LEARNING MADE EASY

Investing

for dummies®

A Wiley Brand

Manage your portfolio in all economies

Get up to speed on the latest tax laws

Choose your shares with confidence

David Stevenson
Author of *Investing in Shares For Dummies*
Eric Tyson, MBA

Investing

by David Stevenson and Eric Tyson, MBA

for dummies®
A Wiley Brand

Investing For Dummies®

Published by: **John Wiley & Sons, Inc.,** 111 River Street, Hoboken, NJ 07030-5774, www.wiley.com

Published simultaneously in Canada

For general information on our other products and services, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002. For technical support, please visit https://hub.wiley.com/community/support/dummies.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at http://booksupport.wiley.com. For more information about Wiley products, visit www.wiley.com.

Library of Congress Control Number: 2025939646

ISBN 978-1-394-35115-2 (pbk); ISBN 978-1-394-35116-9 (epub); ISBN 978-1-394-35117-6 (epdf)

Contents at a Glance

Table of Contents

Introduction

With each new edition of this investing guide, the core investment philosophy discussed in this book has stood the test 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 US presidential election. Talk of another Great Depression (Great Slump in the UK) was in the air. 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 the advice in this book have enjoyed tremendous returns since the market bottom.

Fast-forward to 2020. 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.

Everyone can increase their wealth by doing the following:

- Living within their means and systematically saving and investing money, ideally in a tax-favoured manner
- Buying and holding a globally diversified portfolio of stocks
- Investing in property

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

About This Book

The best investment vehicles for building wealth — stocks and property — 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 international bestseller includes complete coverage of these wealth-building investments as well as other investments. Among the biggest changes in this edition:

- **The data and examples in this book have been updated to provide you with the latest insights and analyses.** Having trouble comprehending whether the Federal Reserve or Bank of England's interest rate policy and stubborn inflation will impact the stock market? Worried about what impact the election will have on the economy and financial markets? Confused with the increasing array of pension account savings options? 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 property 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.
- 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? This book explains how to evaluate the quality of current investment tools and resources, and provides some lists of proven, quality resources.

To build wealth, you don't need a fancy graduate-school degree, and you don't need a rich dad (or mum), 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 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. The following icons make your journey through investment strategies smoother.

ERIC'S PICKS

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

INVESTIGATE

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

REMEMBER

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, we encourage you to read this book in its entirety. It provides you with a detailed picture of how to maximise your returns while minimising 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 . . .

Become familiar with the different types of investments you have to choose from, including stocks, bonds, property, 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, bonds, and property 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 we 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 had parents who instilled in them a good base of investing knowledge.

Getting Started with Investing

Before we discuss the major investing alternatives in the rest of this chapter, we want to start with something that's quite basic yet important. What exactly do we mean when we 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 endeavour out of analysing economic trends and financial statements and talking to business employees, customers, suppliers, and so on. However, we 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, European and many international 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.

We're here to give you the information you need to make your way through the complex investment world. In the rest of this chapter, we 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 or property) 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 an investment firm. However, even if Skechers makes money in the future, you can't guarantee that the value of its stock will increase.

REMEMBER

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 minimising your investment expenses and taxes, you should make decent returns in the long term.

However, we 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. We explain more about stocks and mutual and exchange-traded funds in Part 2.

Owning property

People of varying economic means build wealth by investing in property. Owning and managing property 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 property investing require more time than others, but many are proven ways to build wealth.

John, who works for a local government, and his wife, Linda, a computer analyst, have built several million pounds in investment property *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 property 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 flat, 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.

WHO WANTS TO INVEST LIKE A MILLIONAIRE?

Having a million pounds isn't nearly as rare as it used to be. In fact, according to the government numbers organisation, the Office for National Statistics (ONS), around 3.6 million households in Britain had wealth in excess of £1 million, according to the latest data (collected in 2016). This was up 29 per cent on the figures collected two years before. Interestingly, households with wealth of at least £1 million rarely let financial advisors direct their investments. The UK is like the US where surveys show that only one of ten such households allows advisors to call the shots and make the moves, whereas 30 per cent don't use any advisors at all. The remaining 60 per cent 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, property, and stocks.

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.

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: we discuss lower-risk investments in this book as well. You can find out about risks and returns in Chapter 2.

Generating Income from Lending Investments

Besides ownership investments (which we 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 current account but perhaps also in a savings account. 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 fixed rate savings bond, 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 if you put your money in a bank account offering you immediate access to the money. (You may demand termination of the savings bond early; however, you'll usually be penalised.)

THE DOUBLE WHAMMY OF INFLATION AND TAXES

REMEMBER

Bank accounts and bonds that pay a decent return are reassuring to many investors. Earning a small amount of interest sure beats losing some or all of your money in a risky investment.

The problem is that money in a savings account, for example, that pays 1.5 per cent isn't actually yielding you 1.5 per cent. It's not that the bank is lying; it's just that your investment bucket contains some not-so-obvious holes.

The first hole is taxes. When you earn interest, you must pay taxes on it. If you're a moderate-income earner, you may end up losing about a fifth of your interest to taxes. Your 1.5 per cent return is now down to 1.2 per cent.

But the second hole in your investment bucket can be even bigger than taxes: inflation. Although a few products become cheaper over time (computers, for example), most goods and services increase in price. Inflation in the United Kingdom has been running about 2.5 per cent per year over recent years (3 per cent over the much longer term). Inflation depresses the purchasing power of your investments' returns. If you subtract the 2.5 per cent "cost" of inflation from the remaining 1 per cent after payment of taxes, we're sorry to say that you've lost 1 per cent on your investment.

For every pound you saved in the bank a year ago, despite the fact that the bank paid you your 1.5 pence of interest, you're left with only 99 pence in real purchasing power for every pound you had a year ago. In other words, thanks to the inflation and tax holes in your investment bucket, you can buy less with your money now than you could have a year ago, even though you've invested your money for a year.

As we discuss in more detail in Chapter 7, you can also invest your money in bonds, another type of lending investment. When you purchase a bond that's been issued by the government or a company, you agree to lend your money for a predetermined period of time and receive a particular rate of interest. A bond may pay you 5 per cent interest over the next ten years, for example.

An investor's return from lending investments is typically limited to the original investment plus interest payments. If you lend your money to Netflix through one of its bonds that matures in, say, ten years, and Netflix triples in size over the next decade, you won't share in its growth. Netflix's stockholders and employees reap the rewards of the company's success, but as a bondholder, you don't; you simply get interest and the face value of the bond back at maturity.

REMEMBER

Some folks keep too much of their money in lending investments, thus allowing others to reap the rewards of economic growth. Although lending investments appear safer because you know in advance what return you'll receive, they aren't that safe. The long-term risk of these seemingly safe money investments is that your money will grow too slowly to enable you to accomplish your personal financial goals. In the worst cases, the company or other institution to which you're lending money can go under and default on your loan.

Considering Cash Equivalents

Cash equivalents are any investments that you can quickly convert to cash without cost to you. With most bank current accounts, for example, you can conduct online transactions to pay bills, do the old-fashioned writing of a cheque, or withdraw cash through an ATM machine or from retailers like a grocery store that enable you to get cash back when making a purchase.

Money market mutual funds are another type of cash equivalent. Investors, both large and small, invest billions of pounds in money market funds because the best money market funds historically have produced higher yields than bank savings accounts. The yield advantage of a money market fund over a savings account almost always widens when interest rates increase because banks move to raise savings account rates about as quickly as molasses on a cold winter day.

Why shouldn't you take advantage of a higher yield? Many bank savers sacrifice this yield because they think that money market funds are risky — but they're not. Money market mutual funds generally invest in safe things such as short-term bank certificates of deposit, government bonds (or *gilts* as they're called), and commercial paper (short-term bonds) that the most creditworthy corporations issue.

Another reason people keep too much money in traditional bank accounts is that the local bank branch office or online bank makes the cash seem more accessible. Money market mutual funds, however, offer many quick ways to get your cash. Most money market mutual funds can be accessed online, just like most bank accounts.

TIP

Move extra money that's dozing away in your bank savings account into a higher-yielding money market fund. Even if you have just a few thousand pounds, the extra yield more than pays for the cost of this book. (See Chapter 8 to find out about money market funds.)

Steering Clear of Futures and Options

Suppose you think that Tesla's stock is a good investment, despite all the recent adverse publicity. The direction that the management team is taking impresses you, and you like the products and services that the company offers. Profits seem to be on a positive trend. Things are looking up.

You can go out and buy the stock. Suppose that it's currently trading at around £100 per share. If the price rises to £150 in the next six months, you've made yourself a 50 per cent profit (£150 – £100 = £50) on your original £100 investment. (Of course, you will incur some brokerage fees to buy and then sell the stock.)

But instead of buying the stock outright, you can buy what are known as *call options* on Tesla. A call option gives you the right to buy shares of Tesla under specified terms from the person who sells you the call option. You may be able to purchase a call option that allows you to exercise your right to buy Tesla stock at, say, £120 per share in the next six months. For this privilege, you may pay £6 per share to the seller of that option (and you'll also pay trading commissions).

If Tesla's stock price skyrockets to, say, £150 in the next few months, the value of your options that allow you to buy the stock at £120 will be worth a lot — at least £30. You can then simply sell your options, which you bought for £6 in the example, at a huge profit — you've multiplied your money five-fold!

WARNING

Although this talk of fat profits sounds much more exciting than simply buying the stock directly and making far less money from a stock price increase, call options have two big problems:

- **You could easily lose your entire investment.** If a company's stock price goes nowhere or rises only a little during the six-month period when you hold the call option, the option expires as worthless, and you lose all — that is, 100 per cent — of your investment. In fact, in this example, if Tesla's stock trades at £120 or less at the time the option expires, the option is worthless.

- **A call option represents a short-term gamble on a company's stock price, not an investment in the actual company.** In this example, Tesla could expand its business and profits greatly in the years and decades ahead, but the value of the call option hinges on the ups and downs of Tesla's stock price over a relatively short period of time (the next six months). If the stock market happens to dip in the next six months, Tesla may get pulled down as well, despite the company's improving financial health.

TIP

Futures are similar to options in that both can be used as gambling instruments. Futures, for example, can deal with the value of commodities such as heating oil, corn, wheat, gold, silver, and pork bellies. Futures have a delivery date that's in the not-too-distant future. (Do you really want bushels of wheat delivered to your home? Or worse yet, pork bellies?) You can place a small down payment — around 10 per cent — towards the purchase of futures, thereby greatly leveraging your "investment." If prices fall, you need to put up more money to keep from having your position sold. (***Note:*** Futures on financial instruments like stock market indices and interest rates are generally cash settlement rather than physical delivery, and they're an increasingly large part of the market.) Our advice: Don't gamble with futures and options.

TECHNICAL STUFF

The only real use that you may (if ever) have for these *derivatives* (so called because their value is "derived" from the price of other securities) is to hedge. Suppose you hold a lot of a stock that has greatly appreciated, and you don't want to sell now because of the taxes you would owe on the profit. Perhaps you want to postpone selling the stock until next year because you plan on not working or because you can then benefit from a lower tax rate. You can buy what's called a *put option*, which increases in value when a stock's price falls (because the put option grants its seller the right to sell their stock to the purchaser of the put option at a preset stock price). Thus, if the stock price does fall, the rising put option value offsets some of your losses on the stock you still hold. Using put options allows you to postpone selling your stock without exposing yourself to the risk of a falling stock price.

Mulling Over Precious Metals

Over the millennia, gold and silver have served as mediums of exchange or currency because they have some intrinsic value and can't be debased the way paper currencies can (by printing more money). These precious metals are used in jewellery and manufacturing.

As investments, gold and silver perform well during bouts of inflation. For example, from 1972 to 1980, when inflation zoomed into the double-digit range in the United States and the United Kingdom, and stocks and bonds went into the tank, gold and silver prices skyrocketed more than 500 per cent. With precious metals pricing zooming upward in the decade that began in 2000, some feared the return of inflation. Gold and silver moved higher in the aftermath of the COVID-19 pandemic and the higher inflation that resulted from the aggressive expansion of the money supply and government spending.

WARNING

Over the long term, precious metals are lousy investments. They don't pay any dividends, and their price increases may, at best, just keep up with (not keep ahead of) increases in the cost of living. Although investing in precious metals is better than keeping cash in a piggy bank or stuffing it in a mattress, the long-term investment returns aren't nearly as good as quality bonds, stocks, and real estate. (We discuss bonds, stocks, and real estate in detail in Parts 2 and 3.) One way to possibly earn better long-term returns is to invest in a mutual fund or exchange-traded fund containing the stocks of gold and precious metals companies (see Chapter 8 for information).

Contemplating Currencies and Cryptocurrencies

From time to time, you may see some ads or articles touting investing in currencies such as the US dollar, Swiss franc, Japanese yen, and so on. Because such currencies have the backing of their particular country's government, they are usually somewhat stable unless the country has a problematic economic situation (really high inflation) or troublesome finances (extremely high levels of government debt that will make repayment difficult).

REMEMBER

But we shouldn't really call placing your money into a specific currency in the hopes it will rise in value relative to other currencies investing because it's more akin to gambling. Currency movements are influenced by many factors and are nearly impossible to predict, even for investment experts who follow them far more closely than you would.

In recent years, a whole new collection of so-called digital or online "currencies" known as *cryptocurrency* have been promoted by those who created them and hoped to make big returns. We find that far more young adults know about Bitcoin, Ethereum, Solana, and other cryptocurrencies than older folks do. That makes sense since it's a digital currency used for internet transactions.