African Bank Limited press release: 4 March 2019

Investing in your 20's - good or bad?

So, you are footloose and fancy free, probably just graduated from university and ready to move onto the next stage of your life. Hopefully you've got a job but without a bond and family to look after, saving and investing may not be your top priority.

African Bank's Group Executive: Sales, Branch Network, Mellony Ramalho, says it's a wonderful time of life to still have fun and be carefree but at the same time be savvy enough to lay a foundation for one's financial success

She researched advice from some of the best financial planning experts around the globe and her favourite financial tips came from goodfinancialcents blogger, Jeff Rose. He escaped a path of financial destruction by moving from being a college drop-out and having over $20,000 of credit card debt to eventually become a self-made millionaire.

Jeff's top tips look something like this:

Tip #1: Unleash the power of compound interest by investing early.

There is no doubt that compound interest is the most powerful force in the universe. When you're in your 20's, it's easy to think you have all kinds of time to get your financial life together. You could easily live another 60 or 70 years, right? What difference will it make if you put off investing for a while?

Unfortunately, waiting can make a world of difference. Ramalho explains that if you for example invested just R5 000 per annum starting at age 20 and continued until you were 60 at an annual interest rate of 10.75% you would have **R2 716 043** in your bank account. If you only started when you were 30 this amount would only be **R948 604**. "It shows that by missing out on those 10 years you have actually cost yourself more than R1 767 439 in returns, even though you only skipped ten years of deposits.

Annual investment of R5 000

	Start at 20	Start at 30	DIFFERENCE
Annual investment	**R5 000**	**R5 000**	
Annual Interest Rate	**10.75%**	**10.75%**	
Interval	**Annual**	**Annual**	
Period (years)	**40**	**30**	
Total investment (ex interest)	**R200 000**	**R150 000**	R50 000
Future value at expiry	**R2 716 043**	**R948 604**	R1 767 439

Rose says this is the magic of compound interest. Compound interest is the type of interest you accrue when the interest you earn on your savings or investments begins to compound on itself.

Ramalho agrees saying if you want to be financially free in the future, then you have to harness this power and put it to work. If you don't, you'll miss out on gains you can never get back.

Tip #2: Consider investing as part of a broader financial plan.

While investing early and often can help anyone in their 20's begin building wealth, that doesn't mean investing is the answer to every problem. Some graduates may still have student loans to pay off and may be just spread too financially thin to even think about investing.

Ramalho says in this case the best thing to do is carefully monitor your spending habits and make savings and budgeting part of your daily routine until you are more financially stable. Really look out for the best ways to save money.

Tip #3: Realise that money is a tool.

If you're in your 20's and ready to build wealth, it all starts with recognising the money you earn is nothing more than a tool to make smart choices regarding spending, savings and investing.

"Learning to become a diligent saver and investor early on is the key to being able to live the life you desire. You need to remember that while you're trading your time for money today, in the future you will be able to use your money to give you the time to do more of the things that really matter in life," says Rose. Ramalho advises young adults to set both short and longer term investment goals and then plan accordingly.

Tip #4: Ramp up your saving for retirement

Your 20's are a time when there are almost too many goals to save for. You may want to buy a home, purchase a new car, or travel the world – all at a time when you should also save for the future.

Alex Whitehouse of Whitehouse Wealth Management says your best bet is to start investing gradually then ramp it up as you age. This will allow you to save for retirement while also letting you save for other goals.

"Start with just 1 percent of your income, then increase the percentage gradually by 1 percent," says Whitehouse.

By the time you reach your 30's you'll be saving 10 percent of your income. By your 40's, you'll be saving 20 percent of your income. And if you get a raise every year, you may not even notice the difference.

Tip #5: Ignore all the Joneses in your life.

Don't try to keep up with Joneses – it only means you run the risk of spending money you don't have, racking up debt, and of course putting off 'boring' responsibilities like saving and investing for the future.

Choose your luxuries carefully and don't fall into debt by financing everything with your credit card. Cash remains king.

Tip #6: Invest in yourself.

No matter what happens with the stock market or the price of bitcoin, the only place you have total control with your investments is in yourself.

"Invest in your personal, professional and financial growth; read as many books as possible and listen to advice from financial planners on radio and actively develop your skill set.

"Remember that even investing very small amounts can reap big rewards. You can start investing for as little as R50 per month and if you follow some of these simple tips you will be well on your way," concludes Ramalho.

ENDS

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