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by Eric Tyson, MBA

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dummies[®]
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Contents at a Glance

Introduction	1
Part 1: Getting Started with Investing	5
CHAPTER 1: Exploring Your Investment Choices	7
CHAPTER 2: Weighing Risks and Returns	25
CHAPTER 3: Getting Your Financial House in Order	47
Part 2: Stocks, Bonds, and Wall Street	75
CHAPTER 4: The Workings of Stock and Bond Markets	77
CHAPTER 5: Building Wealth with Stocks	91
CHAPTER 6: Investigating and Purchasing Individual Stocks	121
CHAPTER 7: Exploring Bonds and Other Lending Investments	143
CHAPTER 8: Mastering Mutual Funds and Exchange-Traded Funds	167
CHAPTER 9: Choosing a Brokerage Firm	201
Part 3: Growing Wealth with Real Estate	211
CHAPTER 10: Investing in a Home	213
CHAPTER 11: Investing in Real Estate	229
CHAPTER 12: Real Estate Financing and Deal Making	259
Part 4: Savoring Small Business	283
CHAPTER 13: Assessing Your Appetite for Small Business	285
CHAPTER 14: Starting and Running a Small Business	305
CHAPTER 15: Purchasing a Small Business	329
Part 5: Investing Resources	347
CHAPTER 16: Selecting Investing Resources Wisely	349
CHAPTER 17: Navigating Financial Media and Publications	359
CHAPTER 18: Selecting the Best Investment Books	367
CHAPTER 19: Investigating Internet and Software Resources	377
Part 6: The Part of Tens	389
CHAPTER 20: Ten Investing Obstacles to Conquer	391
CHAPTER 21: Ten Things to Weigh When Considering an Investment Sale	399
CHAPTER 22: Ten Tips for Investing in a Down Stock Market	407
Index	415

Table of Contents

INTRODUCTION	1
About This Book	2
Foolish Assumptions	3
Icons Used in This Book	3
Beyond the Book	4
Where to Go from Here	4
PART 1: GETTING STARTED WITH INVESTING	5
CHAPTER 1: Exploring Your Investment Choices	7
Getting Started with Investing	8
Building Wealth with Ownership Investments	8
Entering the stock market	9
Owning real estate	10
Running a small business	11
Generating Income from Lending Investments	12
Considering Cash Equivalents	14
Steering Clear of Futures and Options	15
Mulling Over Precious Metals	16
Contemplating Currencies and Cryptocurrencies	17
Counting Out Collectibles	20
CHAPTER 2: Weighing Risks and Returns	25
Evaluating Risks	26
Market-value risk	27
Individual-investment risk	32
Purchasing-power risk (also known as inflation risk)	35
Career risk	37
Analyzing Returns	37
The components of total return	38
Savings and money market account returns	40
Bond returns	41
Stock returns	42
Real estate returns	44
Small-business returns	45
Considering Your Goals	46
CHAPTER 3: Getting Your Financial House in Order	47
Establishing an Emergency Reserve	48
Evaluating Your Debts	49
Conquering consumer debt	49
Mitigating your mortgage	50

Establishing Your Financial Goals	53
Tracking your savings rate	53
Determining your investment tastes	54
Funding Your Retirement Accounts	56
Gaining tax benefits	56
Starting your savings sooner	57
Checking out retirement account options	58
Choosing retirement account investments	60
Taming Your Taxes in Non-Retirement Accounts	61
Figuring out your tax bracket	61
Knowing what's taxed and when to worry	62
Choosing the Right Investment Mix	64
Considering your age	64
Making the most of your investment options	65
Easing into risk: Dollar cost averaging	66
Treading Carefully When Investing for College	68
Education Savings Accounts	69
Section 529 plans	70
Allocating college investments	70
Protecting Your Assets	72

PART 2: STOCKS, BONDS, AND WALL STREET 75

CHAPTER 4: The Workings of Stock and Bond Markets 77

How Companies Raise Money through the Financial Markets	77
Deciding whether to issue stocks or bonds	78
Taking a company public: Understanding IPOs	79
Understanding Financial Markets and Economics	82
Driving stock prices through earnings	82
Weighing whether markets are efficient	83
Moving the market: Interest rates, inflation, and the Federal Reserve	85

CHAPTER 5: Building Wealth with Stocks 91

Taking Stock of How You Make Money	92
Defining "The Market"	92
Looking at major stock market indexes	93
Counting reasons to use indexes	95
Stock-Buying Methods	96
Buying stocks via mutual funds and exchange-traded funds	96
Using hedge funds and privately managed funds	98
Selecting individual stocks yourself	99
Spotting the Right Times to Buy and Sell	100
Calculating price-earnings ratios	100
Citing times of speculative excess	102
Buying more when stocks are "on sale"	109

	Avoiding Problematic Stock-Buying Practices	112
	Beware of broker conflicts of interest	113
	Don't short-term trade or try to time the market	113
	Be wary of gurus	115
	Shun penny stocks	117
	The Keys to Stock Market Success	118
CHAPTER 6:	Investigating and Purchasing Individual Stocks	121
	Building on Others' Research	122
	Discovering the Value Line Investment Survey	122
	Considering independent brokerage research	128
	Examining successful money managers' stock picks	128
	Reviewing financial publications and websites	129
	Understanding Annual Reports	129
	Financial and business highlights	130
	Balance sheet	131
	Income statement	134
	Exploring Other Useful Corporate Reports	137
	10-Ks	137
	10-Qs	137
	Proxies	138
	Getting Ready to Invest in Stocks	139
	Understanding stock prices	139
	Purchasing stock "direct" from companies	141
	Placing your trade through a broker	142
CHAPTER 7:	Exploring Bonds and Other Lending Investments	143
	Banks: Considering the Cost of Feeling Secure	144
	Facing the realities of bank insurance	145
	Online banking: More for you?	145
	Being wary of the certificate of deposit (CD)	147
	Swapping your savings account for a money market fund	148
	Why Bother with Bonds?	150
	Assessing the Different Types of Bonds	152
	Determining when you get your money back:	
	Maturity matters	153
	Weighing the likelihood of default	154
	Examining the issuers (and tax implications)	154
	Buying Bonds	158
	Deciding between individual bonds and bond funds	158
	Understanding bond prices	159
	Purchasing Treasuries	160
	Shopping for other individual bonds	161

	Considering Other Lending Investments	162
	Guaranteed-investment contracts	163
	Private mortgages	164
CHAPTER 8:	Mastering Mutual Funds and Exchange-Traded Funds	167
	Distinguishing between Mutual Funds and Exchange-Traded Funds	168
	Discovering the Benefits of the Best Funds	168
	Professional management	169
	Cost efficiency	169
	Diversification	170
	Reasonable investment minimums	170
	Different funds for different folks	170
	High financial safety	171
	Accessibility	171
	Reviewing the Keys to Successful Fund Investing	172
	Minimize costs	172
	Reflect on performance and risk	175
	Stick with experience	176
	Consider index funds	176
	Steer clear of leveraged and inverse exchange-traded funds	177
	Creating Your Fund Portfolio with Asset Allocation	179
	Allocating for the long term	179
	Diversifying your stock fund investments	181
	The Best Stock Funds	182
	Making money with stock funds	183
	Exploring different types of stock funds	183
	The Best Bond Funds	189
	Avoiding yield-related missteps	190
	Trading carefully with actively managed bond funds	191
	Stabilizing your portfolio by investing in short-term bond funds	192
	Earning higher returns with intermediate-term bond funds	193
	Using long-term bond funds to invest aggressively	194
	Balanced and Asset Allocation Funds: The Best Hybrid Funds	195
	The Best Money Market Funds	196
	Taxable money market funds	198
	U.S. Treasury money market funds	198
	Municipal money market funds	199
CHAPTER 9:	Choosing a Brokerage Firm	201
	Getting Your Money's Worth: Discount Brokers	201
	Assessing the high-commission salespeople's arguments	203
	Selecting a discount broker	203

Considering Online Brokerage Services	206
Examining your online trading motives	206
Taking other costs into account	207
Looking at service quality	208
Listing the best online brokers	209
PART 3: GROWING WEALTH WITH REAL ESTATE	211
CHAPTER 10: Investing in a Home	213
Considering How Home Ownership Can Help You Achieve Your Financial Goals	214
The Buying Decision	214
Weighing the pros and cons of ownership	215
Recouping transaction costs	218
Deciding How Much to Spend	219
Looking through lenders' eyes	221
Determining your down payment	221
Selecting Your Property Type	222
Finding the Right Property and Location	224
Keeping an open mind	224
Research, research, research	225
Understanding market value	226
Pounding the pavement	227
CHAPTER 11: Investing in Real Estate	229
Discussing Real Estate Investment Attractions	230
Limited land	230
Leverage	230
Appreciation and income	231
Ability to add value	232
Ego gratification	233
Longer-term focus	233
Figuring Out Who Should Avoid Real Estate Investing	235
Examining Simple, Profitable Real Estate Investments	235
Finding a place to call home	236
Trying out real estate investment trusts	237
Evaluating Direct Property Investments	238
Residential housing	238
Land	240
Commercial real estate	241
Deciding Where and What to Buy	242
Considering economic issues	242
Taking a look at the real estate market	243
Examining property valuation and financial projections	245
Discovering the information you need	250

Digging for a Good Deal	250
Recognizing Inferior Real Estate “Investments”	252
Avoiding ticking timeshares	252
Staying away from limited partnerships	254
Ignoring hucksters and scams	254
CHAPTER 12: Real Estate Financing and Deal Making	259
Financing Your Real Estate Investments	259
Getting your loan approved	260
Comparing fixed-rate with adjustable-rate mortgages	263
Choosing between fixed and adjustable mortgages	264
Landing a great fixed-rate mortgage	266
Finding a suitable adjustable-rate mortgage	267
Examining other mortgage fees	270
Finding the best lenders	271
Refinancing for a better deal	273
Working with Real Estate Agents	274
Recognizing agent conflicts of interest	275
Selecting a good agent	276
Closing the Deal	278
Negotiating 101	278
Inspecting the property	279
Shopping for title insurance and escrow services	280
Selling Real Estate	281
Negotiating real estate agents’ contracts	281
Forgoing a real estate agent	282
PART 4: SAVORING SMALL BUSINESS	283
CHAPTER 13: Assessing Your Appetite for Small Business	285
Testing Your Entrepreneurial IQ	286
Considering Alternative Routes to Owning a Small Business	289
Being an entrepreneur inside a company	289
Investing in your career	290
Exploring Small-Business Investment Options	291
Starting your own business	291
Buying an existing business	292
Investing in someone else’s business	292
Drawing Up Your Business Plan	294
Identifying your business concept	295
Outlining your objectives	297
Analyzing the marketplace	298
Delivering your service or product	300
Marketing your service or product	300

Organizing and staffing your business	302
Projecting finances	302
Writing an executive summary	304
CHAPTER 14: Starting and Running a Small Business	305
Starting Up: Your Preflight Checklist	305
Preparing to leave your job	306
Valuing and replacing your benefits	307
Financing Your Business	309
Going it alone by bootstrapping	310
Taking loans from banks and other outside sources	311
Borrowing from family and friends	312
Courting investors and selling equity	313
Deciding Whether to Incorporate	315
Looking for liability protection	316
Taking advantage of tax-deductible insurance and other benefits	316
Cashing in on corporate taxes	317
Making the decision to incorporate	318
Finding and Keeping Customers	319
Obtaining a following	319
Providing solid customer service	320
Setting Up Shop	321
Finding business space and negotiating a lease	321
Equipping your business space	323
Accounting for the Money	324
Maintaining tax records and payments	324
Paying lower taxes (legally)	326
Keeping a Life and Perspective	328
CHAPTER 15: Purchasing a Small Business	329
Examining the Advantages of Buying	329
Understanding the Drawbacks of Buying	331
Prerequisites to Buying a Business	332
Business experience	332
Financial resources	333
Focusing Your Search for a Business to Buy	333
Perusing publications	335
Networking with advisors	335
Knocking on some doors	335
Working with business brokers	336
Considering a Franchise or Multilevel Marketing Company	338
Finding a franchise	338
Considering a multilevel marketing company	340

Evaluating a Small Business	342
Doing due diligence	343
Determining a business's value	345
PART 5: INVESTING RESOURCES	347
CHAPTER 16: Selecting Investing Resources Wisely	349
Dealing with Information Overload	350
Separating Financial Fact from Fiction	352
Understanding how advertising corrupts the quality of investment advice	352
Recognizing quality resources	354
CHAPTER 17: Navigating Financial Media and Publications	359
In Print: Magazines and Newspapers	359
Judging the journalists	359
Making the most of financial publications	362
Broadcasting Hype: Radio, Podcasts, and Television Programs	362
You often get what you pay for	363
Information and hype overload	363
Poor method of guest selection	364
Fillers and Fluff: Being Wary of Investment Newsletters	365
CHAPTER 18: Selecting the Best Investment Books	367
Being Wary of Infomercial Books	368
Understanding how authors may take advantage of you	368
Learning by example	368
Ignoring Unaudited Performance Claims	371
Investing Books Worth Reading	373
A Random Walk Down Wall Street	373
Stocks for the Long Run	374
Built to Last and Good to Great	374
Mutual Funds For Dummies	375
CHAPTER 19: Investigating Internet and Software Resources	377
Evaluating Investment Software	378
Taking a look at investment tracking software	378
Considering investment research software	381
Investigating Internet Resources	383
Assessing online resources	383
Picking the best investment websites	385

PART 6: THE PART OF TENS	389
CHAPTER 20: Ten Investing Obstacles to Conquer	391
Trusting Authority	391
Getting Swept Up by Euphoria	392
Being Overconfident.....	393
Giving Up When Things Look Bleak	393
Refusing to Accept a Loss.....	395
Overmonitoring Your Investments	395
Being Unclear about Your Goals.....	396
Ignoring Important Financial Problems	396
Overemphasizing Certain Risks.....	397
Believing in Gurus	398
CHAPTER 21: Ten Things to Weigh When Considering an Investment Sale	399
Remembering Preferences and Goals	399
Maintaining Balance in Your Portfolio	400
Deciding Which Ones Are Keepers	401
Tuning In to the Tax Consequences	401
Figuring Out What Shares Cost	402
Selling Investments with Hefty Profits	403
Cutting Your (Securities) Losses	404
Dealing with Unknown Costs.....	404
Recognizing Broker Differences	405
Finding a Trustworthy Financial Advisor	405
CHAPTER 22: Ten Tips for Investing in a Down Stock Market ...	407
Don't Panic	407
Keep Your Portfolio's Perspective in Mind.....	408
View Major Declines as Sales.....	409
Identify Your Portfolio's Problems	410
Avoid Growth Stocks If You Get Queasy Easily	410
Tune Out Negative, Hyped Media.....	411
Ignore Large Point Declines but Consider the Percentages	411
Don't Believe You Need a Rich Dad to Be a Successful Investor ...	412
Understand the Financial Markets	413
Talk to People Who Care about You.....	413
INDEX	415

Introduction

With each new edition of this investing guide, I find that the core investment philosophy I discuss within it has stood the tests of time and changing market forces.

During the financial crisis of 2008, things got scary. Large Wall Street firms were going under, stock prices were plummeting, and layoffs and unemployment rates were soaring. And all this was happening in the midst of the 2008 presidential election. Talk of another Great Depression was in the air. In fact, polls showed a majority of Americans feared that another depression was actually happening. Housing prices were dropping sharply in most communities, and more and more properties were ending up in foreclosure.

Investing didn't seem so fun anymore. However, even though the downturn was the worst in decades, it had similarities to prior downturns, and people who kept their sense of perspective and followed my advice have enjoyed tremendous returns since the market bottom.

Now, fast forward to 2020. The United States was enjoying one of the longest continuous periods of economic expansion and the unemployment rate had sunk to a 50-year low. Stock prices continued to rise to new highs despite periodic setbacks. And then the coronavirus upset the good times and quickly reminded us that investing involves risks and sharp price declines, often when least expected. Stocks surged to new highs in 2024 despite concerns of higher inflation in recent years.

I know from working with people of modest and immodest economic means that they increase their wealth by doing the following:

- » Living within their means and systematically saving and investing money, ideally in a tax-favored manner
- » Buying and holding a globally diversified portfolio of stocks
- » Building their own small business
- » Investing in real estate

This book explains each of these wealth boosters in detail. Equally, if not more important, however, is the information I provide to help you understand and choose investments compatible with your personal and financial goals.

About This Book

The best investment vehicles for building wealth — stocks, real estate, and small business — haven't changed. But you still need money to play in the investment world. Like the first edition of *Investing For Dummies*, the 10th edition of this national bestseller includes complete coverage of these wealth-building investments as well as other investments. Among the biggest changes in this edition are:

- » **I've updated the data and examples in this book to provide you the latest insights and analyses.** Having trouble comprehending whether the Federal Reserve's interest rate policy and stubborn inflation will impact the stock market? Worried what impact the election will have on the economy and financial markets? Confused with the increasing array of retirement account savings options such as individual 401(k)s and Roth 401(k)s? Curious how current and potential future tax laws may impact your investment strategies? Wondering why people are talking about cryptocurrencies like Bitcoin, Ethereum, and Solana, and crypto ETFs, and whether you should invest? Contemplating using an online broker that is advertising "free" trading? Weighing whether and where to invest in real estate given current market conditions? Wondering what the best ways are to invest globally? Having trouble making sense of various economic indicators and what they mean to your investment strategy? You can find the answers to these questions and many more in this edition.
- » **I offer more information on investing resources.** With the tremendous growth in websites, software, apps, publications, media outlets, and other sources of investing advice and information, you're probably overwhelmed in choosing among the numerous investing research tools and resources. Equally problematic is figuring out who you can trust — and who to ignore. So many pundits and prognosticators claim excellent track records for their past predictions, but who, really, can you believe? I explain how to evaluate the quality of current investment tools and resources, and I provide some lists of proven, quality resources.

To build wealth, you don't need a fancy college or graduate-school degree, and you don't need a rich dad (or mom), biological or adopted! What you do need is a desire to read and practice the many simple yet powerful lessons and strategies in this book.

Seriously, investing intelligently isn't rocket science. By all means, if you're dealing with a complicated, atypical issue, get quality professional help. If you do decide to hire someone, you'll be much better prepared if you educate yourself. Doing so can also help you focus your questions and assess that person's competence.

Foolish Assumptions

Every book is written with a certain reader in mind, and this book is no different. Here are some assumptions I made about you:

- » You may have some investments, but you're looking to develop a full-scale investment plan.
- » You'd like to strengthen your portfolio.
- » You want to evaluate your investment advisor's or broker's advice or other investment ideas.
- » You have a company-sponsored investment plan, like a 401(k), and you're looking to make some decisions or roll it over into a new plan.

If one or more of these descriptions sound familiar, you've come to the right place.

Icons Used in This Book

Throughout this book, icons help guide you through the maze of suggestions, solutions, and cautions. I hope the following images make your journey through investment strategies smoother.



ERIC'S
PICKS

If you see this icon, I'm pointing out companies, products, services, and resources that have proved to be exceptional over the years. These are resources that I would or do use personally or would recommend to my friends and family.



INVESTIGATE

I use this icon to highlight an issue that requires more detective work on your part. Don't worry, though; I prepare you for your work so you don't have to start out as a novice gumshoe.



REMEMBER

I think the name says it all, but this icon indicates something really, really important — don't you forget it!



TECHNICAL
STUFF

Skip it or read it; the choice is yours. You'll fill your head with more stuff that may prove valuable as you expand your investing know-how, but you risk overdosing on stuff that you may not need right away.



TIP

This icon denotes strategies that can enable you to build wealth faster and leap over tall obstacles in a single bound.



WARNING

This icon indicates treacherous territory that has made mincemeat out of lesser mortals who have come before you. Skip this point at your own peril.

Beyond the Book

In addition to the material in the print or e-book you're reading right now, this product comes with a free access-anywhere Cheat Sheet that can set you on the path to successful investing. To get this Cheat Sheet, simply go to www.dummies.com and search for "Investing For Dummies Cheat Sheet" in the Search box.

Where to Go from Here

If you have the time and desire, I encourage you to read this book in its entirety. It provides you with a detailed picture of how to maximize your returns while minimizing your risks through wealth-building investments. But you don't have to read this book cover to cover. If you have a specific question or two that you want to focus on today, or if you want to find some additional information tomorrow, that's not a problem. *Investing For Dummies*, 10th Edition, makes it easy to find answers to specific questions. Just turn to the table of contents or the index to locate the information you need. You can get in and get out, just like that.

1

Getting Started with Investing

IN THIS PART . . .

Get familiar with the different types of investments you have to choose from, including stocks, bonds, real estate, small business, and funds.

Deepen your understanding of risks and returns so you can make informed investing decisions and react to changes in the market.

Make wise investing decisions that fit with your overall financial situation and goals.

IN THIS CHAPTER

- » Defining investing
- » Seeing how stocks, real estate, and small business ownership build long-term wealth
- » Understanding the role of lending and other investments
- » Knowing where not to invest your money

Chapter **1**

Exploring Your Investment Choices

If you want to accomplish important personal and financial goals, such as owning a home, starting your own business, helping your kids through college (and spending more time with them when they're young), retiring comfortably, and so on, you must know how to invest well.

It's been said, and too often quoted, that the only certainties in life are death and taxes. To these two certainties I add one more: being confused by and ignorant about investing. Because investing is a confounding activity, you may be tempted to look with envious eyes at those people in the world who appear to be savvy with money and investing. Remember that everyone starts with the same level of financial knowledge: none! *No one* was born knowing this stuff! The only difference between those who know and those who don't is that those who know have either devoted their time and energy to acquiring useful knowledge about the investment world or have had their parents instill a good base of investing knowledge.

Getting Started with Investing

Before I discuss the major investing alternatives in the rest of this chapter, I want to start with something that's quite basic yet important. What exactly do I mean when I say "investing"? Simply stated, *investing* means you have money put away for future use.

You can choose from tens of thousands of stocks, bonds, mutual funds, exchange-traded funds, and other investments. Unfortunately for the novice, and even for the experts who are honest with you, knowing the name of the investment is just the tip of the iceberg. Underneath each of these investments lurks a veritable mountain of details.



REMEMBER

If you wanted to and had the ability to quit your day job, you could make a full-time endeavor out of analyzing economic trends and financial statements and talking to business employees, customers, suppliers, and so on. However, I don't want to scare you away from investing just because some people do it on a full-time basis. Making wise investments need not take a lot of your time. If you know where to get high-quality information and you purchase well-managed investments, you can leave the investment management to the best experts. Then you can do the work that you're best at and have more free time for the things you really enjoy doing.

An important part of making wise investments is knowing when you have enough information to do things well on your own versus when you should hire others. For example, foreign stock markets are generally more difficult to research and understand than domestic markets. Thus, when investing overseas, hiring a good money manager, such as through a mutual or exchange-traded fund, makes more sense than going to all the time, trouble, and expense of picking individual international stocks.

I'm here to give you the information you need to make your way through the complex investment world. In the rest of this chapter, I clear a path so you can identify the major investments and understand the strengths and weaknesses of each.

Building Wealth with Ownership Investments



ERIC'S
PICKS

If you want your money to produce returns higher than the rate of inflation over the long term and you don't mind a bit of a roller-coaster ride from time to time in your investments' values, ownership investments are for you. *Ownership investments* are those investments where you own an interest in some company or

other asset (such as stock, real estate, or a small business) that has the ability to generate revenue and profits.

Observing how the world's richest have built their wealth is enlightening. Not surprisingly, many of the champions of wealth around the globe gained their fortunes largely through owning a piece (or all) of a successful company that they (or others) built.

In addition to owning their own businesses, many well-to-do people have built their nest eggs by investing in real estate and the stock market. With softening housing prices in many regions in the late 2000s, some folks newer to the real estate world incorrectly thought that real estate was a loser, not a long-term winner. Likewise, the stock market goes through down periods but does well over the long term. (See Chapter 2 for the scoop on investment risks and returns.)

And, of course, some people come into wealth through an inheritance. Even if your parents are among the rare wealthy ones and you expect them to direct big bucks to you, you need to know how to invest that money intelligently.



REMEMBER

If you understand and are comfortable with the risks and take sensible steps to *diversify* (you don't put all your investment eggs in the same basket), ownership investments are the key to building wealth. For most folks to accomplish typical longer-term financial goals, such as retiring, the money that they save and invest needs to grow at a healthy clip. If you dump all your money in bank accounts that pay little if any interest, you're more likely to fall short of your goals.

Not everyone needs to make their money grow, of course. Suppose that you inherit a significant sum and/or maintain a restrained standard of living and work well into your old age simply because you enjoy doing so. In this situation, you may not need to take the risks involved with a potentially faster-growth investment. You may be more comfortable with *safer* investments, such as paying off your mortgage faster than necessary. (Chapter 3 helps you think through such issues.)

Entering the stock market

Stocks, which are shares of ownership in a company, are an example of an ownership investment. If you want to share in the growth and profits of companies like Skechers (footwear), you can! You simply buy shares of their stock through a brokerage firm. However, even if Skechers makes money in the future, you can't guarantee that the value of its stock will increase.



You don't need an MBA or a PhD to make money in the stock market. If you can practice some simple lessons, such as making regular and systematic investments and investing in proven companies and funds while minimizing your investment expenses and taxes, you should make decent returns in the long term.

However, I don't think you should expect that you can "beat the markets," and you certainly are not likely to beat the best professional money managers at their own full-time game. This book shows you time-proven, non-gimmicky methods to make your money grow in the stock market as well as in other financial markets. I explain more about stocks and mutual and exchange-traded funds in Part 2.

Owning real estate

People of varying economic means build wealth by investing in real estate. Owning and managing real estate is like running a small business. You need to satisfy customers (tenants), manage your costs, keep an eye on the competition, and so on. Some methods of real estate investing require more time than others, but many are proven ways to build wealth.

John, who works for a city government, and his wife, Linda, a computer analyst, have built several million dollars in investment real estate *equity* (the difference between the property's market value and debts owed) over the decades. "Our parents owned rental property, and we could see what it could do for you by providing income and building wealth," says John. Investing in real estate also appealed to John and Linda because they didn't know anything about the stock market, so they wanted to stay away from that. The idea of *leverage* — making money with borrowed money — on real estate also appealed to them.

John and Linda bought their first property, a duplex, when their combined annual income (decades ago) was just \$35,000. Every time they moved to a new home, they kept the prior one and converted it to a rental. Now in their 60s, John and Linda own seven pieces of investment real estate and are multimillionaires. "It's like a second retirement, having thousands in monthly income from the real estate," says John.

John readily admits that rental real estate has its hassles. "We haven't enjoyed getting some calls in the middle of the night, but now we have a property manager who can help with this when we're not available. It's also sometimes a pain finding new tenants," he says.

Overall, John and Linda figure that they've been well rewarded for the time they spent and the money they invested. The income from John and Linda's rental properties also allows them to live in a nicer home.

WHO WANTS TO INVEST LIKE A MILLIONAIRE?

Having a million dollars isn't nearly as rare as it used to be. In fact, according to the Spectrem Group, a firm that conducts research on wealth, about 12 million U.S. households now have at least \$1 million in wealth (excluding the value of their primary home). More than 1.5 million households have \$5 million or more in wealth.

Interestingly, households with wealth of at least \$1 million rarely let financial advisors direct their investments. Only one of ten such households allows advisors to call the shots and make the moves, whereas 30 percent don't use any advisors at all. The remaining 60 percent consult an advisor on an as-needed basis and then make their own moves.

As in past surveys, recent wealth surveys show that affluent investors achieved and built on their wealth with ownership investments, such as their own small businesses, real estate, and stocks.



TIP

Ultimately, to make your money grow much faster than inflation and taxes, you must take some risk. Any investment that has real growth potential also has shrinkage potential! You may not want to take the risk or may not have the stomach for it. In that case, don't despair: I discuss lower-risk investments in this book as well. You can find out about risks and returns in Chapter 2.

Running a small business

I know people who have hit investing home runs by owning or buying businesses. Unlike the part-time nature of investing in the stock market, most people work full time (and then some) at running their businesses, increasing their chances of doing something big financially with them.



REMEMBER

If you try to invest in individual stocks, by contrast, you're likely to work at it part time, competing against professionals who invest practically around the clock. Even if you devote almost all your time to managing your stock portfolio, you're still a passive bystander in businesses run by others. When you invest in your own small business, you're the boss, for better or worse.

For example, a decade ago, Calvin set out to develop a corporate publishing firm. Because he took the risk of starting his business and has been successful in slowly building it, today, in his 50s, he enjoys a net worth of more than \$10 million and can retire if he wants. Even more important to many business owners — and the

reason that financially successful entrepreneurs such as Calvin don't call it quits after they've amassed a lot of money — are the nonfinancial rewards of investing, including the challenge and fulfillment of operating a successful business.

Similarly, Sandra has worked on her own as an interior designer for more than two decades. She previously worked in fashion as a model, and then she worked as a retail store manager. Her first taste of interior design was redesigning rooms at a condominium project. "I knew when I did that first building and turned it into something wonderful and profitable that I loved doing this kind of work," says Sandra. Today, Sandra's firm specializes in the restoration of landmark hotels, and her work has been written up in numerous magazines. "The money is not of primary importance to me," she says. "My work is driven by a passion . . . but obviously it has to be profitable." Sandra has also experienced the fun and enjoyment of designing hotels throughout the United States and overseas.

Most small-business owners (myself included) know that the entrepreneurial life isn't a smooth walk through the rose garden — it has its share of thorns. Emotionally and financially, entrepreneurship is sometimes a roller coaster. In addition to receiving financial rewards, however, small-business owners can enjoy seeing the impact of their work and knowing that it makes a difference. Combined, Calvin's and Sandra's firms created dozens of new jobs.



TIP

Not everyone needs to be sparked by the desire to start her own company to profit from small business. You can share in the economic rewards of the entrepreneurial world through buying an existing business or investing in someone else's budding enterprise. I talk more about evaluating and buying a business in Part 4.

Generating Income from Lending Investments

Besides ownership investments (which I discuss in the earlier section "Building Wealth with Ownership Investments"), the other major types of investments include those in which you lend your money. Suppose that, like most people, you keep some money in a bank, either locally or online — most likely in a checking account but perhaps also in a savings account or certificate of deposit (CD). No matter what type of bank account you place your money in, you're lending your money to the bank.



TECHNICAL
STUFF

How long and under what conditions you lend money to your bank depends on the specific bank and the account that you use. With a CD, you commit to lend your money to the bank for a specific length of time — perhaps six months or even one or more years. In return, the bank probably pays you a higher rate of interest than