AGES AND STAGES OF MONEY MANAGEMENT: A TO-DO LIST

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If you had $500 a month to invest and have no investments or savings, how would you put your money to work for you?

This worthy ponderable reminds us that to successfully reach financial goals, a lot depends on what you do and when. With this question, we don’t know what the long-term aim is, which could greatly affect what we do with the money to reach the goal. But if you’ve not thought about ideas for your financial goals, then here are some things to consider at important life stages.

For the Young Investor

First consider building up a cash reserve. This would be for use as an emergency fund. I’d shoot to have a couple of months’ worth of expenses if I were earning a paycheck (some people recommend as many as six months). Put this money in a safe and readily accessible place, such as a savings account or money market fund.

After that fund gets built up, consider investing. If I were young and investing for the future, I’d put it in an IR, a company-sponsored retirement plan such as a 401(k) plan, or a 403(b) if I worked for a nonprofit organization or governmental entity). I’d visit with a trusted financial advisor and discuss things such as long-term goals and risk tolerance, and then pick investments accordingly, such as a mix of mutual funds, including stocks and bonds, exchange-traded funds, real estate funds, etc., and I would reinvest earnings and dividends. The plan would be to have the portfolio grow over time, ultimately providing steady income during retirement and also money to pass down to heirs.

Youth is a time to build good financial habits that will pay dividends later. If you’re saving $200, $500, or more a month, then you already know the concept of ‘paying yourself first’—automatically putting money aside as soon as you’re paid, before you’re tempted to spend it. I’d go further by taking a personal finance class and reading money-related magazine and newsfeed articles. No personal finance class is required of Wyoming high school graduates, so we often have to learn good principles on our own initiative (and mistakes).

For the Early and Mid-Career Adult

If I were in my 30s or 40s with children, I’d build up a cash reserve; buy a house (as something that could help accomplish investing goals, and which could possibly provide tax breaks, such as the deductibility of mortgage interest); regularly invest in a savings plan set aside for my children’s college education; and set up another account for retirement—with less risk than if I were young. They’d have a focus on growth and value.

Generally, I would contribute as much as I could to retirement savings, which often can be used for other purposes, including a home purchases. Take advantage of matching contributions that your employer will put into your retirement savings. If I liked investing, I’d buy stocks directly through an online, low-cost broker such as Charles Schwab or other financial service companies after developing a plan and conducting lots of research. I wouldn't invest more than a few percent of my portfolio like this though. A visit with a professional money manager would be worthwhile, and this could be the basis for a long-term, and hopefully profitable, relationship.

Although insurance may not seem like the very best use of your money, you only need one accident or catastrophe to wipe you out financially. Protect yourself against the large losses through things like disability insurance (to replace lost income if you become seriously ill), health insurance (to cover big medical bills), homeowners or renters insurance (to cover damage to your house and property), and life insurance (to provide income to those dependent on your income).

I'd also talk with an attorney about the legal documents you should have to protect you and your loved ones if something should happen, such as if you are seriously injured and can't make your decisions, or you die unexpectedly. These documents typically include a (1) will; (2) a durable power of attorney for finances, which gives someone the authority to handle your personal financial matters if you can't; (3) advance life directives (a living will that specifies the medical care you want or don't want if you become hopelessly ill and cannot communicate your wishes; and (4) a durable power of attorney for health care, naming someone to carry out the health-care wishes).

For the Late-Career

If I were near retirement, say late 50s or early 60s, I would want more money to be handy as well as secure—I'm going to be needing it soon, and am counting on it being there. Retirement could last many, many years. So the cash reserve would be bigger—maybe 12 months or more of expenses—and I'd decrease the risk in my investment accounts. The accounts would have more of an income component over growth, and I'd have more bond funds or bonds (but not necessarily long-term ones, more like 3 to 5 years).

Final Thought

Keep in mind that what you do with the money to set aside should be driven by your goals and backed up by a good knowledge of how to reach the goals—the people who know how the system works are the ones who get the most from it. Also, remember that for a woman, good money management skills are particularly important, because they are more likely to need them longer.