Investing in your 20's

What is the best age to start investing? A more sensible question would be, what is the best time to start developing consistent financial habits? The answer to both is, the younger the better.

Most 20 somethings don't have much in the way of financial capital (unless they have come into money or have a debit card for the bank of Mum and Dad) and are still finding their feet in terms of a generating regular comfortable income and perhaps still accumulating student debt and funding 'essential' lifestyle expenses.

However, the post-millennial generations have arguably two of the most powerful assets in their back pocket. With a whole lifetime of earnings ability stretching before them, these generations are rich on what investment researchers call 'human capital' – their ability to earn a living.

Combined with a very long-time horizon, the opportunity to harness the power of compounding interest is there for the taking.

If you are about to embark on your investment journey, it is hard to go wrong with the mantra of putting aside funds, on a consistent basis, and sticking with well-diversified investments.

So where do you start? Here are 6 tips worth implementing in your 20's:

1. Put debt in its place.
2. Invest in your Human Capital.
3. Build a Safety Net.
4. Diversify Investments.
5. Set a goal and budget.
6. Automate.

1. Put debt in its place

The fork in the road that many encounter when they start working and generate a regular income stream, is whether to put a portion of this to service an outstanding debt. If you have a high-interest credit card or personal loans, otherwise known as non-deductible debt, it's worthwhile considering getting this out of the way first. The reason being, earning a high guaranteed return from any investment is a challenging task, whereas clearing debts provides a guaranteed payoff.

If it's student debt (HELP or HECS), you will need to weigh in the cost/benefits of paying down this debt. Until you reach the current minimum compulsory repayment income threshold of $51,550 (for the 2023/2024 financial year), you are not obligated to start paying this back. It's worth noting that student debts are not charged any interest, but the whole amount is indexed to the Consumer Price Index (CPI) each year on 1 June. Due to rising inflation, this amount was 7.1% on 1 June 2023, much higher than the 1.97% average for the prior 10 years.

2. Invest in your Human Capital

Warren Buffett said it best, "Ultimately, there's one investment that supersedes all others: Invest in yourself, nobody can take away what you've got in yourself, and everybody has potential they

haven't used yet". Obtaining education or skills will generally improve your earning power over your lifetime. Although this may mean accumulating student debt, in the longer term, the skills and education you acquire will increase the probability of you earning more over time.

3. Build a Safety Net

With limited financial capital, it is worth considering accumulating a 'rainy day' fund to cover unexpected emergencies. These could range from one off unexpected expense to temporarily losing your source of income. A general rule of thumb is to have cash reserves for up to 3 months of essential living expenses.

4. Diversify Investments

Hopefully we're all familiar with the saying, 'don't put all your eggs in the one basket'. The goal of diversifying is to reduce risk. With so many individual stocks, managed funds and exchange-traded funds, deciding how to invest can seem overwhelming. Resist the urge to overcomplicate. Dollar cost average and stick to a well-diversified portfolio. Speak to us for specific advice that is personal to you and let compounding work its magic.

5. Set a goal and budget

Whether the goal is to save for a car, holiday, or home, setting a target and aiming for it will help you maintain the course.

Establishing a budget and sticking to it is the practical way to manage day-to-day living costs. Listing down all your monthly expenses and seeing where most of your income is going will help you identify where your priorities lie. If you can realign these priorities towards saving more and spending less, then you're on the right track.

6. Automate

Setting up automatic transfers when you receive income will make sure your money goes straight to where it needs to go, without even thinking. One strategy you can consider is creating multiple bank accounts that are used for only one purpose, such as expenses, emergencies, investing or treating yourself.

Our finals thoughts are to enjoy the journey and learn from it. You reap what you sow and staying disciplined over the long term will place you in a better position that if you weren't.

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