# Beginner Investor Concepts

Building Long-Term Wealth · Ramon Cook (@_ramoncook)

## Why Should You Invest?

Investing allows your money to grow instead of sitting still. Historically, the S&P 500 has averaged around 8–10% annual returns over the long term, compared to traditional savings accounts (~0.5%) and high-yield savings accounts (~3–5%).

The market does not go up every year, but historically it has produced positive returns roughly 3 out of every 4 years. Short-term declines are normal, but investors who stay invested over time have historically benefited from market growth and compound interest.

The goal of investing is not to get rich overnight. It is to put your money to work and build wealth over time.

> **Remember: Time in the market beats timing the market.**

## Understanding Investments

**Publicly Traded Company**: A company whose shares can be bought and sold by the public through the stock market.

**Private Company**: A company owned privately that does not allow the public to buy shares.

**Stock**: A small piece of ownership in a company.

**Share**: A single unit of ownership in a company.

**ETF (Exchange-Traded Fund)**: A collection of investments bundled together that allows you to invest in many companies with one purchase.

**Diversification**: Spreading your money across different investments to reduce risk.

**Dividend**: Money some companies pay shareholders as a reward for owning their stock.

**Dividend Yield**: The percentage of a stock's price paid to investors each year through dividends.

## Investment Accounts

**Brokerage Account**: An account that allows you to buy and sell investments like stocks and ETFs.

**Individual Brokerage Account**: A flexible investment account with no contribution limits that allows you to invest for goals before retirement. Investment gains may be taxable.

**Roth IRA**: A retirement account where investments grow tax-free and qualified withdrawals in retirement are also tax-free.

**401(k)**: An employer-sponsored retirement account that often includes matching contributions.

> **Beginner Tip: Having all three accounts (a 401(k), a Roth IRA, and an individual brokerage account) allows you to take advantage of employer benefits, tax-free growth, and investment flexibility.**

## Major Market Indexes

**S&P 500 (VOO)**: Tracks 500 of the largest U.S. companies and is commonly used to measure the overall stock market.

**NASDAQ (QQQM)**: An index focused heavily on technology and growth companies.

**Dow Jones**: An index that tracks 30 large, established U.S. companies.

## Stock vs. ETF

**Stock**: Ownership in one specific company. Stocks can provide higher growth potential but carry more risk because your investment depends on one company.

**ETF**: A collection of many companies bundled together. ETFs provide instant diversification and lower risk, and they are often easier for beginner investors.

> **Example: Buying Nvidia stock = owning part of one company. Buying an S&P 500 ETF = owning part of 500 large U.S. companies.**

## Understanding the Market

**Bull Market**: A period when stock prices are rising and investors are optimistic.

**Bear Market**: A period when stock prices fall 20% or more and investors are pessimistic.

**Pullback**: A temporary market decline, usually less than 10%.

**Correction**: A market decline of 10% or more from a recent high.

**Dollar-Cost Averaging (DCA)**: Investing the same amount of money consistently over time, regardless of market conditions.

**Compound Interest**: Earning returns on your original investment and the returns it generates.

**Interest Rates**: The cost of borrowing money, which impacts businesses, consumers, and stock prices.

## Understanding Companies

**Revenue**: The total money a company earns before expenses.

**Earnings Per Share (EPS)**: A company's profit divided by the number of shares.

**Balance Sheet**: A report showing what a company owns, what it owes, and its financial health.

**Earnings Call**: A meeting where company leaders discuss financial results and future expectations.

**P/E Ratio**: A measurement comparing a company's stock price to its earnings to determine if it may be expensive or undervalued.

**Forward P/E vs. Trailing P/E**: Trailing P/E uses past earnings, while forward P/E uses expected future earnings.

**Moat**: A competitive advantage that makes it difficult for competitors to take market share.

**Bottleneck**: A company or resource that is essential and relied upon by many other businesses.

**Stock Split**: When a company increases the number of shares while lowering the price per share without changing the total value.

# The 11 Major Stock Market Sectors

The stock market is divided into 11 major sectors. Sector ETFs allow investors to invest in an entire industry instead of picking individual companies.

| # | Sector | What it includes | ETF | Examples |
|---|---|---|---|---|
| 1 | **Information Technology** | Software, computers, semiconductors | **XLK** | Nvidia, Microsoft, Apple |
| 2 | **Healthcare** | Pharmaceuticals, biotechnology, medical devices | **XLV** | Eli Lilly, Johnson & Johnson |
| 3 | **Financials** | Banks, insurance, financial services | **XLF** | JPMorgan, Visa |
| 4 | **Consumer Discretionary** | Retail, automobiles, entertainment | **XLY** | Amazon, Tesla, Nike |
| 5 | **Communication Services** | Internet, media, streaming, telecom | **XLC** | Google, Meta, Netflix |
| 6 | **Industrials** | Manufacturing, transportation, defense | **XLI** | Caterpillar, Boeing |
| 7 | **Consumer Staples** | Food, household products, necessities | **XLP** | Coca-Cola, Walmart |
| 8 | **Energy** | Oil, natural gas, energy production | **XLE** | Exxon Mobil, Chevron |
| 9 | **Utilities** | Electricity, water, power companies | **XLU** | NextEra Energy, Duke Energy |
| 10 | **Materials** | Mining, chemicals, raw materials | **XLB** | Linde, Sherwin-Williams |
| 11 | **Real Estate** | Property companies and REITs | **XLRE** | Prologis, American Tower |

## Beginner Takeaway

Successful investing starts with understanding what you own, why you own it, and how your investments fit into your goals.

**Stocks**: Ownership in a company

**ETFs**: Ownership in many companies

**Brokerage Account**: Flexibility

**Roth IRA**: Tax-free retirement growth

**401(k)**: Employer benefits

## Investing Mindset

> *“Time in the market beats timing the market.”*

> *“Assets > Liabilities.”*

> *“Poor people live check to check; rich people live year to year; wealthy people live generation to generation.”*

> *“If you have more money in your closet than in your portfolio, you are playing the wrong game.”*

> *“Opportunities are abundant in the market, but you only have a small window to capitalize on them.”*

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