Investing is Not Just for Adults

(Interstellar Investor – Article Summary)

By Jonathan Guymon

"I retire on Friday and I haven't saved a dime. Here's your chance to become a legend!"

There are several main reasons why we allow ourselves to procrastinate investing for retirement. We might not see the importance of investing for retirement while they are still young, or we might feel overwhelmed by the amount of information and advice investing carries with it. Overcoming these obstacles and investing early in life could earn today's youth millions of dollars.

Why invest for retirement?

Because time is such an important part of investing, the sooner we start investing the better. Young adults are able to take advantage of the power of compound interest because of the increased amount of time on their side.

"A 25-year-old, for example, who makes $40,000 and contributes 10 percent of his salary to a 401(k) plan annually will amass $3.9 million by the time he retires at age 67. That figure assumes a 50 percent employer contribution match, a 5 percent estimated salary increase rate annually and an 8 percent investment rate of return. Using all the same parameters, that same person would have $2.5 million—or $1.4 million less—if he had started saving at age 30." (Schwartz, 2014, para. 5-6) Investing now rather than later can literally earn millions of dollars.

How to invest

Investing for retirement can be as simple or complex as you want it to be. You might choose to invest in many different ways, but in the end what really matters is choosing to do something.

Here is how to get started:

1. Earn an income.
2. Search online for an investment company that offers retirement accounts.
3. Sign up for a Roth IRA account.
    a. With a Roth IRA, "you make contributions with money you've already paid taxes on (after-tax) and your money may potentially grow tax-free, with tax-free withdrawals in retirement, provided that certain conditions are met" (Fidelity, 2016, para. 2).

4. Pick an index fund with very low fees.
    a. Index mutual fund allows us to lower risk and raise potential return without having to understand everything about finance. They are great options for many investors and some can offer very high returns.
    b. Index funds generally have much lower fees, which means more money going toward compounding interest. They also are very diverse, because they are investing in every stock covered in an index.
5. Consistently put money into your investment account every time you get a paycheck.
6. You may put up to $5,500 per year into your retirement account ($458 per month), but can start with much less than that.

It truly is possible to invest now for retirement no matter how old someone is. Investing is not just for adults -- young people everywhere can start investing today. Our main tools are compounding interest and time. With those tools combined, there is no reason for us to not retire comfortably. We don't have to major in finance to start investing. Remember the council of Senhil Mullainathan (2015), that if our money remains unvested, we are earning zero returns. "That, surely, is not the path to a happy retirement" (para. 36).

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