RYAN ERMEY | Millennial Money

Start Investing Now? Uh, Yeah

Washington, D.C., where I live, is a "So, what do you do?" kind of town—no conversation at a party is complete until someone details his or her résumé. When I tell people that I write about investing, I usually end the conversation with a friendly, "Let me know if you ever need help with your 401(k)." An alarming number of people in my age group (I'm 27) say, "Yeah, I should probably get on that, huh?" Uh, yeah. You really should.

If you are procrastinating, you're not alone. In a recent study from Ally Bank, 61% of Americans said they found investing scary or intimidating, and more than half said they planned to invest, or invest more, in the stock market—"but not right now." Among respondents, millennials were most likely to report feeling intimidated, and their biggest fear was losing money on investments.

Why so much angst? We're the generation that came of age during the worst financial crisis since the Great Depression. We watched markets implode and the economy follow suit, shrinking our post-college job options in the process. As the bull market approaches its 10th year, we know another downturn is lurking somewhere around the corner.

Don't wait for stocks to get cheaper. Every second you procrastinate, you give up one of your greatest assets: time.

Invest early and often. The recent market peaks seem like the top of a cliff. But here's the thing. Every second you wait to take the leap, you're giving up one of your greatest assets as an investor: time. "The further from retirement you are, the more time your assets have to recover from big losses," says Dave Nash, a certified financial planner in San Antonio. Generally, he says, that gives you leeway to take a little more risk with your investments for a potentially bigger reward. And the earlier you invest, the more time there is for compound interest to work its magic. You'll hear a lot about the "magic" of compounding from financial planners (and this magazine). And sure, it can feel magical. But it's just math.

So let's crunch some numbers. Say one of my fellow 27-year-olds starts contributing $100 per month toward retirement and earns a return of 8% per year. She would have $350,000 by age 67. Not bad, but had she started five years earlier, she would retire with nearly $530,000. As a young person, time is on your side.

What if you were the unluckiest investor in the world and you invested in a broad stock market index fund at the very top of the market in October 2007—just before stocks, as measured by that index and including dividends, tumbled 55.3%? If you hadn't touched your money from then until now, you'd have earned 7.6% per year, on average, on your initial investment, for a total gain of 111.1%. You'd have more than doubled your money.

A quick-and-dirty calculation to keep in mind, says Nash, is the rule of 72. To find how long it will take your money to double, divide your portfolio's rate of return into 72. Even if you earn a conservative 6%, your money will double about every 12 years. Boost that to 10% (the average return for stock portfolios dating back to 1926), and you'll double your investment about every seven years.

Still, you may ask, wouldn't it be better to wait to invest until stock prices are lower? Sure, theoretically, but good luck guessing when that's going to happen. "If it was easy to time the market and know which asset classes will outperform, then we'd all be millionaires," says Elaine Lee, a CFP in Summit, N.J. You're better off diversifying your investment dollars among various asset classes, such as stocks, bonds and cash, to ensure your eggs aren't all in one basket. A strategy known as dollar-cost averaging takes the emotion out of timing your investments. Rather than fret over what the market is doing, you invest, say, the same portion of each paycheck in your 401(k). You'll buy more shares when prices are low and fewer when they're high, driving down the average price you pay per share. ■

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