Don't Save for Retirement! Here's a Better Way to Double Your Passive Income

Description

Living within your means is a great way to kickstart your retirement. However, holding that money in a savings account could fail to improve your prospects of generating a generous passive income in older age.

Historically, cash savings have offered a lower return than the stock market. As such, investing your spare capital, rather than paying it into a savings account, could be a worthwhile move. It could grow your retirement nest egg at a much faster pace, and offer a higher passive income in older age.

Low cash returns

While relatively low interest rates over recent years have perhaps exaggerated the low returns on cash, savings accounts have historically lagged other assets when it comes to return potential. The key reason for this is that cash is a relatively low risk asset, so investors are not rewarded in significant sums for keeping hold of it.

Looking ahead, this situation is likely to continue in the long run. Even if interest rates rise, they are unlikely to compete with the high-single digit annualised returns that the stock market has historically returned. Therefore, savers who have a long-term time horizon may be better off investing in shares rather than building up their savings account balance.

Growth potential

As highlighted, the stock market has historically offered higher returns than cash. The difference in returns between the two asset classes could be wider than average in the coming years, since a number of stocks appear to offer good value for money at the present time.

Furthermore, the prospects for the world economy appear to be relatively robust. Certainly, risks such as a global trade war may cause a degree of volatility in the short run. But continued growth from major world economies such as the US and China may provide a tailwind for a wide range of global businesses.

This may mean that investors who are building a retirement nest egg enjoy relatively high returns in the coming years. Through adopting a buy-and-hold strategy, it may be possible to increase the size of your retirement portfolio and subsequently benefit from a higher passive income in older age.

Income prospects

As well as its growth potential, the stock market also offers income investing appeal. Since many of its members currently trade on relatively low valuations, their dividend yields may be above the averages recorded in previous years.

Furthermore, the rate at which dividends grow in the coming years may be positively impacted by continued growth in the world economy. This may enable stocks to offer inflation-beating growth in their shareholder payouts in many cases that further increases their appeal.

As such, for investors aiming to build a retirement nest egg, as well as those seeking to draw an income from it, the stock market could be a superior place to invest compared to a savings account.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/08/25
Date Created
2019/12/25
Author
peterstephens