No Savings at 40? 3 Simple Tips to Retire Early on a Rising Passive Income

Description

While having no retirement savings at age 40 may appear to be a cause for concern at first glance, the reality is that there is still time to build a surprisingly large nest egg.

By focusing your capital on the stock market, and being prepared to invest during periods of uncertainty, it may be possible to generate significant returns from your capital.

Furthermore, through focusing on high-quality businesses and keeping risks to a minimum, you could bring your retirement date a step closer.

Stock market potential

Although holding cash, bonds and other mainstream assets may provide a modest return, it is highly unlikely to keep pace with the stock market in the long run. Indexes such as the S&P 500 and the FTSE 100 have long and successful track records of outperforming other major asset classes when it comes to total returns. As such, someone aged 40 may wish to buy shares, rather than hold other assets, in their portfolio.

At the present time, the difference in return potential between shares and other asset classes may be relatively wide. The growth potential of the world economy, as well as low interest rates, means that shares could surge higher in the coming year and cash and bonds may offer modest real-terms returns.

Buy during periods of weakness

Of course, the ideal strategy when it comes to investing in the stock market is to buy at low prices and eventually sell at significantly higher prices. To achieve the first part of this goal, there usually needs to be an uncertain outlook for a specific stock, industry or even the wider economy. Otherwise, investor sentiment would be buoyant and there would not be an opportunity to buy stocks at large discounts to their intrinsic values.

Clearly, buying during periods of uncertainty can test the nerve of any investor. But for a 40-year-old with many years left until retirement, this could be a sound strategy. They are likely to have sufficient time for their holdings to recover from short-term risks, while purchasing their stocks at low prices can lead to improved total returns in the long run.

Focused analysis

Warren Buffett has cautioned investors about the ease of buying shares. He has said that it is so cheap and easy to purchase shares that many investors may 'dabble' in stocks without fully understanding what they are purchasing. This can lead to disappointing returns, since an investor may not have fully researched a company to ascertain its future prospects.

As such, it is imperative to thoroughly assess the fundamentals of any business you intend to purchase within your portfolio. After all, it is hard-earned cash that should be invested wisely. This could lead to higher returns in the long run, as well as a retirement date that is closer than would normally have been the case.

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peterstephens