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Preface

The Power of Compound Interest

Compound interest. The 8th wonder of the world. Do you know the power of compound interest in its entirety? It's the greatest thing in the world...when it's working for you. When it's working against you, it can be one of the most devastating things in the world. A catastrophe, really. I'm just going to take a minute or two to show you the amazing power of compound interest. Then I'll let you decide if you would rather it work for you or against you. Here it is. Compound interest. The good and the bad...

Why Compound Interest is Powerful

Compound interest may be more powerful than you think. If you don't understand exactly how it works, it's helpful to figure it out. And you came to the right place, because I'm about to explain how it works...both for you and against you.

According to some recent polls, most Americans don't actually understand how compound interest works.

Many people think that if you have \$100,000 and you get a 6% annual return, compounded over 30 years, you're left with...\$106,000. Not quite. It would actually be over half a million dollars. Crazy, right? That's compound interest for you.

So what happens exactly?

Interest generally compounds annually, so that means you earn 6% on your principle. Keeping with the above example, the first year your principle is \$100,000, but at the end of that year, you earn 6%. So that means the second year you'll be earning 6% on \$106,000. Making sense yet?

Of course, this is an oversimplified example and it's next to impossible to find a 6% return on your investment that stays at exactly 6% for 30 years, but it does make it a whole lot easier to explain. Got the idea?

Here are a few ways compound interest can be your best friend:

- **Investing** – Just like in the above example, compound interest, over time, can lead to extraordinary results. You continue to earn interest on your money and it continues to grow as it compounds. That’s why a one-time contribution of \$100,000 could easily grow to several times that over your life span.
- **Early Debt Reduction** – I’m about to explain how compound interest can be your worst enemy when you’re in debt, but you can actually take advantage of it with your debt too! By paying extra on your loans, early-on in the term, you will reduce your interest bill by a ton. In fact, with your mortgage, making a few extra payments in the beginning can knock years off the length of the loan. Don’t believe me? [Read this](#).

If you prefer more of a mathematical explanation, here is the formula, with a worked example:

The formula for annual compound interest is $A = P (1 + r/n)^{nt}$:

A = the future value of the investment/loan, including interest

P = the principal investment amount (the initial deposit or loan amount)

r = the annual interest rate (decimal)

n = the number of times that interest is compounded per year

t = the number of years the money is invested or borrowed for

Example:

If an amount of \$5,000 is deposited into a savings account at an annual interest rate of 5%, compounded monthly, the value of the investment after 10 years can be calculated as follows...

$P = 5000$. $r = 5/100 = 0.05$ (decimal). $n = 12$. $t = 10$.

If we plug those figures into the formula, we get:

$A = 5000 (1 + 0.05 / 12)^{12(10)} = 8235.05$.

So, the investment balance after 10 years is \$8,235.05.

You may have seen some examples giving a formula of $A = P (1+r) ^ t$. This simplified formula assumes that interest is compounded once per period, rather than multiple times per period.

Compound Interest as an Enemy

Just like compound interest works for you, it can work against you (which means it's work for somebody else).

When you're investing, it's nice to know that you're interest compounds annually, when you're in debt, it's terrible to know that your interest compounds annually. This means that you pay your APR (Annual Percentage Rate) every year, based on the remaining balance. So if you owe \$10,000 on your car and you have a 14% interest rate, you pay 14% of \$10,000 the first year. After that you pay 14% of the remaining balance each year. Of course that amount is divided over your monthly payments.

This is why, if you have ever looked at your mortgage annuitization schedule, you may have noticed that during the first few years, the majority of your payment is going to interest. That's terrible if you're paying your regular minimum payment, but if you pay extra, you can take a huge chunk out during the early years.

Here are a few ways compound interest can be your worst enemy:

- **Mortgage** – The typical mortgage in the United States is 30 years! That means that even a low interest rate of 2% or 3% can be well over \$100,000 paid in interest over a 30 year note.
- **Consumer Debt** – Credit cards and auto loans are the two most popular forms of consumer debt and two of the most likely to have a high interest rate. The higher the interest rate, the more each percentage matters. In other words, there is a bigger difference between 14% and 15% than there is between 2% and 3%. So those crazy-high interest rates could mean

that you're actually paying more in interest than you are in principle.

The Line Between Investing and Paying Off Debt

I wrote an article about the “pay off your mortgage or invest the money?” debate and I actually [proposed a compromise](#) between the two, but the debate is real. Many people think it's not worth your time to pay off your mortgage early since you can get a better return by investing the money. In other words, you can earn more by investing than you would save by paying off your mortgage early. Obviously this depends on both interest rates.

So where is the line between paying off debt and investing the money?

It's definitely a blurry line. There's no magic number, but when you can consistently earn more by investing than you save by paying off your debt, it's at least worth considering. Just make sure you account for any taxes you may have to pay on capital gains if you're investing in a taxable account.

And here's a general rule: when it comes to high-interest consumer debt, pay it off before you start investing heavily for retirement. Feel free to have your [emergency fund](#) in place and contribute enough to your employer's retirement fund to get the match (if they offer a match), but other than that, the debt comes first.

It simply doesn't make sense to be earning 7% or 8%, while your paying 20% on your credit card's revolving debt. The debt must go.

Remember the power of compound interest and make sure it's working for you, not against you.

This guide will show you how to make it work for you.

Chapter 1

The Basic Rules of Investing

There are few topics that have as much written about them and as much contrasting information as investing.

Just knowing that is enough to scare most people away from investing at all.

Is it really that difficult? Do you really need to devote years of your life to studying the most efficient way to invest?

It would seem that way, but in reality, not at all.

The problem with most investing advice is that someone is profiting (or attempting to profit) from it.

Investing is actually much easier to understand than you may think.

Stop Trying to Pick Hot Stocks

Turn on any business TV show and you're going to see all kinds of people touting hot stock picks and attempting to explain the method to their madness. I can assure you, it's mostly just madness, with some greed on top.

The vast majority of people in the world are terrible at picking stocks. You probably are too. I'm not that great at it.

So should we just give up on the stock market?

Absolutely not! It's the most efficient way to invest for your retirement.

But picking individual stocks isn't the answer. Unless you're willing to devote hours (I'm talking at least 15 or 20 each week) to studying companies and picking winning stocks.

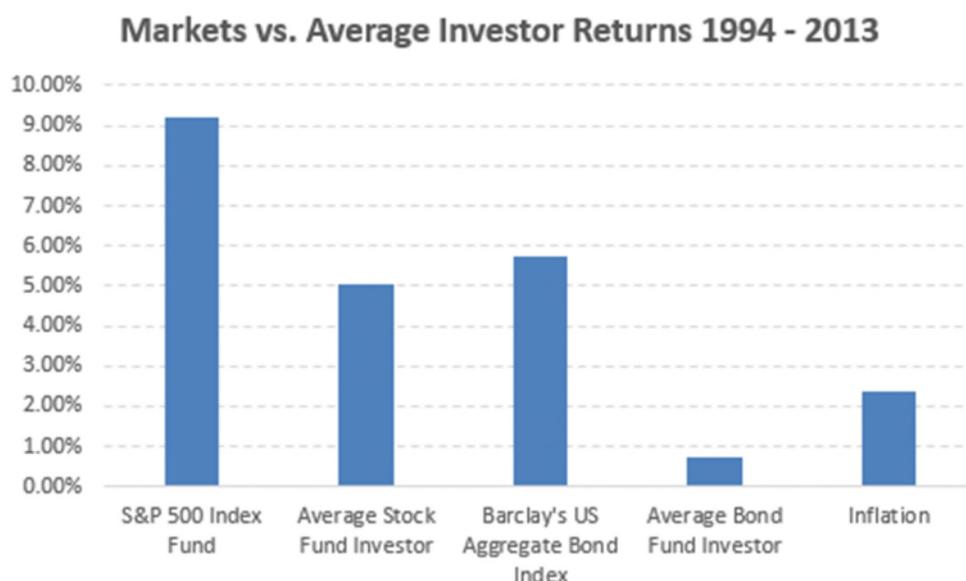
Simple is Better

So what's the answer? You may have already guessed the answer, but I'm going to let you hear it from Warren Buffett first. When Buffett passes away, he wants his Berkshire Hathaway shares to be distributed to charity. This is what he wants done with the remaining cash:

“My advice to the trustee couldn’t be more simple: Put 10% of the cash in short-term government bonds and 90% in a very low-cost S&P 500 index fund. (I suggest Vanguard’s.) I believe the trust’s long-term results from this policy will be superior to those attained by most investors — whether pension funds, institutions or individuals — who employ high-fee managers.”

Did you hear that? Index funds.

Most people who devote much of their time to picking stocks [don’t beat the index](#). Why buy individual companies when you can buy the whole market? Or at least most of it.



It’s easy for a beginner investor to start picking stocks and see a few gains. Then they think they must be good at this. I know I did. Until I realized that my small gains were nowhere close to the massive gains of the market since we were in a very bull market at the time.

You must always compare your earnings to the index. The index is the standard. And to consider yourself a good stock picker, you’ve got to beat the index consistently.

6 Simple Principles of Investing

There are some important things to know about investing, but once you know these rules and understand them, you are in the clear.

- **Invest in index funds.** I know I sound like a broken record, but the average investor should be investing in index funds. It takes a lot of time to research individual stocks and spending all that time doesn't guarantee your success. Also, index funds provide automatic diversification within the stock market and they save your time!
- **Spend your time elsewhere.** You're better off devoting your time to earning more money, improving yourself and doing the things you love. Even if you could beat the index by a few points, is it really worth the time you spend?
- **Avoid paying high fees.** One of the best things about index funds is the low fees. You shouldn't be paying more than 0.5% on a good index fund. And honestly, you shouldn't even be paying that much.
- **Avoid taxes as much as possible.** You'll be avoiding high fees, but don't let Uncle Sam take it either. Find the best ways to shelter your money, legally, from paying taxes. Your company's 401k and/or an IRA is your best bet.
- **Follow Buffet's first rule.** Buffett says the first rule is to not lose money. Why? Probably because a 50% decline fully offsets a 100% gain. Index funds are pretty well protected. Take more risks when you're young, but don't be stupid.
- **Time, not timing, is everything.** Don't try to time the market. You can't. I can't. Can George Soros? It's debatable, but we are not George Soros and buying low and selling high never happens consistently. Save yourself the stress and buy low-cost index funds. Think long term growth.

It's Easy, Right?

Yes and no. The idea is easy, but the discipline and practice isn't. That's why you set up an automatic investing plan.

Not to mention it seems a lot funner to try to pick winning stocks, doesn't it? It's not. Earning a higher return over the long haul will lead to much more fun down the road. But you know that.

That's it. In less than 1,000 words, you know the most efficient way to invest for retirement. This isn't the begin all, end all advice to investing, but it almost is. I know several dividend investors that do well investing in large cap individual dividend stocks. I also know owning Berkshire Hathaway isn't a bad idea and I actually recommend it below.

But all you really need to take away and remember is this:
Invest in low-cost index funds, avoid high fees and shelter from taxes.

You're not going to hear that on TV.

Keep reading to see how to start investing, and for more ideas.

Chapter 2

Learning From the Experts

There's no reason to figure everything out on your own. Plenty of people have went before us, made mistakes, and figured out what they did wrong. Let's learn from them.

3 Lessons a Millionaire Farmer Taught Me About Investing

I have a friend who owns a farm in Missouri. Actually, he owns a whole bunch of farms. Thousands of acres. We will call him Gary. Because that's his name. Gary has taught me so much about money. Some intentional, but some of most valuable lessons were things that he wasn't actually trying to teach me.

Here is what I have learned from Gary and how we can all apply it...

The Life of Gary

Gary grew up in Northern Missouri. He was used to the farm life and planned to own his own farm one day.

Now he owns more farms than he would have imagined. He lives in a very nice home, right next to a nice pond for fishing. It's a peaceful life and he wouldn't have it any other way. So what happened between Gary's childhood and now? Well that leads me to the first lesson Gary taught me...

1. Look for Opportunities and Seize Them

In the 1980s, the value of land dropped to record low prices.

It was devastating for many people who took out high-interest loans to buy million-dollar farms.

Gary saw the value of land plummeting and viewed it as an opportunity.

He started buying as much land as he could. He bought his first farm in his twenties.

He could have been scared off by the worthlessness of the land, but he chose to view it as an opportunity instead.

He was paying \$200-\$300 per acre for nice farmlands. You can add a zero to that for the price per acre today.

Always be looking for opportunities and always be prepared to seize them.

2. Explore All Your Options

There could be ways for you to make money right now that you don't even know about.

Gary did some research and figured out about conservation programs for some of his unused land. Basically, the government pays him a certain amount of money per acre to not farm that part of his land. They only require that he mows it every few years. If he didn't know about that, he would have been making thousands of dollars less than he has been making for many years now.

He also learned that the government will stock your man-made ponds for free.

What? Free food, fishing and fun provided by the government?

That never happens. Apparently, it does.

It was through research and learning that Gary was able to figure out about these options, and these are just a few of them.

Always explore all your options for whatever you're interested in.

3. Do What Works for You

Gary is a farmer.

Farming works for him. He became a millionaire doing it.

Figure out what your opportunity is and what your options are.

You may not have a desire to run a farm, but you can still learn a valuable lesson here.

What opportunity will come in your lifetime? My guess is that you will have many. If you watch for them.

Gary invested in undervalued land. Now he is a millionaire.

Warren Buffett invested in undervalued companies. Now he is a billionaire.

Figure out what works for you and look for opportunities accordingly.

The Important Stuff

I have come to realize that if you keep the right mindset, success will follow you.

It's important to always be learning. Constantly. We can learn from everyone if we want to.

Some people teach us what to do. Some people teach us what not to do.

Take something away from every experience. Use it to learn and grow as a human being.

Most importantly, never stop do that.

5 Priceless Investing Lessons From 6 Influential Billionaires

In 1982, when Forbes began ranking the richest people in the world, the qualification to be listed was only \$75 million.

At that time, there were 13 billionaires on the list.

Today there are over 1,400 billionaires around the world.

From the stock market to businesses to commodities, they are all involved in some form of investing.

Here are some investing lessons we can learn from them...

1. Think Long Term

“Someone is sitting in the shade today, because someone planted a tree a long time ago.” **Warren Buffett**

CEO, Berkshire Hathaway

Buffett is famous for being a “value investor”.

He buys stock in undervalued companies and holds them for a long time...preferably, forever.

Successful investing is not a get-rich-quick scheme.

Beware of hot stock tips, brand new company start-ups and shady investments that promise unusually high returns.

The bottom line: Go for long-term, stable investments over short-term, isky investments.

2. Make Mistakes (In a Good Way)

“Only those who are asleep makes no mistakes.” **Ingvar**

Kamprad

Founder, IKEA

This type of thinking is common among successful people and successful investors.

Your mistakes are usually a determining factor of your success.

More success means more mistakes.

One of the richest men in the world also holds this mindset and that should tell you something...

“Success is a lousy teacher. It seduces smart people into thinking they can’t lose.” **Bill Gates**

Founder, Microsoft

The results are in. Successful people are good at failing.

The bottom line: Don't be afraid to make mistakes. Use them to learn and grow.

3. Notice What People Do, Not What They Say

“As I grow older, I pay less attention to what men say. I just watch what they do.” **Andrew Carnegie**

Founder, Carnegie Steel Company

Who are you taking financial advice from?

Most people love to talk. They love to “give advice,” but is their money where their mouth is?

Do they practice what they preach? And how's that working out for them?

Successful investing (success in general, really) is about taking action, not just talking about it.

The bottom line: Only listen to successful people; people who do what they say.

4. Do What Everybody Else Isn't Doing

“Ignore the conventional wisdom. If everybody else is doing it one way, there's a good chance you can find your niche by going in exactly the opposite direction.” **Sam Walton**

Founder, Walmart

Wall Street is full of unsuccessful investors. Don't get caught following the herd.

If everyone is doing it, you should (at minimum) be skeptical. (Think [Enron](#))

The bottom line: Never make an investment, just because everyone else is doing it or just because someone told you to. Do your research and make wise investment choices.

5. Invest in Businesses, Not Earnings

“I look at companies as businesses, while Wall Street analysts look for quarterly earnings performance. I buy assets and potential productivity. Wall Street buys earnings, so they miss a lot of things that I see in certain situations.” **Carl Icahn**
Founder, Icahn Enterprises

Casinos are a great place to have a lot of fun and lose a lot of money.

You don't need the stock market for that.

Don't get caught up in day trading before you know what's going on.

Your chances are better on the card tables.

You should be investing in the business, not chasing high earnings from one day to the next.

Furthermore, the price of a stock should be one of the least important factors in your decision when you are looking to buy into a company.

The bottom line: Research the company. Invest in the company. Don't worry about market hype and what the people on TV are saying.

Chapter 3

The Stock Market Explained

So, you're interested in investing in the stock market. Perhaps, some individual stocks.

I won't stop you. I think it's a blast, and I have several.

But it is risky. Just know that. Of course, you can dramatically reduce the risk by being smart about it.

And that's what you're doing right now.

So let's dive a little deeper into some terms and how stocks work.

Stock Market Order Types

When you go to buy your first stock, you may be a little confused about the terms involved. Especially the stock market order types. These are simple terms once you understand them and they may be highly beneficial to your stock portfolio.

The main terms you need to know initially are the terms for stock market order types. These are the basic ways you can order a stock.

Buy/Sell Market Order

Most of the terms are fairly self-explanatory and a market order is the most simple. A *market order* means you purchase X amount of shares for whatever the current market price is at. That's it! So far, so good, right?

Buy/Sell Limit Order

A *limit* is a way to protect yourself.

You can set a *sell limit order* to sell your stock only at a certain price or higher. Or you can set a *buy limit order* to buy your stock only at a certain price or lower. Setting a *limit* is usually better than buying or selling at market value, because the market can change drastically and suddenly.

You can set a *limit* for the day only or you set it as “good until canceled,” which usually expires after 30 days if the price wasn’t met. If your price wasn’t met, the purchase is cancelled. No harm, no foul.

Buy/Sell Stop Order

A *stop order* is an order that you can set to buy or sell a stock once it reaches a certain price that you specify. A *stop order* turns into a *market order* once the stop price is reached. A *buy stock order* is set at a price above the current market value and a *sell stop order* is set at a price below the current market value. This is a way to protect yourself against losing too much on a stock.

Buy/Sell Stop-Limit Order

As it sounds, this is a combination of a *stop order* and a *limit order*. Once the price of a stock reaches a specified price, it turns into a *limit order*.

This way you can use a *stop order*, but control the price that you buy or sell at. Many traders use this type of order, as well as regular *stop orders*, for extremely high-risk stocks, such as penny stocks.

What You Need to Know

If you are planning on being a day-trader as opposed to an investor, then it may help you to do more research on stock order types, but for the investor who plans to hold their stocks for a very long time, you will not have as much use for these tools.

Trading and especially day-trading can be a very risky and dangerous business, but if you choose to take that path, please do your research on all types of stock orders.

What Causes the Price of a Stock to Rise or Fall?

Have you ever consistently watched the price of a stock?

You probably noticed that the price changed everyday. It may have went up one day, down the next and back up the following day. That's typical for any stock.

But what causes a stock price to change so often?

It's simple, all kinds of things...

What We Don't Know

So, why does a stock price change?

The short answer is: nobody knows specifically.

“The Dow is down 50 points as investors react to news of [X].”

Stop it, you're just making stuff up. “Stocks are down and no one knows why” is the only honest headline in this category.

**Taken from Morgan Housel's article “Stupid Things Financial People Say“*

There are many reasons for a stock price to change, but there is no one person that can tell you exactly why a specific stock's price changed on any given day.

Enough about what we don't know, let's talk about what we do know...

The Economist Answer

The most foundational aspect of the stock market (like any market) is supply and demand.

See, like any market, even the mommy market.

It's like anything else, if there are more buyers than sellers, the prices rise. If there are more sellers than buyers, the prices fall.

That explains the basic economic reason that a stock price would change, but that doesn't really help you much, does it?

The Stock Trader Answer

Stock traders are different from investors.

It's not necessarily bad to be a stock trader, but it's not really my idea of sound financial practice and 9 times out of 10 it's about as safe as Vegas.

They start young. Wait...what's with all these babies?
So, what do traders notice about stock prices?

Stock traders attempt to track every single change.

That's a lot, considering that stock prices change all the time due to:

- Company news...good or bad.
- Earnings reports...good or bad.
- Popular stock advisers endorsing or denouncing a stock.
- Analysts opinions.

The Investor Answer

Investors don't really care about stock price changes. Investors are not affected by trivial news and an "earning miss" here or there.

Warren Buffett definitely fits the investor profile, but where did all the babies go?

The market fluctuates. All the time. It's too stressful to worry about every movement.

Investors don't base their decisions on a stock price.

What You Need to Know About Stock Prices

There is one very important thing to understanding about buying stocks...

Stock prices don't matter.

We will never fully know the exact reason for a stock price change in any situation.

A stock price alone doesn't show you the value of a company.

We don't invest in a company's stock price, we invest in the company.

Whether you invest in individual stocks, index funds or mutual funds...you shouldn't let stock prices alone affect your decisions. You can watch the market every single day if you want to, but don't let the daily changes lead you to make changes in your portfolio.

Hopefully this article gave you an insight into some things that can affect a stock price...basically everything can.

More importantly, hopefully you understand why stock prices don't matter.

Beating the Market

The Little Book That Beats the Market is a classic book on investing in the stock market.

Author Joel Greenblatt gives an innovative method for choosing stocks.

It's pretty impressive, honestly.

Here are his main ideas, and the "magical formula" he uses.

He actually refers to it as "the magic formula," and it just may be.

Main Idea #1: Invest in Index Funds, If You Don't Want to Put in the Work

I said this in [chapter 1](#). Warren Buffett has said this [before](#). So it's nothing new.

I'm not saying that Buffett and I are on the same playing field, I'm saying that I've said it before and an authority in the world of investing has said it before — two different perspectives indeed.

Let's be honest, you really have two reasonable options when it comes to investing in the stock market:

1. Spend a lot of time finding individual stocks.
2. Invest in index funds if you don't have the time for option one.

That pretty much sums it up. I mean, there are other options, but those are the two that make the most sense. Index funds have much lower fees than active mutual funds, and passive funds almost always beat active funds over the long haul, because around [80% of mutual fund managers](#) don't beat the market. The fact is, [almost no mutual fund manager](#) can beat the market, so why not invest in the market itself?

That's exactly what an index fund does. An index fund is investing in the market.

Feel free to go read about it and see for yourself, but you'll find it to be true. Index funds just make more sense than actively managed funds — over 80% of the time. So if you don't want to put the time in to pick stocks (which takes a lot of time), invest in index funds.

You can [open an IRA](#) with TD Ameritrade in less than 15 minutes and start investing in index funds right now.

If you're still interested in picking stocks and actually beating the market, see main idea #2...

Main Idea #2: Use This Magic Formula to Pick Individual Stocks

Greenblatt gives a formula for picking stocks that has continually outperformed the market, unlike mutual funds.

In fact, over a 17-year period, from 1988 to 2004, a portfolio using "The Magic Formula" returned an average of 30% per year, versus

the market's 12% per year. So what is the magic formula? It's slightly technical, so let's define some terms:

- **Earnings Yield:** A stock's previous year's earnings per share divided by the current share price.
- **Return on Capital (ROC):** The after-tax profit divided by the book value of invested capital.

The **earnings yield** will be the factor that shows whether the stock is selling at a good price or not. So if a company's previous earnings per share was \$0.90, and the stock is trading at \$20/share now, you would divide \$0.90 by \$20 and get 4.5 as the earnings yield. In this example, the earnings yield is pretty low, and the higher the better, so this one may not pass the test, but you get the idea of how to calculate it.

The **return on capital (ROC)** is important, because it shows how well a company can turn investment into profit. The ROC is basically the profit percentage, so if someone invested \$100,000, and earned \$10,000, their ROC would be 10%.

The idea is to buy stocks that have a high ROC, at a low price, and these two numbers above give you that information. These stocks are considered undervalued by Mr. Market. Greenblatt refers to the stock market as Mr. Market and he compares the market to an emotionally unstable person. The comparison makes a lot of sense, but don't avoid investing just because the market reminds you of a crazy ex.

How the Formula Works

The actual magic formula Greenblatt gives you is calculated using the numbers we discovered above.

You start with a list of the largest 3,500 companies on the US stock exchanges (NYSE, NASDAQ, etc.), and then you rank them in order of their returns. The company with the highest ROC is in the first position, and so on. Now take the list of companies and

rank them 1-3,500 according to earnings yield, with the highest is position one.

Now you score the companies...

The companies' scores are determined by adding these two ranks together, so if a company ranked 15 on the first list and 952 on the second list, the company's score would then be 967 ($15+952=967$). The companies with the lowest total score are considered the best buys in this formula.

Once you rank them, start buying. Greenblatt suggests that the more shares you buy, the better your chances of outperforming the market. He recommends buying at least 20-30 large companies (the top 20-30 stocks on the list). He says this works better with larger companies, so if you want to play it safe, stick with companies that are worth at least \$50 million. [TD Ameritrade](#) is also a great platform for buying individual stocks for your IRA.

After one year, you sell the stocks and do the formula all over again. Sell the losses just before the one year mark, and sell the gains just after one year so that they become "long-term" holdings.

Note: Don't expect this formula to perform well every year. The reason professional money managers don't use this formula is because they must constantly show returns, and this formula may go into the negative several years in a row, but over the long term (for retirement planning), this formula will beat the market and the money managers.

Combining the Main Ideas

The main ideas here are simple. One shows a way to invest easily if you don't have the time to devote (index funds), and the other way shows a somewhat complicated method of manual investing that produces larger returns (The Magic Formula).

There is a way to basically combine these two ideas, but it doesn't involve index funds. It simply involves automating The Magic Formula. Greenblatt has created an amazing tool. A resource that streamlines the entire formula.

[Magic Formula Investing](#) is a generator that shows you what the top 30 or 50 stocks are, according to The Magic Formula. Just to give you an example, here's what the top 30 are right now (if you set the market cap at \$50 million):

Company Name (in alphabetical order)	Ticker	Market Cap (\$ Millions)	Price From	Most Recent Quarter Data
Accretive Health Inc	ACHI	234.82	09/19	06/30
Argan Inc	AGX	848.41	09/19	07/31
Avid Technology Inc.	AVID	304.23	09/19	06/30
Barrett Business Services Inc	BBSI	340.46	09/19	06/30
BP Prudhoe Bay Royalty Trust	BPT	368.51	09/19	06/30
Capella Education Co	CPLA	674.48	09/19	06/30
Cherokee Inc	CHKE	85.38	09/19	07/31
Cisco Systems Inc	CSCO	155,286.10	09/19	07/31
Deluxe Corp	DLX	3,263.51	09/19	06/30
Enanta Pharmaceuticals Inc	ENTA	488.27	09/19	06/30
Evolving Systems Inc	EVOL	51.59	09/19	06/30
Five Prime Therapeutics Inc	FPRX	1,456.32	09/19	06/30
Gilead Sciences Inc	GILD	105,135.70	09/19	06/30
HP Inc	HPQ	24,853.92	09/19	07/31
Iconix Brand Group Inc	ICON	421.50	09/19	06/30
Malibu Boats Inc	MBUU	265.19	09/19	06/30
Myriad Genetics Inc	MYGN	1,442.12	09/19	06/30
Natural Health Trends Corp	NHTC	328.68	09/19	06/30
NeuStar Inc	NSR	1,439.61	09/19	06/30
North European Oil Royalty Trust	NRT	68.47	09/19	07/31
PDL BioPharma Inc	PDLI	540.55	09/19	06/30
Silver Spring Networks Inc	SSNI	702.28	09/19	06/30
Syntel Inc	SYNT	3,568.45	09/19	06/30
Teradata Corp	TDC	3,894.07	09/19	06/30
Threshold Pharmaceuticals Inc	THLD	88.67	09/19	06/30
Unisys Corp	UIS	458.75	09/19	06/30
United Therapeutics Corp	UTHR	5,759.78	09/19	06/30
Vectrus Inc	VEC	297.11	09/19	06/30
Viacom Inc	VIAB	14,590.34	09/19	06/30
Wi-LAN Inc	WILN	184.61	09/19	06/30

The more stocks you own, the less risk. To get the overall, average performance of The Magic Formula, you need to own at least 20 stocks. Like I said earlier, the more, the better.

Make an effort to review the stocks, even if you use the generator (which you should definitely use). You don't want to own too many stocks in one sector, but with companies this large, it shouldn't be hard to spread your picks out.

The Magic Formula Quick Review

1. Use the stock screener (or calculate the stocks manually)
2. Buy at least 20 companies from the calculation ([Start an IRA here](#))
3. Sell the stocks after one year (losses just before a year, gains just after)
4. Repeat step 1 and buy all new stocks — at least 20

This method will likely outperform the market by quite a bit, but it does involve more work.

If you prefer to not to do the work, [buy index funds](#).

To read more about this investing method, read Greenblatt's book: *The Little Book That Still Beats the Market*.

But remember, investing in index funds is the easiest, least time-consuming way to invest. Beating the market is possible, but it takes work.

Chapter 4

Understanding Retirement Options

Retirement is always an interesting topic.

It may be so far in the future that you haven't really thought about it, it could be closer than you care to admit, or you could technically be retired right now.

It doesn't matter how old or young you are. The fact is, you need to start thinking about retirement now. Today.

You need to know your options. So I'm going to explain what they are and what to do.

Here's what you need to know about retirement and planning for it...

Retirement Plans 101

Retirement plans aren't that complicated. In fact, you really only have a few primary options:

- **Work Retirement Plans** – These are things like 401(k)s, 403(b)s and Thrift Savings Plans (TSPs), but it also covers things like pensions (if anyone actually still knows what that means). There was a day when almost all major companies offered pensions, which was basically the company saying “if you give us 20, 30, 40 or more years, we'll give you a check for the rest of your life”. Yeah, that doesn't really happen anymore in the US, with the exception of the military, but even that isn't something I would count on. A Simple IRA is another type of company retirement plan, but only for smaller companies with less than 101 employees.
- **Personal Retirement Plans** – This would be your IRA, which is technically and legally known as an Individual Retirement Arrangement since it is simply a shelter to cover an arrangement of investments, not an actual account. There are also SEP IRAs, which are IRAs that are fully funded by the

employer, but most often used for self-employed people to fund their own retirement – that’s why they’re in this section.

- **Unconventional Retirement Plans** – This would cover anything that’s not a typical retirement account. One of the most popular unconventional retirement plans would be to sell your home (given that it’s very expensive) and downsize, using the cash you earn to live on. Of course, this would assume that your home would be paid off by the time you reach retirement. I’ve also known someone who built a subdivision and owner-financed all of the houses, using the mortgage income as retirement income. This type of retirement planning can be risky if it’s your only option. It’s always good to diversify, but especially if your retirement is of this nature.

There are limits to each of these plans; [contribution limits](#), as well as actual limits as to what you can do with them. There are also misconceptions about a lot of these accounts that I address later in this chapter.

Now that you’re familiar with your options, let’s talk about what to do about it...

How to Plan for Retirement

You’ve probably heard about an employer match – this is where your employer will match the money you put into your retirement account (401(k), 403(b), etc.), up to a certain percentage. It’s usually around 6%, though I have known of a company that offered a 100% match. Yes, you should contribute enough to get the match, because it’s free money. It’s like getting a 100% return, but then what? If you want to contribute more than that, do you just put it into your employer retirement plan? Not necessarily... The thing is, you do want to get that free money (employer match), but over that, you’re better off putting your money in an

IRA, because you have thousands of options, as opposed to the handful of options your employer offers. Here's my personal step-system for retirement:

1. Start by contributing enough to your employer retirement plan to get the employer match.
2. If your employer doesn't offer a match or a retirement plan at all, obviously skip that step.
3. [Pay off all your debt](#), except your mortgage (if you have one). This will prepare you to fund your retirement.
4. Fully fund your IRA. If married, fully fund both your and your spouses IRA, [even if your spouse doesn't have a job](#).
5. If you max out your IRA (both if married), continue to contribute to your employer's retirement plan.
6. If your employer doesn't offer a retirement plan, see if a SEP IRA works for you. If so, contribute to that.

Once you've completed all of those steps, you'll be looking good for retirement. If you still have more to contribute, consider opening a standard taxable account, opening/investing directly into a business or investing in some real estate. Either way, the goal is to diversify as much as possible.

What about Traditional vs. Roth plans? Most plans offer both options. Even the TSP and 401(k)s offer a Roth version of the plan. To keep it simple, I suggest investing in a Roth [if you qualify for it](#). If you earn too much to qualify for it, good job! But you'll just have to go with the Traditional plan.

What do you put in your retirement plan? I've explained the different types of plans, but what goes into them? Well, you have a few options. If you're interested in some individual stocks, refer to the last part of [chapter 3](#) or keep reading for some options. If you would rather stick with mutual funds, you should

go with index funds (I explained why in [chapter 1](#)). For the specific index funds based on your age, check out the article, *How to Choose Specific Index Funds for Retirement Based on Your Age*, at the end of this chapter.

How to Get Started

You can open a retirement account with your employer (or ask if they offer one) by speaking with their finance department. You can open an IRA in less than 15 minutes at [TD-Ameritrade](#).

The Benefits of Starting Early: The Life of Bob and Pedro

Let's look at some numbers. You like numbers, right? Well...you probably do when they involve your money. We will use the fictitious characters: Pedro and Bob.



The Story of Pedro

Pedro understands that he needs to start contributing to his retirement at a young age, so he begins to put \$100 into an IRA every month. Let's just say he puts it all into index funds and he averages a measly 8% annual return on his money. Pedro is 20 years old and he contributes to this IRA until he is 50. Pedro will end up with \$146,815.04. Probably not enough for Pedro to

completely stop working, but he is only 50 now and this is assuming that he was never able to contribute more than \$100 per month. Not bad, Pedro!

The Story of Bob

Bob knows everything and in knowing everything, he realizes that he has plenty of time to think about retirement. Despite what Pedro tries to tell him, he waits until he is 35 to even start thinking about it. At the age of 38, Bob finally decides that he can't work as the head-repairman of Chuck E Cheese's for the rest of his life. He will need to start contributing to his retirement. At 38, Bob is starting to realize that he may be a bit behind the game, so he contributes \$400 every month into an IRA. He had heard Pedro mention something about index funds, so he puts it all into those...whatever they are. Since he is using the same index funds as Pedro, we will give Bob the same assumption of an 8% interest rate. Bob contributes until he is 50 (like Pedro) and he will end up with less than \$100,000 (98,377.42 to be exact).

Well...what did we learn, class?

First off, we learned that Bob should really be taking advice from Pedro.

We also learned the compound interest that accumulates is much more powerful than contributing more money.

Bob contributed 4 times the monthly amount that Pedro contributed! But since it was only invested for 12 years, he still ended up with much less money.

Bob actually contributed more in 12 years than Pedro did in 30 years.

Bob: \$57,600 Pedro: \$36,000

Oh, the benefits of starting early.

How to Build a Rock Solid Retirement Portfolio

A little diversity here, a little security there.

There are several components to a well-rounded retirement portfolio.

You shouldn't put all your eggs in one basket, but you don't need a whole bunch of baskets.

It's all about balance.

There are all kinds of ways to create a great portfolio, but you have to start with a solid foundation.

An IRA is a great foundation for retirement, whether it's in addition to your company retirement account or on its own. Let's look at 3 parts to a great IRA...

1. Index Funds

Index funds anyone? Is the S&P 500 the first that comes to mind? I'll start with my favorite. Index funds are indeed my favorite.

Diversity. Stability. Security.

Those are only a few of the things that index funds can provide.

You should have a nice mix of domestic and foreign index funds.

You can choose actively managed mutual funds if you really want to, but they aren't necessary.

You may even want to throw in some bond index funds.

2. Solid Dividend Stocks

It doesn't get much more solid than Coca-Cola, but it's not exactly a health drink.

If you want to throw some individual stocks in your portfolio, try some well established dividend stocks. Think [Dow Jones](#) companies.

Here are a few:

- 3M Co.
- Coca Cola Co.

- Johnson & Johnson
- McDonald's
- Proctor & Gamble Co.

Go for fairly high-yielding dividend stocks, but a high dividend shouldn't be all you look for. Look for companies with a strong brand and strong financials.

It's great to earn a dividend whether the stock price rises or falls. You can reinvest your dividends to keep buying more stock.

Once you reach retirement, you can start receiving income through dividends.

3. Warren Buffett's Picks

Who knew a stock shareholders meeting could be so exciting? Considering that Buffett made his money through investing, I think it's safe to say that he knows what he is doing.

He has created a portfolio of great long-term value stocks, as well as many really solid private companies.

Think of it like a mutual fund that was created and managed by Buffett himself.

If you didn't know, I am talking about [Berkshire Hathaway](#).

This is the one stock that I would recommend to anyone. It's Buffett's holding company for investments and businesses.

Class A Shares (BRK.A) will run you close to \$200,000 each, but for us normal people, we can buy Class B shares (BRK.B) for under \$200 each (at the writing of this article).

With high capital, low debt and an annual growth of 19.7% to its shareholders for the last 48 years, it's really a no-brainer.

Remember That it's YOUR Portfolio

Your retirement portfolio may include more than these funds and stocks...and that's fine.

You can always invest in some income real estate. You can even buy physical commodities like gold and silver. The recommendations here are meant for your IRA. Diversity should include all kinds of investments, not just stocks and other paper assets (see [chapter 6](#)).

This gives you a great idea on where to start and what you may want in your portfolio.

It's *your* portfolio, and only *you* can make the final call.

But what if you don't think you have enough money to start? I've got something for that...

How to Invest for Retirement With Less Than \$100

36% of Americans save absolutely nothing for retirement. 80% of people ages 30-54 believe they will not have enough money saved for retirement when the time comes. You know you need some sort of retirement plan, but can you afford it?

Are you a statistic? Or on your way to becoming one?

Spoiler alert: Yes, you can afford to invest in your retirement

It doesn't take much to get started and it takes even less to keep going.

Here's how you can invest for retirement, even if you think you can't afford it...

What You Need to Know

There are 2 very important things to pay attention to when you are starting with a small amount...

Minimums and fees.

You can't invest what you don't have, so you will need something with a low minimum initial investment.

Fees can be a killer. Especially when you're dealing with small amounts, because fees often stay the same.

Example: If an investment company has a \$9 fee for each transaction, you will be spending a much higher percent on a small amount than you would with a larger amount. \$9 is 9% of \$100, while it's less than 1% of \$1,000. This means you may want to choose a different company or start with an investment that doesn't require a transaction fee. The point is, you don't want to spend 9% in fees if you are only earning 7% or 8% in interest. Always try to keep investing fees at 2% or less.

So, what kind of investments should you be looking at? Let's see...

Start With a Good Foundation (It's Free!)

You can generally start your retirement account for free. That's right! Free!

Not only is it free, but you have options!

If your employer offers a retirement plan, you should look at that first, especially if they offer a match. There usually isn't a minimum to get started.

If your employer doesn't offer a retirement plan, you can open an IRA.

These companies let you open your IRA for free...

- [TD Ameritrade](#)
- [Ally](#)
- [Vanguard](#)
- [USAA](#)

That explains the method you should use, now let's move on to what you can invest in with just a few bucks.

3 Options to Invest With \$100 or Less

There are way more than three options to invest for under \$100, but these are the easiest methods to implement right now...and by the way, there may be a fourth method here, because I couldn't resist — I told you there were more than three!

1. Mutual Funds

The initial investment for mutual funds can be high, but not always. Here are a few mutual funds that you can open with \$100 or less...

- [UFSGX – USAA First Start Growth Fund](#) (\$0 Initial, \$50/month)
- [MYIFX – Monetta Young Investor Fund](#) (\$100 Initial, \$25/month)
- [Guggenheim Partners](#) (Funds starting at \$100 Initial and higher)

Starting with one of these “starter funds” is a great way to begin, but don't stop there. Once you have enough to afford a better mutual fund, start upgrading!

The fund you really want may have a \$1,000 or a \$3,000 minimum (especially if you're looking at index funds), so just climb the ladder. Start with a \$100 minimum fund, then go to a \$500 fund when you get there, then \$1,000, then \$3,000. Work your way to the top. You've got the idea.

2. DRIPs

Dividend Reinvestment Plans (DRIPs) are a great way to start small. A DRIP is a plan that allows you to start as small as buying one share of a company, then continuing to invest your dividends into buying more shares. It compounds over time.

It's a great way to start small and end up with a lot more than you may expect.

3. ETFs

Many companies offer free ETF trading, so you don't pay any commissions. This is definitely a great way to start investing. If you want to trade ETFs for free, look to one of these companies...

- [Vanguard](#)
- [Scottrade](#)
- [Schwab](#)

4. Betterment

I know I said three ways to invest, so consider this a bonus. Betterment is a great way to invest and there is absolutely no minimum to start an account.

Betterment is a website that allows you to invest in different ETFs based on the asset allocation you select. You don't actually pick the specific ETFs, so that may be an issue for some who want to have more control over their investing.

Keep it Going

These are only a few of the options you have for investing with a small amount.

This all goes to show you that anyone can start investing for retirement. It doesn't take much.

Once you start contributing to your retirement, keep going! Even if you can only afford a few dollars every month, contribute something.

Chapter 5

How to Automate Your Retirement

Automation is a word you should be familiar with.

Automation has changed spending, saving and investing.

It's virtually taken the discipline out of it.

Automation, A Substitution for Willpower

It used to be that investing required discipline. Especially long-term investing.

Not anymore.

You can retire wealthy with little to no discipline.

Sure, there is some discipline involved, just like there is some discipline involved in going to work everyday, but that's not much at all. And it's definitely not enough to make excuses for not investing.

It only takes a few minutes to setup an automatic investing system that you can retire on.

Automatic Investing

What kind of investing can be automated?

All kinds. Practically your entire retirement.

You can easily set up an auto-investing plan with:

- Index funds
- Mutual funds
- DRIPs

- 401(k) Plans
- TSP Plans

...to name a few.

So how do you set up all of this automatic stuff?

How to Automate Everything

You can automate your entire budget, which is especially nice if you hate budgets.

This will require you to set everything in place one time and then you can set back and know that you are living responsibly without using a typical budget. Of course, you will still want to monitor your finances, but they will be set.

You may be able to automate more than you think.

Here's how:

- Bills can be paid automatically through the company or through online banking
- Investments (index funds, mutual funds, retirement accounts, etc.) can be drafted automatically
- Savings can be automatically deducted every month
- Giving can even be deducted from your checking account monthly through your church, charity, organization or online banking

What's left after all of that?

Your spending. That's it. **Once you automate all of the things above, then you will know how much will be coming out of your account every month.** That's when you know how much money you have left for spending.

If you are a visual person, I suggest pulling out all of your spending money in cash. That way you can see it dwindling down throughout the month. When you run out of cash, you stop spending. Not having money to spend makes it easy to not spend money, right? It's one of the best ways, really.

You can automate your entire retirement, and it may not even cost what you think.

Small amounts add up. You'll see in the next section.

The Slight Edge for Wealth

The Slight Edge is a book, but more importantly, it's a concept. A very successful concept, I might add.

I'm not going to take all day to explain what it is...

The Slight Edge is the idea of making small changes and small progress over a long period of time, which leads to extraordinary results. And the best part is that these small changes can mean automating small amounts to go towards your retirement.

Now, there's more to it than that, but that's the "nutshell" explanation.

Let me explain exactly how it works, how it's applied and how it can make you rich...

The Way of the Slight Edge

Have you ever tried to start a new habit?

And have you ever not followed through with it? We all have.

Look back and think about where you would be today if you would have followed through...

- Would you be 50 pounds lighter?
- Would you have read 100 books?
- Would you be much closer to retirement?

Now really think back. I'm talking years back. If you would have stuck with it, think about where you would be. OK, the guilt trip is officially over.

That's enough talk about what you didn't do. Let's talk about what you can still do.

If you failed, it's most likely because you started wrong. You probably started by doing too much, too soon. The Slight Edge is a way to look back over the last few years and realize your monstrous accomplishments. And then realize that it was actually easy. How was it easy? Because you applied "the compound effect."

The Compound Effect

The Slight Edge is about small habits. Daily habits. Habits that almost seem too small...but they add up.

If you think something is too small, remember these 3 things:

1. It's better than doing nothing
2. It's better than starting too big and giving up
3. When you look at the compound effect, you'll be amazed

So, what exactly is the compound effect? It's like compound interest.

In the short term, it's small. Over the long haul, it compounds like a snowball turning into an avalanche.

Again, look back and think about where you would be with a habit now, if you started it this way a year ago. Or, more positively, think about where you will be in the future.

Now let's talk about where your finances can be in the future... Compound interest. The 8th wonder of the world.

Now we're shifting from metaphorical to actual. I'm talking about cold hard cash. Actual compound interest.

The most basic application of The Slight Edge is in your finances. You contribute a small amount, consistently, for a long time and you will be rich.

Let's see just how rich you could be...

I'm not going to use the typical "10% average return of the stock market". I could make a great argument that 9% is actually realistic; but just to be conservative, let's use a rounded 8%.

\$50/month

- **30 Years:** \$73,407.52
- **40 Years:** \$167,868.62
- **50 Years:** \$371,803.06
- **60 Years:** \$812,082.22
- **70 Years:** \$1,762,611.89

\$100/month

- **30 Years:** \$146,815.04
- **40 Years:** \$335,737.25
- **50 Years:** \$743,606.12
- **60 Years:** \$1,624,164.43
- **70 Years:** \$3,525,223.78

\$250/month

- **30 Years:** \$367,037.60
- **40 Years:** \$839,343.12
- **50 Years:** \$1,859,015.31
- **60 Years:** \$4,060,411.08
- **70 Years:** \$8,813,059.44

\$500/month

- **30 Years:** \$734,075.21
- **40 Years:** \$1,678,686.24
- **50 Years:** \$3,718,030.61
- **60 Years:** \$8,120,822.16
- **70 Years:** \$17,626,118.88

70 years may seem like a long time, because it is a long time. But when we're talking about leaving a legacy (more specifically, an inheritance), 70 years is definitely a reasonable time-frame. Would it be possible for you to save more than \$500/month? The answer is yes, but it depends on how much you're willing to sacrifice (or how hard you're willing to work).

How The Slight Edge Can Make You Unstoppable

If The Slight Edge can do that for your finances, what do you think it can do for the rest of your life?

You can implement this strategy for any goal. The thing is, you can accomplish anything if you start small enough and stay consistent.

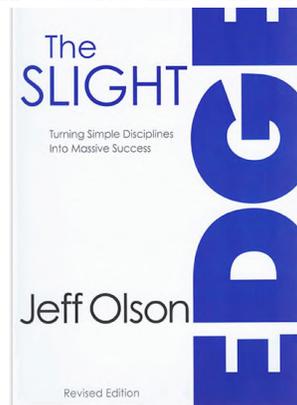
If you read for 15 minutes a day, every day, that equates to about 1,000,000 words in a year.

Back to your finances. What if you were to read a good finance book for 15 minutes a day? 1,000,000 words about finances each year?

Imagine where you could be in a year, or two or twenty! Better yet, what if you could read for 30 minutes a day? As cliché as it sounds, the possibilities are literally endless.

Give yourself a slight edge over the rest (OK, I admit, that was corny).

Seriously though, it doesn't take much. Think big, smart small.



If don't have The Slight Edge, I would strongly recommend getting it. It's just a few bucks on Amazon and the content is priceless.

[Click here to buy The Slight Edge on Amazon.](#)

Use the Magic of 1%

If you have a retirement plan through your employer, see your finance department and figure out to have a specific amount of percentage deducted from each paycheck.

For other options (mutual funds, index funds, IRAs, etc.), go to [TD Ameritrade](#) or [USAA](#) and open an account. Both companies offer options for automatic investing.

Once you automate your investment, check back in at least annually, and while you're there, increase it by 1%.

If you only increase by 1% a year, you won't notice much of a difference, but it will make a huge difference to your bottom line in the end.

Chapter 6

How to Invest Without the Stock Market

“The US dollar is going to collapse, don’t put money into the stock market!”

Have you ever heard similar advice? I’m sure you have. And for good reason.

The US dollar is economically weak, but politically and realistically strong — a weird combination, but it’s true. Before we get too far off into the debate over the US dollar (and I can go on all day; I am a finance nerd, remember), let’s get to the important stuff here: investing without the stock market. That’s what this is about.

What Diversity Really Means

I love the stock market, but I also love diversity, because I love investing and investing without diversity is illogical. There’s diversity, and then there’s diversity within diversity. Diversity means owning several types of investments. Diversity within diversity means owning several types of each investment. Owning stocks across several sectors, different types of bonds, and cash accounts is great diversity within the paper asset class, but that’s all it is.

True diversity has to span asset classes.

Warren Buffett has been one of the most famous, and long-running, advocates for the stock market. That’s where he made his money, and he recommends it as the easiest way for you to make money on your investments. But even Buffett has diversification outside of the New York Stock Exchange.

Buffett’s Investing Rules (Not Just for Stocks)

Buffett's [famous letters](#) to his Berkshire Hathaway shareholders have not only been valuable for learning how to pick stocks, but they've been valuable in making any investment decision.

Here are a few examples from Buffett's letters:

“Focus on the future productivity of the asset you are considering. If you don't feel comfortable making a rough estimate of the asset's future earnings, just forget it and move on.”

As you'll see in a moment, many of these comments pertain to Buffett's farm and the piece of commercial real estate he bought in New York. Whether we're talking about a dividend stock or a farm, there are many universal investing principles.

There are always two basic types of investment: investments that produce and investments that don't.

That means you have three ways to make money when you invest:

1. You can make money from what the investment produces
2. You can make money from what the investments becomes worth
3. You can make money from a combination of the two

That's it. And that covers any investment I can think of. The terms may change, but in the end, you'll be earning money in one of the above three ways. The stock market gives you the opportunity to use one or all of these ways to make money, and so do plenty of other investment opportunities.

Back to what Buffett says about his his two non-stock investments mentioned earlier:

“With my two small investments, I thought only of what the properties would produce and cared not at all about their daily valuations.”

According to Buffett, what an investment produces is much more valuable than what the investment itself is actually worth. This idea is easily explained in the stock market by looking at dividend

stocks, but how do other types of investments “produce?” Investments can produce in several ways; a farm produces a crop or meat or dairy or something along those lines. Real estate can produce cashflow through rental income.

There are all kinds of ways investments produce.

Let’s look at one more universal investing principle from Buffett, and then we’ll get into how you can start investing without the stock market:

“My two purchases were made in 1986 and 1993. What the economy, interest rates, or the stock market might do in the years immediately following — 1987 and 1994 — was of no importance to me in making those investments. I can’t remember what the headlines or pundits were saying at the time. Whatever the chatter, corn would keep growing in Nebraska and students would flock to NYU.”

It’s funny how these ideas that are often thought of as “stock market investing tips” can span asset classes. That’s my point. Look at most investing principles universally, and apply the principles to the following ideas...

9 Ways to Invest Without the Stock Market

I highly suggest diversifying your portfolio to include some of the following. You don’t need everything here, but I recommended at least trying a couple.

If you’re investing outside of the stock market because you’re afraid the market or the US dollar is going to collapse, I have bad news. If the dollar or the stock market collapses, it’s going to affect other investments. It would affect everything. In the world.

Note: If you’re truly worried about the dollar collapsing, I suggest investing in skills and friends. Skills will always be valuable, even if the world economy collapses. If something catastrophic happened, you would want to know how to do things that people

will pay you for and you would want people on your side. However, my advice is that worrying helps nothing.

Whether you're afraid of the stock market or just looking for some more diversity, here are some options you have for investing:

1. **Hard Assets** – Commodities like gold and silver are the old “go-to” alternate investment options. The only problem with these is that they don't produce; the hope is that the value increases, but it doesn't always. It's good to have some hard assets, but I personally wouldn't go as far as backing a 401(k) with them.
2. **Inventions** – [Angel investing](#) is the main way to find good invention ideas, or just talk to people you know. You might only be a couple degrees of separation from an inventor who's looking for investors. When you hear of a good Kickstarter fund for an invention, contact the inventors and ask them if they have investment opportunities.
3. **Real Estate** – It will always be worth something. Everyone has to live somewhere. You can invest in rental properties that will produce an income, or you can buy raw land in hopes that it will increase in value. Just keep an eye on your taxes and make sure to pay them. Commercial real estate is another option, but do your research first!
4. **Small Business** – It's true that most small businesses end up failing, but if you really know of a groundbreaking local business, it's worth a shot. You know the local market better than outsiders; use that to your advantage. If you think you've found the next Apple, you could be in for some big returns ...of course you could also lose everything you invest. Greater rewards come through greater risks.
5. **Peer-to-Peer Lending** – You can loan money to your brother-in-law and tell him to pay it back with interest. However, that may be the last time you ever see your money or your brother-in-law. Fortunately, there are ways to take

advantage of peer-to-peer lending with less risk. [Lending Club](#) and [Prosper](#) are two of the most popular options, and they offer quite a bit of protection. Similar to the protection of a mutual fund, they will spread your investment across many different peers, so you're not lending your money to one person.

6. **Collectibles** – Sports cards, stamps, model cars ...almost anything is collectible if you can find a buyer and you can keep it in mint condition. This is more of a hobby than anything so you want to be sure you're interested in whatever you're collecting. But remember, for collectibles, without a buyer, it doesn't matter what it's "worth." Use that to your benefit when you're buying collectibles, and you will have an easier time selling them down the road. Often, due to how long it takes for some collectibles to become valuable, consider leaving this as a legacy to your children, possibly even for their children.
7. **Antiques/Art** – Similar to other collectibles, antiques and art are only worth what someone will pay. That being said, there is a large market for both of these things. The most important thing here is to do your research. A well-researched buy can outperform the stock market any day. An uninformed buy can be the biggest burden in your portfolio.
8. **Wine Bottles** – It's actually possible to make between [6% and 15% annually](#) by investing in wine. You need to know a lot about wine, such as which wines are worth the most, how to store it properly and where to buy it, but this investment can definitely pay off. Of course, you need to make sure you're not going to be tempted to drink it all.
9. **Farming** – This can go one of two ways. It can either be a lifestyle investment by buying and working a farm yourself, or it can be a capital-only investment by owning a farm that is run by someone else. Of course, you'll usually have to go in

and get the process started yourself, but it can be a profitable investment once it's up and running. Remember, this is one of the alternate investment options Warren Buffett uses.

These aren't your only options. Of course, you can always put your money in "high-yield" savings accounts or "invest" in CD (Certificate of ~~Deposition~~ Deposit) [ladders](#), but the rates of return are so low, it's not much of an investment.

If you're just looking to get out of the US stock market, there are plenty of stable foreign stock exchanges.

Chapter 7 Investing Tools

You don't need 1000 tools to start investing, but you do need a few.

Some make investing possible, like brokerage companies and banks.

Others just make investing easier like resources and apps.

To Start Investing



[TD Ameritrade](#) is a great place to get started investing. You can open an IRA for retirement, a 529 for your children's education, a standard brokerage account to buy stocks, or start a number of other investments. They offer some of the lowest fees and best customer service for beginners.



We know what it means to serve.®

[USAA](#) is my absolute favor place for banking, investing and even insurance. However you must have a military affiliation (personally or family member) to use them. You can [click here](#) to see if your military affiliation qualifies you. They make it easy to open every type of investment, and they offer some great mutual funds and index funds.



Betterment offers automatic investing options and low fees. It's easy to set up your retirement plan and to keep contributing to it automatically. They will automatically invest your money based on your desired risk level and stage of life. It's worth it to have someone else you can trust to handle everything.

Tools to Make Investing Easier Track All of Your Money **PERSONAL CAPITAL**

Your finance headquarters. Link your accounts, track every transaction, see your net worth and more. And it's completely free.



- Know Your Net Worth: See your up-to-date net worth at any time.
- Track Every Transaction: See your transactions from all cards and accounts in one place.

- Analyze Your Portfolio: Check for fees and make sure you're making the best investments.
- Multiple Devices: You can use Personal Capital on your phone, tablet or computer. It's my favorite tool for tracking all of my spending.
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The Best Cash Back Site



Cash back that helps you reach your goals. Earn cash back and use it towards your retirement, student loan debt or a college fund.



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Tools for Tracking and Information

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Great information on individual stocks.

[Serenity Stock Screener](#)

A screener for value stocks, based on Benjamin Graham and Warren Buffett's method.

[Yahoo Finance](#)

Financial reports for companies all in one place.



About the Author

My name is Kalen Bruce, and I am the founder of [MoneyMiniBlog](#). I'm really trying to start a revolution here with all this "mini blog" talk. I think mini blogging will become more popular as our days seem to get busier and our attention spans get shorter. Whether your attention span is short or not, mini blogs are much more convenient to fit into your life than full length blogs.

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I'll show you how to control your finances, create positive habits and get the life you want, through research-backed articles. I keep it short, sweet and simple.

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