

New To Investing?

Ten Essentials For Building Wealth

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Ready to begin your investment journey?

Stepping into the world of investing can feel a bit daunting, especially when you're just starting out. You've worked hard to build your financial resources, and now you're ready to make that money work even harder for you. This guide is designed to cut through the jargon and provide a clear, actionable understanding of the essential concepts you need to navigate the investment world confidently, regardless of your current life stage.

10 essential concepts for building wealth

1. **Clear goals:** Before you invest a single dollar, determine why you're investing. Is it for retirement, a down payment on a house, your children's education, or something else? Your goals will dictate your time horizon (how long you plan to invest) and, consequently, your investment strategy. A clear financial plan helps you stay disciplined and track your progress.
2. **Risk tolerance:** How comfortable are you with the possibility of your investments losing value in the short term for the potential of higher long-term returns? Your risk tolerance will significantly influence your asset allocation (see next point). To overgeneralize, investors who have a lot of time before they retire tend to have a higher risk tolerance. Individuals closer to retirement tend to have a lower risk tolerance. They don't want to risk losing money because they may not have time to earn it back before they need to live off of it. Understand that investing inherently involves risk, and promises of high returns with negligible risk are red flags.
3. **Asset allocation and diversification:**
 - + **Asset allocation:** This is the strategy of dividing your investment portfolio among different asset classes, primarily stocks, bonds, and cash. Stocks generally offer higher potential returns but come with more volatility, while bonds are typically less volatile and offer lower returns. Your age and risk tolerance will guide the percentage you allocate to each. For example, at 45, you'll likely still lean towards a higher percentage in equities for growth, but with a good portion in bonds for stability.
 - + **Diversification:** Within each asset class, you need to diversify. This means spreading your investments across various types of securities, industries, and geographies. For example, within stocks, you wouldn't just invest in one company; you'd invest in many different companies, across various sectors (tech, healthcare, consumer goods), and even internationally. The goal is to reduce the impact of any single underperforming asset on your overall portfolio.

- 4. Compounding:** One of the most powerful concepts in finance, compounding is the process where your investment earnings generate their own earnings. For example, if you invest \$1,000 at a 7% annual interest rate, after the first year, you'll have \$1,070. In the second year, your 7% rate will be calculated on the new \$1,070 balance, not just your original \$1,000, so you'll have \$1,144.90 and so on. The sooner you start investing and the longer your money stays invested, the more powerful compounding becomes. Reinvesting dividends and interest also significantly boosts this effect over time.
- 5. Avoiding market timing:** Trying to predict short-term market movements ("timing the market") is extremely difficult and rarely successful. A better approach is long-term investing, where you focus on consistent contributions and stay invested through market ups and downs. Historically, markets tend to trend upwards over the long haul. Patience and discipline are key during times of market volatility.
- 6. Low-cost index funds and ETFs:** For new investors, these are often excellent choices for building a diversified portfolio efficiently.
 - + **Index Funds:** These are mutual funds designed to track a specific market index (like the S&P 500). They offer broad diversification at a very low cost because they don't require active management by a fund manager.
 - + **ETFs (Exchange-Traded Funds):** Similar to index funds in that many track indexes, but they trade like stocks on an exchange throughout the day. Both are generally transparent, diversified, and have low expense ratios.
- 7. Expense ratios and fees:** These are the annual fees charged by mutual funds and ETFs as a percentage of the investment amount. Even slight differences in expense ratios can significantly impact your long-term returns due to the compounding effect. Always prioritize funds with low expense ratios.
- 8. Dollar-cost averaging:** This strategy involves investing a fixed amount of money at regular intervals (e.g., monthly), regardless of market fluctuations. When prices are low, your fixed amount buys more shares, and when prices are high, it buys fewer shares. This helps reduce the risk of investing a large sum at an unfavorable time and instills a disciplined approach to investing. Suppose you have a substantial amount to invest. In that case, you might consider investing it over a period of a few months rather than all at once to take advantage of potential volatility, though generally, getting money invested quickly is often advised in rising markets.
- 9. Rebalancing:** Over time, your asset allocation will naturally drift as some investments outperform others. Rebalancing involves adjusting your portfolio periodically (e.g., annually) to bring it back in line with your target asset allocation. This helps maintain your desired risk level and can include selling some of your best-performing assets and buying more of those that have underperformed.
- 10. Taxes:** Understand the tax implications of your investments. Different types of accounts (e.g., traditional IRA, Roth IRA, taxable brokerage account) have different tax treatments. Contributions to a 401(k) or traditional IRA are often tax-deductible, while Roth contributions grow tax-free and withdrawals are tax-free in retirement. Capital gains and dividends in taxable accounts are subject to taxes. Taxes are rarely simple, so it is often wise to consult with a tax professional to optimize your tax strategy.

Smart investors ask questions

No one is born with investment skills. If you have funds to invest and you still have questions, consulting with a financial advisor can be a wise next step. They can help you create a personalized financial plan, assess your risk tolerance, and guide you through the initial steps of setting up your portfolio.



We're here to help.
Schedule a conversation today.

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