These 4 Steps Could Help You Retire Early!

Description

A common aim among investors is to retire early. While this is never easy, adopting these four simple steps can make it a more realistic prospect.

Buy shares

While there are a number of assets available to investors, history has shown that shares have offered the most appealing risk/reward ratio. Certainly, they are not perfect. But for investors who are able to hold for the long term, they offer the most bang for your buck.

For example, cash may offer reduced risk compared to shares in terms of the guarantee of a return of capital. However, cash also offers a low reward which is often surpassed by inflation. This means that the real-terms return on cash can be negative, which is a reason why bonds also lack appeal. They also have a lower risk profile than shares, but at the same time are also unlikely to generate a sufficient return to allow you to retire early.

While property can produce excellent capital gains and yields, it is more difficult to diversify, requires a greater amount of capital and can be subject to unfavourable tax treatments. As such, with shares generally offering annual returns in the high single-digits per annum, investing in them is a sound means of reducing your retirement age.

Long term

Of course, buying and selling shares on a frequent basis is unlikely to produce high returns in the long run. That’s because of high dealing costs as well as not allowing those shares to deliver on their potential.

For example, buying a company which has a relatively new management team or a new strategy and holding it for a matter of months is likely to be insufficient for its prospects to be realised. The business world tends to move relatively slowly and since shares are a part of a business, holding on to an investment for a number of years is likely to improve your chances of retiring early.

Liquidity

That's not to say you should invest all of your money in shares. There are times in everyone's life when cash is needed for illness, home repairs, a new car or some other emergency. Therefore, it is crucial to maintain a proportion of your wealth in cash or highly liquid bonds, or else you may be forced into selling underperforming shares during periods of economic hardship.

Although the return on a cash portion of your portfolio will be likely to drag down the overall return, the financial flexibility which having good liquidity brings will be well worth it. Additionally, you will also have the financial firepower to invest in new opportunities should the market fall. If you were fully invested you would not be able to take advantage of the best buying opportunities.

Seek dividends

While dividend investing may not seem like the most obvious way to improve your chances of retiring early, it has been shown that the income return from shares tends to beat capital gains over a long period.

Furthermore, dividends provide evidence of a company's financial health, as well as management's confidence in its future outlook. A company which pays a generous dividend is also more likely to offer defensive characteristics since high dividends indicate stability, maturity and consistency in a company's business model. As such, while capital gains are well-worth chasing, it is dividends which could have a bigger impact on your portfolio's performance.

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peterstephens