The Ultimate Index Fund Investing Guide: How to Build Wealth Passively (Low Risk + Low Cost + High Return) by Fiona

Investing in index funds is a proven strategy to build wealth.

In fact, I grew my investment portfolio from zero to $497,578 in less than 5 years using index funds.

And in this guide, I'm going to share the exact strategies I used.

Let's get started!

What is an Index Fund

An index fund is a group of investments that you invest in, which will allow you to own a small percentage of each of the investments.

Essentially, you invest in 1 index fund, which in turn invests your money in 100s if not 1,000s of different companies that make up that market index.

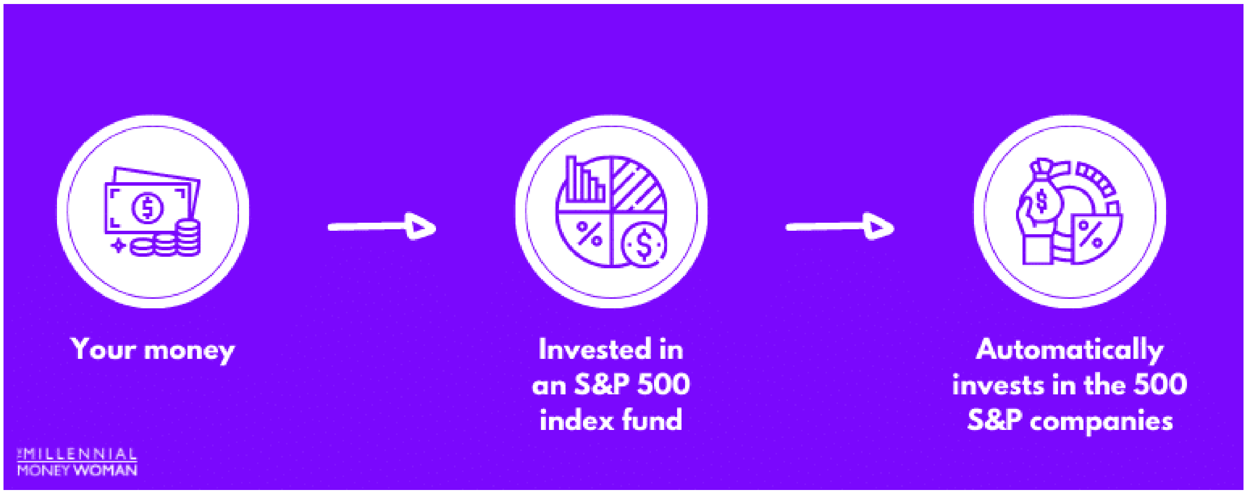
Below are some things to keep in mind when you invest in an index fund:

- You will likely never outperform the index
- You will likely match the performance of the index itself

Let's take the S&P 500 index, for instance:

- Index name – S&P 500
- Number of Companies Tracked – 500
- Types of Companies Tracked – Largest US companies
- How often is it updated? – Quarterly

Here's how your money would be invested in an S&P 500 index fund:



Why Invest in Index Funds?

Index fund investing, in my opinion, is:

- The safest
- The greatest
- The most stress-free

Way to invest in the stock market.

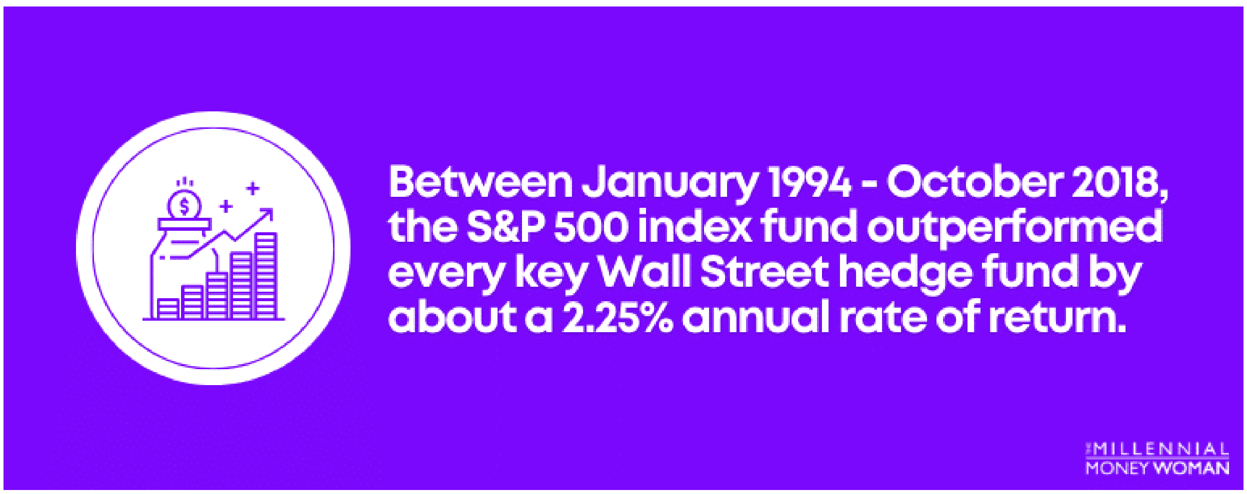
Hands down.

With index investing, you can win even if you don’t have:

- Investing experience
- Investing knowledge
- Time to monitor your investments

Even better?

What if I told you, that you could see higher returns than the Wall Street hedge funds with this index investing strategy...



If you set aside 15 to 30 minutes of your time, you can start index investing and move one step closer to becoming a millionaire.

How to Invest in Index Funds

Are you ready?

Here's my guide on how to invest in index funds (step-by-step)!

Step #1: Research Your Index Funds

Index investing is my favorite investment strategy.

And virtually anyone can do it for as little as $100 if you start with M1 Finance, for example.

You're not just investing in:

- 1 stock
- 1 company

You're investing in:
- Many stocks
- Many companies

And that means:
- You're diversified
- Your risk is spread out
- You could likely outperform hedge funds

Let's take my favorite index fund, the S&P 500 index fund.

As the name suggests, the index tracks 500 of the best and largest (blue chip) companies in the U.S.

So, if you invest in an S&P 500 index fund, you will own a tiny percentage of ALL of the companies within the S&P 500 index.

Take a look at this visual representation of the companies within the S&P 500.

Keep in mind that if you invested in the S&P 500 index fund, you would now be the proud owner of a tiny percentage of these companies.

When you are considering your index of choice, make sure you consider which company types your index of choice is investing in:

- **Company size** – Decide the type of company you prefer your index to invest in: Small, Medium and Large
- **Geographic location** – Decide where you prefer to invest in: U.S., Global, or Combination
- **Industry sector** – Decide which industry sector you prefer to invest in: Health, Biotech, Finance and Technology
- **Asset type** – Decide which asset type you prefer to invest in: Cash, U.S. stocks, Commodities, Foreign bonds and International Stocks
- **Market type** – Decide the market type you prefer to invest in: Mid cap markets, Blue chip markets, Emerging markets, Developed countries and Developing countries

Remember, there are many other indices in addition to the S&P 500 index fund.

Some of these indices include:

- S&P 500
- FTSE 100
- Russell 2000
- MSCI World
- Wilshire 5000
- Nasdaq composite index
- Dow Jones Industrial Average
- Bloomberg Barclays US Aggregate Bond Index

The skilled investor will consider investing in other indices in addition to the S&P 500 to increase their diversification.

If you are looking to receive more tailored investment advice, I'd suggest you check out Seeking Alpha, which offers excellent investment tips from the pros.

Remember, if you're invested in just the S&P 500, you are only invested in:

- U.S. companies
- The largest, more stable companies
- Typically a higher technology sector exposure

Think back to our Index Fund Investing Pro and Con list – remember how one of the cons mentioned less diversification?

With the S&P 500, you are invested in the 500 largest U.S. companies, which among other things, means:

- You don't have international exposure
- You don't have exposure in the small, up-and-coming firms (meaning higher risk, but also higher reward)

- Because the largest S&P 500 firms (Apple, Facebook, Google, Tesla, etc.) are tech firms, you have a high concentration in the technology sector

The S&P 500 still is one of the best indices to track, and I will continue to remain firmly invested in the S&P 500.

Step #2: Decide Which Index Fund to Invest in

There are many different companies that offer S&P 500 index funds.

Some of these companies include:

- Fidelity
- Vanguard
- Charles Schwab

The S&P 500 index funds offered by these companies do the same thing: They track the S&P 500.

However, the way each company structures their S&P 500 index fund is a little different.

I like to think about index fund investing like Vanilla ice cream:

It's supposed to be the same flavor – and it is – but depending on the company you go to; you may taste some minor differences.

That's the same with index fund investing – although all S&P 500 index funds are investing in the same 500 companies – the flavors are a little different.

Here are some things to keep in mind before you select your index funds:

- **Minimum Required Investment** – Some index funds may only permit you to invest in them if you have a minimum investment
- **Investment Account Minimum** – Some accounts may not allow you to invest until you have a certain amount of cash
- **Expense Ratio** – Determines how much you're paying the index fund managers
- **Tax Considerations** – Depends on the type of investment vehicle you are using to do your index fund investing

To determine expense ratios and other, more advanced investment metrics, I use Seeking Alpha.

There’s no right or wrong answer when you’re wondering, “which S&P 500 index fund should I invest in?”

Typically speaking, you’ll want to aim for the lowest-cost index fund (the one with the lowest expense ratio).

The lower your expense ratio, the more money you’ll have in your pocket.

And the higher the chances that you’ll become a millionaire earlier.

Step #3: Decide Where to Buy Your Index Fund

Now it’s time to decide where to buy your index fund. This means you’re deciding which investment account you will use to start your index investing journey.

Some of these platforms include:

- Vanguard
- M1 Finance
- Charles Schwab

Each investment platform has pros and cons, so make sure you review the full picture before you financially commit.

When you are deciding where to buy your index funds, consider some of the following:

- **Simplicity** – Is it easy for you to invest in index funds?
- **Trading Fees** – Sometimes, you may be paying more than $20 per trade to invest in index funds
- **Fund Type** – Some investment platforms only offer mutual index funds, while others only offer ETF index funds
- **Investment Vehicle** – Depending on your investment vehicle you may be restricted by which index funds you can invest in

Step #4: Determine Your Index Fund Investment Type

Now it's time to think about what type of index fund you want to invest in – whether you want to invest in a mutual fund or if you want to invest in an ETF.

I'm going to be very honest with you here:

As long as your expense ratios are low, it generally doesn't matter whether you invest in an index mutual fund or in an index ETF fund.

Here's when your index fund investment type does matter:
If you're investing in:

- HSA
- 401k
- 403b
- Other employer-sponsored plans

Chances are, your investment options may be restricted to whatever your employer allows you to invest in.

For example, my HSA account only allows me to invest in mutual funds, not ETFs or individual stocks.

Mutual Fund vs ETF

To provide some clarity, check out the differences between ETFs and mutual funds.

Mutual Fund Defined:

A mutual fund is a professionally managed group of investments that can invest in stocks, bonds, etc.

When you buy into a mutual fund, you own a small percentage of the investments within the mutual fund.

A mutual fund is traded (bought or sold) at the end of each day, regardless of when you place your trade during trading hours.

Now let's take a look at what an ETF is.

ETF Defined:

An exchange-traded fund (aka ETF) is a group of investments, such as stocks, bonds, etc. that typically track an index.

When you buy into an ETF, you own a small percentage of the investments within the ETF.

An ETF is traded (bought or sold) just like a stock, throughout the day at fluctuating prices.

And that's the main difference between ETFs and Mutual Funds:

ETFs trade like stocks, while mutual funds trade at the end of each day, regardless of when you buy or sell your mutual fund.

To provide you with a more visual-friendly depiction, check out my mutual funds vs ETFs infographic below.

Mutual Funds VERSUS ETFs

1. Investment Minimums

Mutual Fund	ETF
Typically maintain a higher investment minimum, which could be more than $1,000	Typically much lower minimums than mutual funds

2. Cost Efficiency

Mutual Fund	ETF
Typically have higher expense ratios, since mutual funds are actively managed, which means there are more expenses	Typically have lower expense ratios, since ETFs are generally passively managed

3. Tax Efficiency

Mutual Fund	ETF
Typically higher tax liabilities	Typically lower tax liability due to the nature of the fund

4. Liquidity

Mutual Fund	ETF
Typically lower liquidity, since they only trade once per day	Typically higher liquidity, since they trade at any given time, during trading hours

5. Control

Mutual Fund	ETF
You typically have much less control over price fluctuations, since mutual funds trade at the end of the day	You have much more control over the price fluctuations, since ETFs trade throughout the day, similar to stocks

https://themillennialmoneywoman.com/how-to-invest-in-index-funds

It’s good to know the difference between mutual funds and ETFs.

But it shouldn’t matter whether you invest in an S&P 500 mutual fund versus an S&P 500 ETF – as long as the expense ratios are low.

Pros and Cons of Investing in Index Funds

As with anything in life, before you financially commit to something, make sure you review the pros and cons first.

Index Fund Pros:

- Very liquid
- Low cost fees
- Long term growth
- High diversification

Index Fund Cons:

- Less flexibility
- Unlikely to outperform the market
- May have limited gains – based on your index fund choice

- Limited exposure to a variety of different investment choices

For my personal situation, the pros far outweigh the cons.

Index Investing Pro Tips

As you begin investing in index funds, there are a few things you should keep in mind:

- **Expense Ratio** – The lower the expense ratio, the lower the cost to you
- **Long Term Mindset** – It will take time and you'll likely see your money go up and down with the stock market fluctuations
- **Dollar Cost Averaging** – Dollar Cost Averaging (aka DCA) is a surefire way to grow your investments over period investments, over time
- **Monitor the Fund's Performance** – Your index fund should ultimately be mirroring the performance of your chosen index
- **Roth IRA** – Since Roth IRAs are tax-advantaged, they may be a great investment vehicle if you want to take out money a few decades from now
- **Budgeting** – Understand your budget to determine whether you could be investing more toward your index funds

Becoming an index fund millionaire is very possible if you:

- Consistently invest
- Don’t withdraw your money
- Maintain a long term mindset

Investing with index funds will not be an overnight success story.

It will take time and patience, but that will pay off in the end.

Closing Thoughts

Do you want to outperform Wall Street managers while only paying minimal fees (small expense ratios)?

Then index fund investing might be the right choice for you.

Although fund managers may outperform passively managed index funds in the short term – we are in it for the long run… and for low fees.

Also one of the wealthiest people in the world – Warren Buffet – advocates for index fund investing.

So what are you waiting for?

Personally speaking, index investing is something that I do every single day – and have seen multi-millionaire clients do as well.

Start today, because your bank accounts will thank me tomorrow.

Signing off now.

Your friend,

- Fiona

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P.S. If you enjoyed this guide or have any questions / comments, shoot me a message on Twitter and let me know 🙂

P.P.S If you need a mentor to help you build extra income streams, like:

- Starting a blog
- Starting an agency
- Renting out properties
- Investing in real estate
- Building a personal brand
- Investing in the stock market
- Starting your own ecom store
- Making money on social media
- Buying cash-flowing businesses
- Starting a vending machine business

Then check out our community, Prosper.