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summaries

SIGMA INVESTMENT COUNSELORS

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THE ART OF INVESTING… EARLY

The last thing on a 21 year-old's mind is "Am I investing enough for retirement?" Instead, they dream of buying the newest iPhone or a shiny, new sports car after graduation. Being the resident 'youngin' at Sigma, I can confirm this fact. There is an instinct to fit in with your peers, while also standing out by owning the newest material items. Making these purchases at a young age steals one's ability to create wealth for retirement. For many, wealth is generated through investing money that compounds year over year. There are numerous benefits to investing at an early age; benefits that people do not realize until they are older.

Invest While Expenses Are Low

A great quote relating to procrastination made by Benjamin Franklin is, "You may delay, but time will not, and lost time is never found again." As a senior in college, it feels like life is expensive. Truthfully, my expenses are very low without a family or a mortgage to be responsible for. My disposable income is used to prepare for my future first, and then enjoy the present with the remainder. Others I know want to purchase an expensive item and put off investing for the future in order to enjoy the present. They are losing the most valuable time of investing, and lost time is never found again.

Wait To Be Selfish With Your Money

Setting aside income to be invested leaves less money to be spent. Frugality on unnecessary purchases is a great habit to get into from a young age. Practicing restraint on impulse purchases will pay off in the long run when you earn more as you get older and want to make larger purchases. Extravagant purchases are meant to be made at a time of financial independence; not at 21 years old.

Whatever you think you'll need for retirement, invest more. You will get used to it and will not miss the money. These spending habits will be reinforced with time leaving you with more money saved and invested for retirement.

Take on More Risk for Better Returns

The longer the time horizon for investing, the more affordable risk is. There is a complex relationship between risk and reward that can be simplified as risk = reward. The higher the investment risk generally means the higher the possible return. Young investors have the power of time to recover from volatile investments that produce larger gains over time. Time is not as kind to investors that wait to put money away for retirement at the last second.

The Math

If a retiree thinks they would need a portfolio of $800k at age 65, then there are an infinite number of ways to get to this value, but I will delve deep into two. The first path is investing $2,000 a year, for 7 years, from the age of 20 to 26, assuming a 10% average annual return, granting you nearly $860,000. The second path is investing $2,000 a year, for 40 years, from 26 to 65 years old, still assuming a 10% annual return on average, which delivers over $880,000. Option one starts at 20 years old and invests a total of $14,000 over 7 years, while option two waits until age 26 to invest a total of $80,000 over 40 years. Both plans get to roughly the same amount of assets, but the 'easy' plan requires you to start investing at an early age. The simple lesson is: the longer money is put to work through investing, the more wealth it can create.

What Can You Do?

To any and all readers, feel free to forward this to anyone that would find this useful or applicable. Have a conversation with them about starting to invest at an early age and the benefits you have experienced from investing. Getting started is the hardest part of almost any task; especially investing. They will thank you for the advice later.

Written by the 2021 summer intern at Sigma Investment Counselors, Michael Mullenax.

Michael is 21 years old and is a rising senior in The Broad School of Business at Michigan State University. Michael is pursuing a degree in Finance with a minor in Wealth Management. His hobbies include photography, playing board games, and hiking.

Disclosure: The views in this publication are as of August 2021 and are for informational purposes only and do not represent any recommendation of any particular security or strategy and should not be considered investment advice. The publication is prepared for educational purposes.

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