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INVESTING *for millennials*

▶ If you've felt intimidated by the prospect of investing, you're not alone. However, getting started might be easier than you think. Here you'll learn the building blocks of investing and how to formulate a plan that will work for you.

WHY NOW IS A GOOD TIME

The Federal Reserve Bank of St. Louis has referred to millennials as a "lost generation" because of a deficit in the economic opportunities that the two generations preceding them were afforded. Millennials have faced multiple levels of economic uncertainty in their lifetime, including three recessions and a global pandemic. As a result, they may not have a lot of money to invest for retirement. It's no wonder they are anxious about the future! Conventional wisdom says to start investing in your twenties and thirties, as this will give your money more years to compound, but it's never too late to begin, even if you're in your forties. By prioritizing setting aside money each month for investment bank accounts, you can better set yourself up for retirement and secure your financial future.

WHERE TO BEGIN

Before you dive into any investment decisions, take some time to clarify your financial goals, create a budget, and formulate a financial plan. A good place to start is an emergency fund. It's usually recommended that you have enough liquid savings to cover three to six months of your expenses in case of any unexpected events.

Once you've set aside those funds, you can move onto making an investment plan. There are several factors to consider before you begin investing. Here are three of the most important:

Risk tolerance

Where do you feel comfortable allocating your assets? Do you want to invest in stocks or stick with safer investments like high-yield savings accounts and money market funds? When you're younger, you're able to take more risks in your investing because you have a longer time frame to absorb any dips in the market. As you get closer to retirement age, it's better to go with safer assets.

Diversification

Regardless of what you choose, you should always aim to adopt a diversified strategy by allocating assets across your portfolio. Because investing can be unpredictable, you never want to put all your money in one place. Diversifying will ensure that if one investment fails, it isn't catastrophic to your finances.

Time horizon

If your goal is to save for a retirement still decades away, stocks and long-term assets are the most ideal investments. But if you have short-term goals like buying a house, something safer, such as a high-yield savings account, would be more prudent. Ultimately, your personal goals will inform the best investing strategy for your needs.

TYPES OF INVESTMENT ACCOUNTS

There are two main types of investment accounts: tax-advantaged and taxable accounts. As the name suggests, the differences between them lie mainly in how they are taxed. Tax-advantaged accounts like 401(k)s and IRAs help investors save money on taxes over the long term by utilizing tax-deferred growth and tax-deductible contributions.

On the other hand, taxable accounts do not offer the same tax benefits. The income accrued through interest, dividends, or capital gains is subject to regular taxation.

Tax-advantaged accounts

401(k): This retirement savings plan is an easy starting place for your investment goals. Your employer may even offer a 401(k) plan as a part of their benefits package. Whatever amount you contribute each paycheck is deducted from your pretax earnings, which will reduce your taxable income. Some companies also match your contributions up to a certain percentage of your salary; according to a survey by the Plan Sponsor Council of America, the average match is 6 percent. Once your contributions are made, you'll need to decide how to invest the money. Options include mutual funds, index funds, and target-date funds. It is recommended that you avoid withdrawing any funds from your 401(k) until the age of 59½ to avoid incurring penalties on top of the tax you'd have to pay. After you reach 59½, you're free to take money out of the account at will (though it will still be taxed).

Roth IRA: This investment retirement account is funded with after-tax dollars, which means there is no immediate tax benefit. But on the flip side, the investments grow tax-free, and you will not owe any taxes when you start withdrawing money at age 59½. The maximum annual contribution depends on your income. A single filer making under $138,000 in 2023 can contribute a maximum annual amount of $6,500. If you are over the age of fifty, you can add an additional $1,000 to that amount. This limit decreases as your income level increases. And for married couples filing jointly, an income of less than $218,000 will allow for the maximum amount, decreasing from there.

Taxable accounts

Traditional IRA: Unlike a Roth IRA, you contribute to this account with pretax funds, which can lessen your yearly tax obligation. Your money will also grow tax-free, meaning it can compound at a higher rate. One disadvantage of this account, however, is that when you're ready to withdraw funds at 59½, it will be taxed as regular income.

Brokerage: This account allows you to buy and sell securities like stocks, bonds, mutual funds, and exchange-traded funds (ETFs). Brokerage accounts are often associated with financial institutions such as banks and investment firms.

RECOMMENDED INVESTMENTS

Once you've chosen the types of investment accounts you want, you'll then need to decide how you want to invest the money. Below are the most popular options.

Stocks: A stock, or equity, represents a unit of ownership in a publicly traded company. If you have your sights set on retirement, owning stock is an efficient way to get yourself over the goal line. Though stocks will ebb and flow, the market is not likely to drop for an extended period of time.

ETFs: Exchange-traded funds are single funds composed of hundreds or thousands of stocks or bonds which trade on major stock exchanges.

Mutual funds: These funds are dubbed "mutual" because they allow you to pool your money with other investors to mutually purchase stocks, bonds, equities, and other securities. Professional money managers run the show on mutual funds, and you get any income generated.

Index funds: This is a type of mutual fund or exchange-traded fund (ETF) with a portfolio designed to mirror the composition of a financial market index like the S&P 500. Index funds are low-cost investments and are passively managed, making them a great "set it and forget it" solution and a simple way to diversify your portfolio.

HOW MUCH CAN YOU MAKE WITH A ROTH IRA?

This chart can help you understand the impact of compounding interest on your investments. It's based on an assumed 7 percent expected rate of return and a marginal tax rate of 25 percent:

Annual Contribution	Starting Age	Ending Age	Balance
$3,000	30	65	$443,740
$3,500	28	67	$695,223
$5,500	40	65	$372,221
$5,500	30	65	$813,524
$5,500	27	67	$1,174,853

**Calculations made using Bankrate's online Roth IRA plan calculator.*

conclusion

- The options for investing can be varied and the logistics quite complex. To better determine the best path for your future, consider working with a financial professional who can help you develop a diversified investment portfolio that aligns with your financial goals and risk tolerance.