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What is crowding out of private investment

This article contains links for which we can receive compensation when clicked, at no cost. Warren Buffett earns $1 million an hour of his investments without having to trade any of his time for that money. Last year I earned $45 an hour for my investments, most of which I made on my phone. As Ben Franklin famously said: The money he earns earns money. Have you ever seen these rich middle-aged dudes with white hair and loassy who look so cool while walking around the mall? The reason they look so cool is because they have money somewhere and they don't have to think about it. They can enjoy life while they build wealth. So how did I do it? Don't worry I'll show you below. What is investing? Investing is putting money into something that you expect to get your money back in time. This is how your money earns money while you sleep. In fact, the vast majority of my own net worth comes from investment returns. Two popular investment myths, but first let me start by dispelling these two popular myths: investing is not complicated investing is not a Wall Street gamble has a way to over-complicate your investment, so that as a consumer you get overwhelmed and feel like you have to pay a personal adviser (which in some cases may make sense) or that you have to pay high fees for a new fashionable type of investment. The purpose of investing is to maximize the reward (the money you earn), while minimizing risk (the amount of money you can lose). A lot of people don't invest because they think it's gambling and it's true some investments are. But these are not the ones you will invest in. For example, I've heard people say they're investing in lottery tickets, but when you have a 1 in 20 million chance of winning, it's gambling, not investing. But about 50% of Americans still play the lottery and spend about $70 billion a year on them. It nets up to an average U.S. spending of about $600 on lottery tickets annually. Simply by investing that money instead of 7% of the composition over 30 years, they would have about $66,224 in their account. Of course, it's not $200 million, but it's the difference between investing and gambling. Investing is not gambling because you can control the risks you take. You can invest in literally everything you expect to grow in value over time, from art to cryptocurrencies to tax liens, the three safest investments are stocks, bonds and real estate. The reason why they are more secure and reliable is because they have a long history, and there is so much information on how best to invest in real estate and equity bonds. Value depends on supply and demand – the more people and the less, the higher the price will go. How to Start Trading For (7 steps) 1. Find out how much you can invest first, you need to find out how much you can invest each payout, whether it's investing $100 or $10. Each piece adds up and you should always try to invest as much as possible. Remember that the more money you invest, the more money will work for you! Many people make the mistake of trying to save what's left each month and then never end up investing. You should always try to pay first, which means you should invest your money before you spend it. It's easy to do with automation – you can put money in your 401 (k) account or IRA account automatically before or shortly after you hit your bank account. (Recommendation: Improvement) So how much money should you invest? The percentage of your income you invest is known as your savings rate. The higher the savings rate, the sooner you will be able to retire early. There is a direct correlation between the savings rate and the number of years it will take you to retire. If you save 3.2% of your income, such as the average Millennials, you'll probably never be able to retire, but if you can increase it to 20%, you can retire within 25 years or less, and if you can increase it to 50%, you can retire within 15 years or less! Of course, the higher the savings rate, the sooner you will be able to retire and achieve financial freedom. A good place to start is 10% of your salary, and then try to increase that amount by 1% every 30 days. 2. Separate your short-term investments from long-term investment strategies Once you have determined how much money you can save each month, the next step is to separate short-term investments and long-term investment strategies. Make no mistake by placing all your investments in the same accounts. Short-term investments (5 years or earlier) If you need money in the next 5 years, you should not risk losing any of them! An example of money you may need in the next 5 years or less is a down payment for a house, education expenses, car money or travel money. You might think that a savings account is a great place to put your money, but most savings accounts have an interest rate of less than 0.01%, so you actually lose money on inflation. In fact, Americans lose more than $50 billion in interest by keeping their short-term savings in low-interest savings accounts. Here's where you should put your short-term investments instead. Online High Interest Savings Account There are an incredible number of great accounts online with interest rates of 1% - 2%, so your money will at least keep up with inflation. Certificate of deposit account (aka ladder CD) When buying a certificate of deposit from a bank, you can often block the rate above 2%, and sometimes slightly higher. The only catch is that you need to keep the money closed for a certain period of time (anywhere from 6 months to several years depending on the CD), and if you need to take the money in advance then you will be subject to a small penalty for early withdrawal. (Exception: CIT Bank 11mo No-Penalty CD) However, an easy way to avoid blocking all the money is to build a so-called CD ladder, where you actually break down the CDs that you open to mature (which means they end up) at different times in the future, and then roll over to new CDs. So you have some money on CDs that mature in 6 months, in 1 year, in 2 years etc. Then you will always have puberty money if you need to get it early. CIT Bank Term CD 0.50%Minimum: $1000, 4-year term Discover CDs 0.60%Minimum: $2,500, 1 year term Ally Bank CD 0.65% Minimum: $0, 1 year term *rates updated September 29, 2020 Long-term investments (5+ years in the future) Your long-term investments are money that will be close in the future within 10+ years. This will primarily be your money for retirement, so you want to maximize your return in the long run. This means that you do not want to put this money into your savings account. You want to invest it in a retirement account. There are two types of retirement accounts - those offered by the employer and those that you need to register for yourself. Employers' retirement accounts mainly cover accounts 401(k), 403(b) and 457(b) depending on the type of job. Non-employer retirement accounts are known as Ira (individual retirement accounts) and typical types are traditional IRA, Roth IRA, SEP-IRA, and Solo 401 (k). The difference between a Roth IRA and a traditional IRA is that Roth IRA money grows tax-free over time and you don't have to pay taxes when you take your money, while a traditional IRA gets taxed on withdrawals, but you may be able to deduct your tax premium from you. The Roth IRA is the best offer for young investors and will have significant tax benefits over time. There are many great places to open an IRA or Roth IRA, my two favorites are Betterment and Ally Invest because they have a lot of high quality cheap investment options. 3. Choose your risk level Unfortunately, since 401K plans are usually offered by your employer, there are often limited investment options and high fees. This means that it is very important to choose your 401K investments wisely. What I usually recommend to new 401K investors is to choose a model portfolio based on the level of risk that can be conveniently taken. This is known as asset allocation, which is the percentage of shares and bonds you have in your investment portfolio. Word of advice – if you are under 35 years old and are starting to invest in 401K it is the best idea to invest in an aggressive growth portfolio, is heavily weighted into stocks. Actions. The typical asset allocation that makes sense for millennials is about 90% of stocks/10% bonds. When you hit 35 or even 40 it is best to adjust this allocation to close to 80% of the shares/10% of the bonds. While an aggressive type portfolio will naturally change over time and has more volatility, it's not afraid because you're saving that money in the long run and over the 10+ year investment horizon you're going to earn more money investing in stocks than in bonds. For millennials investing as much as possible in the stock market, 401k makes the most sense. Here's a resource allocation chart from my book where you can see asset allocation recommendations for both age and years to retire. This chart originally appeared in Grant Sabatier's Financial Freedom 4. Choose what goes into long-term retirement investment accounts Both 401k and IRA are used to store investments and are typically used to save for retirement – they are not the investments themselves. This means that you need to select investment vehicles to enter them. There are literally an infinite number of choices when you start trading, but most simple ones are the best options. For a new Roth IRA or traditional IRA investor I usually recommend putting an investment in target date pension funds such as vanguard fund 2050 (which is what I have my own Roth IRA invested in). The target date fund naturally adjusts the investment allocation between stocks and bonds as you get closer to retirement, so you don't have to do much (except keep putting money away!). How to become a more sophisticated target date fund investor may not make as much sense to you because you can get smaller incremental returns on your IRA investment in a mixture of low-cost index funds – which have lower fees in the long run. But for a new investor, there really isn't much better choice than a target pension fund with an aggressive 90+% share allocation. While some investors find the target pension funds too simple, I also know many of the best financial professionals and private investors who invest their own money in them. 5. Invest as much money as you can in tax-favored accounts Taxes are one of the largest sewers for returns on investment, so you want to minimize taxes as much as possible. For most new investors, the number one goal is to invest as much money as possible into accounts with a tax advantage where your money can grow tax-free for a long period of time. There are two types of tax-benefit accounts you need to know about – 401Ks and IRA (individual retirement accounts). For millennials the most money you can put into them each year is $19,000 in 401K and $6,000 in IRA (so you can $25,000 a year in tax-favored accounts). Do this first before investing in anything else. If you work for a company that Plan 401K to invest as much as you can in a plan for $18,000 maximum or at least invest as much as you can to get an employer match. They are not taxed on any money that you put in 401K, but are taxed when you withdraw money from 401K. Most companies offer employee matching, which is essentially an employer contribution that matches your own contribution to a certain percentage of your income (3%-5% is the average). This is essentially free money and amazing benefits if you have it. At least invest the maximum required to match your employer. 6. Invest early, often and as much as you can as millennials, I knew that although my new job didn't pay me much money, I had one thing on my side: time. Time is the most important part of investing, because it takes time for money to grow, and the more time you have, the more opportunities for your money to grow due to compound interest. Albert Einstein even called the heightened interest the most powerful force in the universe and the greatest mathematical discovery of all time. Here's a way that works in simple terms – imagine you're investing $10.00 and growing 10% in one year, so you now have $11.00, and the next year it grows 10%, so then you have $12.10. You keep making more and more money for growing interest and when you add money to this pot it's another relationship over time and you're able to make money. This is a fairly simple idea that makes investing so powerful over time. Here's a simple example of how composition works – the more and earlier you invest, the faster your money can grow. This chart originally appeared in Financial Freedom by Grant Sabatier So how do you get a squad interest to get started for you? Whether you have $5 or $5,000 dollars, the first rule of investing is that you need to start investing your money. If you don't start, you can't make money and your money can't make money. It's actually pretty crazy how many people just keep all their money in their savings account because they're so afraid of losing money on the stock market, but the reality is that over every 10+ year period in the stock market's history it will probably give you positive returns on your money if you invest just in a stock index fund. I know all the excuses that people make not to start investing because I've used them all myself. You don't have enough money to invest, you don't know anything about the stock market, you worry about losing money... All of these excuses probably already cost thousands or hundreds of thousands of dollars in potential earnings over the course of your life. It's literally like you're leaving money on the table and shortening. I'm guessing that because you read this blog you are making money and building wealth but if you don't invest, it probably won't happen. Seriously, investing money is the surest way to build wealth. 7. Track your investments & net worth with this free app When you start trading one of the easiest ways to track your money is using the free investment tracker. My favorite and the I have've been personally using for the past 5 years is Personal Capital. To learn more about my favorite money app, check out my Personal Capital review or click below. Personal Capital dashboard is easy to use and free That's it! It took me a while to learn about investing and over time you will gain more confidence as you start trading. There is no substitute for conducting your own research and asking others about their experiences. If you follow the guidelines outlined above, you'll be on track to build wealth and one day take an optional job. To learn more about how to invest, check out my bestselling book Financial Freedom: A Proven Path to All The Money You Will Ever Need. Best investment strategies

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