



Aged Under 40? Here Are 3 Financial Moves That Could Set You Up For Life

Description

Looking decades ahead is never an easy process no matter what your age. It's tough to know how life will pan out. However, by taking a few simple steps today, it is possible to improve your long-term financial future.

Among them is investing in the stock market, where high and sustainable returns could help to build a sizeable nest egg from which you can draw a passive income in older age. Likewise, investing in dividend stocks could prove to be a good move, while reinvesting them and allowing compounding to work its magic could set you up financially for life.

Investing in stocks

Investing in the stock market can be a risky business. All major stock market indexes have experienced significant declines in their past, with bear markets often lasting for many years. This can dissuade many people from buying stocks, since they naturally worry about the potential for losses.

However, anyone under the age of 40 will have a long-term time horizon. Although they may wish to retire early, this is unlikely to take place for a decade or more, so they have ample time for any stocks they hold to recover from periods of underperformance.

As such, investing a large proportion of your spare capital in stocks could prove to be a shrewd move. It has the potential to produce a nest egg that can be used to provide a retirement income in older age.

Buying dividend stocks

While many investors naturally gravitate towards growth stocks, [dividend stocks](#) could prove to be more appealing from a risk/reward perspective. In many cases they offer defensive attributes that can mean they are relatively popular during periods of economic strain. And, with history showing that a large proportion of major indices' total returns come from dividends, income-paying stocks could outperform many growth stocks over the long run.

Furthermore, dividend stocks provide cash flow to investors that can then be used to buy stocks during bear markets. This may increase the potential to 'buy low and sell high', thereby helping to maximise your total returns.

Compounding

Although it may be tempting to sell your best performers and spend the dividends you receive from your investments, avoiding this could enhance your long-term financial prospects.

Compounding can take a number of years to have a noticeable impact on a portfolio's returns. But, when it does, it can provide a significant boost to not only your portfolio value, but also to the passive income which can be generated in older age.

With the stock market having a long track record of delivering high-single digit annual returns, remaining as fully invested as possible could prove to be a sound move. It may enable you to fully maximise the growth prospects that stocks provide, and in doing so deliver a sound financial outlook for the rest of your life.

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Author

peterstephens

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