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BLOG POST

Advice for Young Investors
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Investing advice for young investors – those just starting their careers – is much the same today as it was decades ago. Financial independence and security come about by following some basic rules that anyone can follow.

Ultimately, as you work your way through your career, you will either own or owe. You can be an owner of assets – stocks, bonds, real estate, etc. – and be financially independent, or you will owe someone something.

It is difficult later in life to be in debt and have financial obligations that seem to never go away. Starting early in life down a path to ultimately be an owner of assets can help ensure a comfortable retirement. Below are three best practices that can help get you started:

Do Not Spend Beyond Your Means

Starting out on your own can be difficult, especially if you do not have a safety net to fall back on, such as an inheritance or a trust fund. For most, your income in your early twenties will be just enough to get by. After paying for living expenses, such as rent and utilities, the amount left over might not take you very far.

However, it is better to sacrifice now than when you are older. One of the worst financial decisions you can make is to rely on unsecured debt (i.e., credit cards) to fund a lifestyle that you cannot afford. Financial institutions are more than willing to give you access to a line of credit. In fact, you will likely receive multiple credit card offers with the allure of instant access to funds you otherwise would not have.

As you are likely aware, unsecured lines of credit are expensive. The interest rate that banks charge you on credit card balances is exorbitant simply because there is no asset to collateralize the debt. Unlike a mortgage, if you do not pay the balance on a credit card, the bank cannot repossess your house.

These exorbitant interest rates are quite costly over time. After the utility you receive from a credit card purchase is long gone, you will likely continue to pay for it for some time. If you do not pay off your monthly balance in full, your credit card balance will continue to rise simply due to the interest accrual.

Understandably, there will be emergency expenses that can arise. But by and large, using credit cards for frivolous purchases should be avoided.

Invest Early and Often

The number of books and publications written about the long-term benefits of investing is almost too large to count. But the concept is proven true time and again due to one simple process – compounding.

Even if the amount you can invest early in your career is a relatively small amount, over time the cumulative value of your investments will tend to grow exponentially.

Perhaps the most convenient way to set aside a portion of your paycheck for savings is by participating in a 401k plan through your employer. If this option is not available, you can always establish a personal account and automatically set aside a portion of your paycheck every month.

Perhaps the most straightforward way to invest is through an index fund that tracks the broad equity markets like the S&P 500. Simply buying a few shares of an index fund every pay period (a process known as dollar cost averaging) can accumulate into a considerable balance over several decades.

If you reinvest dividends and make steady periodic investments, your return will compound over time. You will eventually earn future dividends on the dividends you reinvest today. Furthermore, the dividends are not something you paid for but something you earned by owning stocks.

Your $100 investment today could eventually grow to $1000. Imagine a series of $100 investments per paycheck all eventually growing to $1000. This is the power of compounding and how you accumulate wealth over the course of a career. Would you rather invest $100 for your future or pay $100 to a credit card company and have nothing to show for it?

Strive to be a Homeowner

Being a homeowner is not always pleasant. Unexpected costs arise periodically and selling your house can be costly if you must move. But in general, a rule of thumb is to strive to eventually own your own property.

More often than not, rent or a mortgage payment will be your biggest monthly expense. The difference is that a mortgage will eventually be paid off and the monthly expense will go away. The result is that you will own a real asset that will likely represent one your most valuable investments.

Rent, on the other hand, will not go away. In fact, rental payments will tend to increase over time. There is some convenience to renting, but over the long run you are simply paying your landlord’s mortgage and will have nothing to show for it.

Planning for a secure financial future is not overly difficult if you follow some best practices today. Avoid using expensive debt to pay for a lifestyle you cannot afford, invest early and often, and strive to own your own property.

As decades go by you might be surprised at how much wealth you can accumulate while avoiding the pitfalls of having no financial plan for the future.