The Learning-to-Invest.net Basic Investment Guide

Copyright issues

A note from the author

My purpose in writing this mini-ebook is not to pretend that I am an investment guru. I am not the best of the best, and I'm not trying to pass myself off as the best of the best. I am also not asking for your money for expert advice. I am studying and learning just as you are. My goal is to give you some basic easy-to-understand information that will help you gain a solid basis in investment, a starting point from which you will venture forth, prepared to become more of an expert than you ever imagined.

Your road to financial independence awaits.

Thanks for reading,

Paul

Section 1 :

Why should I bother investing?

A lot of people put off investing for as long as they possibly can, coming up with all sorts of excuses and objections. I'd like to show you that there really is **no excuse** for neglecting your future. Let's address some of the most common excuses and objections one by one."The future is a long way away. There'll be plenty of time later to start investing".

The future may be a long way away, but the earlier you start investing, the more money you can make. *A lot* more. Even starting just a few years earlier, the power of **compound interest** will help your investments grow to tremendously higher levels. Let's say a 20 year old starts putting away $100 a month, and continues to do so until he retires at age 65. At an interest rate of 10% (which is very realistically achievable), he will retire with almost $950,000. But let's say you spend your 20's just partying, and start investing at age 30. At the same interest rate, you'd retire with only $358,000. If you wanted to save as much as your friend who started investing at age 20, you'd have to save about $265 per month rather than $100! I don't mean to scare you if you are in your 30's, because it's never too late. But obviously the sooner you start the less of a monthly burden you will have to bear, and the more your investments will grow over the years. Try playing around with the compound interest calculator at http://www.moneychimp.com and see what you discover.

A lot of people, both young and old, ask me `Why should I bother investing? I can save money in the bank.` The reason is very simple: you can make more money from other investments. Stashing your money in the bank may be very safe and secure, and it may be easy, but the returns (the money you make) will always be pretty damn low. Your returns probably won`t even keep up with the rate of inflation, so by keeping your money in the bank you will actually lose money over time. That kind of eliminates the purpose of saving, doesn`t it?

There are ways to invest that are still not too risky but give returns much greater than your bank account. If you are planning to invest for your future, would you rather have 11% annual returns, or 5% annual returns in your bank account? For long term savings there is no reason to settle for 5%. The investment that offers average annual returns of 11% over time will fluctuate year-to-year, but unless you need the money right away, short term fluctuations should not concern you. If you might the need money in the very near future though, keeping it in your bank account may make more sense.

A lot of people, particularly young people, tell me that investing is boring or lame, or that it`s something that boring old suit-wearing white people do. I feel like smacking these people! Are you telling me that you are too cool to **make *money***? You are too cool to wear brand-name clothes, have a nice car, a hot girlfriend in the passenger`s seat, and be on the guest list for exclusive parties? You are too cool to have power and influence? You are too cool to be in control of your own destiny and would rather be at the mercy of your boss? I didn`t think so! All of your favorite celebrities who act like they don`t give a you-know-what (because that image sells), in reality are **focused and disciplined** and have worked very hard to get where they are. You can, and should, do the same.
Now let's get movin'!

Section 2 :

So you want to start investing? Not so fast!

Ok, so you want to hurry up and start investing but you probably don't know where to begin. Well, there are a few things you should do before you start investing. Be patient, we'll get to the fun stuff soon!

Before you invest, what you need is stability. If you currently have no money saved up, then you don't want to rush off with your next paycheck and start investing it all right away. What would happen if your car broke down, or you got injured and your insurance didn't cover everything, or you were laid off from your job? You need an **emergency fund**, some accessible savings, for those kinds of situations. For a single person no longer living at home with Mom and Dad, 3 months salary is probably the minimum, and for a person with dependents, 6 months salary. I keep 6 months salary in my emergency fund even though I'm single, because that provides me with additional peace of mind. Your emergency funds should be **liquid**, meaning easily accessible. Keeping them in a savings account or checking account is reasonable. You do not want your emergency funds to be locked away in an investment with a minimum time period, and you do not want your emergency funds to be in investments that involve risk. Just save it somewhere safe where you can reach it. And don't reach for it unless you need it. A trip to Mexico isn't an emergency.

You also want to make sure that you have adequate insurance to protect yourself from catastrophic loss should you, God forbid, fall ill or have a serious accident. You do not want to put all of your hard earned money into investments only to have it all taken away because you have medical bills or liability compensation to pay. I know the discomfort you feel in spending your cash on something you may never even need, but remember that insurance provides you with **peace of mind**. Peace of mind is one of the main components of your quality of life. Less to fear = lower stress = more **happiness**.

For more information on insurance, check out this service that offers 5 Free Health Insurance Quotes.

Next, you want to pay off all your bad debts before you start investing. If you have a mortgage that's fine, because that's something you've planned into your budget for the long term. But paying off bills and credit card should be top priority. Maybe you can invest your money and make 11% interest this year. That sounds great, until you remember that your credit card's interest rate is probably much higher than that, so you would be losing money off of the difference. So instead of investing that money, use it to pay off some of your credit card debt first. If you're like I was, you're probably dying to start investing right away, but getting rid of these pesky debts is absolutely critical. Be patient, make a repayment plan and **stick to it.** During the months (or even years) it takes you to *kill* these debts, you can be a virtual investor and learn as much as you can about the markets and arm yourself with knowledge, so that as soon as your bad debts are gone, you'll know exactly where to begin.

Now that you have insurance and an emergency fund to protect you, and you have eliminated your bad debts, you can now decide how much you can afford to invest each month. Plan your budget carefully and after each paycheck, immediately set aside the money you have committed yourself to investing. This is called **paying yourself first**. Do not pay yourself what is left at the end of the month. Pay yourself first, because that forces you to stick to your budget and keeps you from making impulsive purchases that are not in your best interest. Your budget should allow you to enjoy your life, but stick to your budget and don't compromise your investments, which are a obviously a priority (I know they're a priority to you, because you're reading this!!).

Now you're secure and all ready to **start investing**. Soon we'll be discussing the basics so you know where to begin!

Section 3

Getting Started: Understanding the stock market

Now that we've discussed what you need to do to stabilize your situation through an emergency fund, insurance, and the elimination of debt, it's time to discuss what you're here to learn about: **investing your money** to **make it grow**.

There are many kinds of investment products, but let's start basic and talk about investing in the stock market. We've all seen the stock market on tv. We see guys shouting at each other and getting all stressed out over *something*. But what is going on in that scene?

What is stock?

A stock represents ownership of a piece of a company. One unit of ownership is a share. So if I turned learning-to-invest.net into a company, I could decide to sell part of the company in the form of stock shares. If there were 1,000,000 shares of learning-to-invest.net, then owning 1 share would give you 1/1000,000 ownership of this awesome website! Why would I sell part of my company in the form of shares? Likely because I needed a large amount of money to expand my company. So by investing in the stock market **you are buying ownership in a company**. Are we clear here?

Why are there guys on tv running around screaming and giving themselves migraines over these tiny bits of ownership? Well, stock prices fluctuate constantly, according to **supply and demand**. If lots of people want to buy a stock but few people are selling, then the price will increase. Conversely, if few people are interested in buying the stock but lots of people are selling, then the price will come down. People are always trying to buy and sell at the ideal time to turn as big a **profit** as they can, or prevent as much loss as they can. That's where all the volatility and panic comes from. In the

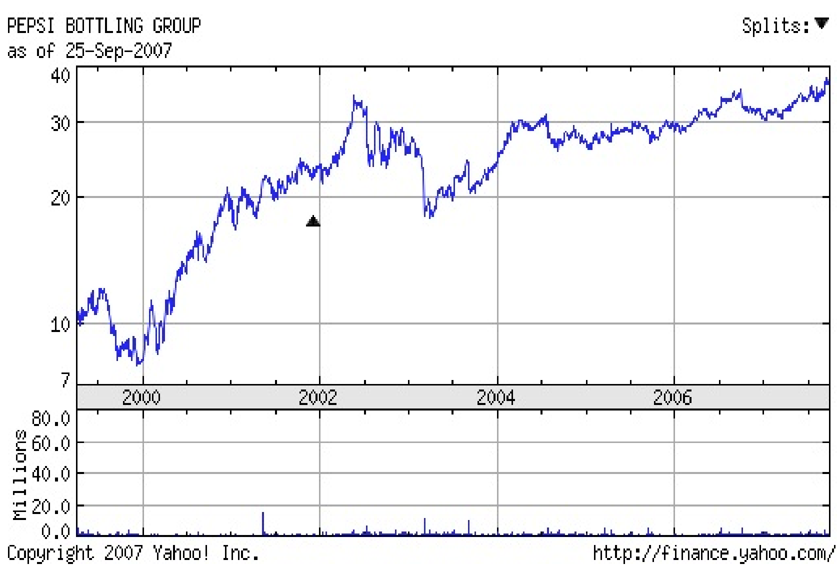

chart shown above, you can see the stock fluctuating according to market forces.

You are probably wondering, why on Earth would I want to invest in the stock market if it’s so volatile? Well, some stocks involve much more risk than others. The above example of Pepsi Bottling Group is relatively stable and its general trend is upward. However, the amount of urgency in your investments depends on your goals and strategy as well. Some investors buy stock with the intention of selling it quickly to make a fast buck. To these people, the long term trend of a stock isn’t important – they want a short term profit.

These people may also sell to avoid a loss if the stock starts to drop, trying to protect as much of their original investment as they can. A long term investor can afford to **relax** and look at the stock’s general trend. When you are first learning to invest, you shouldn’t be messing around with buying and selling quickly like that. You want to be cautious and stable until you know what’s going on.

A beginner will want to stick with stocks that have a history of long-term stability and consistency. Have a look at some major companies that are household names on Yahoo Finance. Click on “symbol lookup” to search. Have a look at the long term charts and see which companies are the most consistent. I could just tell you, but then you wouldn’t learn as much as you will by looking it up yourself. Get into the essential habit of researching before you make a move.

In the next section we'll be discussing the *safest* way for beginners to invest in stocks!!

Section 4:

Investing in Mutual Funds: a good place for newbies to start

How can I invest in stocks? It seems really risky and I don't know where to start.

You can buy individual companies' stocks, but newcomers can be in over their heads trying to research which companies to invest in while learning the basics of investment strategy. A better option for new investors might be **mutual funds**. Mutual funds are **collections of stocks** (and sometimes bonds, which we'll talk about later) chosen by a group of fund managers. This gives you the benefit of having a **diversified investment**, meaning that your eggs are not all in one basket. If one of the stocks in your mutual fund drops in value, it may be balanced out by another stock's increase in value. **Diversification** is one of the central pillars of investment, and should never be ignored (unless you enjoy losing money!).

Another benefit of mutual funds is convenience of payment. When buying stocks, you normally have to buy by the share. If each share costs $50 and you have only $149 to invest, you can only invest $100 (by purchasing 2 shares). Mutual funds will normally sell you partial units, so in a situation like the above, you could invest the entire amount without having money leftover. In addition to that, many funds allow you to make **automatic monthly payments** on a specified date, so that your investment will continue to grow without you lifting a finger.

Mutual funds come in a range of risk categories, and before you choose a mutual fund you should assess your own **risk tolerance**. The longer you are willing to keep your money invested, the more risk you can afford to take, because short term fluctuations won't matter so much to you. If you're not quite sure what your investment goals are yet, it's probably best to start with something low risk as you learn about the markets.

Index funds

There are great funds called index funds which are widely diversified and offer stability for the newcomer. An index fund mirrors the movement of a **market index**, basically an overview of how an entire industry or entire country's economy is doing. For example, the S&P 500 is a US market index that includes the 500 biggest US companies. This index is widely seen as an overview for the entire US economy. An S&P 500 index fund is great for a beginner because it is stable and has had **historical annual returns** of 12%. Some years will be higher and some will be lower, but on average you can expect roughly 12% in interest. You won't get rich overnight, but that interest builds up and compounds. At that interest rate your money will double in less than seven years.

Another benefit of index funds is that they charge **very low service fees** because they don't have to be actively managed. Managed funds sometimes charge huge "load" fees up front or when you sell your fund units, and can charge high monthly or annual maintenance and management fees. These can really eat into your returns on your investment over time! All of those little fees could have been money that was compounding and growing and growing over the years. And on top of that, most managed funds do not perform as well as index funds, even though you are paying them such high fees! Index funds really are the simplest and easiest way for beginners to get their investing foot in the door and have stability while learning the game.

Actively managed funds

As the name suggests, actively managed funds have fund managers who pick and choose the stocks and bonds etc. that make up the mutual fund, depending on their professional assessment of the market situation. Some of these funds do wildly well, and some do poorly.
Over the long term, few funds beat the returns of the general market. Beware of the various fees that may be charged. They can be exorbitant.
To give you an idea, I'll tell you about my own mutual fund portfolio. I have some short term goals (such as buying a house in cash), so I have about 60% of my portfolio in stable index funds (one is a global index, and another is the S&P 500) and bond funds. I have 40% of my investment in higher risk funds (for example, India and China funds) which fluctuate widely over the short term, but which allow me to earn more

over the long term. These are inappropriate for the short term because they often lose a large amount of their value very quickly before recovering later. You would be in for a nasty shock if you went to sell your mutual funds to pay for your tuition fees only to discover that they had lost 30% of their value overnight! But if my goals are long-term, then I can **plan accordingly** and when the price is high in the future I can sell them.

Before looking into which mutual funds to invest in, make sure to think about your goals and investment needs, specifically how long you plan to keep the money invested and the earliest time that you might need the money. The shorter term your goals are, the less risk you should take.

Section 5:

Investing in bonds

If you've been reading up until this point, you've probably seen the word bond come up a couple of times. What exactly are bonds, and how are they different from stocks, you ask? Well, while a stock represents *ownership* in a company, a bond represents a company or organization's *debt* to you. **A bond is like an IOU**, stating that you have lent your money to a company or organization in return for their commitment to repay you after a certain period of time when the bond matures. There is usually a commitment to pay you a specified amount of interest for the duration of the investment. That's the main thing to remember when comparing a bond to a stock. Bonds represent money owed to you, with a (usually) specified amount of interest, so bonds are generally lower risk investments than stocks. Of course, the return on bonds is limited and not as high as the returns you can potential get on the stock market, because of the lower risk.

Why is investing in bonds useful?

Bonds are useful because **they limit risk**. In a balanced portfolio you don't want all your investments to be volatile. You should ideally have a good base of lower risk investments, including bonds, and stable stocks and mutual funds (preferably index funds), as well as some higher risk investments to increase your potential gains. Bonds are one way to limit risk, and can **cushion your losses** if the markets suddenly drop. Another benefit of bonds is that they bring in a **predictable income**, which is useful in planning your financial future. You (usually) know that you will get back your premium (the money you originally invested) plus the fixed interest. Some bonds pay interest every six months, giving you a regular stream of income, while other bonds called zero coupon bonds pay you all the interest when the bond matures, which has the benefit of compounding interest.

The interest rate on bonds is usually fixed. If there is a **fixed interest rate** of 8%, then on a $1000 bond you will recieve $80 of interest per year. There are some stocks with a **floating interest rate**, which means that the rate may change in line with economic trends. But this doesn’t affect the investment principal. Interest rates can vary depending on the length of the contract. Short term bonds provide more stability and less exposure to risk, but have lower interest rates (by now you should be used to that idea that low risk = low return). Longer term bonds involve more risk, because if you have purchased a bond with a fixed interest rate and then interest rates rise sharply, you have missed an opportunity to receive a higher interest rate on your investment. Because of this risk, longer term bonds will usually have a somewhat higher interest rate than short term bonds.

There are a few other considerations to keep in mind when choosing which bonds to purchase. One is the bond`s redemptive features, determining if either party has the right to cancel the contract before the date of maturity. A **call** provision gives the issuer of the bond the right to repay the investment principal early and cancel the contract. This typically happens when interest rates fall sharply, so that the issuer is no longer willing to pay you the originally agreed to interest rate they agreed to. They`d rather cancel the contract and find new investors at a lower interest rate. A **put** is the converse of a call, meaning that the investor can choose to sell the bond back to the issuer early. This typically happens when interest rates have risen sharply, and the investor can reinvest that money at a higher interest rate. Check the conditions for possible early redemption before purchasing a bond.

One more consideration is the **stability of the bond issuer**. Is the investment backed by a stable government? Buying a third world country`s government-issued bond is obviously riskier than buying a US Treasury bond. Does the issuer have a stable credit rating? Bond issuers are rated by various agencies according to their financial condition. Under Standard and Poor`s rating system, bond issuers deemed BBB category and higher are considered **investment grade**, with a strong expectation that the bond will reach maturity. Issuers deemed BB grade and lower are labelled **high yield**, providing a higher interest rate but posing **a small risk of default**. Remember that diversification is of central importance in minimizing risk, and that it`s much better to hold a diversified portfolio of high yield bonds than just one high yield bond! Note that high yield bonds are sometimes referred to as junk bonds, but that name should not be taken literally because higher risk does not automatically qualify an investment as `junk`.

Bonds are sold with a **face value**, that represents the original value and price of the bond, as well as a pre-determined interest rate. If you buy the bond immediately after its released, then you should be paying the face value. But like stocks, the prices of bonds can fluctuate, largely due to fluctuating interest rates. For example, if a bond had a fixed interest rate of 6%, but then market interest rates dropped way down to 2% or 3%, a lot of investors would be anxious to get a piece of that fixed 6% interest rate. In response to that new demand for the bond, the price would rise. But you would be getting a higher interest rate than you could get elsewhere, so the fluctuating price and the changing interest rates can be said to balance each other out.

Investing in bonds may not be as exciting or as potentially lucrative as madly fluctuating stocks and funds, but they limit risk and offer stability and predictability, and are an essential part of a balanced portfolio.

Section 6:

Types of investment risk

Up until this point we've mentioned the varying degrees of risk in different investments a few times. I'd like to look more closely at risk and find out what it means how we can deal with it. **Risk is the possibility of loss to your investment**. If there is no guarantee that you will recieve your maximum possible return, then there is risk of some kind. All investments involve risk.

●**Risk of loss of principal**. This is the most basic kind of risk. The *principal* is the original amount of money that you invested. If you buy a stock or mutual fund or invest in real estate, there is no guarantee that you will get all of your principal back. You can greatly reduce or eliminate the risk to your principal by keeping your money in a bank savings account, purchasing a fixed term deposit (agreeing to deposit your money for a specified amount of time), or buying investment grade bonds. But even when you guarantee your principal, there are still other kinds of risk.

● **Inflation risk**. This is the risk that your money will hold less value in the future than it does now. Keeping your money in a bank savings account, and to a lesser extent a fixed term deposit, exposes you to inflation risk because your returns will probably be lower than the rate of inflation. This is why banks are terrible places to leave large amounts of money for more than a short time.

● **Opportunity risk**. This occurs when you lock up your money in an illiquid investment, like a fixed term deposit with very modest returns, and miss an opportunity to invest in something with a chance of much higher returns. When I first began learning to invest, I was in a hurry to get started and put around $5000 into a fixed term deposit. I didn't know much about investing, so I plopped my savings into a guaranteed investment. About 1 day later, there was a drastic drop in the stock markets, which would have been a golden opportunity for me to buy stocks while prices were low. But I couldn't buy stocks, because I had committed that $5000 to a 1 year fixed term deposit with no option of early redemption. I could have made some real gains on the stock market, but I was stuck with a modest 5 percent interest rate. I had avoided risk to my principal, but I was bitten by opportunity risk. You can avoid opportunity risk by keep your money in liquid investments like stocks and mutual funds with no minimum time commitments.

● **Marketability risk**. Similar to opportunity risk, this is risk that there will be no buyer available when you wish to sell your investment. This is important especially with real estate. Selling property can take a long time. You need to hire a realtor, advertise, have open houses, etc. If you need that money immediately, you will likely be out of luck. Your money is tied up for the time being. Real estate is not a good investment to make if you may need to liquidate it anytime soon, or at short notice.

● **Concentration risk**. One of the most major kinds of risk, this occurs when you have too much of your money concentrated in one area, for example all in one particular stock or all in one industry. Have you heard of Enron? Well, anybody who had their investments concentrated in Enron ended up getting the shaft. When the dot com bubble burst several years back, a lot of people who had their money concentrated in new internet businesses lost everything. The lesson to learn here is to diversify your investments. Diversification, as we've mentioned before, means holding a variety of different investments across a variety of sectors so that if one of your investments flops, you are losing only a small portion of your money rather than a large portion of it or, God forbid, all of it. It's of central importance to build a diversified portfolio to reduce your concentration risk.

● **Interest rate risk**. This is the possibility that the relative value of your investment will decrease due to changes in interest rates. This is mainly relevant for fixed income investments like bonds. If you buy a bond with a fixed 5% interest rate, but then market interest rates increase, you may be stuck with that bond at a 5% interest rate even though bonds with higher interest rates are now being issued. The dollar value of your investment upon maturity doesn`t change, but the relative value has changed, since there are now other people out there earning more interest than you. This will decrease demand for your bond, so if you decide to sell it it will fetch you a lower price than the newer bonds with higher interest rates. Interest rates have a profound effect on various aspects of investment, but this is the most basic kind of interest rate risk to understand for now.

● **Currency exchange risk**. Currency exchange rates are constantly fluctuating and can change the value of your investments. If the base currency of your investment is different than the currency you are purchasing with, then the value of your investment will fluctuate depending on the currency exchange rates. For example, if you buy a China growth mutual fund whose base currency is the Chinese Yuan, and you buy it in US dollars, then any increase in the Yuan will work in your favor when you sell the investment, and any decrease in the Yuan will work against you when you sell the investment. This risk can not be eliminated and it is best to have a balance of hard currencies. Hard currencies are basically trusted currencies of stable countries with consistent fiscal policies.

Those are some of the major types of risk you need to be aware of. Once you understand these kinds of risks, you can determine your own risk profile and decide how much risk you are prepared to take on.

Section 7:

Portfolio creation and diversification

When looking at your investments, it's important not to look at all your investments individually, but rather to **look at your entire portfolio** of investments. It's quite common for investors to brag about one of their stocks or funds being way up, while failing to mention that everything else in their portfolio is *DOWN*! That's pretty silly.

Having a portfolio is for the purpose of **diversification**–having your money spread out over different assets. If there was no need for diversification, we could all just invest in Coke or Pepsi and sit back and collect the returns. But we never know how a particular security or asset class will perform, so it's important to diversify so that your entire portfolio will never be seriously damaged by a decline in one investment.

So how do we create a portfolio? Well, it partly depends on your **goals** and your **risk tolerance**. Those with a **long-term timeline** to invest within can usually tolerate more

risk. A portfolio with a high degree of risk but high potential return in the longterm, is often referred to as an aggressive portfolio. An aggressive portfolio may contain 75% or 80% in equities (stocks) and the rest in fixed-income investments like bonds. Young people in their 20s who won't need the money for a long time are likely suitable for an aggressive portfolio.

On the other hand, some people`s main concern is to **maintain wealth** they already have and reduce risk. Such people are likely older and have a **shorter investment timeframe**, and already have money. A young single man in his twenties who has little money yet is really not the best candidate for a conservative portfolio.

Conservative portfolios usually consist of mostly fixed-income securities (say, 70-75% of the total assets), while equities play a relatively minor role (around 15%-20% of the total). The remainder is kept in cash or cash equivalents.

And of course there are more balanced portfolios which are somewhere in between, with perhaps 50% kept in equities, 40% in bonds (fixed income securities), and 10% in cash. This is good for the investor with average risk tolerance, who wishes to build wealth while maintaining general stability in his portfolio.

Within those broad categories of equities, fixed income securities, and cash, you diversify even further within each asset class. Having 75% of your money in equities doesn`t mean that you can put that 75% all into a single stock. You might want to **diversify across different sectors** of the economy (technology stocks, financial stocks, etc.), or diversify into both large and small companies, etc.

So, to determine how to create a portfolio, first you must determine your investment timeframe and your risk tolerance. I, for example, am 30 years old, single, and have an investment timeframe of around 25 years (I plan to retire completely at age 55). I have a high risk tolerance. I don`t care if my investments fluctuate wildly in the short term because I won`t need most of the money for a long time. So I can endure the chaos of the stock market and feel totally relaxed leaving my money in even when the market drops.

What`s your investment time frame, and how much short-medium term instability can you endure?

Section 8 :

Commodities: owning things we really need

With all the current **volatility** in the world`s stock markets, a lot of people are wondering whether it makes sense to invest in anything at all at the moment. Well, I personally see drastic stock market drops as a chance to buy **stocks on sale** before the price eventually goes back up. But beyond that, there are alternatives to stocks for those who can`t stomach the current state of affairs.

An alternative to stocks is investing in commodities. What are commodities? They are raw materials used to create products that people really need. Things like food, agricultural products like wheat and cattle, oil and gas, and metals like gold, silver, and aluminum.

How are commodities bought and sold?

Most commodities used to be just sold at the local market. Obviously that would present some trouble for the individual investor who can't store cattle or wheat at home. But in the 1800s, commodity future exchanges were set up. Future and option contracts on commodities can be traded on exchanges around the world. So you no longer have to possess the actual barrel of oil itself, **you can possess a contract to own it** in the future, and these contracts can be sold. Futures and options are advanced trading avenues and in my opinion are best avoided for the novice investor. But these days there are other ways to invest in commodities, like buying units in a mutual fund that buys commodity futures.

Why invest in commodities? What are the benefits?

In recent years commodities prices have **outperformed stocks** and bonds. One reason is that demand for commodities from developing countries is **increasing**. As massive developing countries like China and India build infrastructure and increase manufacturing, steel, oil, and other commodities will be needed in **huge quantities**. Increased demand, coupled with decreased supply for some commodities such as oil, will continue to **send prices higher**. With Asia's rapid development this will likely continue.

Commodities also move up when stocks go down. Commodities are **real assets**, unlike stocks and bonds, and they react differently to changing economic conditions. Commodities prices tend to **increase with inflation**. Stocks and bonds on the other hand, tend to perform better when the rate of inflation is stable or slowing. Since 1990, commodity prices have been negatively correlated with the S&P 500. Since commodities are not positively correlated with stocks and bonds, they diversify your portfolio and help reduce risk and **increase returns** over time.

Commodities are not only a hedge against inflation, but also a hedge against destabilizing events or catastrophes. **Commodity prices rise** during times of crisis such as wars and stock market crashes. After the Iraqi invasion of Kuwait, stocks dropped while commodities performed well. And during the stock market crash of 1987, stocks dropped by 30% while commodities held steady. There are people out there who horde gold as a way to preserve wealth in some coming cataclysmic event. I would never want to invest in *only gold*, but these people are right that in the event of catastrophe commodities like gold will be far more useful than stocks or cash (which will likely become unbelievably devalued if there's a catastrophe of huge proportions).

That's not to say that commodities are free of volatility. They are equally or slightly more volatile than the stock market, but they rarely drop at the same time as the stock market. In these volatile times with stocks continuing to drop or stagnate, commodities are an **essential** part of any diversified portfolio.

Thank you for reading the Learning-to-Invest.net Basic Investment.Guide. I hope that you learned something from it. More than that, I hope that reading it has aroused questions in your mind, questions that you will seek the answers to and deepen your knowledge of investment.

There are countless resources out there that are much more in-depth than this mini-ebook. Websites abound, and are no more than a Google search away. I will also be reviewing investment books on http://www.learning-to-invest.net in the near future and hope you will have a look.

Good luck as your journey unfolds!