

How To Be An Informed Investor

Ask any successful person what their secret is to become successful, and they will tell you that information equals more confidence and more confidence equals success. Confidence is also necessary when you are looking at future financial investments. When you are an informed investor, your chance of becoming a successful investor is more likely to happen.

When investing money, you should be informed about the specific financial instruments you are buying, holding or selling. There are many ways to gather information on financial instruments by using non-bias websites like TD Ameritrade Network where you get detailed information in a digestible format to help you become an informed investor.

While you are seeking information on companies, mutual funds, ETFs or bonds, there are many questions you should ask yourself. Below you will find a quick list of questions that will get you started on becoming an informed investor.

How Do Financial Instruments Gain Profits?

The first step to answering this question is to find out more about the financial entity. Companies generate profits by providing specific products or services. You need to learn how a particular company generates their profits. If you are looking at other types of financial instruments do you gain profits from a dividend, interest or are you solely relying on stock and bond prices to rise? What type of companies or bonds are contained within a mutual fund or ETF? What percentage of each entity is held within each fund?

What Is The Timeframe For Generating Profits and How Much Does This Product Cost You?

While you are researching a new financial instrument, you can determine whether you are required to hold the item for a specific period or if the item can be quickly liquidated. Certain assets must be held for a period of time before you realize a financial gain and some assets cannot be sold rapidly.

Another aspect of this question is how much money this financial product will cost you in fees and commissions. How much will you pay in order to make money? Are these associated costs reasonable when compared to similar financial products?

What Type of Outside Forces Might Affect Your Financial Gains?

You must ask yourself if the profits, dividends or interest payouts could be affected by internal or external changes.

You should think about answering questions such as the following:

- Does the company have a reliable income created by the sales of their products or services?
- Would a change in leadership at the company, mutual fund or ETF pose a problem with strategy as well as profitability?
- Would a rise in interest rates have a direct effect on your gains?

There are numerous questions to ask yourself about the various conditions that could affect the financial gain of your investment.

Does This Financial Instrument Reward My Portfolio or Investment Strategy?

Something every informed investor will look into is how a new financial instrument will help their overall portfolio or investing strategy. One question to ask yourself is if the new financial product helps you diversify? When adding a new financial product to your portfolio that helps you diversify, you will increase your opportunities to gain during an up or down market. An informed investor does not put all of their eggs in one basket.

Do the Risk Factors for a New Financial Product Fit My Investment Strategy?

When you become an informed investor, you will have a better feel for the type of risk that you are willing to take. Every investment has a risk factor. You need to feel comfortable with the risk factors each investment poses. Researching risk factors can help you determine if the financial product fits your overall investment strategy as well as your level of risk tolerance.

Conclusion

There are many documents available for you to read through before making an informed decision with your investments. Prospectuses and fund fact sheets are useful tools. Annual reports or financial statements can be more complicated. Reach out to experts for answers. Once you take the initiative to become an informed investor, your chance of becoming a successful investor is more likely to happen.