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INVESTING WITHOUT A SILVER SPOON

How Anyone Can Build Wealth Through Direct Investing

JEFF FISCHER

MAIN IDEA

Direct investment plans allow a person to build wealth slowly and steadily by investing in companies at whatever rate they can afford on a regular basis without using (or paying) a broker. By then reinvesting the dividends that are earned through buying more stock, compound growth occurs over the longer term. By harnessing this compounding effect and avoiding the temptation to spend the dividends, a direct investor can create sizable personal net worth.

In the final analysis, direct investors take positive control of their own financial futures.

Direct investing is the purchase of stock directly from a company without using (or paying) a broker. Direct investment plans will be either:
-- Dividend Reinvestment Plan (DRP) -- where dividends on existing stock will be paid in more stock.
-- Direct Stock Plan (DSP) -- where stock can be purchased directly from the company for cash.

The mechanics of direct investment programs are noticeably simple. For most, getting started simply requires filling in an application form and enclosing a check. For others, you have to buy a share first, and then fill in an application form and send off a check. And selling stock isn't any more difficult -- you just fill out and send in a form, and they mail you a check.

The advantages of direct investment plans are:
1. You need little capital to start investing.
2. You pay no commissions to brokers.
3. The stock market's volatility allows you to dollar-cost average.
4. You reduce risk by staying invested for extended periods.
5. You can easily diversify into other stocks.
6. You can readily reinvest dividends.
7. You're guided to an excellent long-term investment strategy.

The disadvantages of direct investment plans are:
1. You shouldn't invest if you have high-interest debt.
2. You should not invest if you have a short time horizon.
3. You need to feel comfortable about making investments.
4. There may be specified days on which buy and sells are made.
5. You need to keep accurate records.
6. Not all companies offer direct investment plans.
7. Some direct investment plans have fees.
8. There may be limits on the amount of stock you can buy.

The best industries to invest in are those that enjoy:
1. Financial viability and long-term opportunities.
2. Significant potential to grow future revenues.
3. Predictability for earnings streams.
4. A clear and comprehensible competitive landscape.
5. Business dynamics that you understand.

Within those industries, seek opportunities to invest in those companies that:
1. Have become highly respected.
2. Have strong management teams.
3. Are profitable, with growing revenues and profits.
4. Have cash reserves.
5. Have a track record of increasing dividend payouts.
6. Dominate their respective industry.
7. Run a good direct investment program.

To determine the long-term value of a specific stock rather than its current market price, there are three reasonably simple calculations potential direct investors can make:
1. The Price-to-Earnings Ratio 2. The Price-to-Sales Ratio 3. Gross, Operating and Net Profit Margins

When direct investing, you must keep good records so you can track performance and pay your taxes correctly. Some simple steps that will assist this include:
1. Record investments in a spreadsheet. 2. Retaining all paper records. 3. Filling in your tax form correctly.