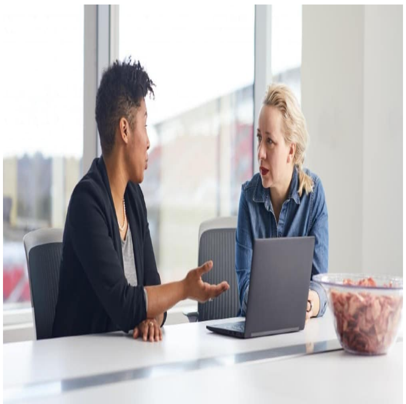

1 Costly Mistake Millennial Investors Are Making When Saving for Retirement

Description

An annual report from Mercer says that, based on the investing strategy millennials are using today, they may not be able to retire until the age of 70, or perhaps even later. The report found that millennials are simply much more conservative when it comes to investing compared to their parents. Rather than investing in tech or other growth stocks and holding for the long term, they're opting for low-risk investments, including money market funds and other short-term investments that offer low returns.

Why this isn't an effective way to save for retirement

Many investors want to minimize their risk, but being overly conservative, especially with many investing years left, is just not optimal. The markets can and will recover from any downturn and so even if you incur losses in one year they can reverse in the future, and you'll likely be rewarded for hanging on.

Let's take a stock like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) as an example. During 2008, in the midst of the financial crisis, shares of TD fell a whopping 34%. It's enough to call into question the safety of bank stocks. However, in 2009, the stock rose by 50% and recovered nearly all of its losses from the prior year. If we add another few years to that, and imagine you held shares from 2009 through to the end of 2012, your returns would total 88% during that time.

If you had bought shares of TD at the start of 2008 and held for five years, until the end of 2012, then your investment would be up over 20%, even after factoring in that dreadful first year. That computes to a compounded annual growth rate of 3.8%, which is better than what you would've earned from a savings account or ultra-conservative investments yielding less than 3% or even 2% per year.

That's without even factoring in the dividend income you'd earn from TD during those years. In short, owning a blue-chip bank stock would be a much better strategy even during tough economic times, as long as you're willing to hold on for more than just a year or two.

The difference can be significant

Here's an example of how much money you could be losing by investing in a very conservative investment that pays 3% versus a stock like TD that is likely to pay you at least 6% per year, including dividends. In reality, a conservative money-market investment may pay even less than 3% and shares of TD will perform better than 6%. But these numbers are meant to illustrate that investors could be losing significantly if they invested $25,000 under a very conservative investing strategy:

Year	3% Return	6% Return	Difference
1	$25,750	$26,500	$750
2	$26,523	$28,090	$1,568
3	$27,318	$29,775	$2,457
4	$28,138	$31,562	$3,424
5	$28,982	$33,456	$4,474
6	$29,851	$35,463	$5,612
7	$30,747	$37,591	$6,844
8	$31,669	$39,846	$8,177
9	$32,619	$42,237	$9,618
10	$33,598	$44,771	$11,173
11	$34,606	$47,457	$12,852
12	$35,644	$50,305	$14,661
13	$36,713	$53,323	$16,610
14	$37,815	$56,523	$18,708
15	$38,949	$59,914	$20,965
16	$40,118	$63,509	$23,391
17	$41,321	$67,319	$25,998
18	$42,561	$71,358	$28,798
19	$43,838	$75,640	$31,802
20	$45,153	$80,178	$35,026
21	$46,507	$84,989	$38,482
22	$47,903	$90,088	$42,186
23	$49,340	$95,494	$46,154
24	$50,820	$101,223	$50,404
25	$52,344	$107,297	$54,952
26	$53,915	$113,735	$59,820
27	$55,532	$120,559	$65,026
28	$57,198	$127,792	$70,594
29	$58,914	$135,460	$76,546

30	**$60,682**	**$143,587**	**$82,906**

Over a 30-year period, the difference in investing strategy could cost you more than $80,000 on a $25,000 investment. And the larger your investment is, the wider that that this delta will become. If you invested $100,000 instead, then the gap becomes more than $330,000.

Bottom line

It's okay for investors to be conservative, but it's important to consider more than just the next year or two. And when looking at decades rather than months, an investment in a safe stock like TD looks like a much better bet than it might be over just a period of 12 months.

But whether it's TD or another stock, investors should be willing to accept short-term volatility in return for significant, long-term gains. It's a low-risk trade that you'll thank yourself for making when you reach retirement.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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djagielski