



## 3 Financial Milestones You Should Reach by Age 40

### Description

Because we're social creatures by nature, humans spend a lot of time comparing ourselves to our peers.

Ultimately, we compare our net worth to our friends and co-workers because we don't want to be left behind. We can judge just how far we've come — or how far we need to go — by looking at our own financial accomplishments and comparing them to people with similar education levels or work experience.

The danger is getting discouraged, because you don't stack up to your most impressive friend. But that's a poor way to go through life. All you can focus on is improving yourself. Besides, you don't know what advantages this person had. Maybe they have a secret trust fund or got lucky with the lottery.

Let's take a closer look at three money milestones you should strive to accomplish by age 40 — worthy financial goals you'll want to check off before it's too late.

### Pay off your student loans

It's expensive to go to school, especially if you're forced to move to a new city to get a good education. Many Canadians graduate with substantial student loans, and some don't have decent employment prospects. This is why I'm willing to give university graduates more than a decade to get their act together.

There are a number of reasons paying off your student loans should be a priority. Firstly, you'll improve your cash flow significantly if a few hundred dollars isn't going out the door every month. Successfully paying off your student loans will boost your credit, too. And, perhaps most importantly, student loans are expensive. Chances are, you're paying a 5-6% annual interest rate, which is definitely more expensive than you'll pay for a mortgage.

Speaking of getting a mortgage...

## Buy a house

Before the [pro-renting crowd](#) shows up at my house with eggs and tomatoes, let me be the first to admit that renting is a perfectly legitimate option, especially in expensive real estate markets like Toronto or Vancouver. Often, once you factor in costs like taxes, insurance, and house maintenance — expenses renters don't have to pay — it ends up being cheaper to rent.

Despite all that, I still think buying property is the right path for most people.

There are numerous advantages to buying a house. There's pride in ownership, a feeling that isn't quite replicated by a fat investment account. Being forced to pay a mortgage every month is a pretty effective forced savings plan. Real estate tends to go up over time, too. And it gives you an asset to borrow against if you're ever in financial straits.

It's no coincidence people who own property tend to have a much higher net worth than people who don't.

## Net worth goal

There are a million variables that go into growing wealth over time. And I'm well aware that it's hard to get ahead when you're younger. It seems like everyone else has advantages while you're stuck spinning your wheels.

Still, there are a lot of years between graduating from university and hitting the big 4-0. Which is why I think a reasonable net worth goal should be \$100,000 by your 40th birthday.

As an extra challenge, you should strive to own multiple assets that contribute to the goal. You don't want all your eggs in the home equity basket, for example. Instead, focus on multiple goals — like paying down the mortgage, [saving inside a TFSA](#), and putting cash to work in an RRSP. Make sure the TFSA and RRSP are diversified into numerous stocks, too.

If you invest \$5,000 per year from age 22 to age 40 and earn a 5% compound annual growth rate over that 18-year period, you'll have a nest egg of nearly \$150,000 by the time many people consider themselves over the hill. That's a great start.

## The bottom line

Canadian savers must remember these goals are only a guideline. If you don't have a zero student loan balance, or a house, or a \$100,000 net worth by the age of 40, that doesn't mean you'll end up destitute. It might mean you'll have to pick up the pace, however.

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## **Tags**

1. Editor's Choice

## **Date**

2025/07/05

## **Date Created**

2020/02/07

## **Author**

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