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INVESTING GUIDE 2006: STRATEGIES THROUGH THE AGES

Students should learn to save early

By Blanca Torres
CONTRA COSTA TIMES

Kimberly Veasey's countdown has begun. Six months from now, she will graduate from college and officially enter the "real world."

The 21-year-old Martinez native is a senior at Pacific Union College in Angwin majoring in public relations and journalism.

Her goal is to move to Los Angeles to work in film publicity for a year and then study film production in graduate school.

Her immediate concerns involve how she is going to repay $35,000 in student loans and when, how she is going to finance her move to Southern California, and how she is going to transition from dorm life to paying monthly bills on time and learning to save money.

"I really want to be financially comfortable and I don't want to have to be working when I should be retired," Veasey said. "I know that the planning starts now."

Her intentions are in the right place, personal finance experts would agree, but her habits have not caught up to her.

Currently, Veasey lives paycheck to paycheck. She works about 30 hours per week answering phones at the Calistoga Ranch Bathhouse in Napa Valley while finishing up school.

She considers herself almost financially independent because she pays for all of her primary expenses: food, gas, housing and entertainment. Her parents help out by paying for her car insurance.

"I don't budget very well," Veasey said. "I think because I have enough money where I can do more than just cover my incidentals, sometimes I end up buying too much or treating friends."

The problem for most 20-somethings, experts say, is matching one's income to one's expenses to meet short-term and long-term goals.

People in their 20s often are used to having parents or credit cards as backups for financial issues instead of conditioning themselves to live solely off their incomes, said Gerri Detweiler, a consumer advocate and author.

So far, Veasey does not have any savings, but expects that to change once she sets up a direct deposit for her paycheck.

It's easy to save when she can set a specific goal for herself such as funding a trip overseas, but she doesn't think about it much on a daily basis.

"I spend too much, then there's not enough leftover to save even though that was the plan," Veasey said. "I have enough to save, but I end up spending it on other things."

Having income for the first time often leads people to spend more than they should because they are not used to having extra money.

> "It's probably because I think I have the money now," Veasey said. "I don't mind it, my friends don't work as much as I do."

Detweiler suggests writing down every expense a person makes for a week or a month to see where his or her money is going and then decide how to reduce spending. The next step, she said, is to make sure the extra money is going toward savings or paying down debt instead of to another type of expense.

"The big challenge is to get smart about your money as quickly as you can," she said. "The important thing is to start, even if its with a small amount and then you're motivated to keep increasing it."

Blanca Torres covers retail and consumer issues. You can reach Torres at 925-943-8263 or at btorres@cctimes.com.

DID YOU KNOW

• Did you know someone who invests $96 every month, starting at age 23, in an investment that earns an average of 10 percent annually, would accumulate a million dollars by the time he or she reaches age 67? On the other hand, if someone doesn't begin saving until he or she is age 42, that person would have to save $677 every month in order to have saved a million dollars at age 67. (Source: Frances Leonard)

• Did you know people between the ages of 18 and 30 are likely to hold an average of 7.5 jobs? (Source: Kenan Pollack)

RESOURCES

• "Generation Debt" by Carmen Wong Ulrich

• "Get A Financial Life : Personal Finance In Your Twenties And Thirties" by Beth Kobliner

• "The Real Life Investing Guide: How to Buy Whatever You Want, Save for Retirement, and Take the Vacation of Your Dreams While You're Still Young" by Kenan Pollack

• "Getting Loaded: A Complete Personal Finance Guide for Students and Young Professionals," by Peter Bielagus

• "Time Is Money: A Million-Dollar Investment Plan for Today's Twenty- And Thirty-Somethings" by Frances Leonard

• "Debt Free by 30: Practical Advice for Young, Broke, & Upwardly Mobile" by Jason Anthony

• "The Green Magazine Guide to Personal Finance: A No B.S. Money Book for Your Twenties and Thirties" by Ken Kurson

CHECKLIST

• Wipe out debt.

• Start a retirement account

• Make sure your income matches your spending habits.

• Don't buy things you don't need. This is the perfect time to live simply -- buy inexpensive furniture, share a living space and drive an economical car.

• Keep at least one month's expenses handy to avoid using credit cards in case of an emergency.

PLANNERS ADVICE

Frank Catalano

A good way to get started would be to invest in an actively managed mutual fund. Unless you have the time to research individual securities, selecting a good actively managed mutual fund is the way to go. Do not chase after hot funds.

Damien Couture

First and foremost, people in their 20s need to start a savings plan of any type and get into the habit of saving. Don't worry too much over where you invest, just put some money every month into something and forget about it. You will be amazed at how even a small amount, $20, $50, $100 per month will add up due to the power of compounding interest. People this age have a tremendous advantage of time on their side and will be way ahead of the game if they start sooner rather than later.

John Valentine

In our 20s, most of us recall spending more than investing. However, those in this age spectrum with a desire to invest are fortunate to have time on their side. Prudent investment counsel would recommend the majority of their investment dollars be allocated to growth vehicles.

Sherman Doll

People in this age group should invest heavily in themselves, in education, training, and career development. The focus should be on building the foundation of the income-generating engine that will carry you for the next 30 to 40 years in your quest to accumulate wealth. Saving and investing may be secondary to building this important foundation. If you do invest, consider fully-funding a Roth IRA.

With a long horizon to retirement, most people in this age group should be fully invested in equities. This strategy may have a lot of short-term volatility, but the payoff will be higher expected future returns. Keep diversified to reduce your portfolio volatility.

Avoid picking "high flyer" individual tech stocks with the hopes of making it big and never having to work. It's not likely to happen and it's not part of a long-term, disciplined saving and investment strategy.

Libby Mihalka

In your twenties your finances are usually defined by debt management. You have student loans, car loans and credit card debt. How you manage your debt will determine how healthy your financial outlook will be in the coming years. Don't run your credit cards up. Instead pay the bill off every month.

Also participate in your company retirement plan , such as a 401(k) or 403(b), at least up to your company match and hopefully a minimum of 5 percent of your salary. It may seem silly to start saving for retirement now but your generation's life expectancy is mind boggling.

Keep it simple. Build up an emergency cash reserve that is separate from the rest of your investments.

Your biggest mistake would be to cash out your retirement accounts to fund your current lifestyle or to purchase more stuff. Only in the most dire emergency should you cash out these tax deferred accounts because between the penalties and taxes you'll get only half the money.

PORTFOLIOS

Sherman Doll

16% large cap blend mutual funds

16% large cap value mutual funds

33% small cap blend and small cap value mutual funds

5% real estate (REITs)

30% international mutual funds

0% fixed income

Damien Couture

I would recommend a portfolio of 100% equities assuming it is a long-term savings plan. Because most young people are starting out with small amounts of money I would recommend they consider a growth oriented asset allocation fund that will give them exposure to a diversified mix of equities (Value, Growth, Large, Mid and Small cap, International, etc.) all in one fund. Of course, if they are saving for something more immediate like a home purchase then they need to be much more conservative.

John Valentine

We recommend an investment blend of 70% Growth Stocks and 30% Asset Class Rotation/Allocation.

Libby Mihalka Portfolio mix

5% Intermediate Corporate Bond Mutual Fund - Managers Fremont Bond (MBDFX)

25% International Stock Mutual Fund - Laudus Ros International Small Cap (RISIX)

25% S&P 500 Mutual Fund - Select whichever index fund that has the lowest expense

10% U.S. Large Cap Stock Growth Fund -Bridgeway Large Cap Growth fund (BRLGX)

35% Small/MidCap U.S. Stock Mutual Fund - Bridgeway Aggressive Investor(BRAIX)

Harvey Rowen - portfolio mix

Domestic equity 60%

International developed country equity 20%

International emerging country equity 5%

Real estate investment trust 5%

Bonds 10%

Cash 0%