Investing 101: Building Wealth for Your Future

PURDUE UNIVERSITY

Extension - Health and Human Sciences

Fact Sheet

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What is investing?

In simple terms, investing is using money to try to make a profit or produce income. Investing money is different from saving money. Saving involves setting money aside in safe, relatively low interest paying accounts so it's there when you need it. Investing is about taking calculated risks with your money to try to earn more with it. Most people invest to achieve a goal, whether it be a long term goal like retirement or short term goal like saving for a down payment on a house.

Why is investing important?

Investing is one of the most effective ways to build wealth and save for long-term goals, whether it's retirement, paying for college, buying a home, or other big plans. The sooner you start, the more you can take advantage of compounding gains—your money earns money, and those earnings grow over time without extra effort. For example, if you start investing $100 a month at age 25, by the time you're 65, you could have over $250,000, assuming an average return of 7% per year. Investing gives your money the potential to grow faster than just saving, helping you keep up with inflation and, ideally, outpace it so your purchasing power increases over time. By investing consistently, you give yourself a better chance to reach your goals and secure your financial future.

Types of Investments

- Stocks – Give you ownership in a company and are one of the best ways to build long-term wealth. While they can be volatile in the short term, they typically reward patient investors. Plan to hold stocks for at least 3-5 years (longer is even better). Ex: Buying shares of Apple or Amazon means you own a small piece of that company.
- Bonds – Are like loans you give to a company or government, and in return, you earn interest. They usually provide lower returns than stocks but are also less risky. Because bonds fluctuate less, they're useful for balancing a portfolio and providing a steady income stream. Ex: U.S. Treasury Bonds or corporate bonds from companies like Microsoft.
- Mutual Funds – Are pools of money from many investors to buy a mix of stocks, bonds, or both. By purchasing shares in the fund, you gain instant diversification, which helps spread out risk. Mutual funds are a simple option for beginners and can generate meaningful long-term returns. Ex: Vanguard Total Stock Market Index Fund (VTSMX).
- Exchange-Traded Funds (ETFs) – Are similar to mutual funds in that they hold a basket of investments, but they often come with lower fees and can be bought and sold throughout the trading day, just like individual stocks. They're a cost-effective, flexible way for both new and experienced investors to grow wealth. Ex: SPDR S&P 500 ETF (SPY) or Vanguard S&P 500 ETF (VOO).

Small Savings Add Up to Big Money

How much does a daily candy bar cost? Would you believe $465.84? Or more?

If you buy a single candy bar every day for $1, that adds up to $365 a year. If you saved that $365 and invested it in an account that earns 5% interest per year, it would grow to $465.84 by the end of five years and to $1,577.50 by the end of 30 years. This is the power of "compounding!" With compound interest, you earn interest on the money you save and on the interest that money earns. Over time, even a small amount saved can add up to big money.

TIP:

If you consider yourself an impulse buyer, make a rule that you will wait 24 hours before you buy anything. You may lose interest in buying that item after a day!

Risk vs. Reward, Diversification, Time Horizon, and Inflation

Think of investing like planting a garden. Some plants (investments) grow fast but are more fragile, while others grow slowly but are sturdier—that's the balance of risk and reward. A healthy garden has a mix of different plants, just like a smart investor has diversification to spread out risk. How long you plan to let your garden grow matters too—this is your time horizon. If you give it time, your garden (and investments) can recover from storms along the way. And just like weeds slowly take over a garden, inflation reduces the value of your money over time, which is why investing is important—it helps your money grow faster than inflation so you don't lose buying power in the future.

Basic Strategies on Getting Started and Common Mistakes to Avoid

The best way to start investing is to begin small, stay consistent, and focus on simple strategies that work over time. Here are a few to keep in mind:

- Start with what you can—even $25 a month adds up over time.
- Automate contributions so investing becomes a regular habit.
- Take advantage of employer retirement matches when available—it's free money toward your future.
- Avoid common mistakes like trying to time the market or making emotional decisions.
- Use dollar-cost averaging by investing the same amount regularly, no matter what the market is doing.
- Stick with a buy-and-hold approach to allow your money to grow over the long term.
- Consider index funds or ETFs for low-cost, broad market exposure.

As you get started, it's also important to know what not to do. Common mistakes to avoid include:

- Trying to time the market—no one can predict the perfect time to buy or sell.
- Letting emotions control decisions, such as panic selling during downturns.
- Chasing "hot tips" or quick gains instead of sticking to a long-term plan.
- Putting all your money in one place, rather than spreading it out through diversification.

By focusing on proven strategies and steering clear of these common mistakes, you'll build strong investing habits and set yourself up for long-term success.

Final Thoughts

Investing doesn't have to be complicated—you don't need to be an expert to get started. The key is to begin early, stay consistent, and let time and compounding work in your favor. Remember, every dollar you invest is a step toward building your future security and freedom. Whether you start small or large, the most important thing is to take that first step today.

My Investing Goal - Write a goal that is Specific, Measurable, Achievable, Relevant, and Time-bound below.

<u>Specific</u>: What exactly do I want to achieve?

<u>Measurable</u>: How will I know I've reached it?

<u>Achievable</u>: Is this realistic for me right now?

<u>Relevant</u>: Why is this goal important to me?

<u>Time-bound</u>: By when do I want to achieve this?

Resources: Financial Industry Regulatory Authority. Inc., Investor.gov - U.S. Securities and Exchange Commission, Investopedia, Fidelity, Vanguard, MyMoney.gov