and less for your dollar, but meanwhile, your existing portfolio is rising with the tide.

On the contrary, when you DCA into a falling market, your existing portfolio falls in value, but every dollar you commit buys more and more of the stock index that will rise later. In the end, you sleep well at night because you are paying an average price for a market that over time goes up. No worries, no panic, just marching on the same.

3) Learn the basics and how to. You can and should learn to do this yourself because it is simple to set up and will save you lots of fees. Dollars that otherwise cannot compound.

Familiarize yourself with common tax deferred accounts such as the 401K's, and IRA's (Roth and traditional). So that you can be sure to max out those first. (Every year at tax time you should talk to your CPA about which accounts to contribute to first and the resulting tax implications.)

Read up on investing terms like index funds, managed funds, and target date funds. Have a basic understanding of asset classes, asset allocations and risk management.

All of this and more is explained in my book "Household Finance 101" available on Amazon

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I hope you enjoyed this 10,000 ft multi-decade view of how to set yourself up for financial independence.

Happy Cruise friends

Disclaimer:

The information in this article is for informational purposes only and is the sole opinion of the author. In the subjects of investing and tax strategies, the reader should consult an investment or tax professional for individual and specific advice.