How To Retire With $5 Million

Tips and Advice To Help You Retire Comfortably

Hi guys! Ron Parks here and welcome back to the channel.

We talk a lot about investing on this show, particularly about retirement. In these trying times, you may have needed to dip into your savings more than you expected. You may very well be looking at ways to replenish your savings back to what they were, or maybe you're always looking to put a little more money away.

Unfortunately, I have a bit of hard truth for you. It's relatively unlikely you're on track to retire as a multi-millionaire — if you are, welcome Mr. Musk, please have a seat! But really, the truth is you probably never even saw yourself as a millionaire, which means you're more than likely not even actively working towards getting there.

According to a recent study from TD Ameritrade [ref1], less than 12% of Americans retire in their sixties with more than one million in savings — and that should be alarming, seeing as most financial advisors will tell you to try and retire with at least $1.7 million put away.

Thankfully, I do have some good news for you, too — you can absolutely retire as a multi-millionaire. With the right investments, discipline, and planning, you can easily get yourself on track to retire with at least five million dollars, and that's what we're going to focus on today. We're going to break down just how much you'll need to invest, depending on your age, to help you reach your retirement goals.

Fortunately for us, the numbers have already been broken down. To give credit where credit's due, you can thank the team at Nerdwallet for a lot of the math used here.

When planning for retirement, you want to use tools such as saving in your employer's 401(k), or maybe even a Roth or traditional IRA — but those are just the basics. Before I lay out the numbers, let's get you a little bit more comfortable with investing.

[display "The Biggest Mistake Everyone Makes" on screen]

Spoiler alert: The answer is "fear"; you can't let fear stop you.

You've already heard the horror stories, so there's no real need to repeat them. Something like a friend heard about some great new investment opportunity – maybe it's a startup, maybe it's a new variation on bitcoin – and the next thing you know, they're broke.

The maxim that you should never risk more in investing than you're willing to lose is the only one you need to live by, but it's easy to get tempted. Sometimes, a sure thing can prove to be just that — it's rare, but it happens.

So risk is often a reason to not invest, but there are other deterrents as well. Maybe you think it's too complicated, or perhaps even too confusing; I've heard it all by all. Ultimately they're all excuses for not putting your money where it'll benefit you most, the stock market.

Yes — the market is big and confusing. I often like to equate a new investor's panic with the scene in David Cronenberg's "Scanners," where the guy's head explodes.

[play ref2 clip]

It feels like there's just too much information to retain and can easily get overwhelmed. You want to play it safe and think you're protecting yourself by avoiding the whole game entirely.

Well, the truth is, playing it safe is one of the riskiest things you can do when you're talking about long-term investment goals. Without even venturing into the market with a 401(k) mutual fund, you're not putting in place anything to reach those goals.

You have to remember that your portfolio is something you can balance. You can have riskier investments so long as you pair them with safer assets. It's too easy to see investing as a go-big-or-go-home sort of game, but no long game is. The people looking to strike a fast fortune are scammers and get-rich-quick artists – the very people you want to avoid.

So it would help if you recognized that there's a middle ground in investing, and then you can start investing intelligently. FDR ultimately said it best, "There's nothing to fear but fear itself," and you're going yourself no favors if you let it dictate your retirement planning.

Now, let's get into some numbers.

In 2019, something pretty incredible happened: The number of people earning over $1 million in their 401k accounts hit a record high.

Now, remember, we're looking at a figure five times that. After all, that's our goal, and already that seems much more attainable knowing that the overall statistics are up. But of course, your results will ultimately depend on how much you decide to save each month and how you choose to invest.

[ref3, consider a graphic from the video on page highlighting the benefits of investing young]

So, according to Nerdwallet, if you start saving at 20 to retire by 67, you'll need to stash nearly $1,600 a month for your remaining 47 years of work to reach that coveted $5 million goal. That sounds like a lot, especially for someone so young, but it only gets worse. Let's jump ahead to someone ten years older, at 30.

You'll need to be putting away double what you would have had you planned earlier, with more than $3000 needed each month!

I cry at the prospects of the very late bloomer, who never paid retirement any mind until they only had 27 years left to work. I don't know very many 40-year-olds who can comfortably afford to save nearly $6,200 a month.

The earlier you invest, the greater chance you have to take advantage of compound interest. So not only will you see returns on your initial investments, but you'll also see returns on those returns.

The longer you wait, I can't stress this enough, the more you'll ultimately have to pay. So you need to invest early.

Starting late will no doubt impact your quality of life during your working years, as you'll have to put away a lot more than you otherwise would have. You also run the risk of losing the money you're saving if you don't invest wisely.

Now that we know how much we need let's talk about what you're actually investing in and how to do it intelligently, starting with finding the right mutual fund.

You've probably heard of mutual funds before, even if just in passing. But ask the average person on the street for a simple explanation, and they'd likely struggle to explain it.

Essentially, a mutual fund is a pool of investors – like you – that buys stocks, bonds, and securities on the market. They're often managed by an individual in a firm to decide what to buy, when to buy it, and when to sell it. It's kind of like the company you work for has its own stockbroker.

Usually, mutual funds are there specifically for long-term or larger investments, such as retirement, mortgage payments, or even a child's college education. Most mutual funds tend to have actual goals in mind, like limiting short-term risk, and those managers will operate in service of that goal.

A mutual fund in your 401k may help its investors retire by a specific date, like the magic 67 median mentioned earlier.

What often happens in such funds is that, early on, the fund leans more heavily on the risky investments because they have the money and time to be riskier. As the investor gets closer to retirement, they behave more conservatively, almost analogous to people in a way.

The downside to mutual funds is their fees. Most mutual funds charge fees from each investor, and while they seem small at first, like credit card interest, they can quickly add up without you realizing.

So it's imperative that you know two things when you're choosing a mutual fund – your risk tolerance and a breakdown of the fees charged by the fund.

As for risk tolerance, this is a topic that's rarely clarified. Risk tolerance is what you are willing to invest or lose. We can cover several of those factors in a future video, but suffice to say the old maxim I spoke of earlier continues to hold true.

So to recap, because we've covered a lot of ground today:

The earlier you save, the better returns you'll see, making the burden of storing away a good chunk of your paycheck much more feasible.

Remember that hypothetical 20-year-old who had the foresight to stash $1600 a month? By the time he'll retire, he'll have $5 million to ensure a comfortable, relaxing future in his golden years.

The best course of action, and the smartest way to always ensure you have enough put away for any given set of circumstances, is to always save toward a specific future you want to have. Let that be your guiding principle.

Thank you for watching! If you liked the video, I'd appreciate it if you let me know with a click below. Twice a week, sometimes more, I'll help you navigate the often fierce waters of the financial world. If you'd like to see more videos like this, feel free to subscribe, and be sure to click that notification bell so that you know as soon as they're up.

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ref1: "Road to Retirement Survey"
TD Ameritrade
2020
https://s2.q4cdn.com/437609071/files/doc_news/research/2020/road-to-retirement-survey.pdf

ref2: "Scanners"
1981
Avco Embassy Pictures
Head: https://www.youtube.com/watch?v=1qCszP4HI7U&ab_channel=MangoPictures

ref3: "How Much You'll Need to Invest per Month to Retire With $5 Million, Broken Down By Age"
CNBC.com
10/06/2020
https://www.cnbc.com/2020/01/23/heres-how-much-americans-have-saved-for-retirement-at-different-ages.html