Moving from Savings to Investing

Beyond the Basics

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So you've gotten into a good habit early on – regularly saving money above and beyond your day-to-day expenses. What next?

Are you saving enough?

Early in your career, you should be saving at least 15% of your total income; later on, that percentage should increase.

Look for opportunities to cut expenses and save more based on your life goals.

A dollar saved early in life can easily quadruple-or-more-by the time you retire.

The longer you wait, the less time you'll have to see your investments grow.

Have you maxed out your work 401k?

Think twice before passing on opportunities for tax-deferred savings – especially if your employer offers to match your contributions.

Set a goal to meet the employer match at an absolute minimum – otherwise you're giving up the only investment that automatically double whatever you put in.

Have your anticipated short-term expenses?

Anticipate expenses and determine how much above and beyond your other savings you'll need to set aside to meet them.

Do you have children?

Starting a college savings account early can make a huge difference. Many states offer tax-advantaged or prepaid tuition plans.

Do you have an emergency fund?

Before moving to more complex investments, ensure you have enough money in your savings account to cover emergencies.

There should be at least enough in your savings for an unanticipated car repair or hospital visit. Ideally, you should have enough to keep you afloat for three months or move if you lose your job.

Do you have credit card debt or car loans?

Focus on paying them off before thinking about other investments.

Often the interest charged on these shorter-term loans exceeds the potential return from other investments.

Are you buying a home in a few years?

To qualify for a conventional mortgage, you'll usually need at least 5% of the cost of the house as a down payment. The larger your down payment, the lower your monthly mortgage will be.

Do you want to open a business?

Most business lenders require the business owner to put up 30% in equity to fund a new venture.

You'll want to build a separate nest egg that doesn't drain your other savings.

There's no one-size-fits-all investment strategy – what works best for you will depend on your longer-term goals and willingness to take risks. Consider working with a financial advisor or look to Nationwide to find an investment professional today.

Sources

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