Independent Investor

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Investing Through Life's Stages

Generally speaking, how you allocate your investment portfolio among different types of investments will depend largely on your unique investment goals, time frame and tolerance for risk. Yet most investors will experience some common life events—getting married, buying a first home, starting a family, becoming an empty-nester and retiring—that will require them to reassess their investment situation and make adjustments as needed.

Getting Started

The first part of a lifelong investment strategy is establishing disciplined savings habits. Regardless of whether you are saving for retirement, a new house or just that extravagant dining room set, you will need to develop strict budgetary practices. Regular contributions to savings or investment accounts are often the most productive; and if you can automate them, even better.

Universal Factors That Affect Your Investment Decisions

Once you begin saving on a regular basis, you will soon have to decide how to invest the money you are saving. Regardless of what financial stage of life you are in, you will have to determine what your needs are and how comfortable you are with risk.

- **Investment objectives.** What do you need the money for? The answer to this question will help determine whether you want to put your savings into investment products that produce income for you, or that concentrate on growing the value of your investment. For instance, a retirement fund does not need to produce income until you retire, so your investing strategy should focus on growth until you are close to retirement. After you retire, you'll want to draw income from your investment while keeping your principal intact to the extent possible.
- **Time and risk tolerance.** All investing involves a certain amount of risk. How well you tolerate price fluctuations in your investments will need to be balanced against your required rate of return in determining the amount of risk your investments should carry. An offsetting factor to risk is time. If you plan to hold an investment for a long time, you will probably tolerate more risk because you have the time to make up any losses you may experience early on. For a shorter-term investment, such as saving to buy a house, you may want to take on less risk and have more liquidity in your investments.

Investing—A Lifelong Journey

Although everyone's attitude toward investing and money is different, most investors share some common situations throughout their lives. The following are some major life events and some investment decisions that you may want to consider:

When you get your first "real" job:

- Start a savings account to build a cash reserve.
- Start a retirement fund and make regular monthly contributions, no matter how small.

When you get a raise:

- Increase your contribution to your company-sponsored retirement plan.
- Increase your cash reserves.

When you get married:

- Determine your new investment contributions and allocations, taking into account your combined income and expenses.

When you want to buy your first house:

- Invest some of your non-retirement savings in a short-term investment specifically for funding your down payment, closing and moving costs.

When you have a baby:

- Increase your cash reserves.
- Increase your life insurance.
- Start a college fund.

When you change jobs:

- Review your investment strategy and asset allocation to accommodate a new salary and a different benefits package.
- Consider your distribution options for your company's retirement savings or pension plan. Discuss with an advisor if a roll over into a new plan or IRA is appropriate.

When your children have moved out of the house:

- Boost your retirement savings contributions.

When you change jobs:

- Review your investment strategy and asset allocation to accommodate a new salary and a different benefits package.
- Consider your distribution options for your company's retirement savings or pension plan. Discuss with an advisor if a roll over into a new plan or IRA is appropriate.

When your children have moved out of the house:

- Boost your retirement savings contributions.

When you reach age 55:

- Review your retirement fund asset allocation to accommodate the shorter time frame for your investments.
- Continue saving for retirement.

When you retire:

- Carefully study the options you may have for taking money from your company retirement plan. Discuss your alternatives with your financial advisor.
- Review your combined potential income after retirement. Reallocate your investments to provide the income you need while still providing for some growth in capital to help beat inflation and fund your later years.

Discipline and a Financial Advisor Can Help

One of the hardest things about investing is disciplining yourself to save an appropriate portion of your income regularly so that you work towards your investment goals. And if you're not fascinated with investing, it may be hard to force yourself to review your financial situation and investment strategy on a regular basis. Establishing a relationship with a trusted financial advisor can go a long way toward helping you practice smart money management over your entire lifetime.