

THE H. KENT BAKER INVESTMENTS SERIES

**THE SAVVY INVESTOR'S
GUIDE TO BUILDING
WEALTH THROUGH
TRADITIONAL
INVESTMENTS**

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BY

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INVESTOR IN PEOPLE

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*“The most valuable of all talents is that of never
using two words when one will do.”*

—Thomas Jefferson

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INTRODUCTION

Would you like to be a millionaire or better yet a multi-millionaire? If you're like most people, your answer is "yes." This goal is not beyond your reach. As Morton Shulman once quipped, "To make a million, start with \$900,000." However, most people don't have the luxury of starting with this amount of money so let's take a hypothetical example. Assume you have a defined contribution plan in which both you and your employer deposit a total of \$158.13 at the end of every month into an S&P 500 Index fund that earns a 10% yearly rate of return. If you don't withdraw any money along the way, how much money do you have in your fund

"Money, if it does not bring you happiness, will at least help you be miserable in comfort."

Helen Gurley Brown

after 40 years? Take a guess. You'd have slightly more than \$1 million. You'd be a millionaire. Although the assumed inputs may not mirror your situation, the key point is that regular investing and the power of compounding leads to higher wealth accumulation over time. Thus, small efforts can create big results in terms of your wealth. Keep in mind, however, that the purchasing power of your money would be much less 40 years from now than today due to price inflation.

How can you build wealth? The answer is simple but not easy. It is more common sense than magic secret. You become wealthy by starting early, spending less than you make, managing risk, and saving and investing regularly and wisely over the long term. Along the way, focus on what you can control, such as the amount of risk you're willing to take, the costs you're willing to incur as well as your investment horizon, asset allocation, and behavior. The single greatest factor in growing your long-term wealth is the rate of return you get on your investment, which is determined over time by the market. This roadmap to wealth is straightforward, but it requires discipline and patience. Little by little, a little becomes a lot.

Unfortunately, many people lack sufficient discipline and patience. Others wait for some fortuitous event to occur such

“Too many people spend money they haven't earned, to buy things they don't want, to impress people they don't like.”

Will Smith

as winning a lottery or inheriting a large sum of money. For most people, such events never occur. Consequently, they aren't wealthy and will never be. It's sad, because many of them could

have become wealthy if they'd only been proactive and taken the necessary steps to building wealth. Don't be one of these people. Building wealth takes planning and requires both productive work and dedication.

As an investor, you face many challenges. Savvy investors turn challenges into opportunities. After you eliminate high consumer debt, especially high-interest debt, and build up sufficient savings to handle emergencies, you need to decide how and where to invest your hard-earned money. Most people don't know much about investing and some don't even know

where to begin. As a result, they either never get started investing or make costly mistakes. A good way to start building wealth is to invest in traditional

investments – stocks, bonds, and cash or cash equivalents. Stocks and bonds are the heartbeat of Wall Street. You can invest in a single security, which most individual investors don't do, or in a *pooled investment vehicle*, which combines the funds of many investors for the purposes of investment. Pre-packaged products such as index mutual funds or exchange-traded funds offer economies of scale, which provide lower trading costs per dollar of investment, diversification, and professional money management. When you invest in stocks and bonds, you can receive a future income stream in terms of dividends and interest, as well as the alluring prospect of capital growth and compounding returns over time. Creating wealth with these financial instruments is tied to the market's performance, which you can't control. Additionally, one of the most powerful avenues to invest and build wealth is through retirement plans.

Before you begin your wealth-building journey, you need to be honest about what you know and what you don't know about investing. *The Savvy Investor's Guide to Building Wealth Through Traditional Investments* is intended to help you learn about

“Acknowledging what you don't know is the dawning of wisdom.”

Charlie Munger

“Building wealth is a marathon not a sprint. Discipline is the key ingredient.”

Dave Ramsey

“If your ship doesn't come in, swim out to meet it.”

Jonathan Winters

traditional investments and to become a better investor, especially if you are a novice or an inexperienced investor. As Maya Angelou once wrote, “Do the best you can until you know better. Then when you know better, do better.” Thus, as Robert Kiyosaki notes, “Financial freedom is available to those who learn about it and work for it.”