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How To Start Investing: 8 Tips Every Millennial Should Know

Millennials—the generation born between the early 1980s and the late 90s—are now in their late teens to late thirties. With the age of technology piloting innovative solutions and creating new opportunities, this generation is choosing to work fewer corporate hours and planning to retire earlier than baby boomers.

They also face challenges including stagnant wages, strict budgeting in a continuously changing work environment, and the need to be responsible for their own retirement.

How should all this factor into investment decisions and what should millennials account for when it comes to their financial priorities?

There is no better time than now to adopt new healthy habits and pave the road for financial independence. Those who accomplished it didn't hit early retirement by pure luck. They did it by mastering the fundamentals of personal finance and focusing on the principles of wealth-building.

Here we list some key tips for millennials—or anyone really—to keep in mind when thinking about building for a better future.

Slash expenses

Look into your monthly expenses and figure out what counts as "needs" like housing, education, and food, and what counts as "wants". Next, find ways to save in each spending area.

Start by focusing first on the big wins from needs. Example: moving into a smaller place, renegotiating your rent. Then, look through your "wants" for easy wins, which include cutting back on any recurring costs like unused online subscriptions. But make sure you are still striking a balance between saving and living happily.

Eliminate bad debt

Bad debt includes high-interest credit cards, payday loans and personal loans used for discretionary purchases. Focus on paying off accounts with the highest interest first. Keep in mind that not all debt is bad debt. For instance, a mortgage with a well negotiated rate on a house that is brining you a higher return is not a bad debt and can potentially build wealth by appreciating in equity.

Start now: make a habit of investing

Once you have figured out your savings, the next step is investing. Investing is a powerful part of wealth-building. The earlier you start, the better. Behold, the magic of compound interest. In a nutshell, it is your money earning interest on the interest it made.

Start as soon as you can, but before you begin make sure you have a financial nest egg that’s separate from the money you’ll be putting into the market—at least a few months’ salary in cash as an emergency fund. Once you have that, then it's time to start accumulating your money for investing.

Don’t invest in what you don’t know

Instead of listening to the noise out there or trying to game the market by rushing to buy fad assets like Bitcoin and selling them in a panic when prices start to drop, stick to passive investing.

A passive investor focuses on the four things they can actually control—their risk, the cost, the time that they're going to be investing, and their behavior. What you can't control is how the market is going to do, and the returns that are going to happen. You want to spread your money out across many different investment instruments and companies.

Diversify, diversify, diversify

The best way to lower risks when you’re investing and to secure your funds is by spreading them across different class assets, industries, and geographies. Having all your eggs in one basket can be very risky should the investment fail, and diversification helps you avoid that.

Control your costs

When looking to invest, start by looking into the fees charged and the penalties for exiting your investment plan. If you’re not careful, these fees can quickly erode your returns.

Robo advisors came about to combat the sky-high fees charged by the traditional investing channels. The high costs of active management (which include management, performance, brokerage and custodial fees) are simply out of sync with the low costs of passive investing. Look for investment solutions that are transparent about fees they charge and what you get in return, ones that have low account minimums to allow you to start as soon as possible.

Set short-term goals while having long-term plans

You are building for your future. But by setting up a system involving small steps, the rewards will be substantial. Get into the habit of putting money aside each month, and be disciplined about it. Have a goal for the future and how much you want to earn by a certain point and work towards it. You’ll want to invest consistently and focus on your long-term goal of reaching financial independence.

Try passive investing using investing tools

If you do a bit of research, you’ll find many online tools and finance apps that can help you get started on passively managing your finances, whether it’s to save budget or invest. Look into index mutual funds or Exchange-Traded Funds, which have low expenses and are designed to track the movements of individual indexes or the overall stock market. These come in different flavors to suit your goals. For example, if socially responsible investing matters to you, there are many funds out there that allow you to invest in assets that align with your values.

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