Herald-Journal

Noel Swain: When You're Young, Invest for Growth

Published: Sunday, September 17, 2017

I sat next to Naomi on a flight from Spartanburg to Dallas.

You tend to ignore most people you sit next to on a two-hour flight. But Naomi was a good seat mate, and we talked the whole way.

Naomi lives and works (remotely) in Asheville, N.C., and was on her way to her employer's office in California. She's a single 35-year-old and loves Asheville. As we talked, the conversation finally got around to investments and her retirement account.

Being 35 and very focused on her career, Naomi, like many young people today, hadn't given much thought to her 401(k).

She only knew she doesn't like risk, so she is investing in the guaranteed interest fund within her retirement plan. I asked her what her definition of risk is, and her answer was typical: "It's when my investment loses money."

There is more information on the internet about investments and investment concepts today than anyone can read, even if they spend 24 hours every day trying.

It was obvious to me that Naomi is very intelligent and capable. But that doesn't mean she has much interest now in an event that is 25 or 30 years away.

To get her attention, I asked her if she'd be willing to trade her security in never having a down day at age 35 for an extra half-million dollars when she was ready to retire?

Puzzled, she played along with me. Based on what she is currently contributing to her 401(k) and how much she already had saved up, I knew I'd be fairly close to the half-million number.

So I forward calculated the past 25-year return of the average fixed interest investment (4.16 percent), and then compared it to the past 25-year total return of the S&P 500 (9.06 percent). I already knew these figures because I'd calculated them for someone else the week before.

The difference was more $600,000 by the time Naomi would be 60.

Then the plane landed in Dallas, she went her way, I went mine, and I haven't seen or heard from her since. I did tell her I'd probably write a column about her. So maybe she gets the Spartanburg Herald-Journal and will see this story.

The lesson here is that long-term, the stock market indexes have always provided better returns than interest-bearing accounts.

So if you are still in your 20s, 30s or 40s, and still accumulating assets for your eventual retirement, don't be afraid of the next market crash. Use it to your advantage. Continue to invest all the way down.

You'll be buying more and more shares for the same dollar. And when the market recovers, as it always has, you'll have that many more shares worth that much more money.

It's called Dollar Cost Averaging, and it works.

A 60-year-old should invest primarily for preservation, but a 30-year-old should invest primarily for growth.

Being too conservative when one is young can be just as harmful to one's wealth as investing too aggressively when one is older.