



No Savings at 40? I Reckon You Can Make a Million in These 3 Simple Steps

Description

Having no savings at age 40 is a relatively common situation to be in. It does not mean that making a million is an impossible dream. However, it does mean that starting to save and invest now is far more beneficial than waiting until a later date.

One means of doing so is putting in place a simple budget that helps you to live within your means. Investing that spare capital in the [stock market](#) over the long run, and reinvesting profit and dividends received, could lead to a surprisingly large portfolio that could even be valued at a million or more.

Budgeting

Budgeting may not be the most interesting of topics, but it can be highly beneficial to your financial future. Taking the time to plan your expenditure each month may not take as long as expected, and could identify areas in which you are spending more money than required.

Major cutbacks to your spending may not be needed to put together a solid savings plan. With the impact of compounding and the historic returns of the stock market, investing modest amounts in undervalued shares on a regular basis could lead to a substantial portfolio in the long run.

Long-term horizon

At age 40, you are likely to have a long-term time horizon. In other words, it is likely that you can invest for a period of 10 or more years without requiring the capital to spend on retirement. This provides greater flexibility in terms of the assets you can purchase, since there is likely to be sufficient time for them to make a successful recovery should they experience a challenging period in the short run.

As such, investing in shares and holding them for the long run could be a sound move. Indexes such as the S&P 500 and FTSE 100 have recorded high-single digit annualised returns over a period of decades. Similar returns may be possible in the coming years, which may mean that building a diverse portfolio of stocks is a worthwhile move.

Certainly, the stock market is riskier than other asset classes such as bonds and cash. But for someone with a long-term time horizon and who is looking to generate a substantial portfolio of a million or more, it may provide the most attractive risk/reward opportunity.

Reinvestment

After having held shares for a number of years, it is tempting to lock-in profits and start spending dividends. However, overcoming that temptation could be crucial to your financial future. For compounding to have its full impact on your returns, reinvesting dividends and holding onto your best-performing shares is a necessity.

It could allow you to retire earlier than expected, or obtain a generous passive income in older age. It may even lead to a seven-figure portfolio which has a significant impact on your long-term financial future.

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