

Radio Glencoe Podcasting

It's Your Money

Episode 3—Being a Wise Investor

Glenn and McGraw interview an investment consultant who presents “The Do’s and Don’ts of Taking Care of Your Dough.” These six valuable tips can help you learn how to become a successful investor.

Glenn Good day, everyone. Welcome to Radio Glencoe Podcasting. I’m your host, Glenn Coe.

McGraw And I’m your host, McGraw Hill. You’re listening to *It’s Your Money*, where we bring you interesting interviews about money and personal financial success.

Glenn Well, today our guest is Judy Reynolds, an investment counselor who has developed a program called “The Do’s and Don’ts of Taking Care of Your Dough.”

McGraw And when we say “dough,” we are not talking about making bread. We are talking about making money through smart saving and investing.

Glenn Welcome to our show, Judy. I understand your program includes three Do’s and three Don’ts.

Judy That’s right. There is a lot to learn about personal financial planning, but these six ideas are the basics of smart investing.

Glenn Judy, let me ask you this: Most young people don’t have a lot of money, so do they really need a program in investing at this point in their lives?

Judy Well, many young people say to me, “I don’t have money. Why do I need your program?” Well, my program answers that question. It helps young people get more money to use for investing.

McGraw I’m hooked. I would love to hear about how to become a smart investor.

Judy Let me start with my first principle: *Don’t spend all your money without creating goals*. What that means is that investing begins by having some type of measurable goal.

Glenn You mean something like: “I want to have \$2,000 for a vacation in Hawaii, so I need to save.”

Judy Well, saving for a vacation is a goal, but real investing is more about having goals that bring you financial security. For example, you might create an investment goal to have enough money to go to college because that helps you get a good job. Or you might have a goal to buy a house in

five years or to achieve financial independence by the time you are 50.

McGraw All right, let's say my goal is to buy a house by the time I am 27. What do I do now?

Judy That is a good goal, McGraw. What you need to do now is begin saving money every chance you can, rather than spending it all. This is hard for most people, but that is why we say, "Pay yourself first."

McGraw Pay myself? I don't understand. What do you mean?

Judy You pay yourself by setting aside money every time you receive some—whether it is from your paycheck, or gifts you receive, or your tax return, or whatever. In this way, little by little, you will begin to have money to use for investing in your goal.

Glenn Well, let's say that I decide to put aside \$100 every month. Where do I put it?

Judy That is my second rule, Glenn: *Don't put all your money in one basket.* Let me explain. When you first start saving toward your goal, it is common to open a savings account at a bank because that is easy to do—and that is a good first step. But over time, as your savings grow, it is best to spread your money around and use many different types of investment tools that offer different rates of return.

McGraw Why do we want different rates of return?

Glenn Yeah, why? I'm happy at my bank. I know the people there; I get interest on my account every month; and my account is growing.

Judy Savings accounts are great, especially if they compound your interest, and you get interest paid on interest. But there are types of investments that pay higher rates of return than savings accounts, such as stocks and bonds, mutual funds, real estate, and others. And a higher return means your money will grow faster.

McGraw So, you are saying that the idea is to invest in different things—or different "baskets," as you call them?

Judy Right. This is called "diversification," which means you spread your money around in different investments. It is good to diversify, because your money grows faster, while also reducing your risk.

Glenn Well, I know the stock market can be risky, so why not just avoid it?

Judy You're right, the stock market is risky, but on average, it pays better returns than a simple savings account. What you have to remember is that *every* investment carries some risk, even the safest kind, like a savings

account. For example, let's say that this year your savings account pays 3 percent interest, but inflation turns out to be 5 percent. Well, you have just lost 2 percent. Financial advisors recommend that you put your eggs in lots of investment baskets, because even if one investment does not do well, the others might.

Glenn OK, let me ask you this: Is there one investment that you know pays better than another? In other words, can you give me a "hot tip"?

Judy Glenn, you actually hit on my third principle: *Don't take any advice without evaluating it.* Even if you hire a financial planner, you need to understand everything you can. But most importantly, don't listen to someone who claims they have a so-called "hot" stock market tip for you.

Glenn Well, how about a friend who promises he or she has "inside information," guaranteed to make me rich?

Judy That is especially a bad idea, Glenn. If anyone tells you that he or she has inside information, stay away, because trading stocks using inside information is illegal—and you can go to jail. Many so-called hot tips are scams too. We have a saying in investing, Glenn: "There's no free lunch." In other words, there's no such thing as making a fast buck or easy money.

McGraw All right, Judy, so far you have told us your three Don'ts:
Don't spend all your money without creating goals.
Don't put all your eggs in one basket
Don't take advice without evaluating it.

What are your three Do's?

Judy My first one is: *Do your investing according to your level of comfort.* A minute ago, I mentioned that every investment has some risk. The fact is everyone reacts differently to risk. Some people are willing to take on a bigger risk to get a bigger return, but other people are not.

McGraw But if I am new at investing, Judy, how can I figure out how much risk I am willing to take? I mean, how can I choose an investment?

Judy Think of it this way: Savings accounts and certificates of deposit have low risk. The stock market, mutual funds, and real estate have modest risk, and things like stock options, coins and collectibles have high risk. It is up to you to choose your level of risk.

Glenn Let me get this straight. Taking a bigger risk means I will get a bigger payoff?

Judy Not always. Taking a bigger risk means you *might* get a bigger payoff, but because it is a higher risk, you might also *lose* your investment. But

let me add one point here: You might want to accept some risk when you are younger because you have years of investing ahead of you. But as you get older, generally, you take on less and less risk.

McGraw Judy, we're almost out of time, so tell us your other two Do's.

Judy *Do make a personal investment plan.* Take the time to write out your goals, study your investment options, and select the right ones for you. A solid investment plan really helps keep you on track.

McGraw And what is the last one?

Judy *Do follow your investments.* In other words, pay attention to your investments. Smart investors check and recheck their investment plans regularly and make adjustments to stay in line with their goals.

McGraw OK, let me repeat your three Do's:
Do your investing according to your level of comfort.
Do make a personal investment plan.
Do follow your investing.

Judy That's right, McGraw. Thank you.

Glenn And thank you, Judy, for your excellent program on "The Do's and Don'ts of Taking Care of Your Dough." That ends our show today. This is Glenn Coe, saying goodbye.

McGraw And this is McGraw Hill, saying thanks for listening. Remember, it's your money, so make it work for you.