When It Comes To Saving And Investing, Make Time Your Friend

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North American Precis Syndicate | Posted: Wednesday, January 28, 2015 5:44 am

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When it comes to saving and investing, time can often be your strongest ally. (NAPS)

(NAPSI)—While many find it's easier to make excuses than to make a commitment to save, it doesn't have to be that way. The key is to have a plan you can follow and stick with it. To help you get started, here are some tips.

The Need For Savings

For those who seek financial security, savings need to be understood as a necessity, along with food, shelter and clothing. Every household should strive to have a cushion of savings in place—generally enough to cover three to six months' worth of expenses-in case of an emergency or a sudden loss of income.

It's also a good idea to have life insurance in place as well as investments for those long-term life goals, such as funding a college education, buying a home and building a nest egg for retirement.

Make Time A Resource

When it comes to saving and investing, time can often be your strongest ally. Take the case of Amy and Sam. Amy began a new job, and at age 25, made the decision to begin investing right away. She committed to saving $200 a month, every month, until retirement age. Assuming an average annual investment return of 8 percent, Amy will have amassed $702,856 by age 65.

Sam, on the other hand, procrastinated. He put off contributing to an investment account until age 40. Sam tried to catch up, contributing $400 a month until he reached age 65. His investment also returned an average of 8 percent per year.

However, by retirement age, Sam will only have $382,947 in his account—almost $320,000 less than the amount amassed by Amy. Over time, Amy ended up contributing $96,000 to her account, while Sam contributed $120,000 to his. In his attempt to catch up, Sam contributed 25 percent more to his account than Amy did; yet her account was worth over 83 percent more at age 65.

Though the case of Amy and Sam is hypothetical, it does illustrate the power of compounding over time. However, in the real world of investing, time has another advantage. Generally, the more time you have, the more aggressive you can be with your investments. Long-term investors can ride out market cycles, allowing them to invest more aggressively and potentially reap greater returns.

Track Your Expenses

Balancing your monthly budget is a prerequisite to any sound financial strategy. Start by writing down your expenditures for one month. Make sure to include every purchase, no matter how small it might seem. Once you write down your expenses, sort them according to categories such as household, food, transportation, health, debt and miscellaneous. This way, you can see exactly where your money is going and recognize where you can make adjustments to your budget.

At the end of the month, tally up all your expenses and subtract them from your income. Even if your expenses don't exceed your income, that doesn't necessarily mean your buying habits are under control.

Your monthly budget should also include allocations for savings and investments. How much depends on your needs and goals, but many experts suggest setting aside at least 10 percent of your income to these categories.

Consult A Representative

A financial representative can be a valuable resource at any stage of your life. He or she can give you an estimate of the necessary life insurance coverage, as well as a realistic projection of education costs. A representative can also discuss which financial products may be suitable for your unique needs and make specific investment and insurance recommendations.

To learn more, you can visit www.firstinvestors.com.

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