7 Best Ways to Invest $5,000 of Your Savings

As a new investor, learn the best ways to invest $5,000 and build a portfolio for maximum returns based on your level of risk tolerance and financial goals

By Anne Dullaghan Updated: May 12, 2021

You've been prudent with your finances up until now, and it has allowed you to save up little extra money -- let's say $5,000.

It's an amount that often leads many people to begin looking for ways to grow their money.

You, too, might be thinking:

"How can I put this money to better use?"

If you're on track with all your other financial goals (e.g., saving for a wedding, car or home), here are the best ways to invest that $5,000:

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1. Consider investing in a Roth IRA

A **Roth IRA** is a stable, long-term account in which you pay taxes ahead of time.

“If time is on your hands, then I would strongly think about investing in a Roth IRA account,” notes Solari. “They have been great investment vehicles for young investors, and they have become a great tool for tax planning in the future.”

Investment professionals suggest saving 30% of your $5,000 -- and your income moving forward -- in a retirement account.

2. Robo-advisory services

Robo-advisors are popular options for beginner investors because they handle everything for you.

Typically, you'll go through a questionnaire to assess your risk tolerance and investment goals. Then, a diversified investment portfolio will be designed for you. You just have to put money in (on a regular basis) and those funds will be disbursed across those investments.

The best part is that it automates the investing process.

3. Go for index funds

Index funds are commonly touted as easy diversification in specific markets, usually an entire stock market index. These funds track the performance of those indices, which usually follow up thousands of publicly-traded companies.

Again, it's an investment vehicle that you **simply have to set and let the fund do its business**.

With $5,000 to invest, you're not about beating the market every day, rather just keeping up with it.

Plus, there are questions whether portfolio fund managers can, over the long term, outperform their benchmarks, so index funds may be a good option.

4 ETFs

Exchange-traded funds (or ETFs) are similar to mutual funds in that when you purchase one share of either fund, you are buying a small slice of that investment's holdings.

The notable difference between the two is how they are traded.

An ETF can be bought and sold much like a stock. You can also see price of the ETF change in real-time.

Shares of a mutual fund, on the other hand, are transacted only at the end of the trading day.

5. Save with an online bank

Online banks typically offer more interest than a traditional bricks-and-mortar bank. **"For someone who is just starting out with savings, I would suggest building up that rainy day fund and invest it into a safe liquid account like an online bank,"** says Michael Solari, CFP, Principal of Solari Financial Planning, LLC. "Before you can start building a mountain of wealth, it is important to protect yourself from falling into a ditch."

While online banks offer more interest, the only downside is that they don't have physical locations, which makes it difficult to do things like talk to a teller or deposit cash.

See our list of **Best Online Banks**.

Here are the top online banks that have the highest savings accounts rates and free interest checking accounts:

6. Think about certificates of deposit (CDs)

Again, it's all about short-term access to cash. If you're investing for less than five years, then **consider placing your money in a CD** with a maturity date that ends in five years.

CDs currently earn a small amount of interest, however, any interest does add up. The downside is that once you lock into a CD with a specific maturity date, you're committed to that.

Money market accounts, on the other hand, offer more liquidity.

For people who are already experienced savers, Solari notes that there are more investment choices to consider. "I have a five-year rule when it comes to investing," he says. **"If you need the money within five years then you ought to invest it** into **a liquid savings account."**

7. Money market accounts (MMAs)

A money market account is best described as a savings account with added convenience resembling a checking account.

Usually, MMAs are suitable for savers with larger deposits ($10,000 or more) and the bank rewards you with a higher interest rate.

Plus, you might have an associated debit card and/or check-writing ability -- though we suggest not using them on a regular basis.

Being Smart About Risk

Regardless of what type of investment you choose, there are certain intangible truths about investing.

“Strategic investing means taking on an appropriate amount of smart risk -- the kind that boosts return -- within a well-diversified portfolio of stocks, bonds, and commodities,” says Elle Kaplan, CEO and founding partner of LexION Capital Management LLC. “That way, your accounts can weather whatever the market throws at you over time and continue to grow and serve you.”

She points out that the real risk lies in not investing. “Diversification is a valuable tool that allows your portfolio, whether $5,000 or $5,000,000, to grow and work as hard for you as you did to earn it.”

About the author Anne Dullaghan

Anne specializes in covering finances, technology, higher education, and healthcare. Her work has appeared in Business Insider, CBS News, Huffington Post, NASDAQ, and other major outlets.

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