How does investing, and money in general, actually work? Such is a question often answered with simplistic suggestions that are difficult, if not ultimately impossible, for individuals to follow.

However, if investing money worked as the mainstream media suggests, then why after three of the most significant bull markets in history are 80% of Americans so woefully unprepared for retirement.

The crucial point to understand when investing money is this: the financial market will do one of two things to your financial future.

1. *If you treat the financial markets as a tool to adjust your current savings for inflation over time,* ***the markets will KEEP you wealthy.***
2. *However, if you try and use the markets to* ***MAKE you wealthy, your capital will be shifted to those in the first category.***

Let?s focus on the first one.

How Investing Money Really Works

Financial security is not only about investing money correctly but also the things important to long-term capital preservation. **The following are some thoughts on the rules of investing money and capital preservation.**

1. Buy low, sell high.

> *As obvious as this seems it is the one thing that most investors do exactly the opposite of. Your ability to consistently buy low and sell high, will determine the success, or failure, of your investments. The simple reality is that 100% of your rate of return is determined by when you enter, or leave, the stock market.*

2. The price of the stock market is always right.

> *The only thing that truly matters in investing is the price. If prices are rising ? then you are long the market. If they are falling; you are in cash or short.* ***What you ?think? the market should be doing at any given time is irrelevant.*** *With all things being equal, the longer you stay on the right side of the stock market, the more money you will make. The longer you stay on the wrong side, the more money you will lose.*

3. Every market or stock that goes up will go down and vice versa.

The more extreme the move up or down, the more extreme the movement in the opposite direction once the trend changes. This is also known as ***the ?trend always changes? rule.***

4. Market timing is impossible, but managing risk is.

Market timing is an attempt to be "all in" or "all out" of the market at the correct time. *Doing so consistently is an impossible feat which eventually leads to large losses. However, using a sound investment discipline and managing portfolio risk to avoid capital destruction is possible. Develop a process (such as moving average analysis) to help identify times you should reduce, or increase, exposure to risk assets.*

5. The worst thing an investor can do is take a large loss on their position or portfolio.

You can avoid making huge mistakes by avoiding buying things when they are excessively priced. ***It should be obvious that your starting point is critical in determining your total return****. If you buy low, your long-term investment results are irrefutably better than someone who bought high.*

"Price is what you pay. Value is what you get." - Warren Buffett

6. The most successful investing methods require changes at the margin.

A strong investment discipline requires patience, discipline, and work. However, once a portfolio is built, the operational maintenance is a function of changes at the margin. ***•Investing is a long-term process with a view towards changes of trend. Such a portfolio requires very few changes between major trend changes****. If you are trading regularly ? you are speculating. Speculators eventually wind up losing more money than they make.*

7. The trend is your friend.

Since the trend is the basis of all profit; understanding both the long and short-term market trends are useful in understanding the risks versus reward investing money. ***Contrary to the short-term perspective of most investors today, wealth is created by catching large market moves; not by day trading or short term stock investing.***

8. You must let your profits run and cut your losses quickly.

This is the key to investing money and building wealth. An investment discipline is a necessary condition of success. If you do ***NOT*** *have a highly disciplined approach to investing money; you will not make money over the long term.*

How Money Really Works

It isn't just about investing money, but there are also vital points about the money itself.

1. Your career provides your wealth.

> *You most likely will make far more money from your business or profession than from your investments. Only very rarely does someone make a large fortune from investments, and it is generally those that have a business investing wealth for others for a fee or participation. (This even includes Warren Buffett.)*
>
> *Focus on your career, or business, as the generator of your wealth.*

2. Save money. Alot of it.

> ***"Live on less than you make and save the rest."*** *Such sounds simple enough but is exceedingly difficult in reality. Given that 80% of Americans have less than $500 in savings tells the real story. However, without savings, we can't invest to grow our savings into future wealth.*

3. The true goal of investing money, is to adjust savings for inflation.

> *As investors we get swept up into the "casino" called the stock market. However, the true goal of investing is to ensure that our "savings" adjust for future purchasing power parity in the future. While $1 million sounds like a lot today, in 30-years it will be worth far less due to the impact of inflation. Our true goal of investing is NOT to beat some random benchmark index by taking on excess risk. Rather, our true benchmark is the rate of inflation.*

4. Don?t assume you can replace your wealth.

> ***The fact that you earned what you have doesn?t mean that you could earn it again if you lost it.*** *Treat what you have as though you could never earn it again.* ***Never****, take chances with your wealth on the assumption that you could get it back.*

5. Don?t use leverage.

> ***When someone goes completely broke, it?s almost always because they used borrowed money.*** *Using margin accounts, or mortgages (for other than your home), puts you at risk of being wiped out during a forced liquidation. If you handle all your investments on a cash basis, it?s virtually impossible to lose everything?no matter what might happen in the world?especially if you follow the other rules given here.*

6. Whenever you?re in doubt, it is always better to err on the side of safety.

> *If you pass up an opportunity to increase your fortune, another one will be along soon enough. But if you lose your life savings just once, you might never get a chance to replace it.* ***Always err on the side of caution. Always ask the question of what CAN go ?wrong? rather than focusing on what you ?HOPE? will go right.***

Investing money for our future is not as simple as much of the media makes it seem. We all want to be able to under-save today for tomorrow?s needs by hoping the markets will make up the difference. Unfortunately, there is no magic trick to building wealth.

The process of saving diligently, investing conservatively, and managing expectations will build wealth over time.

It's boring. But it works.

No matter your current age, it?s not too late to start making better choices.

We are a wealth management firm in Houston, serving clients across the country. If you wish to discuss your investment strategy or financial plan with a team member, please contact us.