How much money should you really be investing during periods of higher inflation?

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How to begin thinking about how much to invest, and how to alter your investing plans in times of elevated inflation

When thinking about how much money to invest, it may be tempting to look at how much money you *have*, but you should also think about how much money you will *need*. While it's not always a "fun" question to think about, ask yourself: "What are my goals and what am I trying to accomplish?" advises Audrey Blanke, a certified financial planner with Baird. With that information in mind, you can then turn to some "tried-and-true rules of thumb" that will help you get started, she adds. Experts generally recommend setting aside at least 10% to 20% of your after-tax income for investing in stocks, bonds and other assets (but note that there are different "rules" during times of inflation, which we will discuss below). But your current financial situation and goals may dictate a different plan. Here's what you need to know.

Use the 50/30/20 budget rule as a starting point…

One popular method for budgeting — the 50/30/20 rule — recommends dividing your after-tax income as follows: 50% for needs, 30% for wants and 20% for savings and paying off debt. That 20% threshold covers both saving for the short-term, like an emergency fund, and for longer term goals, like buying a home or investing for retirement.

The 50/30/20 rule is a good way to incorporate savings into your monthly budget, or spending plan, says Matt Schwartz, a certified financial planner with Great Waters Financial. This type of budget also requires you to think about your priorities, he adds. "You have to weigh out what is my lifestyle, and how am I going to enjoy the fruits of my labor, not only in the future but today."

Once you decide on a plan for your goal of saving 20%, it's important to automatically transfer that money to an investment account with each paycheck — just as you do with contributions to a 401(k), Schwartz advises. Having a plan in place will also help you to avoid the temptation to spend money earmarked for investing on something else. "We know that once that money hits our checking account, it's like we never had it in the first place."

…But your financial situation may require adjustments to that rule

A rule of thumb, like the 50/30/20 budget, is a good framework to begin thinking about how much of your income should go toward investing. But for many people, for example those in their 20s, that amount may not be realistic, Blanke notes.

Rather, you may need to gradually work up to a 20% savings goal in the early part of your career, Blanke notes. And it's OK to hold off on maxing out the amount you can invest to focus on other shorter term priorities like paying off debt, buying a home, starting a family or giving yourself flexibility to take a break from the workforce, she adds. "For people who have larger student loan balances, it's really hard to get to that 20% threshold."

Re-evaluate your investment contributions, and consider increasing the amount you invest

Just as your financial situation will change when your career advances or your personal life changes, so too should your goals for investing. Amid higher inflation, as is the case in the U.S. economy right now, you should strive to set aside even more of your paychecks — think: 25% — to investing and saving, according to Craig James Ferrantino, a certified financial fiduciary and founder of Craig James Financial.

"If we save too much money, we can always tap into it if we need it," Ferrantino says. "But if I save too little and inflation persists, then I'm going to have too little money when I need it."

Finally, it's important to remember that your investing goals can and will change. While Schwartz recommends an annual review of your plan, Blanke says you should also see if you have extra money at the end of the year that you can devote to investing. And even if the dollar amount you invest fluctuates, establishing an investing discipline early — and then sticking wiith it, no matter what's happening in the market at the time — is valuable.

"Remember the saying: Time in the market is more important than timing the market," Blanke says.