How to Invest with Confidence

Without the Usual Newbie Pain

sarwa

**"Be fearful when others are greedy.
Be greedy when others are fearful."**

Warren Buffett

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Intro Page

Sarwa is an all-in-one investment app that helps people achieve their financial goals through smart investing. It does this by providing a large free resource library for financial education, as well as financial products like Sarwa Invest (for passive investors), Sarwa Trade (for active investors), Sarwa Crypto (for those interested in cryptocurrencies), and Sarwa Save (to save for short- and medium-term goals).

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Introduction

You've most likely heard of stock investing stories gone wrong.

Maybe that story was close to home – your family or friends may have put money into the wrong stock, for example.

Or it might even have been you who lost out.

But if you've been inspired by stories of how people like Warren Buffett or Mark Cuban made millions from the stock market, only to be disappointed when your invested savings didn't turn into millions, **know that you're not alone**.

Many new investors excitedly enter into the market only to get their fingers burnt.

But these experiences don't change the fact that people like Buffett and Cuban have (and still do) made millions (and billions) from the stock market.

What, then, can the difference be between successful investors and those who end up telling stories about their losses?

Well, this can be answered with one word: **Principles**.

People like Buffett and Cuban stand by solid, timeless, and well-tested **investing principles** that guide actions in the stock market. These include big but easy-to-apply ideas like **diversification, long-term investing, lump-sum investing, and systematic investing,** among others.

In this guidebook on investing, we will look into these principles and explain how you can apply them to your own investing journey.

P.S. Here's a little secret: **you don't need the wealth of a Buffett or Cuban to start investing.**

SECTION 1:

Compound Interest and the benefit of starting early

To invest like successful investors, you need to understand what compound interest is.

Let's begin with a little imaginative exercise.

What is compound interest?

Imagine you have a magical money tree, and every year it grows a little bit taller. But here's the coolest part: not only does it grow taller, but it also grows extra leaves! These extra leaves represent the interest you earn on your money.

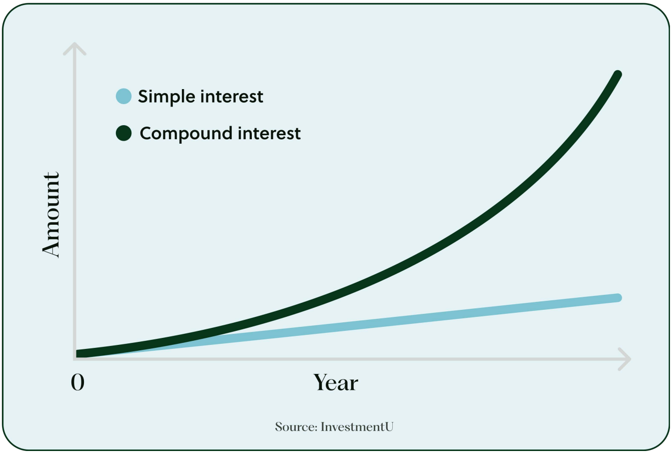
So let's say you decide to plant $100 under your money tree, and it promises to give you an interest rate of 10% per year. In the first year, your money tree grows by 10% of $100, which is $10. Now you have $110! But remember, your money tree is magical, so it keeps growing yearly.

Now comes the exciting part. In the second year, your tree doesn't just grow 10% of $100 again; it grows 10% of $110. That means your tree adds $11 to your money. Now you have a grand total of $121!

See how it's getting more interesting?

As the years go by, your money keeps growing and growing, and the interest it adds keeps getting bigger too. So in the third year, it would grow by 10% of $121, which is $12.10. Now you have $133.10. **The more years pass the more your money can multiply**.

You can visualise this process with the image below:



Compound interest and long-term investing

To see the importance of compound interest in investing, let's go back to our magical money tree. Suppose you became impatient and decided to cut off the tree after the second year. That means you would have $110.

On the other hand, suppose you left that $100 for five years instead, instead of taking it out. At the end of year 5, you will have $161.05.

It's a simple, but effective principle, right?

Well, here it is: **the longer you invest in the stock market, the more money you make**.

But don't take our word for it, here is what Buffett himself has said: "If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."

> "If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."

WARREN BUFFETT

Or as Shelby M.C. Davis, the founder of Davis Selected Advisers, a mutual fund management company, puts it, "Invest for the long haul. Don't get too greedy and don't get too scared."

> "Invest for the long haul. Don't get too greedy and don't get too scared."

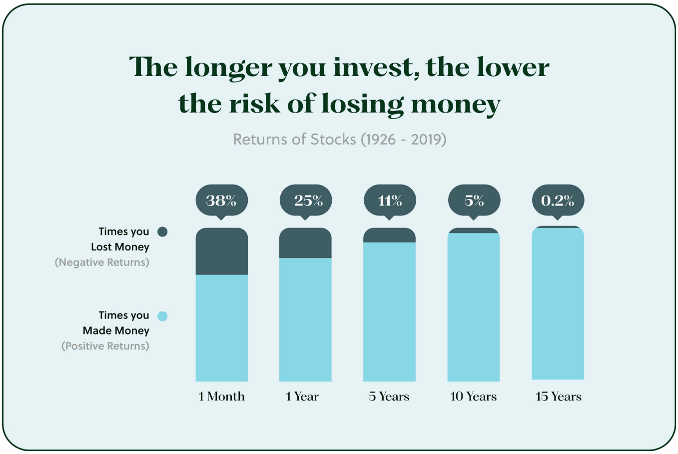
SHELBY M.C. DAVIS

Perhaps you are more scientific and aren't satisfied with just words. You want research that shows how this applies.

A study by Morning Star, an investment research firm, highlights how, given stock data between 1926 and 2019, the longer an investor stays in the market, the higher their successful rate of returns.[1]

Below is a visual representation of the result:

1 Morning Star. (2020) 3 Charts That Show Why Investors Should Stay the Course Throughout Market Turmoil. Available at: [3 Charts That Show Why Investors Should Stay the Course Throughout Market Turmoil | Morningstar]



Put simply, the data says that if you invest for one month, there's a 62% chance of making money and 38% of losing it. But if you are patient for a year, there's now a 75% chance of making money and only 25% of losing it. **Play that long-term game for 15 years and there's a 99.8% chance of making money and only 0.2% of losing it.**

(Disclaimer: Historical performance does not guarantee any certain future performance.)

Why do newcomers lose money?

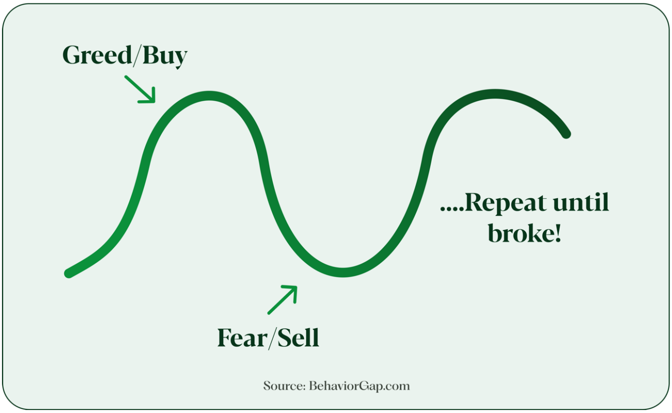
For most, failure to think long term – or, indeed, to act as a day trader – is why so many first-time investors get burned.

Let's say your uncle, aunt or close friend lost money in the stock market. Perhaps now we can start to see why.

They may have thought the stock market was a get-rich-quick scheme when it actually requires a long-term perspective.

Your uncle saw that everyone was talking about making money in stocks. He took his money and bought the same one that everyone was buying (greed). Unfortunately, three days later, the price began to fall and in a bid to prevent further loss, he sold his shares (out of fear) and made a loss.

Buffett calls this the greed and fear cycle. It is visually represented by Behaviour Gap in the chart below:[1]



In essence, novice investors tend to buy high when there is excessive optimism and they tend to sell low when there is agitation and fear.

The result? They go broke – and fast!

Successful investors show us a better path: **stay in the market for the long term to enjoy compound interest.**

1 Behaviour Gap. (2014) How fear and greed kill returns Available at: [How fear and greed kill returns - Behavior Gap]

SECTION 2:

How to minimise risk with diversification

Remember our magical money tree?

Now suppose that the head of the local community runs out of firewood and decides to uproot it. If this is the only tree you have, then you have just suffered an incalculable loss.

Take another example: You're a farmer and have just collected all the eggs that your chicks produced and put them all in one basket. On your journey back home, you trip and fall down. Now all the eggs are gone.

What would have happened if you had two baskets? Surely some of the eggs would've been salvaged. Or two trees?

Or what if you separated the eggs into three baskets and took them home one by one?

In both cases, the loss would be manageable. One tree might be gone but there is another; one basket is destroyed but there are two remaining.

This leads us to another investing principle: **do not put all your eggs in one basket.**

Diversification and risk

This principle is also called diversification. But why is it needed?

The truth about the stock market is that while it produces high returns, it is also risky. Most new investors know about the former but not the latter, **and that is one of the reasons why they lose money.**

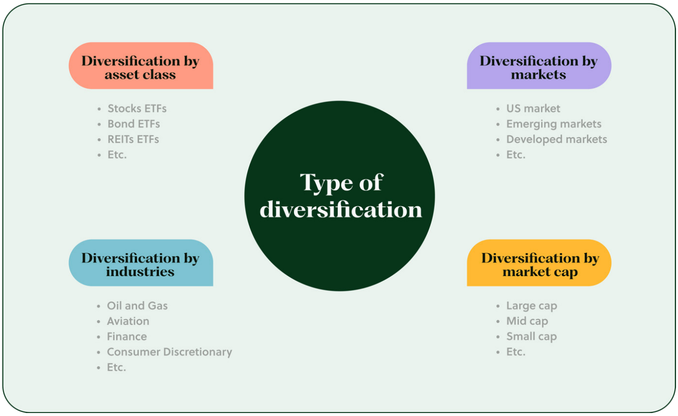
Behind every stock is a company. When the company performs well, its stock rises, and vice versa. Also, when investors' perception of the company is good, the stock rises, and vice versa.

Any company can experience difficult times, leading to falling stock prices (and losses to investors). This difficult period can persist, leading to bankruptcy, a merger, or a takeover.

Diversification helps avoid such scenarios.

Instead of putting all your money in one stock operating in one industry, it's better to scatter them across various stocks in various industries. There are four ways to scatter your investment seed:

- **By asset class**: While stocks provide high returns, they are also very risky. Combining them with low-risk assets, such as bonds or bond ETFs (well get to ETFs more in section 5), can reduce overall risk.
- **By markets**: A country or economic zone can experience unique challenges that cause most of its industries to struggle. By having investments in other countries and geographies, you can protect yourself from taking a significant hit.
- **By industry**: A crisis can broadly impact one given industry at any time (e.g., the Covid-19 pandemic's impact on aviation and hospitality industries). By having investments in other industries, you can ensure you are not fully exposed to the problems of just one industry.
- **By market capitalisation**: Smaller (or small-cap) companies tend to have high growth potential but they are more volatile (their stock prices move rapidly) while large-cap companies are more stable with low growth potential. A combination of the two reduces risk.



By creating a diversified portfolio (a portfolio is a collection of assets/investments), investors can minimise risk.

For example, if you buy into five industries, you can offset a loss in one with a gain in others. Thus, the risk of the overall portfolio is less than the risk of any of its parts.

In our example above, if you had five of these trees in five different places, the risk of a loss due to a disease infecting a region for example, is less than if you had only one tree in whichever location.

Also, using three baskets to move your eggs on three different journeys back home is less risky than transporting all the eggs in one journey, however long the journeys take.

This theoretical link between diversification and lower risk has been confirmed by academic researchers in the US[1] and China[2]. Another study published by Illinois Wesleyan University found that international diversifi

1 W. H. Wagner and S. C. Lau. (1971) The Effect of Diversification on Risk. Available at: The Effect of Diversification on Risk on JSTOR
2 Can Li. (2022) Empirical Study on Portfolio Size and Risk Diversification: Take Stock Market in China as Example. Available at: www.atlantis-press.com/article

cation (diversification by market) reduces risk in the US, Shanghai, and the European Union. [1]

Said differently, proper **diversification helps preserve capital**. And, according to Buffett, this is the most important rule in investing. In his words, "Rule No. 1 is never lose money. Rule No. 2 is never forget Rule No. 1."

> "Rule No. 1 is never lose money. Rule No. 2 is never forget Rule No. 1."

WARREN BUFFETT

Diversification and returns

Research shows that In addition to reducing risk, proper diversification can also produce superior returns.

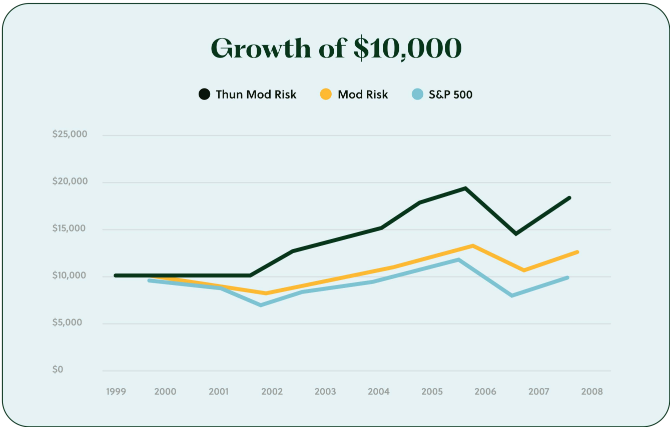
To look into this, we analysed three different portfolios and their performance between 2000 and 2009.

- **Portfolio A** is 100% invested in the S&P 500 (the 500 largest companies in the US stock market).
- **Portfolio B** (Moderate Risk portfolio) has a 40% allocation to US stocks, 30% to global stocks, and 30% to high-quality bonds.
- **Portfolio C** (High Risk portfolio) is globally diversified across multiple asset classes including stocks, bonds, real estate, and commodities

1 Angela Agati. (2007) The Effects of International Diversification on Portfolio Risk. Available at: [The Effects of International Diversification on Portfolio Risk (iwu.edu)]

To simplify, A is the least diversified (only diversified by industry), B is more diversified (by industry, asset class, and only slightly by markets), while C is the most diversified (by asset class, market, industry, and market cap).

With $10,000 invested in these three portfolios, we found that the most diversified yielded the highest returns, followed by the more diversified and then the least diversified. In essence, higher diversification led to higher returns over the long-term.



Why do new investors lose money?

In section 1, we saw that new investors lose money due to the fear and greed cycle. Here, we have seen that they can also lose money because **they do not diversify properly.**

The two are closely related though.

Most novice investors enter the market because they hear that one particular stock has become a hot cake. Who wants to miss out on a hot cake? "This might just be the next Amazon," many say to themselves. "Here is my $5,000, put it all in." (If that sounds more like roulette than investing to you, you're on the right path.)

A week later, the price of "the next Amazon" begins to fall and the excited investor begins to lose money. To avoid total loss, they withdraw what remains and then go on Twitter joining the chorus that "stock investing is a scam."

Successful investors have shown us a better way: **Invest in a diversified portfolio so you can minimise risk (preserve your capital) and perhaps even increase returns**.

SECTION 3:

Investing with a monthly lump-sum strategy

Do you still remember compound interest? That thing that makes your magical money tree produce new leaves every year.

We've already seen that the longer the time you spend in the market, the more the chances of making money and the less the chances of losing it.

Well, there is another implication: **The earlier you start investing, the better**. While the former principle considers when you end, this considers when you start.

Let's consider three friends – Fatima, Maryam, and Zara – who all have magical money trees. The year is 2021. Fatima decided to put $100 in the tree, Maryam, more sceptical, decided to put her $100 in the bank where she will earn 2% interest in a year, and Zara, most sceptical, hid the $100 under her mattress.

A year later, Fatima now has $110, Maryam $102, and Zara is still holding onto her $100. Now Fatima and Maryam are convinced that the tree is truly magical and have started putting their money into it.

Well, by 2031, Fatima now has $259.37 (with yearly compounding), Maryam $240.51, and Zara $235.79 (not counting inflation).

In essence, by starting just a year earlier, Fatima created an advantage that will only continue to increase in value over the years.

Early start and lump-sum investing

This system of putting all your investable cash in the market at once (exemplified by Fatima) is called **lump-sum investing**.

However, there are two alternatives to this approach: market timing and dollar-cost averaging. Let's understand what they mean, one by one.

Market timing

The first involves waiting for the perfect time to enter the market. Those who embrace this approach will hold on to their $100, like Maryam and Zara, waiting for the most opportune time – usually when prices have fallen. If you have heard the term "buying the dip" from your friends, this is the same thing as market timing.

There are many problems with this but let's point out the three main issues.

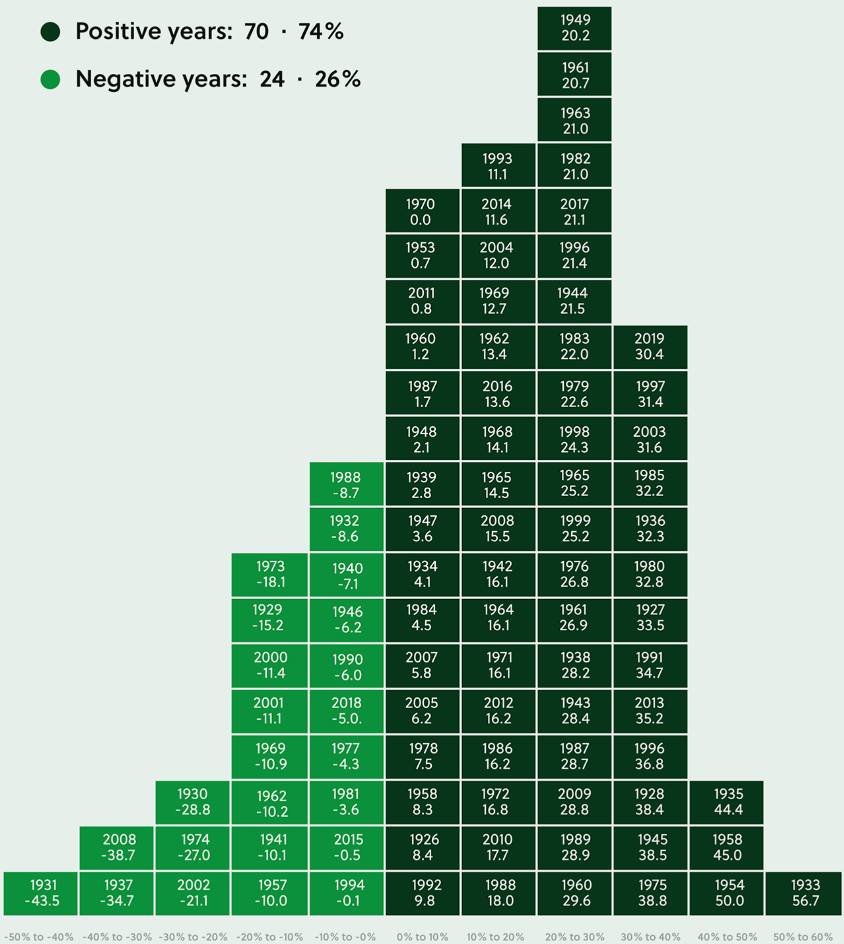
One, as you hold on to your money waiting for the right time, you lose out on compound interest that will never come back. As we saw in the story above, the $8/$10 gap only became more significant over 10 years.

A study by Dalbar found that while investors who stayed in the market between 1995 and 2014 earn an annualised return of 9.85%, market timers who end up missing the 10 best-performing days in the market will only earn 5.1%.[1]

Furthermore, over time, the stock market moves up more than it moves down. A look at the CRSP US total stock market index between 1926 and 2019 (shown below) reveals that the market rises 74% of the time and only falls 26% of the time.

1 Dalbar. (2020) 2020 QAIB report. Available at: QAIB_PremiumEdition2020_WWA.pdf (wealthwatchadvisors.com)

Annual Return Range



Therefore, **spending time in the market has always been more profitable in the long term than trying to time it.**

Two, no one knows what the actual dip is. An investor who is waiting for the dip is really just guessing. What you thought was the dip might be the actual beginning of an extended downturn, which means more loss.

This way you lose twice: you miss out on compound interest when the market is in an uptrend and then you lose money when the dip gets bigger.

Third, market timing makes you an emotional investor. You are constantly watching the market, getting agitated about little movements here and there. In the end, you find it hard to invest for the long term, falling instead to the cold hands of the fear and greed cycle.

Constant buying and selling will also lead to a higher cost, which will reduce whatever returns you hoped to make.

Dollar-cost averaging

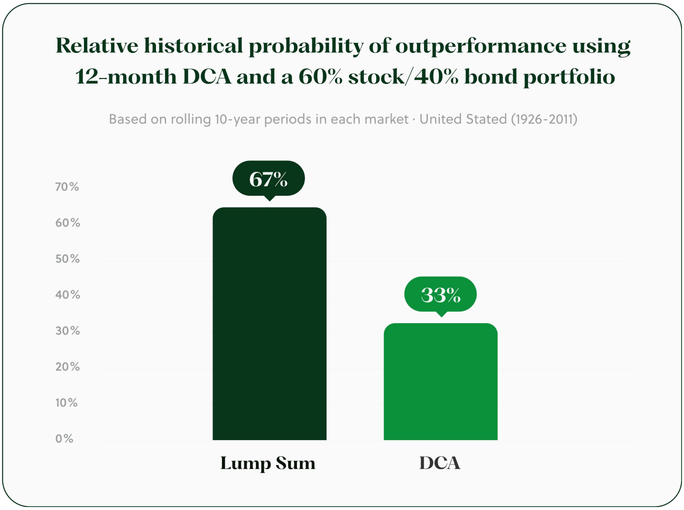
With dollar-cost averaging (DCA), instead of Fatima investing her $100 at once, she can divide it into $20 investments made at the end of the next five months.

This strategy has been valuable for beginner investors who are not yet confident of putting their money in the market at once. Emotional investors also find that it is more manageable than lump-sum investing.

However, **from a statistical and financial point of view, lump-sum investing remains more profitable.**

This can be easily seen in a study by The Vanguard Group, an investment management firm.[1] After surveying data between 1926 and 2011, they found that with a 60/40 portfolio of stocks and bonds, lump-sum investing outperforms DCA 67% of the time over any 10-year period.

Said differently, if you take any number of 10-year periods between 1926 and 2011, lump-sum investing will yield higher returns in two-thirds of those periods.



Building wealth with a monthly investment plan

What is better than having a magical money tree that gives 10% compound interest on your $100?

It's one that allows you to put in new money every month.

1 Vanguard Group. (2012) Dollar-cost averaging just means taking risk later. Available at: [Dollar-Cost-Averaging-Just-Means-Taking-Risk-Later-Vanguard.pdf (twentyoverten.com)]

Remember the calculation we did where Fatima had $259.37 at the end of year 10? Now, let's introduce one assumption: Fatima can add $10 to the tree every month.

This one single assumption means Fatima will now have $2,259.52 at the end of year 10, almost 10X the previous figure.

If you think $200+ makes compound interest sweet, then what about $2,000+? No wonder Albert Einstein said compounding is the eighth wonder of the world. Fatima will undoubtedly agree.

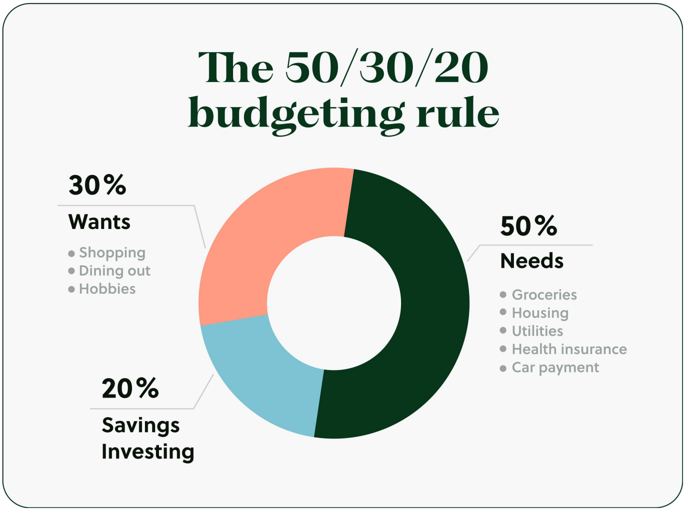
The lesson here is: **consistent lump-sum investing is the way to build wealth**. And "consistent" here means monthly for most people. That is, if you earn a salary or a monthly income through other means, you need to set apart a portion of that income and invest it in the market consistently.

> "Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it."

ALBERT EINSTEIN

If you don't already have a budget that allows you to save and invest money consistently, then you can try the **50/30/20 rule** popularised by Elizabeth Warren, a US senator.

It requires that you spend 50% of your income on needs, 30% on wants, and the remaining 20% for your savings/investments.



Whichever budgetary method you use, the key is that consistent monthly lump-sum investing is the best way to maximise the benefits of compound interest.

Why do newbies lose money?

Many newbies don't enter the market with a solid wealth-building plan. They are often driven by greed and fear, which makes them more open to market timing and a perception of the stock market as a get-rich-quick scheme (something like a casino, which it is not).

By **timing the market instead of spending time in the marke**t, they miss out on compound interest, lose money, pay high transaction fees, and end up hating the market itself.

Successful investors have shown us a better way: **consistent lump-sum investing.**

SECTION 4:

Creating an investment portfolio to achieve your goals

Now that we have stated the reasons why you should start investing now, let's focus on the steps you can take to get started (even today, should you choose).

> "A journey of a thousand miles begins with a single step."

LAO TZU

You've probably heard the saying that "the journey of a thousand miles begins with a single step." That statement also applies to successful investing. Instead of seeing it as a huge mountain to climb, just focus on the next step, and before you know it, you'll be at the summit.

Setting SMART goals

The journey of a thousand miles must have a destination.

In the case of investing, you must have goals that you hope to achieve. "Making money" or "building wealth" is not enough since money in itself is useless apart from what it allows us to purchase.

Instead, your goals are the things you want to do with the money you are investing (and all the compound interest it will earn). For some, the goal is retirement; for others, it is financial independence. And still others will want to purchase a property in a choice location, while others will prioritise payment for their children's education.

Whatever the goals, the key condition is that they must be SMART; that is, **specific, measurable, achievable, relevant, and time-bound.** "I want to retire with $500,000 in my account by the year 2033 by investing $3,000 every month for the next 10 years" is an example of a SMART goal.

So, list all the important goals you want to achieve with investing, then translate them into SMART goals.

Below are some steps to help you in this activity.

Ranking your goals

After listing your financial goals, you need to rank them in order of importance. Below is an example of how two investors (A and B) who have the same goals have ranked them differently.

For A, retirement is most important while for B it is buying a dream car.

There is no wrong scale of preference (SOP), what matters is that your SOP reflects your interests, passions, and reality.

Investment goals	Investor A's SOP	Investor B's SOP
Retirement	1	3
Dream car	4	1
Vacation	5	2
Children's education	3	4
Property purchase	2	5

Financial housekeeping

Before you can start investing, you must have created a budget that is allowing you to save a certain amount every month.

Do you still remember how Fatima was able to almost 10X her expected wealth by saving a certain amount every month? That should be the goal for you as well.

As said above, the 50/30/20 budget system is a good place to start. By committing to save and invest at least 20% of your income every month, you can (like Fatima) be on your way.

Saving vs investing

The first thing to do here is to divide your SMART goals into short-term, medium-term, and long-term. Saving to buy a dream car and going on a vacation are examples of short-to-medium-term goals.

On the other hand, retirement, achieving financial independence, starting a business after retirement, and paying for the college education of your newborn children are long-term goals.

Why is this distinction necessary?

Remember that though the stock market provides the largest returns, it is also volatile (risky). It's only over the long term that the market consistently grows, which is why Buffett said anyone who is not willing to invest for 10 years should not even get started.

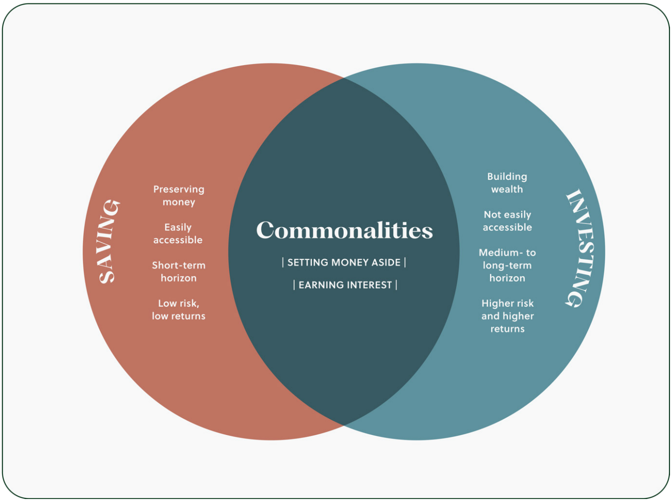
To use a more familiar term, **investing is a marathon**.

Therefore, only long-term goals should be wedded to a long-term strategy (in this case, investing profitably in the stock market). If you are 30 and you want to retire at 50, that is a marathon: Invest in the stock market.

However, if you want to save up to buy a car, that's a dash. Since you cannot prepare for and treat a dash as a marathon, you should not invest money in short-term goals in a long-term strategy like the stock market. Short-to-medium-term goals cannot endure the short-to-medium-term volatility that characterise the market.

In essence, money for short-to-medium-term goals should be saved (in a savings account, time deposits, or money market funds). Yes, these avenues will pay little interest but they also come with very little risk. With short-to-medium goals, the **primary aim is to preserve capital, not grow it.**

On the other hand, for long-term goals, you should put your money in the stock market where it will consistent ly earn high compound interest. With long-term goals, the **primary aim is to grow capital.**



Allocating your 20% savings

The next step in this journey is to allocate your monthly savings (at least 20%) between the dashes and the marathons.

Again, this will depend on your scale of preference. Let's bring back investors A and B to illustrate this point. Note that both investor allocations follow their priorities (as found in their SOP).

There is no wrong allocation. Just ensure that your priorities are right (with "right" being defined by your own situation, interests, and dreams).

Investment goals	Investor A's SOP	Investor B's SOP	Investor A's allocation of $1,000 monthly savings	Investor B's allocation of $1,000 monthly savings
Retirement	1	3	400	200
Dream car	4	1	200	300
Vacation	5	2	100	200
Children's education	3	4	100	100
Property purchase	2	5	200	200

Creating a portfolio

The money for short-term dashes can be safely put in savings accounts, time deposits, or money market funds. You can also create multiple accounts for each of the short-to-medium-term goals.

Your local bank can provide such accounts or you can register with an online money-saving plan that offers the same preservation of capital but with a higher interest.

With investing, there is a factor to consider before creating a portfolio. Remember diversification? That thing about not putting all your eggs in one basket or relying on a single miracle money tree in one location? Yeah, that.

As a refresher, we said it is always good to diversify by industry (finance, consumer supplies, health, etc.), market cap (the size of companies – low, medium, and high), markets (US, other developed markets, emerging markets), and asset class (stocks, bonds, REITs) to minimise risk and even increase returns.

Because of this, your investment portfolio cannot just contain one or two stocks. That's a recipe for failure. It's a marathon so you have to have enough gas for the long journey. All of these four types of diversification must show in your portfolio.

It is this point that leads us to the final section.

SECTION 5:

Starting your investment journey

There are two broad ways to create a portfolio for your long-term goals: passive investing and active investing. Let's review each.

Passive investing

Passive investing is an investment strategy where investors track the performance of the market instead of trying to beat it.

Think of it as a trader who goes to the market and buys a product at its selling price at the time he arrives. And when it's time to sell for a profit, he goes to another market and sells for a higher price.

This trader is satisfied with the profit made from buying and selling at current prices. He doesn't try to do extended research on when he can buy for the lowest price and when he can sell for the highest price.

So, is that not a benign strategy that leaves money on the table?

Well, not exactly.

Passive investors have discovered that their active counterparts (those who, in our analogy, do extended research to find the best buy and sell times) incur more costs and they still fail most of the time to exceed the market return.

For example, the 2020 SPIVA report published by Standard and Poor's Global, an investment research firm, found that over 12 months, 57% of active funds in the US failed to exceed the market return. Over 3 years, the failure rate is 67%; 72.8% over 5 years, 83.2% over 10 years, and 86% over 20 years.[1]

Why pay higher fees only to end up earning less than the market return in most cases?

1 S&P Global. (2020) SPIVA® U.S. Scorecard. Available at: [SPIVA U.S. Year-End 2020 Scorecard (spglobal.com)]

It's no surprise then that Buffett himself commended a passive investing strategy in his 2014 Letter to Shareholder. "The goal of the non-professional should not be to pick winners," he said. "Put 10% [of your portfolio] in short-term government bonds and 90% in a very low-cost S&P 500 index fund. I believe the long-term results from this policy will be superior to those attained by most investors...who employ high-fee managers."[1]

1 Warren Buffett. (2014) Letter to Shareholders. Available at: printmgr file (berkshirehathaway.com)

"The goal of the non-professional should not be to pick winners...Put 10% *[of your portfolio]* in short-term government bonds and 90% in a very low-cost S&P 500 index fund. I believe the long-term results from this policy will be superior to those attained by most investors...who employ high-fee managers."

-Warren Buffett

Executing a passive investing strategy

A passive investing strategy is traditionally executed either through ETFs (exchange-traded funds) or index funds. These funds don't try to select the best stocks, bonds, or REITs (real estate investment trusts). Instead, they choose a market index and **track all the stocks, bonds, or REITs that are contained in that index.**

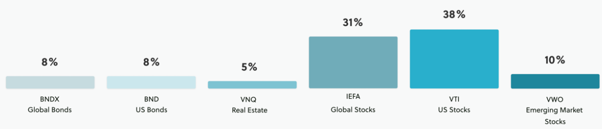
Like the passive trader above, they prefer to focus on earning market returns while reducing investment costs to the bare minimum.

An example of a passive fund is Vanguard 500 Index Fund ETF (ticker symbol: VOO). Instead of trying to select the next big thing, this fund invests in all the 500 largest US stocks contained in the S&P 500.

One advantage of this strategy (in addition to lower costs) is that **it makes diversification easier**. By buying VOO, for example, an investor has already achieved diversification by industry. If he adds three other ETFs, the investor can achieve all types of diversification, thereby creating a risk-minimising portfolio.

The portfolio below is an example. It contains just six funds and it already has all four types of diversification. With VTI, there is diversification by industry and market cap. Add IEFA and VWO and there is diversification by markets. VNQ, BND, and BNDX provide diversification by asset class to complete the portfolio.

Assets	Description	Examples	Allocation
BNDX Global Bonds	The investment return of investment-grade bonds issued outside of the United States	Japan Treasury France Treasury Germany Treasury	8%
BND US Bonds	A broad, market-weighted composition of over 8,000 American government and corporate bonds	US Treasury	8%
VNQ Real Estate	Index of companies involved in the ownership and operation of real estate in the United States	Simon Property Group REIT Prologis REIT American Tower Corp.	5%
IEFA Global Stocks	Developed market equities of varying sizes, originating from outside the U.S. and Canada	Nestle HSBC Royal Dutch Shell	31%
VTI US Stocks	Over 3,000 large, medium, small and micro-cap companies mirroring the US equity market	Microsoft Apple Amazon	38%
VWO Emerging Market Stocks	Over 5,000+ stocks of varying market capitalisations in emerging market countries	Alibaba Group Tencent Holdings Reliance Industries	10%



ETFs vs index funds

Though ETFs and index funds are similar, there is a crucial difference.

ETFs, like stocks, can be traded anytime the market is open while index funds can only be traded at the end of the trading day.

This makes ETFs more liquid (easier to turn to cash).

As seen in the chart below, ETFs do not require a minimum amount before investors can start. This is also an advantage, especially for investors who don't have large capital to start with.

Lastly, while index funds are also transparent, transparency (about the investments they hold) is not optional for ETFs, which makes it crystal clear what you are investing in.

	ETFs	Mutual Funds	Index Funds
Intra-day Trading	✓	✗	✗
Minimum Investment	✗	✓	✓
Common Investing Philosophy	Passive	Active	Passive
Taxable events	Fewer	More	More
Cost	Low expense ratio	High expense ratio	Low expense ratio
Transparency	Mandatory	Optional	Optional

Using a money management platform

You can decide to execute a passive investment strategy on your own by creating a portfolio with a range of ETFs or index funds and investing in it every month.

Or if you don't have time to study the difference between different ETFs and their ticker symbols, there is another option.

There are investment experts called **digital wealth advisors** that can help you create such a portfolio.

But why use them when you can do it on your own?

Well, one reason is that these experts **use the best investment theories to create an optimal portfolio** that matches the unique risk tolerance, risk capacity, goals, and time horizon (how much time they have to achieve the goal in view) of investors like you.

The average investor does not have this knowledge or expertise.

Second, these experts have tools that can help **automate the investing process**. If you are like most people, you have probably been tempted to use the money allocated for investment to buy the latest iPhone.

Instead, you can overcome that temptation by choosing to allow an investment platform to automatically remove the money from your checking account on a particular date (say the first day of every month).

Third, digital wealth advisors are also able to **keep a portfolio optimal.** When the portfolio becomes untethered from the optimal allocation, they have tools that help them return it to its optimal state.

Most digital wealth advisors only charge a small percentage of total investment (less than 1% in most cases) for these important services.

Active investing

There are two ways to be an active investor: by buying your own stocks (or bonds or REITs), by buying mutual funds or by investing in actively managed ETFs.

Though research has shown that active investors hardly ever beat the market, even while incurring extra costs, this has not stopped them from trying. The pursuit of higher returns (known as “alpha” in this world) keeps active investing alive.

In addition, the flexibility offered by active investors (the ability to buy and sell when you want) makes it easier for sophisticated investors to pursue risk-minimising strategies like short sales, put options, and tax loss harvesting.

Active Investing	vs.	Passive Investing
ARGUMENTS FOR		
Flexibility		Lower cost
Better returns		Diversification and lower risk
Risk mitigation through hedging		Greater transparency
Tax loss harvesting		Lower tax
ARGUMENTS AGAINST		
Higher loss		Too limited
Higher risk		It's not ambitious
Higher tax		It's not fun

Executing an active investing strategy

Solo active investors can create an investment portfolio by selecting their own stocks instead of buying funds.

Even though diversification is more difficult (and expensive) with this strategy, solo active investors can still try to buy bonds and REITs (diversification by asset class), and purchase stocks from different industries, countries, and across different market caps.

Yet, it's true that broad diversification is best achieved with passive investing.

The alternative to being a solo active investor is to **buy mutual funds or actively managed ETFs**. Both funds bring together money from different individual investors to invest in a particular portfolio managed by investment experts.

These funds charge high fees but they also offer some advantages over the solo active investor.

One, they have the time, expertise, and knowledge to research the market and create a better portfolio than the solo active investor.

Two, since these funds pool funds from hundreds and thousands of investors, **they can achieve broader diversification.**

Nevertheless, to produce an optimal portfolio, you might still need to purchase various funds.

Your typical fund in this category contains stocks and bonds, and diversifies by industry and market cap, while only offering US assets. You can then buy another fund that is focused on assets outside the US to really diversify your portfolio and get your investment journey off to a solid start.

Conclusion

So, when should you start investing? The simple answer: **Right now.**

Due to the power of compounding, starting to invest now is the smartest move you can make. For long-term goals, you should stay invested in the stock market for the long term, reduce risk with diversification, and invest consistently (preferably monthly) using the lump-sum strategy.

Sticking to these principles will lead to wealth creation, while ignoring them will make you vulnerable to the greed and fear cycle that has so infamously sucked up money.

At Sarwa, we have consistently preached these principles to all our investors. We have also provided them with the necessary platforms to invest.

If you are a passive investor, we have Sarwa Invest, a platform where we use the latest and best investment theories to construct portfolios of ETFs that will match each investors' unique risk tolerance, risk capacity, time horizon, and financial goals.

On the other hand, if you are a solo passive investor or a solo active investor, you can create your own portfolio by buying and selling ETFs and stocks (respectively) on Sarwa Trade. We have also provided Sarwa Crypto for those who would like to add crypto as one of their asset classes (to enhance diversification by asset class).

(If you are saving for short-to-medium-term goals, Sarwa Save provides 4X the average interest on savings accounts provided by banks)

Whichever your preferred Sarwa product or investing strategy might be, make sure you are building your portfolio on these four pillars.

To learn more about how to start your investment journey, schedule a free call with a Sarwa wealth advisor who will guide you to the right investment decision by answering all your questions. For investing tips delivered to your inbox, subscribe to our newsletter.

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