Attention Savers: 5 Ways to Invest $5,000

Description

If you received a $5,000 bonus, what would you do with it?

For many, such a windfall would be quickly squandered on shoes, electronics, or dinners out. For others, the extra cash would just be a way to put out some financial fires. These folks would probably need the money for an overdue bill or day-to-day expenses.

But for those of us with a little discipline, $5,000 could put a big dent into a long-term savings goal. That's doubly important for those of us who haven't been saving at all. Perhaps the best thing you can do right now is to put that money to work for you through investing.

Now, some would argue that a $5,000 windfall is a fantasy. However, it's an attainable figure for many. If you can save $100 a week—about the amount many families spend at restaurants—then you can put away $5,000 in less than a year.

Easy? No. But it's possible. So, for those of you looking to get started, here are five ways to invest $5,000 now.

1. Save with an online bank

Before you can start building a mountain of wealth, you have to protect yourself from falling off a financial cliff. For someone who is just starting out on their investing journey, I would suggest building up that rainy day fund.

Online banks are a great place to build an emergency money stash. While they don't have convenient physical locations, online banks tend to offer higher interest rates. Without the need to pay tellers or heat physical branches, they can pass the savings on to you.

2. Money market funds

If you're investing for five years or less, then consider placing your cash in a money market fund. Money market funds generally buy high-quality, short-term debt that can be easily converted into cash. These are some of the safest, most liquid investments out there.

Guaranteed Investment Certificates, or GICs, are another safe investment that offer higher yields. The downside is that once you're locked into a GIC, you won't be able to access your money until the specified maturity date.

3. Index funds

If you're young and have a long investment time horizon, you can take some risks. Investing in index funds offers a quick way to diversify across many asset classes, from stocks to bonds and real estate.

Index funds are becoming more popular than traditional mutual funds, and for good reason. Because there's no human manager making subjective stock picks, index funds charge lower fees. That often translates into better returns for investors.

4. Exchange traded funds

Exchange traded funds, or ETFs, are similar to index funds. When you purchase a share in an ETF, you are buying a small slice of that fund's holdings. The advantage of ETFs is that they can be bought and sold throughout the day, just like an individual stock. Better yet, they generally have lower costs than their index fund counterparts.

Take the **iShares S&P/TSX Capped Composite Index Fund** (TSX:XIC), for instance. Investors in this ETF pay a measly 0.05% of assets under management in fees each year. That means you pay just $2.50 in fees for every $5,000 you've invested. It's quite a bargain!

5. Individual stocks

Stocks or equities let you purchase a small part of an individual company. This allows you to participate in and benefit from the company's growth, potentially earning lucrative dividends and capital gains.

Are you a gadget geek who believes **BlackBerry Ltd.** (TSX:BB)(NASDAQ:BBRY) is poised for a comeback? Then it's time to back up the truck on the stock. Tired of getting gouged at the gas pump? Why not take a piece of the profits by buying shares of **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO)?

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)

2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:BB (BlackBerry)
4. TSX:IMO (Imperial Oil Limited)
5. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)

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