Got $3,000? Here's How to Turn it Into $30,000

Description

As we just passed Canada Day, the mid-year point and unofficial portfolio re-balancing day (second to New Year's Day), let's discuss personal finances.

In this article, I'm going to recommend investors consider these three tips when considering investing in the context of one's entire personal financial picture.

Invest only what you can afford

One thing I hear a lot from young investors is a very binary/polar response to the question, how do you invest? The answer typically takes the form of either "I don't" or "whatever I can." I have seen some stretch themselves to make monthly RRSP contributions. Others invest large chunks of money at bonus season or tax refund season. Then they wish they had put that money to work on their credit card debt, which is costing 20% interest annually.

This is obviously counterproductive and ought to be avoided. No finance expert would advise earning 8% on a stock portfolio at the expense of a pile of debt growing at a 20% dip per year.

Invest now

For those not yet investing, starting now is the best option. The power of compounding is real. Putting away whatever possible, preferably in RRSP or TFSA, can pay huge dividends (literally) down the road. The more time one has to build wealth, the greater the impact 20 or 30 years from now.

For those investing in dividend-paying entities such as **Fortis**, which has increased its dividend annually for nearly five decades, this impact is compounded. Having a stream of income come in each and every year in larger amounts provides investors with steady income over time that, in many cases, increases with or above inflation. This can help improve one's quality of life in retirement substantially. This is particularly for those not content to live on a diet of hot dogs and Kraft Dinner.

Make a budget and stick to it

Many young investors have a solution when their personal finances are strained. That solution is to make more money. Going for that promotion or raise is great. However, as most of us will find out during our careers, it’s always possible to spend what is in one’s pocket. If you make $1 million per year but spend $1.2 million, you’re going to be behind.

Having a solid budget is important. Moreover, forcing oneself to say no to discretionary purchases with the aim of increasing contributions to investment accounts or rainy day funds is more important now than ever. The economic uncertainty we’re now all facing requires financial prudence and a conservative investing style.

Following the Foolish advice on this site is a great way to glean insight into how to go about picking the best stocks. But without the money to do so, such an exercise is moot.

Stay Foolish, my friends.

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