
Everyone, except those who are born rich, goes through different stages in their investing lives. We all start at the bottom and go at our own pace. Some of us may never get beyond the bottom stage, and most of us will never reach the top, but the path is pretty much the same: from low risk when your starting out, to high risk when you're a sophisticated investor with money that you can afford to lose.

Let's find out where you're at and what you need to get to the next stage.


Meet Chuck. He's just out of school and having the time of his life. He has a job, his own apartment, and he likes to spend his extra money going to nightclubs.

Because Chuck hasn't worked that long, he doesn't have a lot of money saved up.

He needs to make sure he has enough to pay for food, rent, utilities and have enough for emergency expenses like car repairs or if he lost his job for a month or two. Having some sort of safety net is important because he definitely doesn't want to have to move back in with his parents.

Chuck is on the first step of investing: setting up a put-and-take account. This account is most likely a checking account that contains money you need on a daily basis and probably a little extra. Using this account, you can write checks,  pay your bills, and make other withdrawals.  Additionally, you can use this account to save some as well.

The goal of this stage is to have enough money to cover your needs and have enough to cover unexpected expenses, not to make money. Think about it—if you lost your job for a while, wouldn't you would want enough money to pay your power bill or your rent?

Because your goals in this stage are relatively short term, your investments are very low risk since you are counting on that money being there, and accessible.


Goodbye Chuck, hello Shante. She's twenty five, lives in New York City and runs her own marketing agency. Unlike Chuck, Shante has enough money to meet all of her needs, and most emergencies. She wants to start investing her money to pay for the big dreams she has. She's looking for low risk investments to begin building her investment portfolio. Why low risk? She's worked hard to build her safety net, and she can't afford to lose any of that money.

What types of low-risk investments are good for her? She should look for those where the money, and the returns are guaranteed such as savings bonds, certificates of deposit, or savings accounts. Although these might have relatively low interest rates, she doesn't stand a great chance of losing her money. Things are very stable!

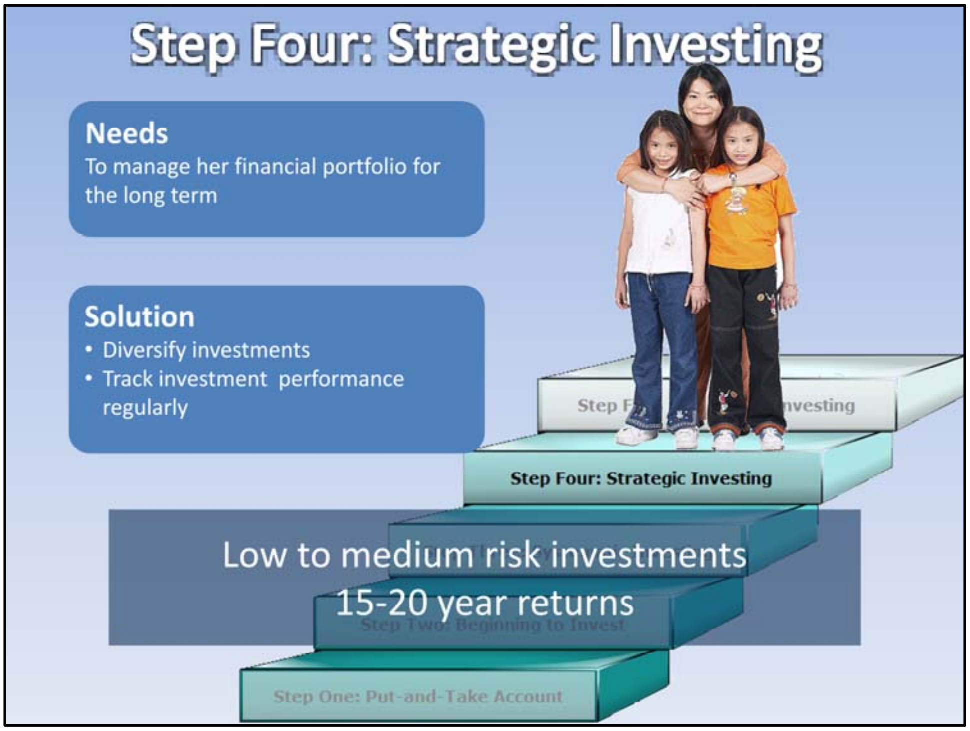
Many people begin this stage in their twenties or thirties. At this point, you will probably have started your career and established a stable budget.


Rio has been working for a few years, and has enough money in low-risk guaranteed investments to cover about six months of expenses. He's ready to start investing for the long term on a regular basis in investments that have higher returns, but also carry some risk of losing money.

As Rio begins the process of systematic investing, he should take a certain percentage of each paycheck and invest it. By investing on a regular basis, he can reduce the effect of the stock market going up and down over time. What types of investments should he make? He can invest in mutual funds or different stocks; whatever he chooses, he should make sure his money is spread out and not all in one place.

Think of this stage as long range investing. The types of investments that you might make in this stage are ones that you will see great returns on in years to come, but you need to be able to hold onto them for a while.

Remember, the earlier you can start this stage, the more likely your returns will be higher.




Emily is well on her way to her investment goals. She has all her basic needs covered, has enough money set aside to cover expenses for a few months in case she loses her income, and contributes regularly to her investments. She's ready to become a strategic investor and manage her portfolio of investments for the long term. What's the long term at this stage in her investing life? She's looking at fifteen to twenty years away.

What's her financial portfolio? A portfolio is basically a collection of all your financial assets. It's important that her portfolio is diversified, meaning split among a number of investments. You've heard the expression “don’t put all your eggs in one basket.” When it comes to investing, this means this means owning different types of investments in your portfolio so that you don't have too much of any one thing. That way, if one of your investments loses money, say that hot new technology company goes bankrupt, you won't lose all your money.

As a strategic investor, you'll want to track your gains and losses on a regular basis so that you keep your portfolio in balance and keep a certain percentage in lower and higher risk investments. This balance is different for each person, and changes at different points in life as needs change.

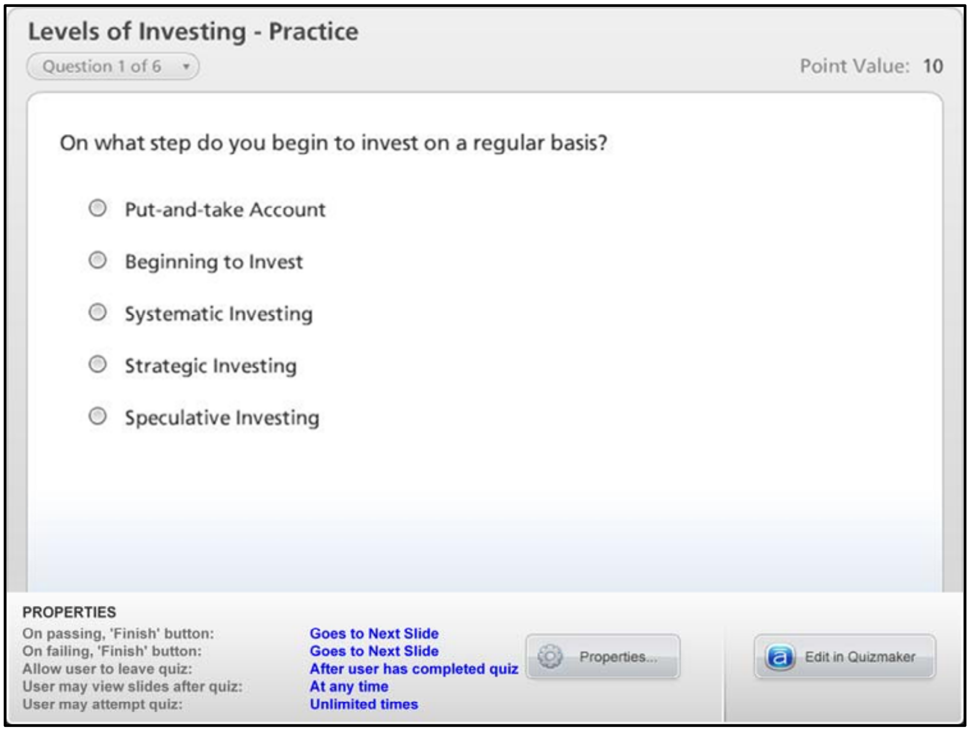

Brian's been through it all and come out with flying colors. He's been investing a significant portion of his income for years and has a very large and diversified investment portfolio to show for it.

Brian's an entrepreneur, and somewhat of a risk taker. He enjoys actively managing his investments and has a lot of experience picking winners, although he's had his share of losers along the way.

At this point in his life, Brian has started making speculative investments that are very high risk in things such as penny stocks and junk bonds. We'll talk about these types of investments later—all you need to know for know is that they're very risky. You can make a lot of money with them, or lose it all. Brian's comfortable with that because he has all of his basic investment needs covered, and can afford to lose the money that he uses for these speculative investments. He likes the challenge of picking good investments and has big dreams that he'd like to see come true one day. He understands that he might or might not get rich through these investments, but he's okay with that.

Most people never reach this state since you have to have money that you can afford to lose before you can make speculative investments. Even some people with lots of money choose not make these types of investments because they don't like the high level of risk.

If you have the money and don't mind the risk, you might reach this stage some day after you've mastered the other steps of investing.


Levels of Investing - Practice
Question 1 of 6
Point Value: 10
On what step do you begin to invest on a regular basis?
Put-and-take Account
Beginning to Invest
Systematic Investing
Strategic Investing
Speculative Investing
PROPERTIES
On passing, 'Finish' button: Goes to Next Slide
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User may view slides after quiz: At any time
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