LAZY & UNCOMPLICATED INVESTING

An Effortless & Simple
Investment Guide

by Chris Reining

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How do you start having your money work for you? It's a great question, with a few solutions:

- Rental property
- Start or buy a business
- Invest in stocks

Investing in stocks seemed like the easiest way to start having my money work for me, so that's what I chose.

And at first, the stock market can seem daunting and confusing (I know because I felt the same way).

It's unfortunate that no one teaches you how to get started, so I'm going to break it down into two simple steps:

1. Invest first in tax-advantaged investment accounts
2. Buy one stock index fund, one bond index fund

That's it.

That's all you really need to know, but you probably want to know a little more, so let's keep going.

Step #1: Invest first in tax-advantaged investment accounts

If your employer offers a tax-advantaged retirement plan like a 401(k) or 403(b) then that's a great place to start investing.

Why? Because most employers offer a company match, which means they match the money you put into your retirement account, typically up to a certain dollar amount.

Let's say you make $50,000, and you contribute 5% to your retirement account. That's $2,500.

And your employer matches dollar-for-dollar up to 5%, meaning they put in an additional $2,500. That's $2,500 in *free* money, the best investment.

Here's another way to look at that: instead of contributing 5% to your retirement account you're really contributing 10%.

That's why it's usually best to contribute enough to get the maximum company match, before deciding to move on to other investment accounts.

Step #2: Buy one stock index fund, one bond index fund

Now that you're contributing money to an investment account you need to invest that money into something.

What should you invest in?

A time-tested approach is to invest in index funds. It's even what Warren Buffett recommends, one of the richest people of our generation.

Index funds track, well, an index. For example, you might have heard of the S&P 500, commonly referred to as "the market", which is an index of 500 companies.

So when you're investing in an S&P 500 index *fund* what that means is you're investing in the 500 companies that make up that index. Make sense?

Index funds aren't trying to "beat" the market. That's fine, because they're never going to do better or worse than the market they're simply going to match it.

And because they simply match the market you're not going to pay huge fees for someone to manage your investments.

What type of index funds do you need?

Typically, you want one stock index fund, one bond index fund. Stocks for growth, bonds for stability.

When you're trying to decide how to divide your money between stocks and bonds one rule of thumb is to have your age in bonds.

Examples?

- If you're 25 have 75% in stocks and 25% in bonds
- If you're 50 have 50% in stocks and 50% in bonds
- If you're 75 have 25% in stocks and 75% in bonds

Of course, this is just a rule of thumb for allocating your money between stocks and bonds.

If you have a higher risk tolerance you might want a higher percentage in stocks, and if you're more conservative you might want a higher percentage in bonds.

What about fees?

Yes, fees matter. Here, I'll do some calculations for you. Let's say you invest a lump sum of $10,000 and earn 7% over 50 years:

- 0.00% fee: $10,000 grows to $294,570
- 0.10% fee: $10,000 grows to $281,115, you lose $13,455 to fees
- 0.50% fee: $10,000 grows to $233,066, you lose $61,504 to fees
- 1.50% fee: $10,000 grows to $145,419, you lose $149,151 to fees

The higher the fee the more you lose, so you better make sure you're getting something valuable for any fee you're paying.

Again, one way to keep fees low is by investing in index funds. They typically have the lowest fees across all investments.

Now, let's take a look at a few examples of how putting this all together might look using Fidelity and Vanguard funds. (What specific investment choices are available to you may depend on what account you're investing in.)

Example #1: One-fund Portfolio

The simplest way to invest in stocks and bonds is with a target-date fund. These funds were created for the investor who wants a hands-off, all-in-one solution.

Fund type	Fidelity	Vanguard
Target date	Freedom Index Fund	Target Retirement Fund

Example #2: Two-fund Portfolio

This second example is one Warren Buffett has recommended, money split across two index funds.

Fund type	Fidelity	Vanguard
Stock index fund	Total Market Index	Total Stock Market Index
Bond index fund	US Bond Index	Total Bond Market Index

Example #3: Three-fund Portfolio

This last example is one many “Bogleheads” — followers of Vanguard founder John Bogle — have recommended: a total stock market index fund, an international index fund, and a bond index fund.

Fund type	Fidelity	Vanguard
Stock index fund	Total Market Index	Total Stock Market Index
International stock index fund	Total International Index	Total International Stock Index
Bond index fund	US Bond Index	Total Bond Market Index

Questions?

Email me: chris@chrisreining.com. I also offer two things: a self-paced online course and personal, private, coaching.