How to Invest in Stocks

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1. Select your investing style

There are several ways to approach stock investing. Choose the option below that best represents your situation:

- **"I'm the DIY type and am interested in choosing stocks and stock funds for myself."** Keep reading; this article breaks down things hands-on investors need to know. Or, if you already know the stock-buying game and just need a brokerage, see our round-up of the best online stock brokers.
- **"I know stocks can be a great investment, but I'd like someone to manage the process for me."** You may be a good candidate for a robo-advisor, a service that offers low-cost investment management. Virtually all of the major brokerage firms offers these services today, which invest your money for you based on your specific goals. See our top picks for robo-advisors.

Once you have a preference in mind, you're ready to shop for an account.

2. Open an account

Generally speaking, to invest in stocks, you need an investment account. For the hands-on types, this usually means a brokerage account. For those who would like a little help, opening an account through a robo-advisor is a sensible option. We break down both processes below.

Worth noting: A 401(k) is a type of investment account, and if you're participating in one, you may already be invested in stocks, likely through mutual funds. However, a 401(k) won't offer you access to individual stocks, and your choice in mutual funds will likely be quite limited. Employer matching dollars make it worth contributing despite a limited investment selection, but once you're contributing enough to earn that match, you can consider investing through other accounts.

THE DIY OPTION: OPENING A BROKERAGE ACCOUNT

An online brokerage account likely offers your quickest and least expensive path to buying stocks, funds and a variety of other investments. With a broker, you can open an individual retirement account, also known as an IRA — here are our top picks for IRA accounts — or you can open a taxable brokerage account if you're already saving adequately for retirement elsewhere.

We have a step-by-step guide to opening a brokerage account if you need a deep dive. You'll want to evaluate brokers based on factors like costs (trading commissions, account fees), investment selection (look for a good selection of commission-free ETFs if you favor funds) and investor research and tools.

Below are two strong options from our analysis of the best online stock brokers: Merrill Edge (a top pick in the research category that also happens to have no account minimum) and TD Ameritrade (a winner for beginner investors and investment choices):

THE PASSIVE OPTION: OPENING A ROBO-ADVISOR ACCOUNT

A robo-advisor offers the benefits of stock investing, but doesn't require its owner to do the legwork required to pick individual investments. Robo-advisor services will ask you about your investing goals during the on-boarding process and then build you a portfolio designed to achieve those aims.

This may sound expensive, but the management fees here are generally a fraction of the cost of what a human investment manager would charge. For this most robo-advisors charge just 0.25% to 0.50% of your assets under management. And yes — you can also get an IRA at a robo-advisor if you wish.

3. Know the difference between stocks and stock mutual funds

Going the DIY route? Don't worry. Stock investing doesn't have to be complicated. For most people, stock market investing means choosing among these two investment types:

- **Stock (also called equity) mutual funds or exchange-traded funds.** These mutual funds let you purchase small pieces of many different stocks in a single transaction. Index funds and ETFs are a kind of mutual fund that track an index; for example, a Standard & Poor's 500 fund replicates that index by buying the stock of the companies in it. When you invest in a fund, you also own small pieces of each of those companies. You can put several funds together to build a diversified portfolio.
- **Individual stocks.** If you're after a specific company, you can buy a single share or a few shares as a way to dip your toe into the stock-trading waters. Building a diversified portfolio out of many individual stocks is possible, but it takes a significant investment.

The upside of stock mutual funds is that they are inherently diversified, which lessens your risk. But they're unlikely to rise in meteoric fashion as some individual stocks might. The upside of individual stocks is that a wise pick can pay off handsomely, but the odds that any individual stock will make you rich are exceedingly slim.

For the vast majority of investors — particularly those who are investing their retirement savings — building a portfolio composed primarily of mutual funds is the clear choice.

» **Still unsure which is right for you?** See stocks vs. mutual funds

4. Set a budget

New investors often have two questions in this step of the process:

1. **How much money do I need to start investing in stocks?** The amount of money you need to buy an individual stock depends on how expensive the shares are. (Share prices can range from just a few dollars to a few *thousand* dollars.) If you want mutual funds and have a small budget, an exchange-traded fund (ETF) may be your best bet. Mutual funds often have minimums of $1,000 or more, but ETFs trade like a stock, which means you purchase them for a share price (potentially $10 or less on the low end).
2. **How much money should I invest in stocks?** If you're investing through funds — have we mentioned this is our preference? — you can allocate a fairly large portion of your portfolio toward stock funds, especially if you have a long time horizon. A 30-year-old investing for retirement might have 80% of his or her portfolio in stock funds; the rest would be in bond funds. Individual stocks are another story. We'd recommend keeping these to 10% or less of your investment portfolio.
   » Got a small amount of cash to put to work? Here's how to invest $500

5. Start investing

Stock investing is filled with intricate strategies and approaches, yet some of the most successful investors have done little more than stick with the basics. That generally means using funds for the bulk of your portfolio — Warren Buffett has famously said a low-cost S&P 500 index fund is the best investment most Americans can make — and choosing individual stocks only if you believe in the company's potential for long-term growth.

If individual stocks appeal to you, learning to research stocks is worth your time. If you plan to stick primarily with funds, building a simple portfolio of broad-based, low-cost options should be your goal.