
More Cardinal Rules for Investing

In the last chapter, I suggested five rules for investing that you should commit to memory. Here are five more:

6. *Know the “fees” before making any investment:* Fees can eat into your profits. If you are buying stocks, consider the amount of the “commission.” If you are buying mutual funds, consider the up-front fees and any fees associated with sale of the investment. Try to avoid buying any mutual fund that has any up-front or rear-end fees. Also, all mutual funds have yearly fees to manage the fund. Try to stick with mutual funds that have expenses near one percent per year. Always try to favor investments that have low fees.

7. *Before buying or selling any investment, consider the tax consequences:* There are important tax consequences associated with all investments. When you have money to invest, consider whether there are any options that allow you a deduction on your taxes. Can you increase your investment in a 401k retirement plan? When you sell an investment, you need to consider whether you are eligible for claiming a long-term capital gain. If you hold an investment for more than a year, the taxes are less upon sale than selling in less than a year. You need to learn the tax consequences associated with all your investments.

8. *Pay off your credit card debt every month:* Credit cards are a great convenience to consumers. However, they can be a terrible drag on your life if you start getting behind in paying off your credit card debt. I strongly suggest that you make an ironclad commitment that you will always pay off your credit card debt every month. It is better to pay off credit card debt than to use the same money to put into investments.

9. *For most people, mutual funds are a better investment than individual stocks:* Most people do not have extensive knowledge about the stock market. It is very difficult to know the best stocks for purchase. It is also very difficult to purchase a “diversified portfolio” of individual stocks. You need a large amount of money to buy enough stocks to maintain adequate diversification. Mutual fund managers spend their whole careers studying stocks for purchase in their mutual funds. They are usually far more “savvy” about which stocks to buy than the average investor. I strongly suggest that you stick with mutual funds rather than individual stocks.

10. *Don’t listen to the whispers!* This is the hardest rule to remember. All of your investing life, you will hear friends, neighbors, work associates, brokers, and others telling you about stocks or other investments that are a “sure thing” or “can’t-miss investments.” You will hear people telling you that they have inside information about a stock that is getting ready to soar. *Don’t listen to the whispers!* Stick to a steady, patient, disciplined investment approach. *It is absolutely true in the investment world that “If it sounds too good to be true, it is.”* If you do not abide by this last cardinal rule, you will lose a lot of money in your investments.