Twitter Thread by Richard Moglen ■■■■

Richard Moglen ■■■■
@RichardMoglen

A brief introduction to trading/investing for beginners and why you should start right now (Thread)

A goal of mine is to introduce as many people as possible, especially my own age, to sound methods of how to trade/invest for their futures. Despite the stock market being open to all, in practice, not everyone is taught the value of it or how to use it to build wealth over time

This thread will hopefully help remove the knowledge barrier of how to get started. It will cover briefly:

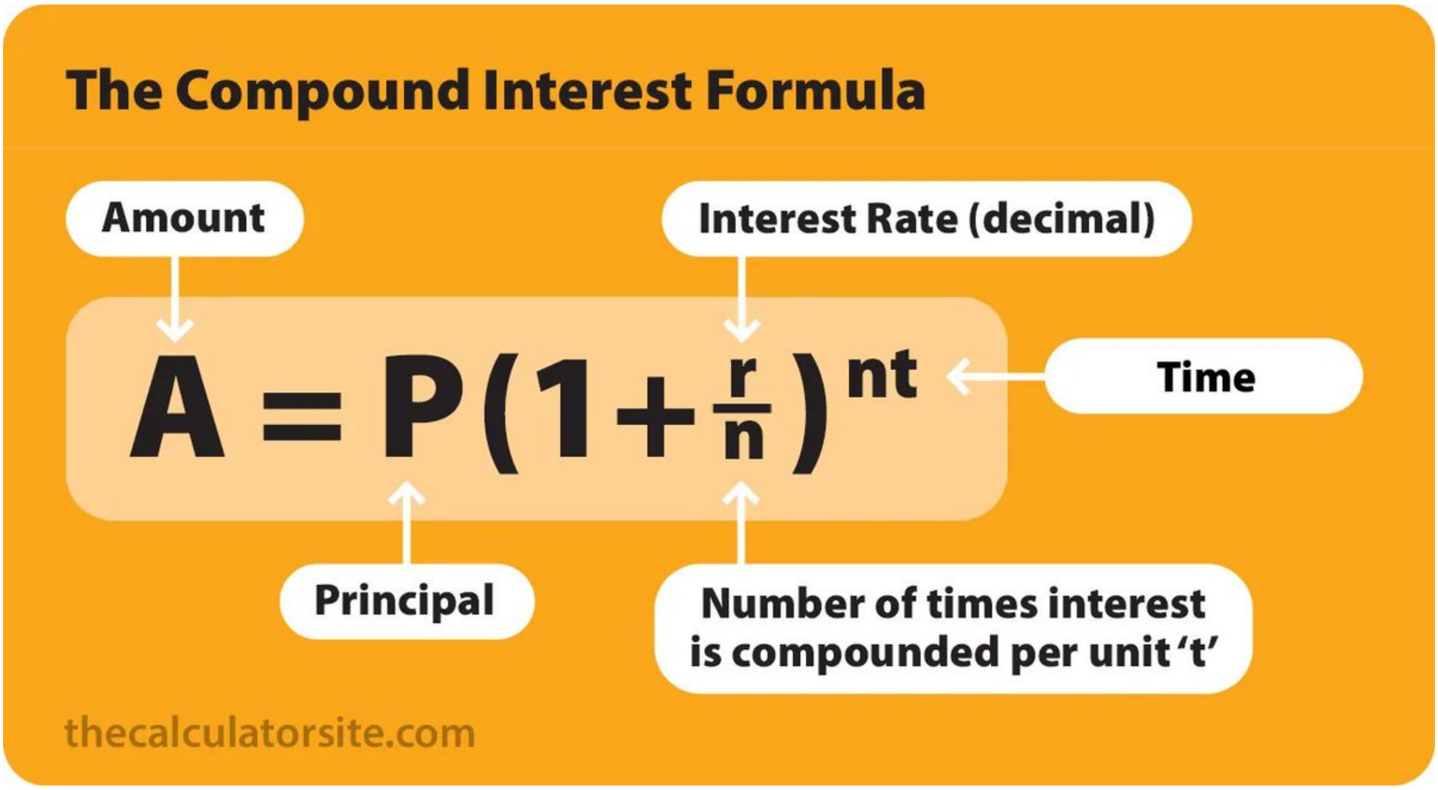
Why you should invest (Start now!)
What even is stock?
Roth IRAs versus Traditional IRAs
ETFs+ Mutual Funds
How to buy/sell individual stocks.
Types of Investing/Trading

Now before we go further, I am not a financial advisor, I am speaking from my own experience and there are significant risks with the stock market so please consult a financial professional before getting involved. Alright let's get to it.

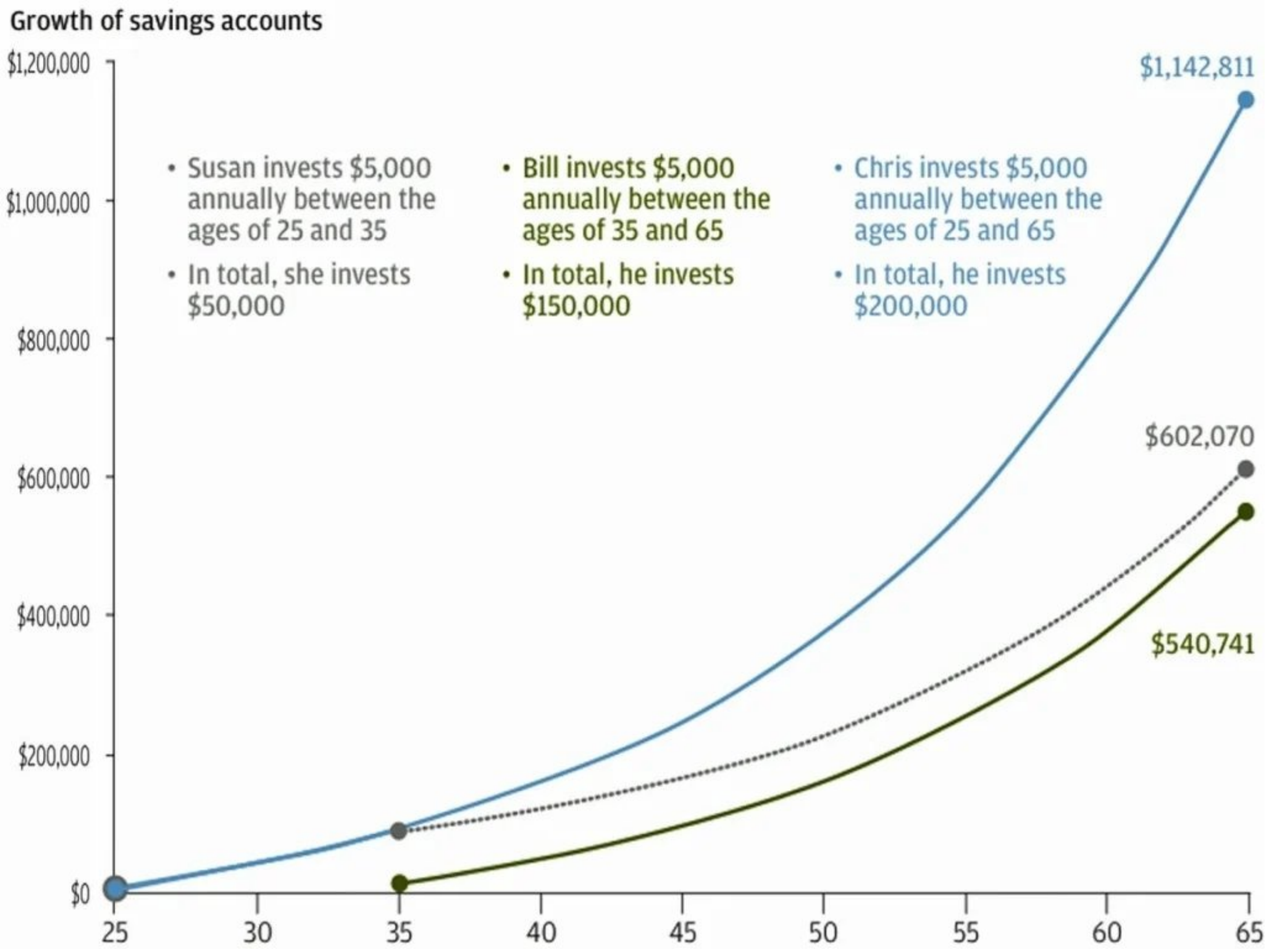
First, why should you get involved and start ASAP, like tomorrow. The simple answer is compound interest and time.

Compound Interest describes the exponential growth associated with re-investing profits back into your initial principal. This leads to a snowball effect where your account can grow more and more each year.

Compound Interest is described in the formula pictured below. The t in the exponent is the crucial factor. The more years you invest the longer you get to benefit from compounding and metaphorically the larger the hill your snowball gets to roll down.



Starting early (as soon as possible) will give you a huge head start. The chart below shows three different individuals and how they invested + when they started. Starting early means over the long term you have to save a whole lot less than even if you start just 10 years later.



So what even is a stock? From https://t.co/DU7JHtRp4q (a great free resource) A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation. Units of stock are called "shares."

Shares are introduced to the public by an Initial Public Offering (IPO) in order to provide capital for the company to grow and provide their goods/services to more customers. Later more shares can be sold in secondary offerings

These shares are traded (bought or sold) on exchanges. There are many stock market exchanges around the world although the main two in the U.S. are the NYSE (New York Stock Exchange) and the NASDAQ (National Association of Securities Dealers Automated Quotation System)

A mutual fund is a basket of stocks managed by a financial institution. Buying a share in a mutual fund is the equivalent to buying partial shares in all of the companies in the MF. Mutual Funds cannot be traded intraday and usually have high yearly fees.

An exchange traded fund (ETF) is very similar to a mutual fund. However it is not actively managed and usually has much lower fees and can be traded during market hours.

It's kind of just a lot better

ETFs and MFs are usually centered around a theme whether they are tracking indexes or a particular industry/type of company

$SPY , $VOO : SP-500 tracking ETFs
$PAWZ : Pet Care related companies
$MJ : Marijuana Companies

To trade stocks/ETFs/MFs you need to set up either a brokerage account or an IRA which is as easy as setting up a bank account, and you can do it at any major bank.

A Brokerage account allows you to buy and sell investments. Trades lasting less than a year are considered short term capital gains and are taxed as ordinary income. Any long term capital gains are taxed at a lower rate. In this account you can withdraw or add money at any time

An IRA or individual retirement account is a much better deal tax wise but there are restrictions for yearly contributions and when you can withdraw the money. Contributions at the moment at capped at 6k or your yearly income if that is less.

Full rules for IRAs in 2020 can be found below. You should still be able to make your contribution for 2020

There are two main types of IRA accounts; Traditional and Roth.

https://t.co/iYMOqE5ilU

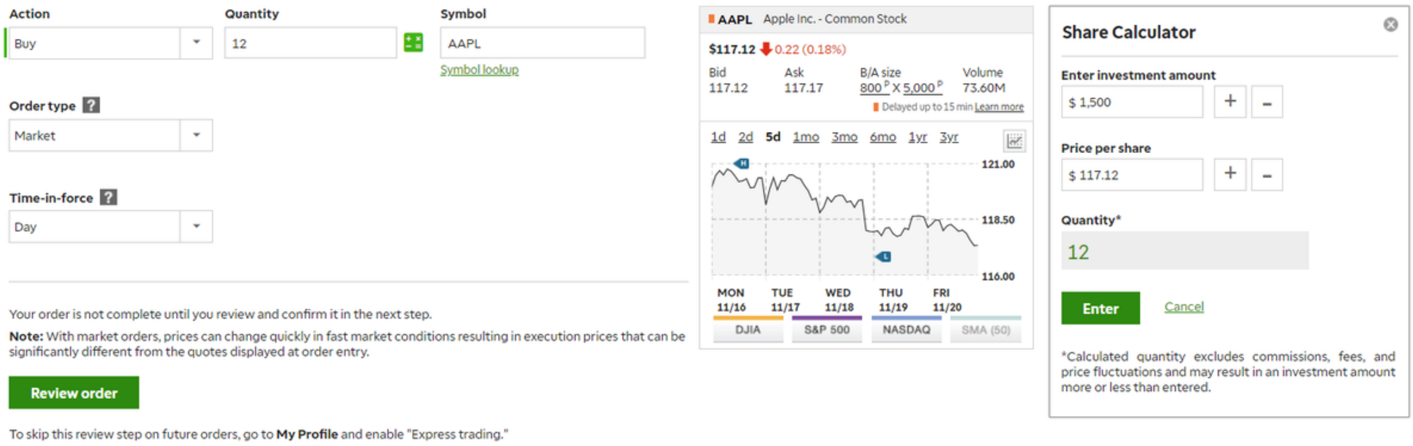
Traditional IRAs allow you to contribute pre-tax money (so before state + federal taxes) But when you start withdrawing money (earliest age is 59 ½) withdrawals are taxed at your normal income bracket.

Roth IRAs are in my mind the best deal especially for young people. You contribute post-tax money and so withdrawals are completely tax free! This means that any gains you make on investments and principal are completely yours allowing compound interest to work even better.

You should set up and start contributing to a Roth IRA as soon as possible. I personally have mine at Vanguard but like I said you can set up an account at any major bank institution and some offer various perks.

Alright so how do you physically buy and sell a stock/ETF/MF?

In your brokerage account you would go to the Trade or Buy/Sell tab and get a page that looks similar to the image below.



You select the action, Buy or Sell, The Quantity or # of shares, the Symbol which refers for the company (AAPL=Apple), The Order Type (Market executes immediately if the market is open) and then time day in force.

You can use a dollars to shares calculator to help choose the number of shares. The page linked below is a helpful resource that goes through the ordering process in depth covering different types of orders.

https://t.co/qrhNIYQrle

I mostly use Market Order and Stop Market Order (which executes the trade when the stock hits a certain price)

Stop market orders are helpful while trading to make sure you cut your losses at a set price

Types of Orders

The most common types of orders are market orders, limit orders, and stop-loss orders.

- **A market order** is an order to buy or sell a security immediately. This type of order guarantees that the order will be executed, but does not guarantee the execution price. A market order generally will execute at or near the current bid (for a sell order) or ask (for a buy order) price. However, it is important for investors to remember that the last-traded price is not necessarily the price at which a market order will be executed.
- **A limit order** is an order to buy or sell a security at a specific price or better. A buy limit order can only be executed at the limit price or lower, and a sell limit order can only be executed at the limit price or higher. Example: An investor wants to purchase shares of ABC stock for no more than $10. The investor could submit a limit order for this amount and this order will only execute if the price of ABC stock is $10 or lower.
- **A stop order, also referred to as a stop-loss order** is an order to buy or sell a stock once the price of the stock reaches the specified price, known as the stop price. When the stop price is reached, a stop order becomes a market order.
- **A buy stop order** is entered at a stop price above the current market price. Investors generally use a buy stop order to limit a loss or protect a profit on a stock that they have sold short. A sell stop order is entered at a stop price below the current market price. Investors generally use a sell stop order to limit a loss or protect a profit on a stock they own.

So that covers the basics of how to use the stock market.

Now what should you invest in?

This is a tough question to answer as everyone has different investment goals, timeframes, and amount of free time to learn about different methods.

If you want to maximize returns with little effort and time spent a Market Index ETF is a great option. These ETFs track a major index: SPY for the SP-500 and QQQ for the NASDAQ 100.

These ETFs allow you to easily get exposure to the largest companies. For a buy and hold technique you would dollar cost average into the ETFs and as you have more money to contribute you would add to your positions.

Dollar Cost averaging is the process of investing a fixed amount of money at regular intervals into a security (Stock,ETF)
https://t.co/95lYzKpLp1

If you are willing to spend a little more time at this, you could practice long term investing where you buy+ hold companies as long as they continue to grow and your investment thesis remains intact.

To pick companies you would use both fundamental analysis which analyzes the company's performance and technical analysis which analyzes the price action of the company. The goal is to fund companies that will grow for the long term and have sufficient moats to stay afloat

Stock trading is doing the same thing but with shorter time horizons.

Position traders try to capture the long-term outperformance trend of strong growth companies, Swing traders capture momentum runs during the longer trend and day traders capture intraday trends.

There are many ways to invest and trade but only one which meets your goals, needs, and style. Find what works best for you. The important thing is that you start saving and investing as early as possible and regularly add to your investment principal using your regular income.

I hope this served as a good introduction and please feel free to add any comments + resources below.