How Investing Just $50 A Month Can Make An Impact On Your Nest Egg

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Oct 8, 2015

This story originally appeared on LearnVest.

Saving $50 each month probably doesn't sound like much to write home about.

After all, once you do the math, that only amounts to $600 a year—which means it would take 17 years before you even crack the $10,000 mark.

When you look at it that way, you may think, "What's the point in squirreling away such a small amount for a big savings goal like retirement, when my modest contribution can't possibly make much of a dent?"

What you're *not* taking into account, however, is the power of compound growth.

"It's the process of letting the money that you're earning—whether through interest or growth in the underlying investment—compound on top of itself," says Karen Lee, a Certified Financial Planner™ based in Atlanta. "So it's not just what you save, but the earnings on top of what you save."

Of course, how much accrues in added earnings all depends on the type of savings vehicle you choose—and the timeframe by which you need to access that money.

Want to retire in 20 or 30 years? Then parking your nest egg in a low-interest savings account, for instance, may not be the best avenue for growth.

"A savings or money market account [is typically used for] safety and liquidity—traditionally for things like an emergency fund or saving for a short-term purchase," Lee says. "But if your time horizon is long enough, it makes sense to consider saving in a market-type investment for the potential for greater growth."

To show you what this could look like, we decided to do a little exercise and run the numbers on the compound growth potential of investing $50 each month in a savings account; a money market account; a brokerage account invested in index funds; and a 401(k), with a 50% company match.

A Basic Savings Account: A deposit account that provides nominal interest. Typically good for funds you want to keep liquid, such as emergency savings or a savings goal that's less than five years away.

Annual Interest: .06%

What you can earn in 5 years: $3,004

What you can earn in 10 years: $6,017

What you can earn in 20 years: $12,072

Money Market Account: An interest-bearing account that may combine features of a checking and savings account. Typically offers slightly higher interest rates than a basic savings account. Also could be good for savings goals less than five years away.

Interest Rate: .08%

What you can earn in 5 years: $3,006

What you can earn in 10 years: $6,024

What you can earn in 20 years: $12,096

Brokerage Account: An investing account that can hold many different types of assets. For this specific example, we're looking at an account holding mutual funds that are structured to mirror major market indexes, such as the S&P 500. Could be good for savings goals five or more years away.

Interest Rate: 7%

What you can earn in 5 years: $3,580

What you can earn in 10 years: $8,654

What you can earn in 20 years: $26,046

401(k) With a 50% Match: An employer-sponsored, defined-contribution plan intended to encourage long-term saving for retirement. Employers may offer a match, so for this specific example we're looking at a common matching scenario of 50% of the first 6% of your salary.

Interest Rate: 7%

What you can earn in 5 years: $5,369

What you can earn in 10 years: $12,980

What you can earn in 20 years: $39,069

**All interest rates and return rates are hypothetical and do not take fees into account. Savings and money market interest rates based on FDIC national rates as of September 28, 2015. Index fund and 401(k) return rates based on conservative estimates for average market returns. Investing in mutual funds involves risk, including possible loss of principal. No strategy assures success or protects against loss.*

As you can see, the larger and further away your savings goal is, the more you may want to consider putting that monthly $50 into an investment vehicle—a strategy known as dollar-cost averaging—rather than save it in an interest-bearing account.

"[Dollar-cost averaging] is when you put money into an investment on a predetermined schedule," Lee explains. "The idea is to take advantage of the up-and-down movement in the stock market. So when share prices are higher, you buy fewer shares—and conversely, when the prices are lower, you buy more shares [with your dollar amount]."

This strategy can be particularly helpful if you have decades to go before you reach your retirement goal, because it enables you to stay the course through market cycles to keep building your nest egg—hopefully with the added help of an employer-sponsored 401(k) match.

But even if you don't have access to a company match, it's still worth it to consider participating in a company 401(k) plan, because the pretax contributions come directly out of your paycheck—making saving a no-brainer.

“Automating savings is the key for most people, because they may not have the discipline to put that $50 a month away,” Lee says.

And an amount even as small as $50 can go a long way.