# How to Learn About Investing

Investing isn't one of those tasks that you should learn by doing. That's not to say that you won't learn a lesson or two about investing if you dive right in, you will, but the lessons may end up costing you more money than you bargained for.

## The Best Way to Learn About Investing

The best way to learn about investing is to do so with books. But which books? You don't want to just read anything on investing. Ninety percent of what has been published on investing and the stock market isn't worth your time, effort, or money. You can do more damage than good if you don't make a diligent effort to select from amongst the best investing books.

So where should you start?

## Learn about Investing with Graham & Buffett

The logical place to start learning about investing is with the best book ever written on investing—Benjamin Graham's The

Intelligent Investor. Graham wrote The Intelligent Investor over six decades ago, and to this day, it remains the best book on investing ever written.

Nothing comes close to the insight Graham offers in The Intelligent Investor. If you aren't familiar with Graham, don't sweat it. Many newbie investors have never heard of him.

So who is Ben Graham? Graham is widely acknowledged as the father of value investing and modern security analysis. His most important contribution to investing, among many, is the concept of a Margin of Safety. In the 1973 edition of The Intelligent Investor, Graham wrote the following about a Margin of Safety.

Probably most speculators believe they have the odds in their favor when they take their chances, and therefore they may lay claim to a safety margin in their proceedings. Each one has the feeling that the time is propitious for his purchase, or that his skill is superior to the crowd's, or that his adviser or system is trustworthy. But such claims are unconvincing. They rest on subjective judgment, unsupported by any body of favorable evidence or any conclusive line of reasoning. We greatly doubt whether the man who stakes money on his view that the market is heading up or down can ever be said to be protected by a margin of safety in any useful sense of the phrase.

A Margin of Safety is a concept you should commit to memory as you begin your investing education. Once you have finished The Intelligent Investor and have internalized the concept of a Margin of Safety, you can turn to one of Graham's more widely known disciples, renowned investor Warren Buffett.

While few new investors are familiar with Ben Graham, most are familiar with Warren Buffett. Buffet is of course one of the richest men in the world and he earned his fortune in the investment industry using many of the concepts espoused by

Graham.

Buffett hasn't written any investing books himself, but every year of his annual shareholder letters since 1977 can be downloaded here. for free. Buffet's letters are an investment education in themselves. His homespun writing style and common-sense approach to investing make complicated subject matter easy to read and understand.

## What the Wall Street Journal Can Teach you about Investing

Once you have finished Graham and Buffett, you will want to start reading the Wall Street Journal. Read the Journal for a good two months before you lay down any of your own money in the market. You will learn a ton about business, finance, the economy, and investing. And with your background knowledge from Intelligent Investor and Buffett's annual shareholder letters, you will have the knowledge base to separate fish from fowl.

## Learning to Invest with Comfort

Once you are confident that you have a good grasp on investing, you can begin the next phase of your investment education—learning to invest for your own risk tolerance.

You may think you have a high tolerance for risk and maybe you do, but until you lose real money, it is difficult to truly gauge your risk tolerance. You may be surprised how mentally exhausting it can be to see on your statement in big red numbers a $-10,000 figure month after month.

To learn about your tolerance for investment risk, begin investing with a small sum of money and limit your initial purchases to mutual funds and ETFs. The fluctuations in a fund will give you a taste of some of the volatility you can experience in individual common stock positions. The benefit of starting with a fund instead of a single stock is two-fold. First, if you panic and sell out of your fund during a downturn because you didn’t have a good grasp of your risk tolerance, losses will likely be contained.

The second benefit of avoiding a single individual common stock for your first investment is that you avoid overconfidence. The worst thing that can happen when you make your first common stock investment is for it to soar. Why is making money a bad thing? Investors who have success in their first investment can get overconfident in their own ability pick winners when luck may have played a prominent role. Even the best professional investors are only right a little more than half of the time. Those who win on their first investment may be emboldened to invest more on the second try. And if the second investment is a success, the amount wagered on the third investment could be even bigger. You can see the potential for trouble.

## Learning to Invest is a Life-Long Journey

If you read Graham and Buffett and pick up a subscription to the WSJ, you will have built a solid foundation of investing knowledge, but learning to invest is a process that is never complete. The investment landscape is constantly evolving. There are new businesses and industries to learn about. New technologies that may be a threat to investments you own. New rules and regulations to understand which could impact your stocks or bonds. New economic developments and releases to evaluate.

If you want to stay ahead of the pack and achieve long-term investment success, you are going to want to read often and read widely.