Millennials: Here's a Simple Investing Strategy to Build Your RRSP Nest Egg

Description

It's never too soon to start planning for retirement. Even if you're under thirty now, the days are ticking away, and you'll find yourself approaching your golden years sooner than you expect. If you let those years go by without saving, you may end up having to work longer than you'd hoped. On the other hand, if you start investing early, just the opposite may happen.

The sooner you start investing, the greater your end result. If you invest $20,000 at age 30 with a 6% average return, you'll end up with $205,000 by the time you're 70. Start the same process at age 40 and you'll wind up with just $114,000.

The benefits of getting in early are enormous. In order to maximize those benefits, however, you need the right investing strategy. Any investing operation carries a certain risk of loss, and if you gamble in the markets, you may find your retirement savings shrinking instead of growing. If you follow the three tips below, however, you'll make the most of your investments and enjoy the full benefits of getting in early.

Dollar cost averaging

Dollar-cost averaging is where you buy stocks (or bonds, funds, etc) on a fixed schedule; say, once a week, or once a month. This minimizes the effect of volatility on your investments, as you're buying at varying prices. If you put all your savings into the market at a high point, you could find that all your stocks suddenly drop off in value. That could take years to recover from: after the Wall Street crash of 1929, it was more than a decade until stocks recovered to their summer 1929 prices. By dollar cost averaging, you protect yourself against big downturns like these.

Dividend reinvesting

If you're saving for retirement, it's good to invest in dividend stocks. Not only do they tend to be a little safer than more speculative growth stocks, they also provide cash payouts, so you're not totally at the mercy of the markets. Dividend stocks like **Fortis Inc** (TSX:FTS)(NYSE:FTS) offer yields that are much better than bond interest–and the dividends increase over time to boot. To get the most out of your dividend investments, it's best to "reinvest" them by putting the money back in the stock, gradually increasing your stake. This tends to increase your return over time.

Locking in 50% of your gains on surprise risers

Let's assume you're saving for retirement and investing mainly in safe blue chip dividend stocks. That's a pretty conservative strategy that usually won't see your stocks swing up or down too much. But what if one of your stocks goes on a huge rally and doubles in a few months? Should you hold, and try for the top, or should you sell, and cash in the gains?

If you're unsure of what to do in this situation, a safe bet would be to sell just 50% of your stake, and then put the proceeds back into something less volatile. This lets you "lock in" a gain equal to what you invested, while seeing how far the rest will go. On the one hand, you're taking profits when they're available, while on the other, maximizing your gains on your biggest riser.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

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