Young Investors: 3 Tips for Beginning Your Quest to Financial Freedom

Description

For many millennials, the idea of investing and saving for retirement might be an afterthought. However, these individuals now have the best opportunity to realize the power of compounding interest by investing early.

When you're starting out and entering unfamiliar territory, it can be difficult to know where to start. Here are three tips for young investors to getting the ball rolling towards financial freedom.

1. Set up a brokerage account

The first step for any young investor is going through the process of creating a self-directed brokerage account. It's a simple step, but until you do so, you won't be able begin your investing journey. All of the big banks offer self-directed account services that allow you to trade stocks for about $10/trade.

Just because you open an account doesn't means you have to begin investing immediately, but it will quicken the process once you have the funds available and will create an incentive to do so.

I recommend opening your first brokerage account with your current bank through a TFSA. This doesn't require up-front cash to open, and it will allow you to accumulate your growth on a tax-free basis.

2. Pay yourself first

The golden rule of personal finance is to put a portion of each paycheque into your investment account before you start paying your other bills. This allows you to ensure you meet your financial goals and forces you to work with the remaining funds to pay off any other expenses.

The general rule of thumb is putting aside 10% of your paycheque. If you can put away more, by all means, do so; however, you don't want to be contributing more than you can afford. If you have to keep dipping into your brokerage account to pay your bills, then you're defeating the purpose of paying yourself first. Once the money goes into that account, it should stay there for a long time.

I highly recommend automating this process. Brokerage accounts have forms you can fill out to authorize automatic deposits on a periodic basis. It's much more difficult to transfer funds each paycheque yourself. It may be sustainable for a bit, but like a New Year's resolution, very few can keep up the good habit.

3. Be patient

In a world where we can have almost anything immediately, patience can be a hard thing to maintain. There will be highs and lows during your investing journey, and it's crucial to keep a long-term view.

By reinvesting dividends from a well-diversified portfolio containing stocks such as **Royal Bank of Canada**

(TSX:RY)(NYSE:RY) and **Fortis Inc.** (TSX:FTS)(NYSE:FTS)**,** young investors can harness the true power of compounding interest.

However, it's important to note that this isn't a "get rich quick" strategy. If you are expecting to double your money overnight, you're better off picking red at the roulette table.

Foolish bottom line

The sooner you take these first steps and commit to investing, the greater benefit you'll receive from compounding interest. I firmly believe the biggest thing that separates successful people from others is execution. There are always a million reasons not to do something, but it's the people who are willing to do what others are not that emerge the victors.

As a wise man once said, "nothing ventured, nothing gained."

Stay Foolish.

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