Investments for the Stages of Your Life

At each stage of life, you're likely to have different financial needs. Therefore, saving and investing strategies that are right at one point in life, may not suit another time. You can learn to capitalize on strategies that are appropriate for each phase of your life that can help you to build a secure financial future.

When You're Single

When you're just starting out, this is the time to begin building a savings cushion to protect yourself in case of an emergency. It is also not too soon to begin investing for the future.

If your money is tied up in a passbook savings account paying a low rate of interest, try shifting a portion of it into a higher yielding investment. There are many options to choose from, including money market accounts, certificates of deposit (CDs), stocks, bonds, mutual funds, or annuities.

Aim to accumulate three to six months of after-tax income for an emergency fund in an FDIC-insured savings account. With that "security blanket" in place, you may be in a better position to take some measured risks and begin investing. **Dollar cost averaging—**i.e., putting aside a *fixed* amount monthly in a chosen investment vehicle, such as a mutual fund targeted for growth—is a sensible approach. Be aware however, that investment returns and principal values of mutual funds will fluctuate due to market conditions. When shares are redeemed, they may be worth more or less than their original cost.

Another option for long-term growth is a **real estate investment trust (REIT)**. Such trusts invest in buildings, land, and mortgages, and they may be viewed as mutual funds of real estate. They trade just as stocks do and pay **dividends**. Remember to exercise caution when choosing a real estate investment trust.

Married, No Children

Financially speaking, a dual income married couple is more than the sum of its parts. With only each other to look after, you may have an edge over singles and parents. One spouse can bring in a steady

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paycheck while the other studies for a college degree or launches a promising business. Or, if you both hold jobs, you can try to live on one paycheck and save or invest the other paycheck.

Although you may have more investment opportunities, you may also face more complex choices. Disaster often results from high risk investments that crash. If you want to reduce risk, *diversify* your portfolio, that is, avoid relying too heavily on any *one* investment. Note that diversification does not assure a profit or protect against loss in a declining market.

Here are a few general financial suggestions for married couples without children:

1. Purchase **life** and **disability income insurance** to help protect both spouses' incomes in case anything happens to either one of you.

2. Build up your personal savings with a money market fund.

3. Contribute the maximum amount possible in employer-sponsored savings or investment plans, such as a **401(k)**. These programs offer attractive tax breaks. But withdrawals from your qualified plan are taxed as ordinary income and may be subject to a 10% Federal tax penalty if taken prior to age 59½. There are other limited situations when the 10% early withdrawal penalty may be waived, including but not limited to, permanent disability.

4. Be financially flexible enough to change your investment course if suddenly "baby makes three."

Married with Children

Financial planning for parenthood is a bit like preparing for a long siege. As parents, you may have to stretch your budget to accommodate orthodontic bills, piano lessons, and summer camp. Rearing a child until age 18 can be an expensive proposition. You may face not only high childcare costs, but also ever escalating college expenses.

When negotiating the road from diapers to diplomas, your first financial need is to establish an emergency cash reserve. You can then attend to your long-term goal of building capital. Consider investing in a steadily performing growth mutual fund and, for diversification, in growth-oriented real estate or an income mutual fund. Also, bear in mind that money or investments held in your child's name may affect financial aid for college, more so than if you keep the assets in your own name. Under the financial aid formula, 5% of your liquid assets must be used each year for college expenses, whereas a student must use 35% of his or her assets.

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Empty Nesters

When your children are grown and fly the nest, you are relieved of a great financial responsibility. Your immediate temptation may be to splurge on the comforts of life you have been waiting for while raising your family.

However, now is the time to allocate as much as possible to savings and investment plans earmarked for your retirement. Figure out just how much those tuition bills and other child rearing expenses have cost, then aim to save and invest that much for at least the next several years.

In your prime earning years, it's also wise to assess whether you are taking *full* advantage of all opportunities to reduce your tax bills. Examine additional deductions with your tax professional to replace the reduced number of dependents you can claim.

Each stage of your life presents different investment opportunities and challenges. Discipline and perseverance play a key role in maintaining a sound financial strategy consistent with your long-term goals and objectives. Be sure to consult a qualified financial professional about your unique circumstances.

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