

Three Essential Points For Young Investors

Craig L. Israelsen, Ph.D.

www.7TwelvePortfolio.com

Point #1:

Contribute at least 10% each year to your retirement accounts.

The table below shows the various retirement account balances for a 65-year old person IF they start saving at age 25.

Summary of Ending Account Balances over 40-Year Savings Period

Assuming Various Savings Rates and Portfolio Returns

Ending Account Balances at age 65					
<i>Assumptions: 25-year old with \$35,000 salary, 3% annual increase in salary, 40-Year Investment Period</i>					
Average Annual Portfolio Return	Total Annual Savings Rate (% of Salary + Employer Contribution)				
	2%	4%	6%	8%	10%
6%	176,002	352,005	528,007	704,010	880,012
8%	281,436	562,872	844,309	1,125,745	1,407,181
10%	464,253	928,506	1,392,758	1,857,011	2,321,264
12%	784,445	1,568,890	2,353,334	3,137,779	3,922,224

We can't guarantee the performance of our investment portfolio, but with sacrifice many investors can contribute 10% of their income each year into their retirement accounts. Control what is controllable. Our savings rate (or contribution rate) is more controllable than our portfolio's performance.

Check out the tables above and below. If a 25-year old saves 10% of her salary each year, at age 65 she has about \$1.4 million saved (assuming an 8% annualized return). Conversely, if she only saves 4% of her salary she will have to earn nearly 12% per year to have a comparably sized retirement account at age 65. An annualized return of 8% is reasonable—expecting an average annual return of 12% isn't reasonable (see the graph in Point #2).

Starting our retirement savings early is also critical. We all know that. Notice what happens if she doesn't start until age 40—ending balance at age 65 of less than \$600,000.

Save 10% and Be Happy

Age	Annual Income (3% annual increase)	10% Annual Contribution to Retirement Account	Years Invested	Future Value of Each Annual Contribution at Age 65 (assuming an 8% annual return)
25	35,000	3,500	40	76,036
26	36,050	3,605	39	72,516
27	37,132	3,713	38	69,158
28	38,245	3,825	37	65,957
29	39,393	3,939	36	62,903
30	40,575	4,057	35	59,991
31	41,792	4,179	34	57,214
32	43,046	4,305	33	54,565
33	44,337	4,434	32	52,039
34	45,667	4,567	31	49,629
35	47,037	4,704	30	47,332
36	48,448	4,845	29	45,141
37	49,902	4,990	28	43,051
38	51,399	5,140	27	41,058
39	52,941	5,294	26	39,157
40	54,529	5,453	25	37,344
41	56,165	5,616	24	35,615
42	57,850	5,785	23	33,966
43	59,585	5,959	22	32,394
44	61,373	6,137	21	30,894
45	63,214	6,321	20	29,464
46	65,110	6,511	19	28,100
47	67,064	6,706	18	26,799
48	69,076	6,908	17	25,558
49	71,148	7,115	16	24,375
50	73,282	7,328	15	23,246
51	75,481	7,548	14	22,170
52	77,745	7,775	13	21,144
53	80,077	8,008	12	20,165
54	82,480	8,248	11	19,231
55	84,954	8,495	10	18,341
56	87,503	8,750	9	17,492
57	90,128	9,013	8	16,682
58	92,832	9,283	7	15,910
59	95,617	9,562	6	15,173
60	98,485	9,849	5	14,471
61	101,440	10,144	4	13,801
62	104,483	10,448	3	13,162
63	107,617	10,762	2	12,552
64	110,846	11,085	1	11,971
65	114,171	11,417	0	11,417

Total Earnings from age 25-65 **2,753,215**

Start saving 10% at...	Total Contribution to Retirement Account	Total Account Value at Age 65 (assuming 8% return)
Age 25	275,322	1,407,181
Age 30	256,740	1,060,611
Age 35	235,198	787,174
Age 40	210,225	571,436
Age 45	181,275	401,224
Age 50	147,714	266,928

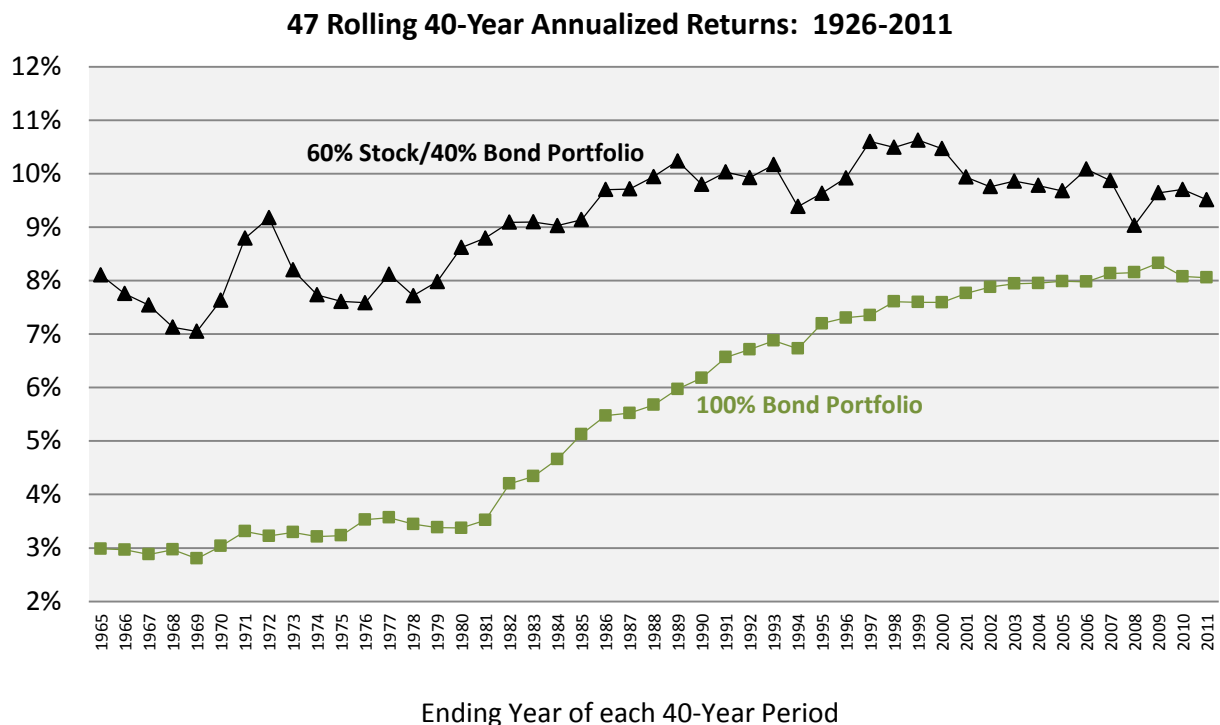
The first year investment of \$3,500 was worth over \$76,000 at age 65.

A person who starts investing at age 25 has over \$1.4 million at age 65.

If they delay until age 50 they have under \$270,000 at retirement.

Point #2:

Include stocks and bonds in your investment portfolio.



Between 1926 and 2011 there were forty-seven 40-year rolling periods (1926-1965, 1926-1966, and so on).

100% Bond Portfolio:

The average 40-year return for a 100% bond portfolio since 1926 has been **5.6%**. That is the average of 47 40-year returns. An all-bond portfolio produced a 40-year average annualized return of at least 8% in only 5 of the 47 rolling 40-year periods—or just over 10% of the time. An all-bond portfolio is not diversified.

60% Stock/40% Bond Portfolio:

The average 40-year return for a 60% stock/40% bond portfolio since 1926 has been **9.1%** (again, the average of 47 40-year returns). A 60/40 portfolio achieved an 8% return in 37 of the 47 forty-year periods—or nearly 80% of the time. An 8% average annual return was assumed in the “Save 10% and Be Happy” table shown above. A 60/40 portfolio is more diversified than a 100% bond portfolio.

A 60/40 portfolio is better than a 100% bond portfolio. But, are stocks and bonds enough? Check out Point #3 below.

Point #3:

Implement a broadly diversified investment portfolio that includes stocks and bonds—and a variety of other asset classes.

7Twelve™ Multi-Asset Balanced Portfolio

12 mutual funds, equally-weighted

Approximately 65% of the Portfolio Allocation in Equity and Diversifying Assets				Approximately 35% of the Portfolio Allocation in Bonds and Cash		
Large US Companies	Developed Non-US Markets	Real Estate	Natural Resources	US Aggregate Bonds	International Bonds	US Money Market
Medium-sized US Companies	Emerging Non-US Markets		Commodities	Inflation Protected Bonds		
Small US Companies						

10-Year Growth of \$10,000
January 1, 2002 to December 31, 2011

A broadly diversified 12-asset portfolio significantly outperformed a traditional 60/40 stock/bond portfolio over the past decade.

