You Don’t Need a Lot to Start Investing

Description

Fellow Motley Fool writer Peter Stephens discusses the potential challenges of investing before you’re 40. However, contrary to popular belief, you don’t need a lot to start investing. Spending less than you make and investing your savings is a good start.

You can start investing as little as $500 in a mutual fund. Subsequent purchases can be as small as $25. Don’t underestimate the growth potential of small amounts invested periodically over time.

If you get a 7% rate of return compounded annually on a $500 initial investment with $25 invested monthly thereafter, you’ll end up with ~$2,500 in five years, of which $2,000 is your hard-earned savings.

Mutual funds or index funds?

You’ve probably heard of the high fees of mutual funds, which is one factor that many mutual funds underperform the market. Specifically, mutual funds come with a management expense ratio (MER), which includes management fees and operating costs.

The MER is a percentage of the total amount invested in the fund. Typically, the MERs of mutual funds are 1-2.5%. In other words, to beat the market, a mutual fund needs to deliver higher returns than the aggregate of market returns and the MER.

When choosing mutual funds, investors should focus on the area they want exposure to as well as ensure the fund has quality management. For example, investors might look for funds that outperformed during bear markets. Investors should check that the management hasn’t changed since then.

Index funds track against indices and have lower MERs than mutual funds. Typically, the MERs of index funds are 0.5% or less. When choosing index funds, investors just need to focus on the area they want exposure to.

Since index funds have lower fees, investors should consider them over mutual funds, unless there’s a mutual fund that has extraordinary management.

Share-purchase plans and dividend reinvestment

Some companies, such as **Telus Corporation** (TSX:T)(NYSE:TU), offer share-purchase and dividend-reinvestment plans that allow investors to invest in their companies without any fees. Both are great ways for long-term investors to invest. The positive is that dividends reinvested through the plan can buy partial shares, which allow investors to grow their positions faster.

Investor takeaway

It makes sense to invest in a mutual fund or index fund when you have small amounts to invest because they can help you to diversify immediately. If you had ~$10,000, to begin with, you might consider dividing the amount equally among five dividend-growth stocks and start building your portfolio that way.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:TU (TELUS)
2. TSX:T (TELUS)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise

4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/06
Date Created
2018/03/19
Author
kayng