Why You Should Save and Invest Early

Description

Your financial advisor would tell you to pay yourself first. This means saving a portion of your paycheque every month and investing it for your future. The sooner you start saving, the less you have to put away in the future.

Save more now, so you can save less later

If a 25-year-old guy starts saving $250 per month (totaling $3,000 per year) and invests it for a 7% return, in 30 years when he's 55 years old, he will amass $283,382 (assuming the compounding occurs at the end of each year).

If another guy who's 35 years old wishes to amass $283,382 by the time he's 55 years old, he can't invest as little as $3,000 per year. He must invest $6,913 every year (or a little over $576 every month) because he only has 20 years for his investments to compound.

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If he wants to amass $283,382 in 20 years, he either has to increase his savings rate or achieve a higher rate of return.

Aim for growth

If you have decades for your investments to compound, you can take on a bit more risk by allocating a portion of your portfolio to high-growth companies such as **Alphabet Inc.** (NASDAQ:GOOG)(NASDAQ:GOOGL), the parent company of Google, **Facebook Inc.** (NASDAQ:FB), and **Mastercard Inc.** (NYSE:MA).

Alphabet trades at a multiple of about 22.2 and its earnings per share (EPS) is expected to grow at a compound annual growth rate (CAGR) of about 16% in the next three to five years. If Alphabet's multiple remains constant and its growth rate of 16% materializes, an investment today can double in about 4.5 years.

Facebook trades at a multiple of roughly 38.7 and its EPS is estimated to grow at a CAGR of about 32% in the next three to five years. If Facebook's multiple remains constant and its growth rate of 32% materializes, an investment today can double in about 2.25 years.

Mastercard trades at a multiple of about 25.5 and its EPS is estimated to grow at a CAGR of about 15% in the next three to five years. If Mastercard's multiple remains constant and its growth rate of 15% materializes, an investment today can double in about 4.8 years.

Aim for income

If you feel more comfortable with earning a stable income every month, you can invest in companies that have paid dividends for a long time. One group of stocks that has paid the oldest dividends are the Big Five Canadian banks. They have paid dividends for more than a century!

Royal Bank of Canada (TSX:RY)(NYSE:RY) is the largest by market cap, and it pays a solid dividend yield of 4.2% at under $77 per share. You can't go wrong with buying this leading bank on dips, especially when it yields more than 4.6%.

Based on its quarterly dividend per share of $0.81, Royal Bank would yield 4.6% at $70.43 per share.

Summary

The earlier you save now, the less you have to save later. Start investing early for your retirement.

There is something for everyone in the stock market. The simplest way to invest is to choose between growth-oriented companies or income-oriented ones. And there's nothing stopping you from investing in both kinds of companies for a diversified portfolio.

CATEGORY

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

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TICKERS GLOBAL

1. NASDAQ:GOOG (Alphabet)
2. NASDAQ:GOOGL (Alphabet Inc.)
3. NASDAQ:META (Meta Platforms Inc.)
4. NYSE:MA (Mastercard)
5. NYSE:RY (Royal Bank of Canada)
6. TSX:RY (Royal Bank of Canada)

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