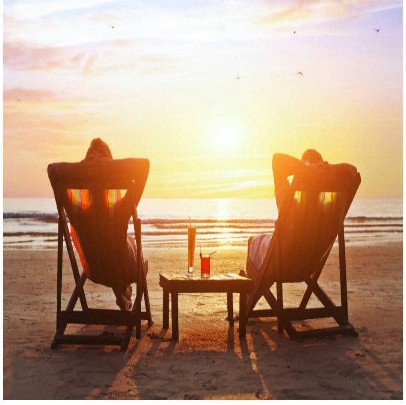

No Savings at 40? 3 Simple Tips to Retire in Luxury

Description

Retiring early with a generous passive income is possible – even if you have no savings at 40. The stock market has a track record of delivering strong growth over a long period of time, which could produce a retirement nest egg from which a surprisingly large passive income can be generated.

Here's how to achieve that goal in three simple steps. With the stock market having experienced a volatile period in recent months, now could be the right time to kick-start your retirement plans.

Investing excess capital

Starting to invest from a position of having no retirement savings can be a daunting task. After all, a high cost of living may make it difficult to have excess capital available to invest in the stock market.

However, it is possible to significantly improve your retirement prospects even by investing relatively modest sums of capital on a regular basis. Over time, even amounts that may not seem significant in isolation can add up to a large portfolio when compounding begins to take effect.

Furthermore, the cost of buying stocks has fallen significantly in recent years, while tracker funds make diversification simpler for smaller investors. Therefore, investing even small amounts of capital in stocks that have the potential to deliver growth is a good idea to get started, with there being the possibility of increasing your contributions over time.

Long-term view

In order to maximise the growth potential of the stock market, holding stocks for the long run is a sound idea. Some of the most successful investors of all time have adopted a buy-and-hold strategy, with Warren Buffett and Charlie Munger being notable examples. They still hold stocks that they originally purchased many decades ago, with solid businesses that are able to deliver impressive net profit growth generally worth holding for an extended period of time.

Adopting a long-term view will also enable you to put short-term challenges into perspective. The stock market experiences bear markets and periods of difficulty on a regular basis. Since you are likely to have a long time period until retirement, short-term declines in stock prices present an opportunity to buy additional shares in a company at a discounted price. In the long run, the stock market's track record shows that it has always delivered a recovery from bear markets, which means that adopting a long-term view is likely to pay off.

Reinvesting

While spending profits earned on stock purchases and dividends received may not seem to be a bad idea in the short run, it can have a detrimental impact on your retirement prospects. History shows that it is the reinvestment of dividends and the compounding of capital returns that can have the biggest impact on total returns over the long run.

As such, avoiding the temptation to spend gains made on your retirement portfolio could be highly beneficial to the chances of enjoying financial freedom in older age.

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