

Things To Remember When Deciding To Invest Your Non-Retirement Funds

In the past three years, we saw how life could be fleeting and brittle, just like a thread. In the wink of an eye, it may break or shred when we least expect it. Indeed, life is too short to spend on our stressful nine-to-five jobs or risky businesses.

The unprecedented events that have transpired showed nothing was wrong with exploring everything the world has to offer. Leisure travel and experiences are priceless investments in ourselves.

But let's face it. What will happen when we can't make a living or find a secure income stream anymore? What will happen to us when we enter our golden years? As repetitive and monotonous as it may sound, we must plan for our future. We already know it for sure. Yet, we don't know precisely how to achieve our financial investing goals.

With the current macroeconomic conditions, we must have substantial money in our retirement or investment account to ensure a comfortable retirement life down the road. It allows us to be financially secure or independent without a job or a business. Therefore, we will not have to bother our successors when the time comes.

But that is not the sole upside of retirement planning. Investing in a retirement plan or having non-retirement investments has become more vital than ever. If we do it as early as possible, we can earn more. Our retirement accounts, savings accounts, investment accounts, and brokerage accounts can promise higher income, allowing us to retire early. It will also allow us to reap the returns of our retirement and

investment strategy while we still have energy.

This article will focus on building and protecting your retirement and non-retirement funds. We will provide tips to increase and diversify your non-retirement investments in your portfolio. Also, we will help you optimize your non-retirement accounts and maximize savings.

Inflation and Retirement in the US

Retirement is almost every employee's goal. The idea of not dragging yourself out of bed when the alarm goes off is appealing. We will not have to skip breakfasts and queue up while checking our phones to catch the bus or train. Even better, we will not have to work overtime to meet endless deadlines. We will have all the time in the world to do everything we have always wanted. Travel? Reading books all day? Watching our favorite series? Spending more time with families and friends? Put up a business where we will be our own boss? No matter how old we are, we yearn for something we can't get or do while working.

However, the current macroeconomic indicators are not on our side. Of course, I am optimistic about the improvement in the latter part of 2023. But we must deal with the potential economic slowdown in the first half.

No law prohibits anyone from retiring before they reach the age of 66 or 67. About 50% of employees aged at least 55 have retired from work in the past three years. Also, nearly one in five employees retired before the age of 65. Others aim to retire when they turn 55. but the younger generations wish to retire at 40.

Sadly, the scar of economic crises in 2004-2008 remained evident even after a decade. Many would-be retirees were forced to use their retirement savings accounts to cover household expenses. Likewise, many seniors and retirees had to live in debt. After the crisis, we learned the importance of retirement planning.

The situation has remained bland in the last year while

economic forecasts were still bleak. Although unemployment is still a far cry from the labor market scenario in 2009, older adults are still wary. They don't mind extending their working years to meet their daily expenses or increase their retirement funds. The sharp spike in inflation is one of their motivations.

In a recent study, about half of adult workers are planning to stay out of retirement. In fact, over 30% of workers in their fifties plan to postpone their retirement. Meanwhile, about 20% of workers in their sixties will work longer. With that, the average retirement age in the US is 66 vs. 62 in 2022. Although it's the same as the legal retirement age, the increase has been noticeable. We must also note that the retirement delay rate has doubled in the last two years.

Moreover, the impact of inflation has already extended to retirement savings. Another recent study shows that 50% of workers paused their retirement savings in 2022. Over 40% stopped putting money into retirement funds like 401 (k). Even more, almost one-third of employees withdrew some of their retirement savings. The cost-of-living hike drove all these. So, it is unsurprising that 72% of the respondents have already reassessed their retirement plans. Among them, 27% reevaluated their financial goals and strategies.

But this year, we may see an improvement as inflation continues to relax. We started 2023 with inflation landing at 6.4%, a 30% drop from the 2022 peak. Indeed, the efforts of policymakers have started to pay off. Meanwhile, the Fed stays conservative as it keeps increasing interest rates. They may peak this year, but increments may slow down while inflation decreases. The impact may materialize in the second half, which can reduce the cost of living in the US. Even better, I don't think the potential economic slowdown will lead to a deep recession. After all, inflation was more of a demand-pull than a cost-push. As demand softens and supply chain

bottlenecks clear up, the market may correct itself and bounce back.

Likewise, retirees are optimistic about the economic conditions in the US. The same study shows that 57% believe the economy will be more robust this year. Also, over 60% expect an improvement in their retirement plans. Recessionary fears are still present, but pessimism is starting to waver. In the long run, macroeconomic indicators may become more stable. Adult workers may have more excess money for retirement funds and non-retirement investments.

Growing Your Funds: The Basics of Retirement vs. Non-Retirement Investments

Many people invest most of their savings and investments in individual retirement accounts. Yes, maximizing their potential in growing your retirement funds is essential. Even so, you may look at other efficient options if you have extra income to invest.

For many, maxing out their annual contribution limits on traditional IRA or Roth IRA is enough. But we must find other investments to increase our wealth. These investments, often called non-retirement investments, do not require a special investment account. You will only have to contribute after-tax dollars to these investments. Also, you can access them whenever you want, wherever you are. That is why it is crucial to seek help from a financial advisor to get the right investment advice and strategy.

Luckily, we have different non-retirement investments to choose from. It may be easier for you if you have a background in the financial market. If not, fret not, for we are here to guide you throughout your investment journey. You can find the

things you need to learn in this article. But before that, we must first differentiate retirement and non-retirement investments. We will discuss their basics to help you understand better how they work. Here are the two investment choices for you.

Retirement Investment Accounts

Retirement investment accounts are qualified investments due to their qualification for beneficial tax treatments. We can make either pre-tax or after-tax contributions. Also, investment yields are tax-deferred until you make account withdrawals.

They have annual contribution limits and early withdrawal penalties before you turn 59 $\frac{1}{2}$. The typical qualified accounts are 401(k)s, 403(b)s, and other employer-sponsored retirement plans. Individual retirement accounts (IRAs)s are part of qualified investments. They also have annual contribution limits and preferential tax treatment.

Employer-sponsored retirement plans are popular because most employers match employee contributions to a maximum rate. Even more important is the familiarity of older adults with these plans, so they often invest their funds there. These are easier to manage since their contributions are automatically deducted from their paycheck. As such, convenience becomes inertia in investing.

Non-Retirement Investment Accounts

Non-retirement investments allow you to invest without investing in a tax-advantaged retirement account. You can access this type of investment anytime and anywhere. You can have numerous goals when opening an account. For instance, you can invest to increase your retirement wealth or grow your extra dollars for future use. Put simply, non-retirement investment accounts are investments aside from defined benefit

and retirement plans.

This investment type can be anything from the same stocks you hold in your 401(k) to purchasing properties or investing in a private or publicly-traded business. Again, the goal is to increase wealth matching your need for capital. Of course, it comes at a greater risk due to higher reward potential than just saving money for retirement.

Moreover, non-retirement investments are non-qualified accounts, meaning you invest using after-tax dollars. Unlike employer-sponsored retirement plans, one benefit of non-retirement investments is your control over them. You are free to choose whatever investments are available in the market. It also allows you to make your own investment strategy since it doesn't have rules and limits. You can withdraw or sell it, but yields are subject to capital gains tax.

But before venturing into non-retirement investments, you must ensure financial security. You may start by determining whether you have adequate money in your retirement account. Do you have enough funds in your retirement accounts for your retirement goals? Do you have emergency funds that will last for three to six months? What are your risk tolerance and financial goals? Doing so will help you become more organized and strategic in handling, increasing, and protecting your assets.

You must also consider investment fees, especially when opening a brokerage account. You may go solo, but letting an expert do everything on your behalf will also be helpful. Also, your risk tolerance will dictate the volatility you can tolerate. Meanwhile, your time horizon will reveal your investment preference. It works hand-in-hand with risk tolerance since financial goals in the short run are suitable for less volatile investments like bonds and time deposits.

Things To Do When Investing Your Non-Retirement Funds

A lot of non-retirement investment advice includes complex formulas and strategies. But sometimes, you only need to pause and look at the bigger picture before deciding. Non-qualified or non-retirement investments promise more returns, but risks are higher. These are the essential things to remember to make your investment journey easier and more efficient.

Check retirement investment options

There are various tax-advantaged and taxable accounts for retirement investments. While you can access it in a bank and other financial intermediaries, your employers may be better. Traditional IRAs, 401(k) plans, defined benefit plans, and Roth IRAs are typical options. But know that you can only invest in the available options per account.

Maximize the advantages of retirement funds

Before investing your non-retirement funds, you must max out all your retirement funds. With the volatile economy and recession fears, it is crucial to maximizing the advantages of retirement plans like 401 (k)s. For instance, if you avail of a plan from your company, it will match your contributions at a certain limit. Basically, that's free money in a secure and risk-free account. Also, Roth IRAs earn tax-free until you withdraw them.

Start early, earn exponentially

The early bird, indeed, catches the worm. If you start saving and investing early, you have more time to study your investment options and grow your funds. You also have better flexibility to market volatility since you are more familiar

with the market trend. As such, you can cope with it through prudent portfolio diversification in technology stocks, bonds, and funds. Aside from that, there are better reasons why saving and investing early can be helpful.

- You will have more time to optimize the potential of compounding interest. You have more time to generate and reinvest investment yields in other accounts. For instance, you invest \$5,000 with a compounding interest of 5% yearly. If you invest at 25 and retire at 66, the future value will be \$36,959. But if you don't invest until you're 45, you will only have \$13,930.
- You will be more disciplined, making saving and investing a lifetime habit.
- You will have more time to cope and bounce back from investment losses. With that, you can also try other investments, especially those with high risk and reward potential.
- More years to save means more money upon retirement.
- More experience in investing means expertise in various investment types. It will allow you to go solo and avoid brokerage fees.

Assess your assets and liabilities

In the world of investing, you must spend money first before you earn more money. So before you invest, you must assess your financial capacity to do so. You can start by assessing your net worth, the difference between assets and liabilities.

Your assets include cash and cash equivalents, such as cash on hand, cash in banks, and short-term investments. Other assets are in the form of real properties like houses and personal properties like jewelry. Meanwhile, liabilities include car loans, mortgages, student loans, medical expenses, and unpaid household bills.

Once you list all assets and liabilities, subtract the total liabilities from your total assets. The net value will be your net worth. Then, you can add your net worth to your retirement goals. You can check your net worth from time to time to see if it is in line with your goals. A negative net worth means you have excessive liabilities and no room for more risks. From there, you can find ways to improve your finances before starting your investment plan. Remember that liquidity is king, so you must manage your cash well to increase and protect your wealth.

Manage your emotions well

Crests and troughs are constant in the world of investing. One of the first things to learn is to manage your emotions well. Often, investors are carried away by market sentiments. Bearish views are common during market corrections, so beware.

Typically, an investor may become overconfident when investments perform well. He tends to underestimate market risks, leading to a bad investment decision. Meanwhile, an investor becomes anxious when assets are in a downtrend. He may sell investments instantly, even at a discount, leading to investment losses. Corrections are more common in the stock market. So, investors must be keen during a breakout to avoid bull or bear traps.

As such, it is crucial to avoid becoming an emotional investor. Overconfidence and anxiety may lead to wrong investment decisions. You may lose potential gains or even incur investment losses. Aside from that, you must be realistic with your investments. Observe the actual price and financial trend instead of solely relying on market sentiments. Reading expert analyses and reviews may help, but it's more important for you or your broker to understand the investment. Also, you may rebalance or diversify your portfolio to make it suitable for whatever market condition.

Consider investment fees

More often than not, your concern revolves around returns and taxes. But exorbitant investment fees may erode the value of your investment. Transaction, brokerage, and administration fees are typical deductions from your funds. You must check them as frequently as you can since fees can offset gains. Calculate the expense ratio to know how much your investments are used for administrative and other expenses. You can divide the fund's operating expenses by the average dollar value of assets under management (AUM).

Doing so can help you make better investment decisions. That way, you can find more affordable but earning investments. You can choose mutual funds with lower fees or brokers with more reasonable fees.

Suppose you invest \$5,000 in a mutual fund with a 2% expense ratio and 5% annualized return. If you withdraw it after 20 years, the gross value will be \$13,266. But with the expense ratio, leading to fees of \$4,236, you will only get \$9,030. But in a fund with an expense ratio of 1%, fees will only be \$2,311. The net value will be \$10,956. That's a \$1,936 difference.

Avail of insurance or annuities

In general, investments are good. But there's an unspoken rule to follow when managing your assets. Again, liquidity is king, so always prioritize having enough cash reserves. Once you have enough savings and emergency funds, you may set aside a portion of your income for investments. Then, you must ensure your assets are protected. Insurance and annuities can serve as an extra mantle of financial protection. You will not have to sell your investments at a discount or deplete your savings in emergencies. Insurance will come first before your turn to your emergency funds and savings.

Speak to an expert

You may find yourself saying retirement planning or investing is not your thing. That's inexcusable. Many financial experts are dedicated to helping you plan for your retirement and investment. Also, you can watch video tutorials or read helpful articles for free.

Non-Retirement Investments To Consider

At this point, you already know the basics of non-retirement investing. These are the investment options you can consider.

Brokerage Accounts

Brokerage accounts are probably the most typical option for non-retirement investing. These are non-qualified accounts, so funding is done with after-tax dollars. With a brokerage account, you can choose from various investment types, depending on your risk profile. These include stocks, exchange-traded funds (ETFs), bonds, and target-date funds.

Among these, stocks are the optimal option, given their high risk and reward potential. But these may require more experience since investors and brokers have to watch price trends, company financials, and market changes. You must value the stock using different price metrics when doing fundamental analysis. Doing so will help you determine if the stock price reflects the company's intrinsic value. Meanwhile, if you prefer technical analysis, you must observe stock price changes to know when to sell or buy.

Today, it is easy to open a brokerage account. You can do it online as online brokerages become more prolific and impose lower fees. But you have to be more careful to avoid a potential scam. Also, you can find brokerages with higher

brokerage fees due to their excellent customer service. Always check their fees and match them with their expertise and quality of service.

Property

Buying properties as passive income is a traditional real estate investment method. You can buy and sell properties or buy and lease them out. Yet today, more common investments, such as real estate investment trusts (REITs) and crowd-funded real estate, are available.

However, many analysts are pessimistic about the real estate performance this year. Property sales and prices are cooling down. Despite all these, I disagree with those anticipating a real estate market crash. First, commercial and residential property shortages remain high. The year started with a 4% decrease in property inventories. We can attribute it to builders becoming more cautious since the Great Recession. With the current supply and demand, price changes may remain manageable.

Educational Plan

Educational plans are another non-tax-deductible savings plan account. Funds can be invested with non-taxable earnings. Even better, withdrawals are taxable for education-related expenses, such as tuition fees and books. It will be helpful if you plan to build a family and expect your child to attend college. But remember that non-educational expense-related withdrawals are taxable with a 10% penalty.

Certificate of Deposits

Certificates of deposit (CDs) are like bonds, but banks and credit unions issue them. It is also logical to classify them as time deposits because they have a fixed term and pay periodic interest. They mature after a certain period, often

within a year. Since banks often issue them, they are FDIC-insured, which pays interest. Also, like bonds, they have low risks and lower yields, unlike the other investments on the list.

Government Bonds

There are various types of bonds, but those issued by the government yield some interests with manageable risks. Municipal bonds, treasury bonds, and federal bonds are some typical options. Even better, they are more inflation-linked than corporate and mortgage-backed bonds. Note that most bonds do not perform well in a high-inflation environment. Given the nature of government bonds, they still have decent yields amidst inflation. They also have a better hedge against valuation losses. But overall, bonds have low risk and reward potential.

Learn More About Non-Retirement Investing

Having a consistent income stream is crucial for retirement planning. A passive income can help increase and protect your wealth. As such, investing your non-retirement funds can provide more returns in your retirement years. It is more essential today, given the economic volatility. But no matter how promising they can be, you must be careful and familiar with them before venturing. You must have adequate knowledge, capacity, and patience to do so. Thankfully, various types of investments suit your finances and risk preferences. There are also experts to provide all the help you need for sound investment decisions.

The post [Things To Remember When Deciding To Invest Your Non-Retirement Funds](https://www.entrepreneur.com/finance/things-to-remember-when-d) appeared first on Due.

<https://www.entrepreneur.com/finance/things-to-remember-when-d>

eciding-to-invest-your/448390