The Investor Lifecycle: Changing Priorities, Changing Portfolios

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What do you do when you need to pay for college and you can't get a job? For John Stickle, a sophomore at Front Range Community College in Westminster, Col., the answer was clear: create one. He is the founder of Nextep Applications, a start-up venture that has recently launched Girlfriend 411, an application that allows users to keep pertinent girlfriend information at-the-ready.

Stickle, who had been casually saving throughout his teen years, got serious about funding college just before he enrolled as a freshman. With tuition costing $3,500 per semester at his community college, and with his goal of attending Colorado University ($7,000 per semester), money concerns soon followed. "The money I had already saved wasn't enough. It covered only the first semester," Stickle says. "And I couldn't find a job anywhere, not even McDonald's or Taco Bell. There was no other option than to open up Nextep."

Despite his foray into the technology industry, Stickle hopes to become a physicist one day. With this in mind, his financial goal remains simple: paying for college. "Even if the business does take off, I need to go to college. I'm just focused on funding school right now."

Getting Your Assets in Order

A number of major life events often require financial planning. Going to college is certainly a top priority for many teens, but as that goal is conquered and life moves forward, different financial objectives come into view. Oftentimes, the natural financial timeline progresses from funding college, to purchasing a house, to helping pay for a child's education. Even as these goals are being reached, perhaps the most formidable ambition of all — paying for retirement — stays squarely in view.

While Stickle sees his new business as a path to financial security, many others choose to tackle life's financial challenges by creating an investment portfolio. And portfolios often change as life's priorities change.

An investment portfolio is a collection of financial assets – including, for example, stocks, bonds and mutual funds – that is strategically constructed to accomplish a specific financial goal, says Mark D. Reitsma, partner at Regency Wealth

Management, a boutique wealth management practice in Midland Park, N.J. Portfolios usually include a variety of investments because diversification — or investing in a variety of assets at one time — is a way to manage risk and potentially smooth out the volatility of investment returns.

Discovering the most efficient portfolio mix depends on a number of factors, says Reitsma. “Generally you want to construct a portfolio that is going to generate the most return for the given amount of risk you’re willing to take.” An investment manager will take into account many factors when creating a portfolio, such as the financial goal in mind, the timeline in which this goal needs to be achieved, the tolerance for risk and volatility, and any possible tax considerations. With all the variables involved, there aren’t any one-size-fits-all portfolios.

With that said, young investors should keep some basic guidelines in mind. Assuming a teenager has reached the age of legal consent or a parent is able to step in to help manage the process, Reitsma envisions three possible portfolio investment scenarios for early stage-of-life investors.

For those seeking money for future educational endeavors, investments such as 529 accounts can be a good option because earnings are tax-deferred (which means that taxes are paid at a future date, rather than in the year the investment produces income) and tax-free when used for qualified purposes. Many 529 account providers have age-based portfolios to reflect changes in strategy over time. Money put aside for a teenager that will be used soon and distributed over a four-year period will usually require more conservative investment choices than money put in a toddler’s account.

Teens who aren’t saving for near-term education but do have a short-term financial goal in mind, such as purchasing a car in the next year, may benefit from low-risk options like CDs, high yield savings and money market accounts.

Retirement Strategies for Teens

On the other hand, if a teen was earning income and contributing to a retirement account, the strategy would be completely different. “As long as they are willing to take on the risk, a retirement portfolio for a teen should be aggressive and include a lot of stock exposure,” says Reitsma. Stock-heavy portfolios are generally considered the most aggressive because they carry the most risk; however, historically they also deliver larger returns than other investments over long periods of time.

Retirement strategies that work for teens won’t necessarily be a fit for those nearing retirement age. Reitsma says that while an 18-year-old’s retirement account may be 90% to 100% invested in stock, a typical 50-year-old’s account may be comprised of 40% to 70% stock.

Age can play a role in the composition of your investment portfolio, but in the end, the biggest impact is your financial goal, the timeline you have set to reach your goal and the amount of risk you are willing to take over that period, reiterates Reitsma. “You can be 20 and need a conservative portfolio because the timeline is short. Or you could be 20 and an aggressive position is a better fit because your timeline is long. I have some teenagers with accounts that are set up more conservatively than people in their 50s, because they are using all of the money for college.”

Want to comment on this story? Answer one or more of these questions to start the conversation:

What factors does an investment manager consider when creating a portfolio?

When might your investments become more conservative or riskier?

When should you start saving for retirement? For college? Why?

What is your biggest financial goal, and how do you plan to reach it? Share your story with other teens on KWHS's Facebook page at http://www.facebook.com/whartonhs.

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