Fundamentals of Investing Throughout Life

Most everyone would agree that having a savings and investment plan is an important part of looking to the future. Yet, it's not unusual to find that many people spend their time on everything but this subject. Regardless of a person's age, income or financial goals, it's never too early — or too late — to develop a savings and investment plan.

The Four Stages of Investing

There isn't a one-size-fits-all approach to investing. However, an investor's life stage can be helpful as a guide to the investment options to consider.

	Phase 1: Accumulation	Phase 2: Consolidation	Phase 3: Retirement	Phase 4: Gifting
Description	Young professionals	At this stage, investors are mid-life, and retirement (or a second career) is on the horizon	Shortly before and during retirement	In later stages of life, investors may find that they have accumulated more wealth than they need
Financial Planning	Short-term financial needs and access to cash are the top priorities The key is to develop a financial plan and find the money to invest regularly	Evaluate ways to reallocate investments to protect savings Bear in mind that, with up to 25 years left to work, aggressive saving and investing should not stop	Use income from savings accumulated during the first two stages Evaluate income generating investments	After considering the level of cash flow for a comfortable life and future health care costs, the next step for these investors is to develop plans to share their assets with the people and charitable causes they consider most important
Investment Choices	Investments with more return potential (and more volatility), because of the longer time to invest and to recover from market swings	Tax-efficient investments	Consider low-cost, tax-efficient, inflation-beating investments that also protect and provide easy access to savings	Gifts and charities as desired

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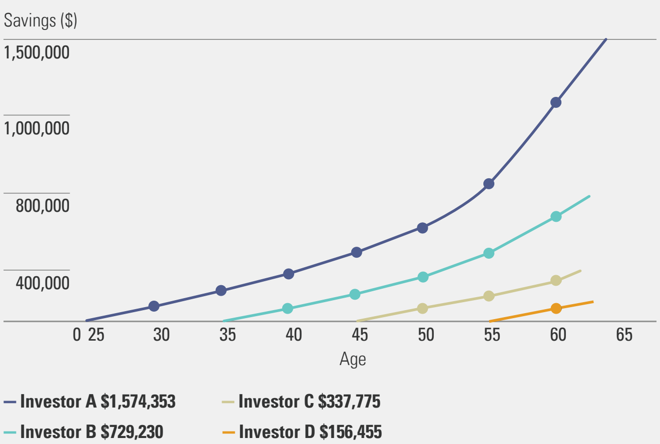
The Benefits of Compounding

Retirement is one of the first things investors think about when planning for the future. And, for good reason: Some experts estimate that an individual will need 80% of the salary they're making just before they retire to maintain the quality of their present lifestyle.

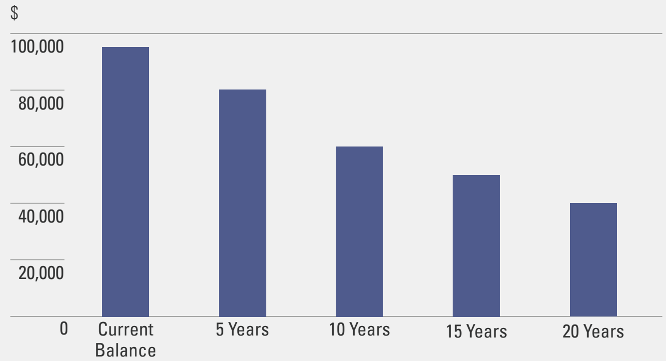
Although it's never too late to plan for retirement, the value of investing early — and consistently — can't be underestimated. Why? The sooner investing starts, the more investors can take advantage of compounding, which occurs when the interest or return is calculated based on the original amount invested, along with the interest or returns that have been added. Compounding investments over time may result in significant portfolio growth.

Figure 1: Power of Compounding Benefits Earlier Investment



Source: The Motley Fool Personal Finance Workbook: A Foolproof Guide to Organizing Your Cash and Building Wealth, by David Gardner and Tom Gardner. It's important to remember that past performance is no guarantee of future results. This hypothetical example is based on four investors of different ages, from 25 to 55 years old. Each contributes $10,000 to a tax-deferred retirement plan every year for 10 years. An 8% rate of return compounded monthly is assumed. Income tax will be due when funds are withdrawn from the account. An investor's account may earn more or less than this example. Investing in this manner does not ensure a profit or guarantee against loss in declining markets. This chart is for illustrative purposes only and not meant to represent the performance of any State Street Fund.

Figure 2: Eroding Impact of Inflation



Source: http://wachovia.com/personal/page/0,,4803_4808_4839_4964,00.html

The Inflation Effect

Most investors forget to consider the potentially significant effect of inflation on their retirement savings. For example, an inflation rate of 4% can reduce the purchasing power of a $1 million savings balance by more than half in less than 20 years.

To help offset the eroding impact of inflation, investors need investments with a return rate that is higher than the rate of inflation. Many investors have found that over 20–30 years, investing in the stock market has provided inflation-beating returns. For example, an investor who stayed in the US Stock Market from 1963 to 1993 would have had an average annual return of 11.83%.*

Two online resources are the Social Security Administration Web site (ssa.gov), where you can request an estimate of what Social Security will provide you; and the AARPWeb site (aarp.org), where you can find a Retirement Planning Calculator and other tools.

Talk To Your Financial Advisor

If you are interested in learning more about investing for life, contact your financial advisor. Your advisor will thoroughly analyze your current investments, risk tolerance, tax situation and time horizon, then recommend strategies to help you achieve your goals.

* Source: University of Michigan study.

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