RentersWarehouse®

Want to get a head-start in planning for your future?

GUIDE:

A Millennial's Guide to Retirement

""How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."

Robert G. Allen

Introduction

Retirement. Whether it's sitting in a hammock with a drink in your hand, playing golf, or living full-time in the Florida Keys –everyone's version of an ideal retirement looks a little bit different –especially when it comes to millennials, a generation that's determined to do things a bit differently.

For millennials, many have goals of early retirement. Or at least, financial freedom. Being able to live and work on their own terms is appealing, as is having enough passive income streams to retire someday, hopefully sooner rather than later.

But when it comes to planning for retirement –and taking the steps necessary to make it happen, millennials are woefully unprepared; starting with their thoughts on the amount that they'll need.

Thirty-four percent of millennials believe they need $200,000 or less to retire comfortably.

This falls far short of the $1.18 million estimated by AARP for a retiree withdrawing $40,000 annually for 30 years. And with many millennials hoping for an early retirement, the amount they'll need to retire comfortably will look even higher.

Millennials' optimism, though, and enthusiasm for life is also tempered by a great deal of caution –especially when it comes to the stock market.

It turns out, millennials are extremely wary when it comes to investing. According to a Bankrate survey, only 33% of people under 30 owned stocks in 2016 –with millennials holding 25% of their investments in cash. In fact, another survey from Bankrate found that when it comes to long-term investments, three in 10 millennials say cash is their favorite.

But while a healthy dose of skepticism can be healthy, for millennials, being too risk adverse could cause them to be unprepared for retirement; or at least underprepared.

The real risk, experts say, is inaction.

"The worst thing you can do in your mid-twenties to mid-thirties is not save money and invest," says Mike Kerins, founder and CEO of RobustWealth. "If you invest money early on, it gives your money a long time to grow."

After all, even the stock market with all of its volatility has generated returns around 10% over the long run. Cash meanwhile, is continually dwindling in value. The Consumer Price Index — which measures inflation, rose 1.9% last year (2018). This means that holding too much isn't the best long-term investment strategy.

But this doesn't mean all hope is lost. While millennials are a bit leery to invest in traditional investments, they are good at saving. Some 39% of millennials are defined as "super savers," and saving more than 10% of their salary. That's not far off from the 15% that many experts often recommend.

And while stocks and shares might not be for everyone, there are plenty of alternative investments today that can help even the most cautious investor to create a well-balanced portfolio. All of this choice means there is something for everyone, no matter how much they're earning, what they're able to invest, and their propensity for risk.

If you'd like to take control of your retirement, then this guide is for you. In it, we'll shine some light on options that are available today, and highlight alternative investments that can help to balance out a traditional retirement account –one that's usually very dependent on the stock market, helping you to take charge of your long-term financial security.

Investing for Retirement

First up, when it comes to investing –it's important to recognize that there will always be a certain level of risk involved. It's important, though, to put that risk in perspective.

"The risk of the stock market is not the biggest risk in life," says Meir Statman, professor of finance at Santa Clara University and author of Finance for Normal People."Every time you make a decision — whether it's your career choice, whom you're going to marry, where you're going to live — that decision entails risk, he says.

Maybe your chosen profession will become obsolete, or you'll choose a partner who isn't right for you.""Taking risk is not a luxury; it's a necessity," he continues. "If you look at risk in the overall context of life, you see that we take risk not because we like risk, but because we have aspirations. Aspirations are the engine, the driver of the train, and risk is really one of the cars of the train.

"It's important to not let fear be your primary driver. Instead of allowing fear to dominate your decisions, it's far better to take a proactive approach with your investing. Look to set long-term goals, and then determine the type of investment strategy that will best help you to reach them. Avoid making knee-jerk, reactionary decisions; instead, look to create an intentional plan for growth.

Additionally, the more informed you are, the lower the risk will be. So make sure you brush up on your knowledge of investing strategies, and see what your options are –before you dive in.

Individual Retirement Accounts

Now, here's a look at some traditional retirement accounts:

401(k) – Traditional Retirement Account

First up, we have the traditional 401(k) retirement account. With a traditional retirement account, you can contribute a certain amount annually, deferring taxes until you retire and start withdrawing funds.

The traditional 401(k) could be better for those who expect to be in a lower tax bracket once they start making withdrawals. So if you are currently in a high tax bracket and expect to be in a lower bracket when you reach retirement, you could potentially save.

Keep in mind, though, that you'll have to pay tax on any gains that you make as well –which could be quite significant by the time you retire, so consider carefully whether you want to defer your taxes.

Roth IRA

Another common retirement plan is the Roth IRA. With a Roth IRA, you contribute money that's already been taxed. This means there are no fees or taxes when you start making withdrawals at retirement.

The Roth IRA is generally best for those who will be in a higher tax bracket when they start making withdrawals, and since you will be contributing money that's already been taxed, this means your money will be able to grow tax-free for when you retire.

Real Estate Investments

Ranked as the number one long-term investment of choice for many, real estate can be an excellent investment, regardless of your age. With this in mind, here's a look at a few real estate investment options that could get you started on the path to financial freedom.

Residential Real Estate

One tried and true method of real estate investing includes investing in income property. Many investors start out with SFR (single-family rentals), and some go on to purchase multi-family apartment complexes.

Purchasing a rental not only offers diversification, but it's something that offers both immediate and long-term returns. With rentals, you'll have ongoing returns in the form of rental income, and long-term benefits of appreciation, and equity growth, as the property (ideally) appreciates in value. And lest you think that owning a rental will be time-consuming, think again!

Thanks to the prevalence of professional property management services, investors can be as hands off as they'd like. As with any investment, when it comes to rental property, it's important that you do your research, run the numbers, and ensure that your investment is sound before making a purchase.

Try to locate emerging markets –and look for places that are expected to experience growth. Other factors to consider include population trends and job growth. New developments are always a good sign. Finally, you'll also want to consider affordability and try to find an area with high absorption rates and low vacancy rates.

Tip: Take a look at the Renters Warehouse Research Center to view data on individual housing markets.

Real Estate Investment Trusts (REITs)

A Real Estate Investment Trust (REIT) is a company that owns, and usually operates real estate that produces income. One of the key benefits of using an REIT is that the buy-in can be a lot lower than the costs of investing in an entire property. You can invest in REITs that are comprised of commercial real estate, or even SFR rentals.

Other types of real estate investments include:

- **Commercial Real Estate**
  This includes shopping centers and hotels. Apartment buildings are sometimes considered commercial as well.
- **Industrial Real Estate**
  Industrial real estate includes manufacturing buildings, including warehouses.
- **Land**
  Land includes vacant land –such as residential development land or commercial development land. It can also include farms, ranches, or timberland.

Additional Investments

Stocks, shares, mutual funds, exchange-traded funds (ETFs), and more!In this section we'll take a look at a number of different investment options. You can invest in these in addition to your standard 401(k) or Roth IRA.

Stocks and Shares

While these terms are often used interchangeably, technically speaking shares represent units of stock in a company. "The surest way to build wealth over long time horizons is to invest in a diversified portfolio of common stocks," says Robert Johnson, professor of finance at Creighton University and chairman and CEO of Economic Index Associates.

When investing in stocks, it is important to avoid placing all of your eggs in one basket. Diversifying your funds by purchasing different types of stocks –for instance, allocating some funds to ethical investments and others to tech stocks, can help to lower your risk exposure. Many investors opt to buy stock online through an investment account. Here's how you can get started.

Mutual Funds

Mutual funds are professionally-managed funds that pool money collected from investors to purchase securities, like stocks or bonds. While some people prefer these funds, as the idea of a professionally managed fund sounds appealing –these types of funds have their downsides as well.

For one thing, the fees can be quite high with mutual funds, eating into your returns. "Huge institutional investors, viewed as a group, have long underperformed the unsophisticated index-fund investor who simply sits tight for decades," wrote Warren Buffett in a 2014 shareholder letter. "A major reason has been fees: Many institutions pay substantial sums to consultants who, in turn, recommend high-fee managers. And that is a fool's game."

While mutual funds operate on the principle that they'll outperform their relevant index, there's not much evidence to support this. Again, this will depend on the particular mutual fund in questions, so make sure you do your research before investing.

Additional Investments Continued

Exchange-Traded Funds (ETF)

Exchange-traded funds are a form of a security that involves a collection of securities, like stocks. This fund is often structured in a way that tracks an underlying index, although it could involve any number of different strategies or sectors. One well-known example of an EFT is the S&P 500 index.

Index Tracker Funds

An index fund is easy to invest in, has low fees, and often performs well. A lot of people invest in them, and with good success. According to Warren Buffet, low-cost index funds are among the best investments that most people can make. These funds traditionally and consistently beat out other funds in term of returns. This is because there are fewer fees with these passively managed funds.

Savings Accounts

A savings account is good to have, but they aren't great ways to invest your money long-term. The interest rates are usually so low that they don't even keep up with inflation, which means you'll lose money if you keep too much of it in savings for too long. Savings accounts, though, are a great way to store your money for short term investments –and are a good way to save a small amount in an emergency fund.

Certificate of Deposit (CD)

A certificate of deposit (CD) is a form of time deposit. You deposit an amount of money that is invested for a specific amount of time. Your CD matures overtime and gains interest. Once the date of maturity has been reached, you receive your original amount back –plus any interest it earned. This is a short-term option for those who have extra money that they don't need access to right away as there is a fee involved if you pull the money before the date of maturity. Keep in mind, though, that while CDs are considered to be an extremely safe investment option, the returns are generally quite low –generally less than 3% for a one-year time period. See current rates for CDs.

Commodities

Investing in commodities is different from other types of investing. For one thing, commodities are physical goods, so they're a bit different from other investments.

Here's a look at a few ways that you can invest in commodities:

- Investing directly in the commodity itself
- Using commodity futures
- Buying shares of stock in companies that produce commodities
- Buying shares of exchange-traded funds that specialize in commodities

See more.

Bonds

Bonds are essentially loans that are made to organizations –corporations and governments. An individual bond is as a piece of a much bigger loan. Over the long run, bonds pay out a much lower return than stocks, and are rarely even enough to beat inflation. While a few bonds can help to add stability to your portfolio, a portfolio that's too bond-heavy may not allow you to save enough for retirement.

Understanding Compound Interest

Regardless of your age, it's important to take those next steps towards investing. As the experts say, the sooner you can start the better.

If you don't have $50k to plunk down in a retirement account, don't worry! It's better to start small, and start early, rather than waiting and missing out on compound interest.

"The amount of capital you start with is not nearly as important as getting started early," says Burton Malkiel in The Random Walk Guide to Investing. "Procrastination is the natural assassin of opportunity. Every year you put off investing makes your ultimate retirement goals more difficult to achieve."

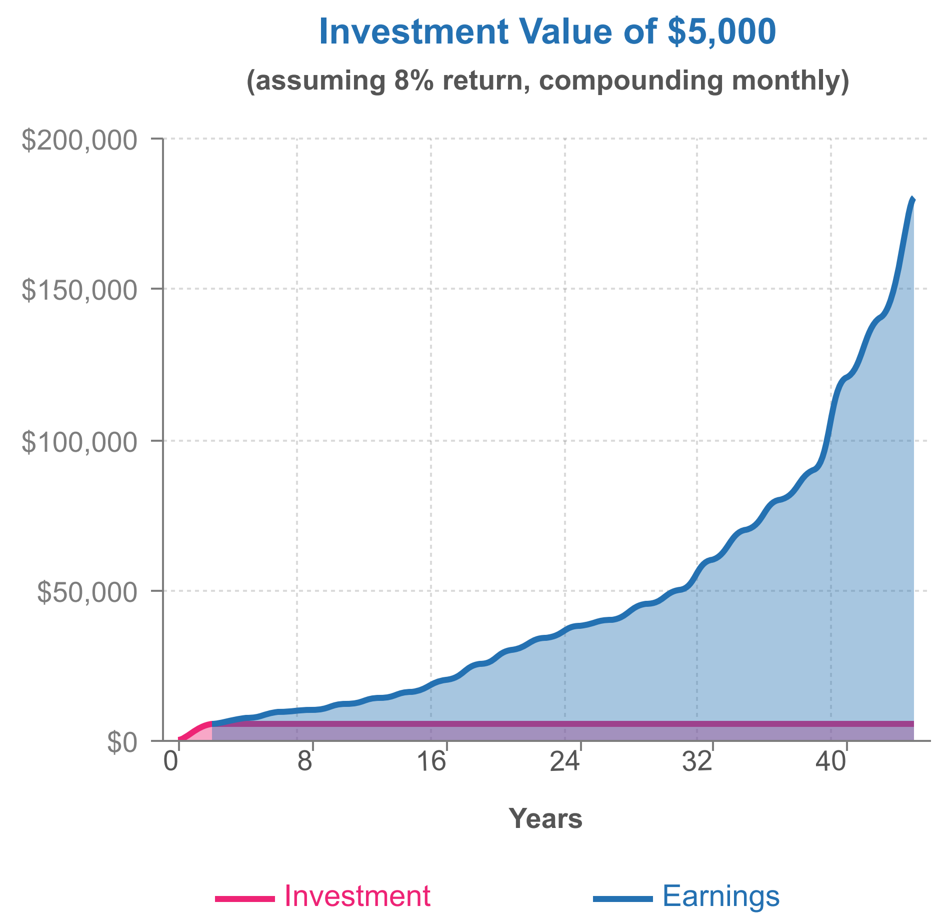
Remember, the sooner you can star, the longer your investment has to grow, and benefit from compound interest.

Just take a look at this example from Get Rich Slowly:

"If 20-year-old Britney makes a one-time $5,000 contribution to her Roth IRA and earns an average 8 percent annual return, and if she never touches the money, that $5,000 will grow to just under $180,000 by the time she retires at age 65."

On the other hand, if she'd waited until she was 40 to start investing; the amount she'd have generated from that $5,000 would only grow to less than $40,000.

Learn more about compound interest here.



Data Source: Get Rich Slowly

Investment Strategies: Taking the Next Step

If you're ready to start taking advantage of compound interest –and start investing yourself, here's a look at a few tips that'll help to get you off to a great start.

Take Advantage of an Employer-Sponsored 401(k) Plan

Some companies offer an employer-sponsored 401(k) plan. Yet surprisingly, an estimated 23% of people who have this option available aren't taking full advantage of it. If your place of work offers this plan, you should seriously consider opting in. With this plan, your employer will match any contributions that you make into your retirement account, usually up to a certain amount. It's basically free money for the future, and can be an easy way to double your retirement savings.

Work to Pay Down Debt

While it's not an investment per se, paying down your debt is a great way to set yourself up for future financial stability. Before you start investing too heavily, you'll want to consider whether that money would be better used to pay down some debt. This will largely depend on the amount of debt in question, and the interest rate you're paying on it. So if you're paying, say 7% interest, and the investment you're assessing will generate approximately 5% returns, you may be better off focusing on eliminating the high-interest debt first. Additionally, paying down your debt can help you to be in a stronger position to borrow. If you'd like to take out a mortgage someday, it'll help you to qualify for a higher amount.

Create an Emergency Fund

It's also crucial that you create an emergency fund. How much should you have socked away? Experts recommend having enough to cover between 3-6 months of expenses. It's unwise to invest every single penny. Set some aside for a rainy day.

Know How Much You'll Need to Retire

As we touched on earlier, many millennials drastically underestimate the amount they'll need during retirement. Use this retirement calculator to get a better idea about how much you'll need to have for retirement.

Determine How Much You Can Save

How much can you realistically invest? Aside from the, "As much as you can," many experts advise saving 10-15% of your income for retirement, starting in your 20s. But of course, it's best to determine how much you'll need for retirement, so you can work backwards from there to reach your savings goals.

Once you have a general idea on how much you can invest, you can start budgeting this in. Even if you don't have an investment nailed down yet, you can start putting that money into a separate account to hold it until you are decided. While these amounts might vary month to month, should any emergencies arise – it's important to try to stay consistent about putting a general amount of money towards your investment or future investment.

Investment Strategies: Taking the Next Step

Understand the Risks

If you're ready to start taking advantage of compound interest –and start investing yourself, here's a look at a few tips that'll help to get you off to a great start.

- Risk capacity refers to the amount of risk that's required to achieve your investment goals.
- Risk tolerance, on the other hand, is the amount of risk you're comfortable with.

The amount of risk that's required to reach your goals will vary, depending on how aggressive your goals are. You'll want to carefully assess what level of risk you'll need to take to reach your goals, and make sure you create a portfolio that you're comfortable with –one that balances out a range of investments that are lower risk and lower returns, and higher risk, but a higher rate of return.

Learn more about risk here.

Educate Yourself

Be sure to educate yourself on the various types of investments there are and understand which ones will best suit your needs.

Fortunately, there are many different ways you can get the information you need for free. You might also consider talking with local investors, friends, or family members who have already started investing in order to gain some insight and ideas. Join online or public groups that can help you form bonds with other investors and give you valuable insight. It is also helpful to have a group of people or network that you can trust when it comes to investing. Not only to bounce ideas off of but to share resources as well. If you're not sure where to go, it's a good idea to get in touch with a financial advisor. They'll be able to offer advice and help you form an investing strategy.

Set Goals

It's important to have an investment strategy that aligns with your goals. This is because your goals should impact how you invest, and the type of investments that you make. For instance, if your plan is to buy real estate and you'd like to obtain a mortgage within a short period of time, it might make sense to invest more conservatively, and in things that you can liquidate when you need your capital to make a down payment. Additionally, long-term goals –such as when you'd like to retire, and how much you'll need to have saved will help to form the basis of a good investing strategy.

Understand the Tax Implifications

When it comes to investing, it's also important to consider how any profit that you make will be treated from a tax perspective. While some investment accounts allow you to defer your taxes, it's important to ensure this is the best option for you.

"The federal government taxes not only investment income – dividends, interest, rent on real estate, etc. – but also realized capital gains," explains Neil O'Hara, writer, author, and former managing director with over 28 years of experience in the financial services sector."

The taxman is smart, too; investors cannot escape by investing indirectly through mutual funds, exchange-traded funds, REITs or limited partnerships. For tax purposes, these entities are transparent. The tax character of their distributions flows through to investors in proportion to their economic interest, and investors are still liable for tax on capital gains when they sell."

Don't let your profit get wiped out by poor financial planning. It's always a good idea to consult with an accountant to gain a better understanding of what taxes you will be responsible for –both now and in the future.

Portfolio Management Apps

When it comes to managing your retirement portfolio, there are a number of apps out there that make it easy to oversee everything, and see what's going on. From highlighting hidden fees, to showing you exactly how your investments are doing each month, an investment management app is a great tool to have today.

Many of these tools are free or at least offer free trials.

Here's a look at three popular options:

Personal Capital

Personal Capital is a popular wealth management tool. From your dashboard, you can see your banking and investment accounts, making it easy for you to keep an eye on your investments; giving you a bird's eye view when it comes to planning your retirement.

Mint

Mint combines your portfolio and your finances –helping you to stay on top of your earnings and investments. Their investment tracker allows you to quickly and easily take stock of how your investments are doing, helping you to stay on top of it. You can also compare your portfolio to market benchmarks, and track investment accounts like 401(k), mutual funds, brokerage accounts, or IRAs.

Investment Account Manager

Investment Account Manager has been around since 1985. This tool gives you the tools for portfolio management for stocks, bonds, mutual funds, exchange-traded funds, options, cash, and more.

In Closing

If you don't have a plan yet for retirement –or if you'd like to start investing more, now is the time to start.

The best time to start investing is always ten years ago. The second-best time, though, is now!

So whether an early retirement is in the cards, or you'd just like to set yourself up for financial security in the future, start creating your plan for retirement. With the right approach, careful planning, and proper asset allocation, you'll be able to start putting your plan into action, and watch your investments grow.

According to Scott A. Bishop, CFP®, executive vice president of financial planning at STA Wealth Management in Houston says, "Not investing is what is risky. If you don't save or invest, the true risk is that you will never have any level of financial independence."

It's time to take the first step.

To learn more about investing, and to see how real estate can serve as an invaluable asset in any portfolio, be sure to download your FREE guide: Starting and Growing the Right Way.

Resources

Online Resources

General Investing Guidance:
- Bank Rate: Millennial Guide to Investing
- Nerd Wallet: Retirement Calculator
- Money Crashers: Investing & Financial Advice for Millennials – 6 Principles to Build Wealth
- Investopedia: Millennials: Finances, Investing, and Retirement

IRA Accounts:
- Charles Schwab: Roth IRA vs. Traditional IRA
- Dave Ramsey: 401(k) vs. Roth 401(k): Which One Is Better?

CDs:
- Nerd Wallet: CD Calculator: Find Out How Much Interest You Can Earn

Mutual Funds:
- The Balance: How Do I Invest in Mutual Funds?

ETFs:
- Investopedia: Exchange-Traded Fund - ETF

Bonds:
- The Balance: What Bonds Are and How They Work

Index Tracker Funds:
- Investopedia: Tracker Fund

Taxes:
- Investopedia: Investment Tax Basics For All Investors

Book List

Robert Kiyosaki, Rich Dad Poor Dad

Erin Lowry, Broke Millennial Takes On Investing

George S. Clason, The Richest Man in Babylon

Benjamin Graham, The Intelligent Investor

Burton G. Malkiel, A Random Walk down Wall Street

Ray Dalio, Principles: Life and Work

Real Estate Investing:

Brandon Turner, The Book on Rental Property Investing

Kevin Ortner, Rent Estate Revolution

Martin Stone, The Unofficial Guide to Real Estate Investing

Ken McElroy, The ABC’s of Real Estate Investing

Kathy Fettke, Retire Rich With Rentals...So You Don't Have to Work Forever

Note: While the information in this guide is intended to inform and to guide, it is not meant to serve in place of tax advice from a licensed accountant. Please consult a tax professional and financial advisor for more information on tax implications and investing.