Top 10 Investment Tips for College Students

One of the best ways to build wealth is by saving and investing over a long period of time. The earlier you start, the easier it is for your money to grow. Opening your first investment account is a key step in beginning your investment journey. As a college student, you may receive offers to open an investment account. These offers could come from your bank, from someone you or your family know, or even at a campus coffee shop. They also can include incentives, like free stock or cash to invest, as a way to entice you to sign up. Here are ten important investment tips from the SEC's Office of Investor Education and Advocacy to consider when opening any investment account.

1. Consider paying off high interest debt first.

No investment strategy consistently pays off as well as, or with less risk than, eliminating high interest debt. Most credit cards charge high interest rates – as much as 18% or more – if you don't pay off your balance in full each month. No investment will give you guaranteed returns to outweigh the high interest rate you generally pay with a credit card or other high interest debt. That's why you should think about paying off high interest debt before investing.

2. Open the account that is right for you.

Investment firms generally offer at least two types of brokerage accounts – a cash account and a margin account:

- In a *cash account*, you must pay the full amount for securities purchased. You cannot borrow funds from your investment firm in order to pay for transactions in this account. To learn more, read our Investor Bulletin "Trading in Cash Accounts."
- In a *margin account*, you can borrow funds from your brokerage firm to purchase securities (buying securities "on margin"). You pay interest on the money you borrow, and the brokerage firm uses the securities in your margin account as collateral for the money it lends to you to purchase these securities.

IMPORTANT: WHEN OPENING A BROKERAGE ACCOUNT, SOME BROKERAGE ACCOUNT APPLICATIONS MAKE MARGIN ACCOUNTS THE DEFAULT ACCOUNT TYPE. CONFIRM YOU ARE OPENING THE ACCOUNT TYPE YOU WANT BEFORE YOU SIGN YOUR ACCOUNT APPLICATION.

3. Use investment apps responsibly.

Many investment firms allow their customers to invest through mobile applications (apps). Investment firms may market these apps to customers as an easy way to get started investing, using a simple interface and design features that make the app look and feel like a video game. These apps can provide you with convenient tools to make and to monitor your investments. But you should carefully consider any investment decision you make using these apps -- they can have a real impact on your financial well-being.

Some investment apps may limit your customer support options and your ability to interact with human representatives when you need help. Before using an investment app, make sure you understand your investment firm's customer support policy when using their investment app.

Investment apps may include default notification settings that automatically send you information about investment products and strategies you may not want or need. Find out if you can adjust these notification settings. If so, turn off unwanted buy/sell notifications and solicitations related to stocks and other investment products and strategies that you do not own, use, or have not affirmatively requested information about.

4. Be extra careful when buying or selling options, investing in microcap stocks, using margin to buy stocks, or selling stocks short.

All investing has risks. But when you buy or sell options, invest in microcap stocks, use margin to buy stocks, or sell stocks short, some of these risks may be magnified.

Options (contracts to buy or sell a stock for a specified price on or before a certain date), like other securities, carry no guarantees. You should be aware that it is possible to lose *more* than your initial investment. Some options strategies may even expose you to UNLIMITED losses.

Microcap stocks refer to the stocks of companies with low or micro market capitalizations and include “penny stocks” (stocks lower than $5 per share). Investing in microcap stocks may involve risks such as a lack of liquidity (the ease of selling a stock at the current market price), high volatility (large price changes in a short period of time), and fraud.

Using margin (borrowed money from your investment firm) to buy stocks or other securities can be very risky. You may have to deposit additional cash or securities in your account on short notice to cover market losses (a “margin call”) and you can lose more money than you have invested.

Short sales involve the sale of a stock you do not own. Short sellers believe the price of a stock will fall. If the price falls, short sellers buy the stock back at the lower price and make a profit. However, if the price rises, short sellers incur a loss because they have to buy the stock back at a higher price. Short sales can expose an investor to the possibility of unlimited losses, since a stock can theoretically keep rising indefinitely.

5. Use caution investing in “crypto” and other digital assets

Make sure you consider the risks if you are considering a digital asset-related investment – including crypto-assets, coins, tokens such as those offered in so called initial coin offerings (ICOs) or other digital assets. Some risks of investing in digital assets include:

Volatility. Digital assets may have significant price changes over short periods of time.

Lack of investor protection. Since many digital assets are currently unregulated, you may not have the same level of investor protection you would have from investments like stocks, bonds mutual funds and ETFs. For example, you may not have Securities Investor Protection Corporation (SIPC) protection for these assets. If your brokerage firm goes bankrupt or dissolves, SIPC protects you against the loss of your securities or cash held at the firm up to certain monetary limits. SIPC protects you against the loss of the cash and securities themselves, not market losses.

Lack of transparency and fraud. There often may be limited publicly available information about the operations, financials or governance behind some digital asset investments. This lack of transparency can make these investments even more vulnerable to misinformation, rumors or fraud. Take the time to learn as much as you can about a digital asset investments and look for warning signs of fraud.

6. Don’t invest based solely on information from social media.

Investors are increasingly turning to social media, including Facebook, YouTube, Twitter, Reddit, LinkedIn, TikTok, Discord, Twitch and other online networks for information about investing. Social media platforms allow almost anyone – from expert investment professionals to social media influencers with limited investment experience – to easily share information about investments with a large number of people. You should exercise caution before following any investment advice from a social media source. Do your own research by examining the financial or public disclosures of the company or investment product, before you invest your money in that product or company.

While social media can provide many benefits for investors, it also presents opportunities for fraudsters to contact many different people at a relatively low cost. Fraudsters may use online platforms to spread false or misleading information in an effort to manipulate a company’s stock price (either positively or negatively) and to profit at investors’ expense.

Also, fraudsters on social media may pretend to be someone they are not. They may create sites, accounts, emails, direct messages, or webpages that look and feel legitimate. Fraudsters sometimes pay people – for example, actors to pose as ordinary people turned millionaires, social media influencers, and celebrities – to tout an investment on social media.

7. Avoid putting all your eggs in one basket and invest for the long term.

Buying a single investment or only one type of investment may increase the risk and volatility in your portfolio. Asset allocation and diversification are investment techniques that can help you reduce risk and volatility in your portfolio. Asset allocation involves dividing your investment portfolio among different asset categories, such as stocks, bonds, and cash. Diversification involves spreading your investments among different investment products, including within each of your portfolio's asset categories. For example, within the stock category, you may decide to hold stocks with differing characteristics, such as U.S. stocks, foreign stocks, or mutual funds or ETFs that hold a varied mix of U.S. and/or foreign stocks.

The asset allocation and diversification that works best for you at any given point in your life will depend largely on your time horizon (how long until you expect to want to sell the investment) and your ability to tolerate risk (the degree of uncertainty and/or potential financial loss inherent in an investment decision).

Long-term investing involves buying, holding, and growing the value of a diversified investment portfolio over a long period of time--typically years. A long-term investing approach will generally provide you with a more stable way to reach your investing goals.

In contrast, short-term trading generally involves a more time-consuming, active plan of buying and selling securities, trying to capitalize on short-term price changes. In some instances, short-term trading also involves borrowing or leveraging capital in order to purchase and sell assets. Short-term traders may also make emotional buy/sell decisions based on market movements and end up with potential losses.

One especially complex and risky example of short-term trading is day trading. Day trading can lead to substantial financial losses in a very short period of time. Typical investors generally should not engage in day trading unless and until they fully understand its considerable risks and have the financial resources to weather potential losses.

Long term investing may provide you with some tax advantages. Day trades or other investments held for less than a year are generally taxed at higher rates than investments you hold for at least a year. For more information about taxation and investments, please consult a tax advisor or visit the IRS website.

8. Be aware of behaviors that can undermine your investment performance.

Several investing behaviors can undermine investment performance. Here are a few examples of investor tendencies to avoid:

- Holding losers too long and selling winners too soon. Investors tend to hold on to losing investments too long and sell winning investments too soon. This can be detrimental to your portfolio, as winning investments often continue to outperform losing investments.
- Focusing on past performance and ignoring fees. Investors may choose mutual funds primarily based on the funds' past annualized returns without considering the funds' expense ratios, transaction costs, and load fees. Fees and expenses can significantly cut into your investment returns.
- Buying what you know. Investors tend to favor investments from their own country, region, state or company, or to favor "glamour investments" that are well-known or popular. This can decrease diversification and increase risk exposure in your portfolio.

9. Secure your online investment accounts.

You should always take steps to safeguard your personal financial information (for example, social security numbers, financial account numbers, and usernames and passwords for online financial accounts). Here are some online security tips to help secure your online investment accounts:

- Use strong passphrases with random words, using characters that include symbols, numbers, and both capital and lower-case letters, or strong passwords consisting of at least twelve or more characters that include symbols, numbers and both capital and lowercase letters.

- Activate two-step or “multifactor” authentication, if available, so if someone attempts to log into your account with your username and password, they also need to enter a unique code sent to you by e-mail or text message.
- Turn “on” account activity alerts to send you an email or text message about certain activities in your account (for example, password changes, account logins, personal information changes, and account transactions).
- Verify the source before clicking on a link in an e-mail or text messenger regarding your investment accounts.
- Secure your devices by turning on password protection and automatic locking features.
- Update your devices to make sure the software and apps remain up-to-date with the latest software fixes and security patches.

10. Look out for investment fraud.

Be wary of any investment pitch that guarantees high investment returns (think 10% or more) with little or no risk. This is a classic sign of investment fraud. In general, the potential for higher investment returns involves higher risk.

Unlicensed, unregistered persons commit much of the investment fraud in the United States, so you should always check to see whether someone is registered with the SEC or your home state before making a decision to invest with them. You can do this quickly and easily using the free tools on Investor.gov. It’s worth spending a few minutes of time to protect your money!