

Three easy ways to start investing

As a Financial Advisor, I get asked a lot of one-off questions from my friends and family members. I want to start this article by saying, that is completely fine, keep asking questions. I truly love helping people any way I can. With that said, you are not really utilizing this relationship to its full potential. If you have someone in your life that is a Dentist, go get your teeth cleaned a little more often. If your best friend from high school is a Chiropractor, go and get adjusted on a regular basis. If you have a relationship with a Financial Advisor, schedule meetings with them at least once a quarter, have them build you a financial plan.

This column is to answer some of those one-off questions I receive from my friends and family. I get a lot of the same questions. If the people in my life are asking them, then I am sure a lot of our readers have the same ones.

This week I am answering one of my favorites...

“Alex, what is the easiest way to start investing?”

Here are 3 easy ways to start investing:

First, start contributing to your 401k. I know that not everyone has this option, but if you do have a 401k, 403b, or any other kind of work sponsored retirement account, this is a very easy way to invest. Most of these plans are close to free by having very small management fees. If your work offers any kind of matching, you should take advantage of that amazing benefit. A standard saying in my industry is, no financial advisor can beat an automatic 100% growth. That is essentially what is happening with a company match. Let's say that your company offers a 3% match. If you were making 50k a year, 3% a month would be \$125. Your company would be giving you an

additional \$125 a month through the match. That's awesome. Especially when you factor in compounding. A topic I'll cover in another article.

Besides a work sponsored retirement account, the second easy way to start investing is to open up an IRA (Individual Retirement Account) or a Roth IRA. A Roth IRA has income limits. You can't make over \$140k/year as an individual or \$206k/year as a married couple. I am a huge fan of Roth's for a lot of reasons. The money in a Roth IRA is what we call "after-tax dollars". The after-tax-dollars grow tax free. The big benefit of a Roth IRA over either a traditional IRA or traditional 401k, is you won't have to pay tax on either the initial investment or the growth during retirement. Another way to think of this is, "Would you rather pay tax on the tree or on the seed?". Let's look at another hypothetical. If you put \$500 a month into a retirement account for the next 30 years and get an average 7% rate of return, you would end up with \$614,044. That breaks down to \$180,500 that you personally contributed over the years and \$433,544 of compounded interest. If this money is in a Roth IRA, at retirement, all of this money is yours. If this is a tax deferred account like a traditional IRA or a 401k, you still have to pay ordinary income tax when you start pulling the money out. Because we don't know what the tax laws are going to be 30 years from now, it's impossible to understand what that tax consequence is going to be. For me, I would rather pay the tax now on the \$180,500 and not the total \$614,044 during retirement.

The third easy way to start investing I want to mention is to open your own individual investment account using one of the many DIY digital platforms out there. I don't want to mention any by name, because I don't want that to be misconstrued as a recommendation or endorsement. Most of these platforms have almost no minimum to start. I have a friend who contributes \$10/month, and he does it all through an app on his phone.

This method is known as dollar cost averaging, which is one way to invest effectively without trying to time the market, which is something to dive into more in a future article. My one caveat to this third easy option is that it is great to test out the waters of investing, and it's fine if it evolves into your "play-money" investing account, but you really want a financial professional to handle your retirement accounts, children's education accounts, and large investment accounts.

I hope this information helps you out. These are the 3 easiest ways for people to start investing and nothing is stopping you from doing all three. Many of my clients max out to the matching contributions on their 401k at work, they either have a Roth IRA or a Traditional IRA with me, and they also contribute a few hundred bucks a month into their personal investment app on their phones. The possibilities are endless.

If you would like to talk to me to learn more about any of these tips or to set up a time to have a more comprehensive discussion, I would be happy to talk to you.

-Alex



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