

One, Two, Three, Four... Tell Me Just a Little More

Okay, Budget Guy. I've read your last two articles and I'm ready to start investing. I get the idea that dividing my investments up between stocks and bonds gets me the best returns with the least bumps so I don't panic and sell out at the wrong time. But I still have some questions. First, can I really get by with just two funds?

Sure can. In fact, using just two funds – a stock fund that covers a good chunk of the US stock market and a short or intermediate term bond fund – is a great way to get started. It keeps things simple while you get your feet wet in the investing world. And if you don't have much money to invest, two funds are all you will be able to buy anyway.

But with the minimum initial investments funds require, I only have enough to buy into one fund.

So buy one and when you get the minimum for the other, buy it. Then add your future investments to whichever fund you need to reach your desired allocation. You might also check to see if the funds you want have automatic investment plans. If you sign up to invest regular amounts (like \$25 or \$50 a month), your initial investment often can be less.

You recommend index funds. They just track the market. Why not use actively managed funds that try to beat the market?

Actively managed funds add another level of risk – the fund manager. Are there managers that can consistently beat the market? Maybe. Will they stick around for the 20, 30, 40 years you will be investing? Maybe.

Starting with index funds keeps it simple while you get your feet wet. If you're interested in learning more about investing, educate yourself on the different types of actively managed funds and how to analyze them. Then give them a shot if you're comfortable with it. (I use both index and actively managed funds. But my actively

managed funds require more time and attention.)

What about ETFs?

Ah, yes... exchange-traded funds. They have some advantages over regular mutual funds, but generally only if you have a large amount of money to invest all at once. If you're investing a little bit at a time, it will usually be cheaper to stick with regular mutual funds.

By the way, I strongly recommend investing on a regular basis – paying yourself each month just like you pay your electric bill. A little bit saved regularly adds up mighty fast!

How can I get by with just one stock fund? I keep hearing about large cap and small cap stocks, value and growth stocks. Shouldn't I have all of those in my portfolio? And what about foreign stocks and real estate?

Hey, do you want to keep it simple or not?! You get the most diversification from stocks versus bonds. So your basic allocation is what's most important. You don't have to divvy your stock allocation up to have an effective investment plan.

Frankly, good investing is booooooring. But boring doesn't sell magazines or attract TV viewers or web site hits. So you find lots of "experts" talking about what kind of stock is hot now, what the next cycle will be, even what sector (energy, anyone?) you should be invested in right now. I suppose it makes good copy, but I think it mostly makes a lot of noise that can really mess you up if you start listening to it.

So keep it simple until you're comfortable with this investing thing. And then, if you find that you like reading and learning about investing, you may decide that you want to start shifting your portfolio to emphasize particular types of stocks.

For example, my research leads me to believe that value stocks will return more than growth stocks over the long term, and that small company stocks will beat

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large company stocks. So my portfolio uses more than one stock fund so that I can weight it toward small cap value stocks. I also have funds with foreign stocks and real estate. But I enjoy investing and don't mind the extra work required. (Don't forget – I'm retired and have time for things like this. I kept it a lot simpler when I was younger.)

The stock market hasn't been doing too well lately. Should I wait to put any money into it?

Hmmmm... so you'd rather wait until the market goes up before you invest? Sounds like a great "buy high" scheme to me!

If you invest regularly and for the long term, it really doesn't matter when you start. Sure, the stock fund you buy may well go down right after you buy it. So what? You know that can happen – and what happens tomorrow just isn't important. It's what happens over the next 10, 20, 30 years or whatever your investing horizon is that counts. No one can time the market – getting in and out at all the perfect times, never taking a loss and always getting the maximum gains. It just ain't gonna happen!

Okay, Budget Guy, you've convinced me to start simple – with just two funds. I know the asset allocation I want to start with, and I'm ready to go ahead and do it. But how do I actually come up with the funds?

Start by going to Morningstar (www.morningstar.com). Click on the "Membership" tab and sign up for the free 14-day membership trial. You can do everything you need to do in 14 days, but if you need more time you can get another month for \$14.95.

Click on the "Funds" tab and look for the "Index Funds" link at the bottom of the page. Clicking on it will get you to a list of about 70 index

funds, but don't worry – you'll be able to narrow it down pretty quickly.

Cheap is good when it comes to a mutual fund, so check out the expense ratios and front end loads in the "Nuts & Bolts" view. The DWS S&P 500 Index A fund, for example, has a front end load of 4.5% (that means they'll take 4.5% of your investment right off the top) and annual expenses of .66%. That's bad terrible! The Fidelity Spartan Index Investors Fund, however, has no front end load and annual expenses of only .13%. That's good great! You'll generally find the cheapest funds at Fidelity and Vanguard, with Schwab a close third.

For your stock fund, start by looking at the funds that track the S&P 500. Or better yet, check out the funds that track the broader market like the Fidelity Spartan Extended Market Fund, Vanguard Total Stock Market Index Fund, and the Schwab 1000 Index Investors Fund.

Cheap is even more important for your bond fund, and Vanguard is your best bet. For example, take a look at the Vanguard Intermediate-Term Bond Index Fund, Short-Term Bond Index Fund, and Total Bond Market Index Fund.

Now that you've got an idea as to... oops, time's up! Two pages goes by much too fast! Come back next month and I'll show you how to take your funds for a test drive before you buy them. And I'll tie up some loose ends, like what rebalancing is and when to do it.

Part of my job at SHPC is helping people get out of debt and manage their finances better. It's free and it's confidential. Just call the Budget Guy, Allen Gunter, at 292-4035 or send an email to BudgetGuy@shpc.org. And check out the Crown Financial Ministries Small Study Groups – call Margaret Fetty at 288-9034 for more info.



Dear Friends at Shepherd of the Hills Presbyterian Church,

We want to thank you on behalf of all the orphans and families you are helping in Malawi. By sponsoring over 70 children your church family has truly made a difference in the community where these children live. Thank you for partnering with World Vision because we truly appreciate all your support.

Thank you and God bless, Millie Vanderpool, World Vision

