How to Invest in Your 20s to Create Wealth in Your 50s

Investing in your 20s gives you the early start you need to obtain financial security – and much sooner than you think. Learn more.

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[Condensed]

Learning how to invest in your 20s can provide benefits, both in the short-term and especially in the long-term, for younger Americans.

The benefits are evident in the data. According to Provident Investment Management, investing early can result in greater investment gains, as opposed to biding one's time and investing later.

Provident cites two 25-year-old Americans, who make the following financial moves:

- The first 25-year-old saves $5,000 per year, all the way through age 35, earning an 8% average annual return on the investment.
- The second 25-year-old save waited until age 35 to start saving, and stashed away $5,000 until age 60, for a total of 25 years. That investor also earned an average of 8% in annual returns.
- By age 60, the first 25-year-old had a total of $615,000 from her savings, from a total investment of $55,000.
- By age 60, the second 25-year-old accumulated around $430,000 after a total investment of $130,000, after only 10 years of investing.

Even though the first investor only put $5,000 away for 10 years, she out-earned the second investor, who waited 10 years to invest but invested for 25 years. All told, the first 25-year-old saved $183,000 more than the second investor - all by starting to save 10 years earlier.

That's the beauty of starting to invest in your 20s. Through the power of compound interest, money invested early on in life grows more quickly and more abundantly than if you waited a few years into your 30s to start investing.

How to Start Investing in Your 20s

As the above example indicates, there is no trick or magic bullet involved in making money through investing in your 20s.

All it takes is a good investment plan, the discipline needed to keep investing on a regular basis, the ability to choose the investment vehicles that have the best shot of maximizing savings, and lastly, the element of time, which is needed to keep reinvested money growing in an investor's portfolio.

Those are the cornerstones of successful investing in your 20s but there is more to the process than that. These steps will get you on the right track in investing early in life and accumulating major financial assets in the process.

1. Open up a 401(k) or IRA

If you're employed, and your company offers a 401(k) or other tax-advantaged retirement plan, open up an account in your name immediately. Not only are taxes deferred until retirement, but your company also may offer matching contributions up to a certain percentage of your own contributions.

That's free money, and cash you can use to grow your long-time investment fund. Make sure to opt for automatic deductions and aim for the yearly maximum 401(k) contributions ($19,000 for 401(k) plans and $6,000 for IRA plans). After a while, you won't miss the contribution money and you'll have a blast watching your wealth grow.

2. Be Aggressive

Investing in your 20s gives you more flexibility than if you start in your 30s and 40s. That early start allows you to be more aggressive with your choice of investment vehicles since you have more time to recover from any investment losses.

Know that stocks have historically higher investment returns than bonds over the long haul, with stocks returning closer to 10% on an annual basis, compared to 3% for bonds and 2% for savings accounts. Yes, stocks do bring higher risk, but the promise of more robust investment returns means investors in their 20s should take a decidedly stock-based portfolio focus.

3. Create an Emergency Fund

As an insurance policy against job loss or illness or injury that prevents you from working, build an emergency fund to tide you over through tough times in your 20s.

You may never need the money, but the peace of mind knowing you have a financial cushion while you save for the long-term can't be overstated.

Aim for an emergency fund equal to six months of your regular monthly income, and… sock the money away in a high-yield bank savings fund.

4. Choose a Good Brokerage or Robo-Investment Platform

These days, there's no shortage of investment managers to choose from - online and offline. Investment brokerage and mutual fund firms like Charles Schwab, Fidelity Investments and Vanguard offer a long history of reliable service, along with low investment management fees.

If you want to go the digital route, you can choose a robotics-based investment management platform… to choose and manage your portfolios, at fee levels lower than the traditional brokerage and fund firms, and with no minimum balance fees.

You may not get the personal touch with a robo-advisor, but you can monitor and manage your portfolio right from your mobile phone…

5. Talk to a Financial Planner

That said, there's a ton of value in talking to a flesh and blood investment specialist - someone who is wise to the ways of Wall Street and will take a sober, realistic view of your personal finances, and advise on your investments accordingly.

A financial planner can also provide a "big picture" viewpoint on your finances and walk you through the all-important process of establishing long-term financial goals, for important life events like marriage, raising a family, saving and paying for college, buying a home, and saving for retirement. Offer to pay a one-time fee for the talk (a good planner will offer it for free) and build a financial plan for the long-haul out of the discussion. You'll be glad you talked to a professional, and more good outcomes can come from a candid discussion with an investment expert.

6. Develop and Deploy Good Personal Financial Habits

Saving money is all about setting goals and having the discipline to regularly put the money away to meet those goals. Those are the habits you not only need to instill in your investment planning during your 20s, but your day-to-day financial habits, too.

For example, you want to build a consistent record of paying bills on time and managing debt properly. That will help you build a great credit score that will save you money on interest when you do try to obtain credit, and will leave you with more money to invest in your 20s when you keep a sharp eye on spending and debt…

Getting educated about money is the single most important step you can take to creating wealth, and there are plenty of reliable and productive places for a 20-something to gain financial knowledge, and on a regular basis.

7. Get Creative and Look for Savings Opportunities

It's the smart investor who finds money to invest in often-overlooked places and turns that money into real wealth.

After all, there's no law that says you need to spend a company bonus or raise on a trip to Hawaii or on a new Tesla. The same goes for birthday and college graduation money, or any cash you earn on an outside gig like driving for Uber or selling jewelry on Amazon or eBay.

Taking money from places you haven't thought of and applying that cash to your investment portfolio in your 20s is a great way to fuel your personal wealth creation campaign and turn yourself into a 401(k) millionaire before you're 55 - if you do it right.

The Takeaway on Investing in Your 20s

Father Time or Mother Nature (take your pick) has given you the great gift of time as a 20-something investor - time you can use to start investing, leverage the enormous wealth creation power of compound interest, and engineer a wealth-creating machine that will last for decades.

Yes, it does take discipline and patience, and does require you to make some sacrifices along the way (good-bye, Tesla).

But building an investment portfolio in your 20s is one of the surest ways to creating financial security, both in the short-term and (especially) for the long haul - when you're going to need the money most.