Invest Early and Often

The Motley Fool

By Amanda B. Kish, CFA

George Bernard Shaw had it right when he said youth was wasted on the young. When you're in your 20s, your typical worries include graduating from college, getting a job, and updating your MySpace page. Thinking about how you are going to fund your retirement doesn't usually top your list of concerns. But now, more and more fund shops are targeting this demographic, hoping to lure investors while they're still young.

New efforts

A recent *Wall Street Journal* article highlighted some of the steps a few firms in the fund world are taking. Companies such as **Charles Schwab** (Nasdaq: SCHW) and American Century have cut the minimums on many of their funds, sometimes to as low as $100. Fidelity recently introduced an IRA program that allows younger investors to start saving with amounts as low as $200 a month.

New funds are also being created with twentysomething investors in mind. Vanguard and **T. Rowe Price** (Nasdaq: TROW) have each rolled out target-date retirement funds designed for those investors retiring after 2050. All of these efforts mark a trend of shifting some of the focus away from the baby boomer generation, toward investors just starting out in the working world. The twenty- and thirtysomething age group is considered a rich target market, because this generation is much more likely to face its golden years without Social Security or defined benefit pension plans.

Time to grow

As these fund companies are well aware, younger investors are often overlooked in the great retirement race. However, even folks in their 20s need to start thinking about an investment game plan. If you are a younger investor, the best news is that time is on your side.

The single most important thing you can do to ensure that your retirement is sufficiently funded: Save early and save often. Thanks to the magic of compounding, money saved early on has more time to grow. Delaying saving for retirement can have a significant effect on your portfolio. In fact, for every 10 years you wait before starting to save for retirement, you'll need to save roughly three times as much every month in order to catch up.

So even if you have to cut back on your daily cappuccino or dinners out, make the sacrifice. Putting away even a small amount each month will give you a leg up on saving.

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Be aggressive

Another mistake that many investors make, young and old alike, is not investing appropriately for their age. Some folks are especially sensitive to losing any kind of money in the market, and tend to shun higher-risk investments in favor of "safer" investments such as bond funds or money market funds. While these investments may provide more protection from losses, they will not offer you the kind of long-term returns you need.

No matter what your age, it's vitally important that you have meaningful exposure to equity securities. If you're in your 20s or 30s, your portfolio has time to make up any market losses you may incur along the way, so you shouldn't worry about bumps in the road. Young investors should have almost their entire portfolio allocated to stocks, including large-cap and small-cap domestic stocks, as well as high-quality foreign securities. A small dose of fixed-income investing is called for at this point, but it shouldn't be more than a small percentage of your portfolio.

Getting a little help

If you're just starting out on your investing journey, you might want to consider a lifecycle fund. These funds are managed to either a specific objective (i.e., aggressive) or your target retirement date (i.e., 2040). The investment manager invests in a mix of stocks and bonds, holding more stocks for younger investors and those with a longer time horizon. Over time, the fund's mix gradually becomes more and more conservative, holding a greater percentage of fixed-income assets as you approach your retirement date.

These funds are a great option for investors who don't want to have to constantly adjust their portfolio and who want to leave investment decisions to the professionals. Lifecycle investing has really caught on in recent years, and dozens of firms now offer some version of these funds, so there are plenty of options to choose from.

No matter what young investors decide on saving for their retirement, the important thing is realizing that they need to start early. They have more options than ever before to help get them started. Investing for retirement may not be as much fun as wasting a few hours on MySpace, but you'll thank yourself for it when you're older.

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Fool contributor Amanda Kish lives in Rochester, N.Y., and likes to tell people she's still in her 20s. Amanda does not own shares of any of the companies or funds mentioned here. Charles Schwab is a Stock Advisor *recommendation. The Fool's disclosure policy has kept its youthful good looks.*