Investment Basics Cheatsheet

A concise guide to the fundamentals of investing, covering key concepts, strategies, and asset classes for building a strong financial foundation.

Core Concepts

Investment Principles

Risk and Return: Higher potential returns usually come with higher risk. Understand your risk tolerance before investing.
Diversification: Spreading investments across different asset classes to reduce risk.
Time Horizon: The length of time you plan to keep your investments. Longer time horizons allow for more risk.
Inflation: The rate at which the general level of prices for goods and services is rising, and subsequently, purchasing power is falling.
Compounding: Earning returns on your initial investment and the accumulated interest or gains. The "snowball effect".
Asset Allocation: Deciding how to distribute your investments among various asset classes (stocks, bonds, real estate, etc.).

Investment Goals

Retirement: Saving for your future financial needs after you stop working.
Education: Funding the cost of college or other educational pursuits.
Home Purchase: Saving for a down payment on a house.
Financial Independence: Accumulating enough wealth to live off your investment returns.
Major Purchases: Saving for things like cars, vacations, or other significant expenses.

Asset Classes

Stocks (Equities)

Definition:	Represent ownership in a company. Potential for high growth, but also higher risk.
Types:	Large-cap, mid-cap, small-cap, growth stocks, value stocks, dividend stocks.
How to Invest:	Individual stocks, mutual funds, ETFs.

Bonds (Fixed Income)

Definition:	Debt securities issued by governments or corporations. Generally lower risk than stocks, with more stable income.
Types:	Government bonds, corporate bonds, municipal bonds.
How to Invest:	Individual bonds, bond funds, ETFs.

Real Estate

Definition:	Physical property like land, residential, or commercial buildings. Can provide rental income and potential appreciation.
How to Invest:	Direct ownership, REITs (Real Estate Investment Trusts).

Cash Equivalents

Definition:	Highly liquid assets that can be easily converted to cash. Low risk, low return.
Examples:	Savings accounts, money market accounts, certificates of deposit (CDs).

Alternative Investments

Definition:	Investments that don't fall into the traditional asset classes. Often less liquid and potentially higher risk.
Examples:	Hedge funds, private equity, commodities, collectibles.

Investment Vehicles

Retirement Accounts

401(k):	Employer-sponsored retirement plan. Often includes employer matching.
IRA (Individual Retirement Account):	Tax-advantaged retirement account. Traditional and Roth options.
Roth IRA:	Contributions are made after tax, but qualified withdrawals in retirement are tax-free.
SEP IRA:	Simplified Employee Pension plan, for self-employed individuals and small business owners.

Taxable Brokerage Accounts

Definition:	Investment accounts where you can buy and sell stocks, bonds, ETFs, and mutual funds. Earnings are taxable in the year they are realized.

529 Plans

Definition:	Tax-advantaged savings plans for education expenses.

Health Savings Account (HSA)

Definition:	Tax-advantaged savings account for healthcare expenses. Can also be used for retirement savings.

Investment Strategies

Dollar-Cost Averaging

Investing a fixed amount of money at regular intervals, regardless of the asset's price. Reduces the risk of buying high.

Buy and Hold

Purchasing investments and holding them for a long period, regardless of market fluctuations. Focuses on long-term growth.

Value Investing

Identifying undervalued assets and investing in them. Requires thorough research and analysis.

Growth Investing

Investing in companies with high growth potential. Can be more volatile than value investing.

Index Investing

Investing in index funds or ETFs that track a specific market index (e.g., S&P 500). Provides broad market exposure at a low cost.

Rebalancing

Periodically adjusting your asset allocation to maintain your desired risk level. Involves selling assets that have increased in value and buying assets that have decreased.