

# **The Six Rules of Smart Investing**

**By Akira Channing**

# INTRODUCTION

---

Most people invest their money based on other people's advice or they just follow the trend without knowing the risk associated with the investment products that they invested. If they are lucky enough, they will gain some return. However, for some people especially those elderly folks, they lost their entire life savings.

It is very common that people reacted to the news they heard about the investment world, especially in the stock market. In most time, you will feel confusing where you should be investing your money. In the current world, it has become increasingly unpredictable for investments.

It takes time for you to become a smart investor and often it requires a total change in mindset and behaviour.

In most time, when you suddenly have a lot of money, whether it is from a raise or bonus, or an inheritance, or some other sources of income, you are tempted to spend it on gadgets, cars, vacations etc.

In the situation above, one of the behavioural changes is to understand what to do with the extra money. How to put your extra money to work harder for you?

The answer is to put your money into investments. However, in order to do that, you need to understand some fundamental rules of investing. Here are the six fundamental rules for a step further to becoming a smart investor.

# Investing Rule #1:

## Understand the Types of Income

---

Most people do not realize that there are different kinds of money to work for, when it comes to making money. You need to understand how to make use of each income to work effectively for you. There are three kinds of income. We called it S.I.P. income:

### Salary Income

Most people started and earned from a job. It's the highest-taxed income, and thus, the hardest to build wealth with due to high taxes and the fact that you're trading time for money. Your ability to earn is based on how long and how much you can work. You might be one of those who constantly countdown to payday. Forget about taking up a second job, instead find ways to let the money work harder for you or look for alternative income.

### Investment Income

When you put money in paper assets such as stocks, bonds and mutual funds, it will earn you some return in terms of dividends or capital growth when the paper assets increased in value. It is the second-highest taxed income, and is moderately hard to build wealth with due to, sometimes, low returns or the paper assets decreased in value. It is depending on the level of risk of the paper assets that you are investing.

## Passive Income

It is generally derived from rental income, royalties, and distributions of investment income. It is the lowest-taxed income, with some tax benefits, and is the easiest income to build wealth with. For instance, you invest in a condominium for \$200,000. Monthly loan repayment is \$1,100. Then you rent it out for \$1,500 per month. Basically the monthly rental income is able to cover the monthly loan repayment for the condominium and you earned an excess income of \$400.

# Investing Rule #2:

## Turn Salary Income into Passive Income

---

As you may see, salary income is the highest-taxed income. Most people start making a living by earning salary income as an employee. If they are lucky, they get pay raise every year on an average about 3% to 5% a year. The more you earn, the more tax you are paying. However, be realistic, not all people will have pay raise every year.

In building wealth, you can't merely depend on the salary income. As introduced above, there are 3 kinds of income. You need to understand how to effectively turn your salary income into passive income.

When people get a pay raise, they tend to spend more or some will choose to save it. We highly recommend that you pay yourself first and invest that money in cash-flowing assets. In short, turn your pay raise into passive income.

# Investing Rule #3:

## Invest in Yourself

---

All investments come with risk. The lower the risk of the investment, the lower the return of it. The higher the risk, the higher the potential return. There are people who make money through investment, but why some are losing money?

Most people have the “herd” mentality; they follow the majority of the ordinary investors. They tend to invest when the market is rising higher, hoping that the market will be getting higher, not knowing that the particular investment or the market is prone to turn around. Then, they may ended up losing a lot of money.

However, when the market is trending down, in most of the time, investors tend to shy away from investing, and tend to wait and see. For this type of investor, they usually missed the boat when the market recovered.

If you want to become a smart investor, you must first invest in your financial education. You have to understand the characteristic of each investment and the risk associated with it. Always start with smaller investments, learn from your mistakes, and gradually making bigger investments. The investment experiences will form part of your financial education and to build your financial intelligence.

# Investing Rule #4:

## Get Ready

---

The investment world has become unpredictable. There are no boundaries between economies. In the event of a major incident happened in one country, it affects the other countries, be it economically or politically.

While most investors trying to predict what will happen and assess its impact, it is really important to get yourself prepared and be ready for anything to happen. If you are equipped with the necessary investment knowledge, experience, or extra cash, a good investment opportunity will come to you.

It is advisable to focus on what you want, recognise your own risk appetite, to keep your eyes open to what is happening, and to respond to the investment opportunity. All this can only be done through continual education and application.

# Investing Rule #5:

## Eyeing for Investment Opportunity

---

As a smart investor, focus on what you want for your investment. You may take calculated risk, but remember not to be greedy. If you are prepared with the necessary investment knowledge and experience, it is easier for you to identify investment opportunities.

If you have done enough research, you will no longer feel fear when the market is trending down, as you know the investment opportunities is approaching. For instance, if the market starts to trend down and you noticed the share price of Apple Inc. has dropped 10%, would you buy the stock? Your decision is pretty much depending on your research and knowledge about what is actually happening to the market and to the Apple Inc.

Once you are prepared and have a clearer mind, the investment opportunities will be approaching you.

# Investing Rule #6:

## Evaluate risk and reward

---

One of the reason many investors losing money comes from their inability to manage the risk. All investments come with risk. You should be compensated for taking the risk. You need to know the risk/reward ratio.

The calculation is very simple. You divide your net profit by the price of your maximum risk. The minimum risk/reward ratio that a professional investor is targeting will be 2:1 risk/reward ratio, which allows them to double their money.

Assuming that you did your own research and found a stock you like, PQR stock. You noticed that PQR stock is trading at \$10, which just dropped from a recent high of \$15. You believe that in the near future, PQR will go back up to \$15. You have \$1,000 to invest, so you can buy 100 shares. If PQR stock went up to \$15 per share, you would make a profit of \$5 for each of your 100 shares, i.e. a total of \$500. You paid \$1,000 for it, so you would divide it by \$500 which give you 0.5. That means your risk/reward for this investment is 0.5:1, which is not an ideal risk/reward ratio for professional investors.

However, to be realistic, you would never let your \$1,000 go all the way to zero, unless you are inexperienced and did not monitor the stock price movement. So, your actual risk would not be the entire \$1,000.

Our **bonus advice** to you is to apply a stop-loss strategy. A stop-loss strategy means you need to determine a price on the downside that limits the risk. If you set \$15 sell limit price as the upside, maybe you set \$5 as the maximum downside.

Once your stop-loss order reaches \$5, you sell it and look for the other opportunity. Your new profit remains the same at \$500, but your risk is now only \$500 (\$5 maximum loss multiplied by the 100 shares that you own), now the risk/reward ratio is 1:1. This is still not ideal enough.

You may change the limit of your downside a bit. If you raised your stop-loss price to \$8, risking only \$2 per share or \$200 loss in total, that means your risk/reward ratio (\$500/\$200) is now 2.5:1, which is much more acceptable.

Every investor would have a different risk appetite. You have to decide for yourself what the acceptable ratio is for you. Once you start incorporating risk/reward ratio, you will notice that it's difficult to find good investment. Continue to do your research. The more meticulous you are, the better your chances of making money.

## IMPORTANT NOTE:

---

The purpose of this book is to give you some fundamental rules before you start investing.

Should you find yourself interested in any specific investment product, I would strongly urge you to further read up about the various investments available in the market such as stocks, bonds, mutual funds, etc because they are all a subject of its own with different characteristics.

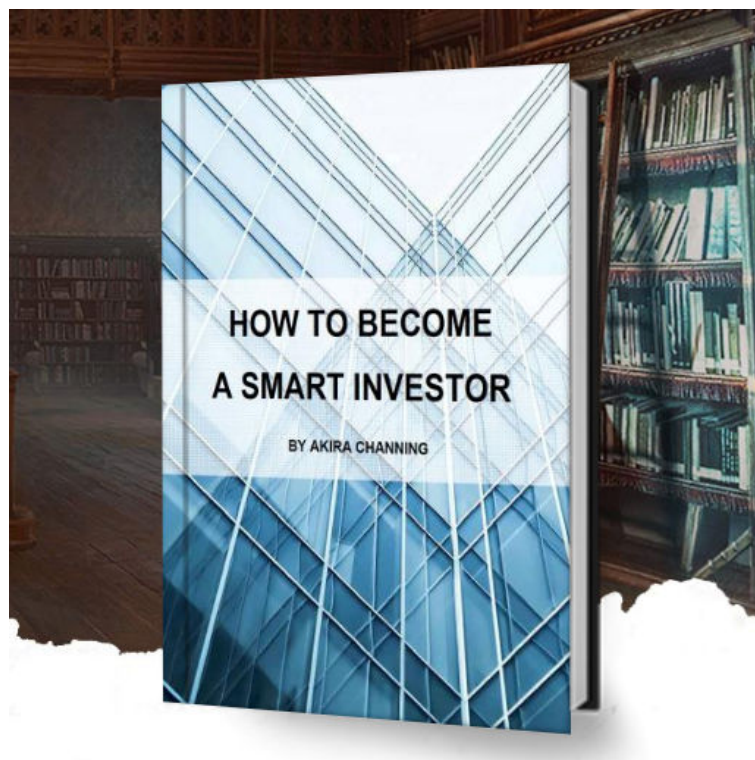
I would recommend you to read the following book.

## How To Become A Smart Investor

You need to read this book “ **How To Become A Smart Investor** ” right now because it comes with useful investment information and tips used by smart investors, to achieve successful investment.

There are useful information and investment ideas for individuals who would like to gain some insights on investments. You will be introduced to various types of investment products like stocks, options, bonds, currencies, structured products, commodities, properties, mutual funds, etc.

Once you gain this secret investment ideas and tips on each of the investment product and to understand their accessibility, you can decide on the best investment tool for yourself. Reading this book is the very first step for you to become a smart investor. The earlier you start on investment, the sooner you will reach to your goals. Once you gain a good insight on investment, you will be able to make better investment decisions in the near future.



**To find out more, click the link below:**

**<http://smart.juzclick.com/>**

# Let's Connect

---

Thank you for reading! This eBook brought to you by **JuzClick**.

We look forward to hearing from you. We welcome your valuable feedback. Please feel free to get in touch with us via our Facebook, website or email; we will get back to you as soon as possible.



JuzClick2U



juzclick.com



connect@juzclick.com