Beginner Investors, Start Here: How to Start Building Wealth and Saving for Retirement in 2022

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If your goal for the new year is to start investing for your future but you're not sure where to exactly start, you're at the right place. Investing doesn't have to be confusing or complicated. In fact, investing in your future is one of the best long-term moves you can make, especially if you're a few decades from retirement.

While investing itself is simple once you get set up, it's not always easy to know where to start. The amount of available investing information can be staggering, and you might easily find yourself sifting through ill-advised stock picks, unsolicited advice from family members, and market news that's always full of drama.

Getting started early and investing often is the secret to a healthy retirement account. Plus, the power of compound interest — which can add a huge boost with a long investment horizon — can make your money work for you so it grows even as you sleep.

"You have to cut through the headlines," advises Jill Fopiano, president & CEO at O'Brien Wealth Partners. "It's easy to find conflicting articles about the same exact investments."

Not sure where to get started? We're here to clear that up for you. The best investment strategies are often the simplest. Let's take a look at a few popular investment options for beginners.

Beginner Investing Strategy Overview

Before you start investing, it's important to nail down a few things.

First, consider your budget and emergency savings. Experts recommend that you have about six months worth of expenses in a savings account put aside before you invest seriously in the market. However, if you have an employer-sponsored 401(k), it's not a bad idea to at least begin contributing to it while building your emergency fund. That way you can still benefit from employer contribution matching. But get your emergency fund moving.

In most cases, it's advisable to pay off high-interest debt before you start investing. Those with student loans or mortgages below 5% APR may want to chip away at their debt slowly while also investing in the stock market. However, personal loans and credit card balances with 10% APR or more should really be taken care of first, as any market gains will likely just be overshadowed by the interest on that debt.

After you have enough set aside in a rainy day fund, review your budget and invest as much as you feel comfortable doing (or can). Keep in mind, even $5 is enough to invest. Small, consistent amounts add up over time, and the most important thing is to be consistent and get started as soon as you can.

Understanding Investment Vehicles

401(k)s, Roth IRAs, and Traditional IRAs

In order to purchase any of the funds that are mentioned below, you need an investment vehicle to do so. This is where specific retirement accounts like an employee-sponsored 401(k) or Roth or Traditional IRA come in. Using a retirement account to purchase investments is an effective way to invest long-term. These accounts have tax advantages that allow your earnings to grow tax-free or tax- deferred for years.

Taxable brokerage accounts

Unlike a retirement account, which has specific tax advantages given you withdraw from it at the appropriate age (59 ½ is the earliest), a regular investment account where you can be taxed on gains and withdrawals is known as a brokerage account.

With a brokerage account, you can buy securities like stocks, bonds, and index funds. Unlike retirement accounts, there are no rules around how much you can contribute and when you can withdraw. Check out NextAdvisor's list of the best online stock brokers to see the best options for low fees and good customer service.

1. Target Date Funds

Now that you've read about investment vehicles, it's time to learn about the investments themselves. Experts love target date funds, and for good reason. Target date funds are a mix of stocks and bonds in a single fund that automatically become more conservative over time. Designed to mitigate risk the closer you get to retirement, target date funds often include a year in their name, such as "Target Date 2060 fund." Employer-sponsored retirement plans commonly offer target date funds as investment options, since they allow employees to easily set it and forget it, so to speak.

"Target date funds provide a simple way to save for a defined date and time, and they offer access to a variety of markets," says Fopiano. This is an advantage because you don't have to choose individual stocks or do a lot of research.

Target date funds are a great place to get started if you want something easy. You can invest in one through your employee-sponsored 401(k) plan, a brokerage account, or through your individual Roth or traditional IRA.

In fact, millionaire investor and founder of Personal Finance Club told NextAdvisor that if he could redo his entire portfolio, he'd invest in a single target date fund.

2. Index Funds

Index funds are investments that track an index and seek to match it, such as the total market, the S&P 500, and many others.

"An index fund is an exciting and relatively safe way to make your first investment because it's diversified, has lower fees, and exposes you to a big slice of the market with a single transaction," says Melanie Mortimer, president at SIFMA Foundation, an industry trade group.

You can also start investing in index funds with small amounts of money. Fidelity, for instance, has no minimum required investment to buy shares of its Fidelity® ZERO Large Cap Index Fund or Fidelity® ZERO Extended Market Index Fund. Most major investment managers offer comparable funds that the average consumer can easily open with a low initial investment. NextAdvisor recommends low-cost, broad- market index funds as an excellent place to begin investing.

Like a target date fund, index funds can be purchased through a taxable brokerage account or through tax-advantaged retirement accounts, like your 401(k), or traditional or Roth IRA.

3. ETFs

An ETF is a type of security that tracks a particular index, sector, or commodity that you can buy and sell throughout the day just like a stock. Compared to mutual funds, which you can only trade once per day when the market closes, ETFs are traded on an exchange (hence the name).

Because of their tax efficiency, ETFs are also a great choice for taxable brokerage accounts.

How to Start Investing Today

If you need assistance in your investment portfolio, a robo-advisor can ask you a few questions about your risk tolerance and investment timeline to determine the best investments for you. Robo-advisors are used by most investors and are reliable. Once you know your risk tolerance, you're ready to open an account. You can stick with a robo-advisor, or consider NextAdvisor's list of best online brokers for a more traditional or self-guided option.

The Power of Consistency

Try to invest at regular intervals, such as every time you get paid. This strategy is known as dollar-cost-averaging, because contributing regularly over time will get you in the habit of investing. Simply focus on consistency. Some employers can even automatically deposit a portion of your paycheck to your investment account. When the money is in your account, be sure it's not just sitting there.

Take the extra step to ensure it's actually being invested. Depending on your account type, it's not always enough to simply move money over. With many online brokers, you need to take the additional step of purchasing the stock or fund you want to invest in.

PRO TIP

For most investors, we recommend a low-cost, broad market index fund that tracks the total stock market or the S&P 500, which are available with most brokers and retirement plans.

Finally, check in every once in a while. "You don't want to check it every day," says Fopiano. "Markets go up and down, but if you have a long-term view, you can stomach the down markets." It's best to check to make sure your accounts are operating as expected, that dividends are paid (and being reinvested, if that's what you want), and that your investments match your risk levels and future goals.

With consistency, time in the market, and investments you feel good about, you'll be setting up your future self with plenty of cash when you're ready to retire.