How to Start Investing

(Step by Step)

Tired of missing out on the investing game? Or afraid you’re already behind in your retirement saving, even though you’ve just started your career?

Whether your interest is based on curiosity (Hey, investing seems fun!) or FOMO (I’m going to be old, broke and homeless!), there are more ways than ever to start investing.

WHERE DO YOU GET THE MONEY?

When you invest through your 401(k), the money comes out of your before-tax pay. You tell your employer how much to take from each check — and, if you’re lucky, they match your contribution. For example, you put in 3% and they match it, dollar for dollar, up to another 3%.

Money to invest on your own might come from savings, gifts, tax refunds, bonuses, inheritance or any excess cash after you pay your bills. Usually this is after tax.

HOW MUCH DO YOU NEED TO INVEST?

There’s usually no minimum to invest in your 401(k). Once your employer opens the account and you start contributing, you’re on your way.

You might need $500 or more to open an account at a brokerage. But some online brokerages and apps will let you invest as little as $5.

MANY HAPPY RETURNS

Just as you can climb a mountain or run a marathon, you can save enough for whatever your dreams are later on in life.

It just takes planning, dedication and practice. There is a recipe that is pretty guaranteed to give you the highest possible returns on your investments — although it’s not always easy to stick to:

Invest as much as possible. Aim for 10% of your income, increasing your contributions 5-10% of the amount each year.

Invest over many decades. Plan to grow your money for 20, 30 or 40 years.

Diversify. Choose a variety of investments. Selecting 5-10 categories reduces the risk of investing in just one type of stock (stocks and bonds, government and corporate, varying industries, small and large, U.S. and international, etc.).

Adjust your risk. Take a more aggressive (but still comfortable) approach when you’re younger and progressively shift to safer investments as you near retirement.

Minimize fees and taxes. Choose low-cost, fee-only brokers or robo-advisors. Seek out funds with low expense ratios. The less you pay in fees and taxes, the more your money will potentially grow for you.

SET YOUR GOAL

At the beginning of your career, 10% of your income might seem impossible, but if you’re making $40,000, that’s $4,000, which is $333 per month or $167 per bi weekly paycheck.

If you have it automatically transferred to your 401(k) or other investment account before it hits your bank, you might not even miss it. And you get an added boost if your employer matches your contributions. If you want to get to 10% of your income and your employer matches up to 3%, then you only have to contribute 7%.

This sacrifice early in your career can pay off big time. Play around with investment return calculators to see how much you’d make with an 8-10% return over 20, 30 or 40 years (which is a fair estimate of historical stock market returns) then compare that to how much more you could make if you increase your contributions by 5% or 10% each year.

This doesn’t mean another 10% of your income, but 10% of the amount.

So, if you start out investing $150 every paycheck this year, then next year, you would increase it 10% ($15) to $165 each paycheck. It might hurt, but it will be worth it, thanks to the power of compound interest.

NO GUARANTEES

Of course, returns are never guaranteed, but since the 1929 stock market crash, a balanced portfolio of stocks and bonds has averaged about a 10% return over 20- or 30-year periods.

Timing also matters. According to a recent study, people with a fairly balanced stock/bond portfolio from 1980 to 2016 got about a 10% return, but people with a similar portfolio from 2000 to 2016 got a less than 6% return.

READY TO INVEST?

Ask your human resources department about how to contribute to your 401(k) or similar plan. If you don’t have an account at work, research investment brokerages including online advisors and investment apps.