Investment Planning: The Basics

Before You Begin

Before diving into investment options and strategies, take a moment to assess your current financial situation. Start by gathering all your banking and investing statements from the last 12 months, as well as any other financial documents, such as paystubs, tax returns, and an estimated expenses breakdown.

Ask yourself:

- Do you have high-interest debt?
- Is your current cash flow allowing you to save or invest consistently?
- Do you have an emergency fund?

Analyzing your income and expenses will help you understand your cash flow and identify opportunities to invest. These foundational steps matter because investing works best when you're not constantly pulling money out of your accounts to cover unexpected expenses.

Once your financial base is stable, you're ready to consider how investing fits into your broader goals.

Saving vs. Investing

Most of us were taught early on to save a portion of what we earn for a rainy day, a treat, or a future purchase. But as we get older, we realize that saving alone often isn't enough. The math doesn't lie: if we don't put those savings to work, we may fall short of major life goals like buying a home or retiring comfortably.

That's where investing comes in. Saving isn't just about safety and liquidity, and investing isn't only about growth and long-term potential. Saving is the act of setting money aside (that is, not spending it). Investing, however, can include assets that are safe and liquid as well as those with long-term growth potential but inherently more risk. Both approaches allow you to put your money to work, but they offer different strategies to help you reach your goals.

Next Steps

The first step in investment planning is determining your goals and understanding the time it may take to achieve them. Your goals give your plan a direction. Why are you investing? Is it for a down payment on a home? Funding a child’s education? Retiring at a certain age? Creating financial independence?

Your goals also help determine how much you need to save and how aggressively you should invest. Once your goals are clear, consider your time horizon.

- Short-term goals (1–3 years) call for safer, more liquid investments.
- Intermediate-term goals (3–10 years) typically allow for moderate risk.
- Long-term goals (10+ years) give you the most flexibility to invest in growth-oriented assets like stocks but also involve higher risk.

Understanding the Impact of Time

Time is one of the most powerful tools in investing. The earlier you start, the more opportunity your money has to grow. Compound interest means your earnings generate their own earnings, typically creating a snowball effect over the years.

For example, suppose you invest $10,000 in an account that earns 7 percent interest annually, compounded once per year.

- In year one, you earn $700 in interest, bringing your account total to $10,700.
- In year two, you earn 7 percent on the new balance of $10,700, adding $749 for a total of $11,449.
- In year three, your interest is calculated on the new balance of $11,449, resulting in $801.43 of interest and a new balance of $12,250.43.

This process continues, with each year’s interest calculated based on a larger amount than the year before. Over time, this compounding effect significantly accelerates your investment growth, especially if you leave the money untouched for many years.

Boosting Growth with Contributions

Allowing your principal amount to compound while continuing to add funds to the account creates even greater growth potential. For example, if you start with the same $10,000 at 7 percent annual interest—but also contribute an extra $1,000 per year—your balance after three years would be

$15,690.37, a $3,439.94 difference!

Waiting to invest, even for just a few years, can significantly reduce your long-term growth potential. Starting small and starting now is often better than waiting. Remember, even modest, regular contributions add up over time, thanks to the power of compounding.

Stay Engaged and Consider Help from an Expert

You could choose to manage your investments on your own, assuming you have the skill, will, and time to do so. There are countless educational resources available, and many people enjoy learning about investing independently.

But even professional athletes have coaches. Having a trusted advisor by your side can make the process smoother and more effective. Working with an advisor doesn’t mean giving up control. It means gaining a partner who’s invested in your success. Financial advisors bring experience, objectivity, and strategy to the table. They help you avoid common pitfalls, stay focused during market volatility, and tailor your plan to your unique situation. They can also challenge your thinking and help you see opportunities you might miss on your own.

Investment planning isn’t a one-time event either. Life changes, markets shift, and over time, your needs and goals will evolve. Regularly reviewing your progress ensures that your plan stays aligned with your needs. Whether you’re adjusting contributions, rebalancing your portfolio, or revisiting your goals, staying engaged is key.

Getting started with investing doesn’t require perfection. It requires intention. With a stable foundation, clear goals, and the right support, you can build a plan that grows with you. The journey may seem complex at first, but you don’t have to walk it alone.

Your future self will thank you.

Resource by the CAPTRUST wealth planning team

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