You May Not Want To Start Investing Until You’re 40

Description

While conventional wisdom states that investing from a young age is the best idea when it comes to generating a nest egg, the reality could be somewhat different for most people. Certainly, buying shares at an early point in an individual’s life will allow compounding to work its magic over a longer time period than if investing is started in later life.

However, for many people it is simply not possible to start investing until they reach 40. Lower starting salaries and housing/family costs are two obvious reasons for this. And with life expectancy set to rise, starting to invest at what was considered ‘middle age’ may be a shrewd move.

Investing challenges

In order to invest, an individual needs excess capital. The difficulty, though, is that wages usually increase as a person progresses through their career. This means that in the earlier part of their adult life, they are likely to have much lower earnings than in the latter part of their career. This makes it more difficult to generate savings and excess capital which can be used to invest in shares.

At the same time, a number of major costs are likely to occur in the first half of an individual’s career. For example, buying a first home and then moving up the property ladder are likely to be significant drains on financial resources. Likewise, the cost of a family can be surprisingly high, which means that the cash available to invest in stocks at the end of each month may be disappointingly small.

Long-term potential

Therefore, many people may choose to focus on buying a home and looking after their family in the first part of their careers, rather than investing in shares. While many investors may point to the opportunity cost that this may entail in terms of the compounding of returns, the reality is that retirement needs are rapidly changing.

For example, life expectancy continues to rise across the developed and developing world. This means that people are unlikely to retire at 60 or 65 years old in future. Rather, if they expect to live to 80+, they may decide to work past the conventional retirement age. This would provide them with more time to benefit from the effects of compounding. It may even mean that they have 30+ years of investing before retirement, assuming they start investing at age 40.

Takeaway

While starting to invest at a young age is beneficial due to the effects of compounding and the learning curve which seems to be required, it is never too late to start planning for retirement. With life expectancy increasing and the lack of excess capital which many people have in the earlier part of their careers, starting to invest at 40 may start to become the norm in the long run.

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