Pay Yourself 1st to Enjoy a Better Future

Description

Some people don't set up a budget for their spending and use up their paycheque by the time they receive their next paycheque. So, they end up not saving anything. If they lost their jobs, they'd be in trouble.

In fact, a study showed that about one-third of American households earn just barely enough. People between the ages of 18 and 35 tend to be the ones who spend all of their salaries.

These people would be better off paying themselves first.

If they want to save for their future, they should set up an automatic transfer of 10% of their paycheque every time they receive it. This money should go to a high-interest savings account that they won't see the balance of.

For the opportunity to grow those savings faster, they should consider investing in traditional exchange-traded funds that follow a broad market index, such as **SPDR S&P 500 ETF Trust** (NYSEARCA:SPY).

If you invest $300 per month for 30 years at a rate of return of 7% per year, you'll end up with $30,321, of which $9,000 was your original contribution and $21,321 was from investing.

Want to get higher returns?

If you want to improve the end result, you should save and invest more whenever you can. For example, if you get a 3% raise from your job, raise your savings rate by 3% as well.

You can also invest in individual stocks for higher returns. It's riskier to buy individual stocks than broad market ETFs, but if you focus on buying quality companies that tend to become more profitable over time when they're relatively cheap, you should do quite well.

For example, the S&P 500 Index trades at a multiple of about 17.3, but at under US$93 per share, **Apple Inc.** (NASDAQ:AAPL) trades at under a multiple of 11. This is relatively cheap compared to the market and compared with Apple's normal multiple in the past.

Historically, Apple tends to outperform the U.S. market, but in the last year it has underperformed. However, it continues to generate strong cash flows and maintains a rock-solid balance sheet. It also yields 2.5% with a payout ratio of about 25%.

Similarly, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) tends to outperform the Canadian market. Although it's not particularly cheap today, it is priced within fair-value range at $55.55 per share at a multiple of just under 12. It pays a solid 4% dividend yield with a payout ratio of under 50%.

Conclusion

You'll never save money if you use up your paycheque every time you get it. Instead, automatically save a portion of it, so you can save and invest for your future. The sooner you save and invest, the faster your investments will start working for you, and the more enjoyable your future will be.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:AAPL (Apple Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:TD (The Toronto-Dominion Bank)

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