Setting Yourself Up for Investment Success

A Guide to Investing in Your 20s

Starting your first job out of college is an exciting milestone, bringing with it newfound financial freedom. You might find yourself renting your first apartment, buying a new car or planning a vacation. While it's great to enjoy the rewards of your hard work, it's crucial to establish investment habits that will set you up for future financial success. Your 20s are an ideal time to start investing, as the money you invest now will compound and grow over time, allowing you to reap the benefits later in life.

In this guide, we will discuss four strategies that young adults can use to prepare for investing.

01 Create a budget

It's easy to underestimate your monthly spending and savings without a budget. Before you start investing, create a budget to visualize your expenses in categories like groceries, rent, utilities and entertainment. Detail any debts such as credit cards, auto loans, or student loans, and plan how much of your income will go toward each balance, monthly. Additionally, set a monthly savings goal. Even contributing $50 per paycheck would add up to 1,200 a year if you are paid bi-weekly, and it would help build an emergency fund.

02 Create a budget

Before investing, consider your goals, separating them into short-term and long-term categories. Short-term goals might include saving for a vacation or making a down payment on a car, while long-term goals could be paying off student loans or buying an investment property.

In addition to thinking about goals, you should consider what your risk tolerance is. When you are young, you can have higher risk tolerance since you have a longer time to wait out the market fluctuations as opposed to someone closer to retirement. Nevertheless, you may decide to take a more conservative approach to investing if you need cash for another specific goal or if you get very anxious seeing accounts sometimes dip with market volatility.

03 Open a Retirement Account

Although retirement may seem distant, it's wise to start contributing to your retirement plan as early as possible to benefit from compound interest. The easiest way to begin is by contributing to an employer-based retirement plan if your employer offers one. Many employers match contributions, accelerating your savings growth. These plans are tax-deferred, meaning you don't pay taxes until you withdraw funds. Adjust your contributions as your income changes to help ensure you have enough for retirement.

If your employer doesn't offer a retirement plan, consider opening an individual retirement account (IRA). Traditional IRAs are tax-deferred, while Roth IRAs require upfront tax payments but are beneficial if you expect to be in a higher tax bracket later. Consult with your advisor to determine if a Roth IRA is right for you.

04 Educate yourself

Opinions on what constitutes a good or bad investment vary widely. Friends and family may have strong opinions, but it's essential to consult a professional who understands the markets and has a fiduciary duty to provide investment advice in your best interest. A financial advisor can help build, monitor, and rebalance your portfolio to ensure you stay on track to meet your goals. Reach out to one of our advisors to see how we can assist you.

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