Does Age Really Matter When it Comes to Investing?

Description

A few decades ago, it was exceptionally hard for younger people to invest. The cost of doing so was prohibitively expensive and meant that unless you had a large amount of capital, it was unlikely to be worthwhile. As such, most people did not start to invest until they were well into their careers, by which time there was less time for compounding to have an effect.

However, the internet age has brought significantly lower sharedealing costs. This means younger people now have the opportunity to invest relatively modest amounts. However, could this mean they are more susceptible to losses than their older peers? Does wisdom come with age when it comes to investing?

Experience

Perhaps the most important aspect of investing is experience. Ask any investor what has made them better and they will usually say it was mistakes made in the past. Even the very best investors have made mistakes in their early days of investing. For example, Warren Buffett bought a stake in a gas station and proceeded to work exceptionally hard for very little reward. He learnt from this that passive investing generally beats active investing.

Similarly, investors often fail to consider aspects of a company's balance sheet, cash flow and whether it offers good value for money. These things may sound basic to seasoned investors, but for beginners they are easy mistakes to make. And since younger investors will have less experience and less opportunity to have made such mistakes, they may find their returns are lower than when compared to their more experienced peers.

Age vs experience

However, there is a clear difference between age and experience. An investor can be younger and experienced, as well as older and inexperienced. As such, it is not the age of an investor which really matters. It is how experienced they are.

For example, when all investors start to buy and sell shares, they are unlikely to have found their investment style. This is essentially a system which works for them and their risk profile. They may start out attempting to buy and sell a stock in a short space of time, or seek companies which are forecast to record exceptional growth figures.

However, after working out that a longer term holding period could work out better most of the time, and that there is more to investing than just growth, they may choose to adapt their style. Often, it can take a number of years before a successful system which fits in with a person's risk tolerance is found.

Opportunity for all

Therefore, age should not be seen as a stumbling block for any investor. Younger people should feel confident in the knowledge that all investors have made mistakes, and experience will drive improvement. Similarly, for older investors it is never too late to start taking an active interest in retirement plans. Therefore, just as investment success is not linked to educational background, gender or any other aspect of an individual, age really is just a number when it comes to being able to beat the market.

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