How to Invest With Little Money

Beginners and even those starting late in life can benefit from investing as soon as possible.

By Kate Stalter | Reviewed by Rachel McVearry | June 26, 2023, at 3:51 p.m.

Consider setting up automated transfers to an investing account, a "set-it-and-forget-it" strategy. **(GETTY IMAGES)**

Jessi Fearon says she and her husband were "clueless" about investing in 2017, having previously cashed out a 401(k) account to cover living expenses.

The couple faced challenges. Family members who had lost money in the market discouraged Fearon and her husband from investing. Her husband was starting his own business while she was a stay-at-home mom to three children, and their household income was $47,000 – not exactly a princely sum for a family in the metro Atlanta area.

"I committed 2017 to learning about investing," Fearon says.

Anyone who's dipped a toe into the world of personal finance advice has heard that it's best to begin investing in your 20s, when you have plenty of time on your side to benefit from the magic of compounding.

But frequently, people in their 20s are making little money, with every dollar being used for rent, food, transportation and, of course, some fun and entertainment. It can be tough to find spare cash to invest, even if you're working for a company that has a 401(k) plan.

In addition, many people, for a host of reasons, don't begin investing until much later in life, sometimes as late as in their 60s.

How should investors at various stages of life get started, given unique situational challenges? Here are some tips to start investing with only a little money:

- How to go from clueless to confident with numbers.
- Make it easy with automation.
- When time isn't on your side.
- If traditional advice won't meet your needs.

How to Go From Clueless to Confident With Numbers

Gina Knox, a financial coach based near Austin, Texas, who specializes in working with creative entrepreneurs, says aspiring investors need to first understand how much they have available to invest.

"A lot of my clients think they have nothing; then we audit accounts and bills and see there is additional money available, even if it's $500," Knox says. "Start investing now with whatever you do have. A lot of times the fear around money makes us freeze and do nothing, and this is not helpful."

Fearon's first step was using the Acorns app, which rounds up everyday purchases and invests the spare change automatically into diversified portfolios. She eventually realized Acorns had high fees, but it was her starting point before opening a Roth individual retirement account at Fidelity with just $20.

At first, she didn't realize she had to choose investments within the Roth account. In the early days, before developing a better investment strategy, Fearon bought mutual funds with high fees and expense ratios, and also invested in some companies that did not align with her values.

As Fearon's experience illustrates, those are fixable mistakes. The biggest hurdle is getting started, which she did.

She and her husband committed just $50 a month to invest as they paid off consumer debt, and were close to paying off their home. After the house was paid off, in January 2019, they began investing half of what was their mortgage payment, maxing out their Roth IRAs.

Make It Easy With Automation

Christopher Johns, founder and wealth advisor at Spark Wealth Advisors in Jacksonville, Florida, says automation is a powerful strategy to begin building wealth, even with a small amount of money.

"By scheduling automatic transfers to your investment account, investing quickly becomes set-it-and-forget-it," Johns says.

He recommends choosing an index fund that tracks the broad market, such as the S&P 500, as an easy, low-cost way to diversify portfolio holdings. Most brokerages offer a feature that will automatically invest money transferred from a checking account.

For would-be investors who work at a company that offers a 401(k) match, Johns suggests contributing, at minimum, the percentage required to receive the full match. For example, if an employer matches 100%, dollar for dollar, up to 5% of an employee's salary, that essentially means an automatic 100% return on investment.

For self-employed workers, Johns says, other investment accounts are available, such as Roth IRAs or taxable brokerage accounts. He adds, however, that investors should be aware of the rules specific to each type of account, to avoid inadvertent fees and penalties.

When Time Isn't On Your Side

When starting an investment journey later in life, Johns says, it's important to manage expectations.

"Time isn't on your side anymore, and you may need to work longer than expected to build your nest egg," he says.

He recommends that investors starting later begin by cutting expenses where possible in order to contribute more to investment accounts.

"No matter where you're at in life, the important thing is to just keep saving, no matter the amount," he says. "Regular contributions to any investment account can grow substantially over time."

Jill Fopiano, president and CEO of O'Brien Wealth Partners in Boston, says for the person starting to invest later in life, or who is rebuilding after a setback, getting started is the most important step.

"When it comes to retirement savings, the best time to start socking it away is 20 years ago, but the second best time is today," she says.

If Traditional Advice Won't Meet Your Needs

"Older individuals often have a shorter window to retirement, and may need to save more aggressively or work longer," Fopiano adds. She notes that the traditional advice is for investors to become more conservative with their portfolio as they age; an older person trying to rebuild or start saving later in life needs to find the balance between risk and an expected return that works for them.

"They may need to be more stock-heavy than their peers who have been saving for longer," she says.

An investor who is too conservative may feel safe, but may actually be adding the risk of not generating enough income to last through retirement. That's why it's crucial for an investor to have a strategy tailored to his or her unique situation.

It's also important to expect market declines. Fearon and her husband lost money in 2020 when stocks plummeted.

"That one was hard, as we saw over half of the money we had invested gone in the blink of an eye," she says. "Thankfully we gained that and then some back, but it was certainly a sucker punch when it happened."

Fearon says she is "beyond proud of the progress we've made. We're just two kids from broken blue-collar homes. I was the first one in my family to go to college, and even though they didn't teach me in college how to invest, we still made it happen. We may not be millionaires yet, but we will be."