How do I start investing? – The Help Desk – Personal Finance FAQs

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I am a 21-year-old college student, and I feel overwhelmed by all the financial advice out there. It seems that a lot of advice is geared toward people who already have a lot of money. But what should a young adult do to start investing? – Manuel P.

Step one: Don't wait. There are a lot of benefits of to starting to save and invest at a young age. For starters, it gets you into the habit of saving early. Jennifer Cole of Cole Financial Consulting in Sandia Park, N.M., suggests you start saving 5%-10% of your earnings now and gradually increase that amount as your income rises over the next few years.

Step two: Make use of savings plans such as 401(k)s and IRAs, which offer powerful tax advantaged growth. Cole suggests using Roth IRAs, in which contributions are made using after-tax funds but withdrawals are tax-free.

Step three: Decide on an asset allocation — in simplest terms, what percentage of your holdings you want to have in stocks and what percentage you want in bonds. An appropriate asset allocation strategy depends on several factors, such as your time horizon — if you're saving for a retirement that's decades away, you'd lean more toward stocks — and your tolerance for risk; the more likely it is that you'd panic and sell if stocks drop, the more you'd lean toward bonds (though, unfortunately, it's hard to forecast how you'll weather a setback before that setback actually occurs). For someone in your position, Salvini says to consider an allocation of 20% bonds, 50% domestic stocks and 30% international stocks. A portfolio heavily weighted in stocks offers plenty of long-term growth potential, while the bond allocation offers a cushion for market downturns, says Salvini, who also recommends rebalancing your portfolio once a year if those allocations have shifted.

Step four: Pick specific investments. Brooke Salvini, a fee-only advisor at Avila, Calif.-based Salvini Financial, suggests skipping individual stocks and starting with low-cost index funds and ETFs. Reason: Funds and ETFs offer quick and easy diversification (the investing equivalent of not putting all your eggs in one basket) that's harder to accomplish with individual stocks. Salvini offers a few recommendations: Vanguard Total Stock Market (ticker symbol: VTI); Vanguard FTSE All-World ex-U.S. (ticker: VEU); and Vanguard Total Bond Market (ticker: BND). To read more about these and other top-rated funds and ETFs, check out the Money 70 list of recommended funds at cnnmoney.com/money70.

— Austin Kilham

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