The Morningstar Echo Boomer Retirement Guide

Investment tips for the younger investor with a long investment horizon.

Featured in this booklet

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Starting something new—a new job, a new exercise routine—isn't easy. It takes work and determination. But it can also lead to great rewards: In the case of a new job, perhaps those rewards include a greater income and growth opportunities. With exercise, it might mean a healthier you and a new wardrobe.

It's the same with investing: At first it can be daunting, but once you've taken your first steps, you will find that you're setting yourself up for a future of reward. Those rewards may involve purchasing your first home, or getting a head start on an early retirement.

We designed *The Morningstar Echo Boomer Retirement Guide* to help younger investors get started with investing and saving for their futures.

The information in this document is just one of the many Morningstar tools available to you. If you would like to access data and research on individual securities, visit your local or university library and log on to Morningstar Investment Research Center. You will immediately gain access to valuable research on more than 35,000 stocks, mutual funds, and ETFs. Morningstar Investment Research Center also includes powerful screeners, in-depth industry data and investment education, and our exclusive Portfolio X-Ray® tool, which can help you analyze your portfolio and decide where to make changes.

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A Beginning Investor's Reading List

By David Kathman, CFA

If you're just starting out as a do-it-yourself investor, it can be hard to know where to start. Luckily, there are plenty of resources out there to help beginning investors who are willing to put in a little time and effort. These include a variety of articles here on Morningstar Investment Research Center. Morningstar analysts have also written several books that go into more depth on how we think about investing but are still useful for beginners; these include Christine Benz's *The Morningstar Guide to Mutual Funds* and Pat Dorsey's *The Five Rules for Successful Stock Investing* and *The Little Book That Builds Wealth*. Of course, there are lots of other good investing books out there, some of which we've written about before. Here are a few of our favorites, with the caveat that this list is far from exhaustive.

The Only Investment Guide You'll Ever Need
by Andrew Tobias

This book, first published 30 years ago and now in its eighth edition, is a classic overview of the essential things of which any investor should be aware. Writing in a witty, irreverent style, Tobias covers the basics of stocks, bonds, mutual funds, 401(k)s, IRAs, real estate, and how to save and invest prudently for the long term. If you feel totally at sea when it comes to investing, this book is a good place to get your footing.

Buffett: The Making of an American Capitalist
by Roger Lowenstein

We at Morningstar are longtime fans of legendary investor Warren Buffett, and this biography by Roger Lowenstein is a good way to introduce yourself to the man and his investing philosophy. Buffett has become one of the world's richest people by investing in good businesses at low prices through his holding company, **Berkshire Hathaway** BRK.B, using timeless principles that are helpful for anyone. This biography has a lot of background information that explains how Buffett got where he is today, but if you're more interested in concentrated doses of his investment wisdom, a great place to start is *The Essays of Warren Buffett*, edited by Lawrence Cunningham from Buffett's Berkshire Hathaway shareholder letters. Robert Hagstrom's *The Warren Buffett Way* is also a good overview of how the Oracle of Omaha thinks about investing.

The Bogleheads' Guide to Investing
by Taylor Larimore, Mel Lindauer, and Michael LeBoeuf

John Bogle, founder of the Vanguard Group, is another investment legend who has always had lots of admirers here at Morningstar. His relentless emphasis on the importance of low expenses changed the mutual fund industry—he invented the index fund, among other things—and has saved money for countless investors over the years. In the 1990s Bogle wrote a couple of books on mutual funds that are still well worth reading: *Common Sense on Mutual Funds* and *Bogle on Mutual Funds*. This more recent book by Taylor Larimore, Mel Lindauer, and Michael LeBoeuf (with a foreword by Bogle) is a great introduction to Bogle's ideas and how to apply them to your investing life.

A Random Walk Down Wall Street

by Burton G. Malkiel

This book, which has been updated many times since its initial publication in 1973, is the most entertaining and accessible defense of efficient-market theory, which says that it's impossible to predict what the market will do with any kind of consistency. This idea is one of the cornerstones of modern academic finance, and it's also a key element in John Bogle's advocacy of low-cost index funds that simply track a market index rather than trying to beat it. Malkiel discusses various versions of efficient-market theory, explains what they mean for investors in practical terms, and discusses challenges to the theory. The most significant such challenge has come from behavioral finance, which studies the irrational ways that people sometimes behave around money. Among the books that discuss this fast-growing area of finance are Jason Zweig's *Your Money and Your Brain* and Gary Belsky and Thomas Gilovich's *Why Smart People Make Big Money Mistakes and How to Correct Them.*

Stocks for the Long Run

by Jeremy Siegel

This is another modern classic, first published in 1994 and now in its fourth edition. Siegel, a finance professor at the University of Pennsylvania's Wharton School, has long promoted stocks as the best long-term investment available, and in this book he provides plenty of evidence to back up that claim. There is quite a bit of market history, but there are also excellent explanations of such topics as stock indexes, futures and options, global stock investing, and the Federal Reserve. Siegel discusses historical evidence about which types of stocks perform best over the long run, as well as various attempts to beat the market and thus disprove the efficient-market hypothesis. A chapter at the end on how best to use stocks in a portfolio is especially valuable for beginners.

All About Asset Allocation

by Richard A. Ferri

Asset allocation, or the percentages of stocks, bonds, cash, and other investments in your portfolio, is a very important topic that doesn't always get the attention that it deserves. Several of the above books touch on asset allocation, but this book goes into more depth on this important topic in a way that's accessible to investors who are just starting out. Ferri includes a big-picture overview of asset allocation and why it matters, discussions of the various asset types (U.S. stocks, foreign stocks, bonds, real estate, and alternative investments), and a clear discussion of how to build and maintain a portfolio. For somewhat more advanced (but still very readable) coverage of the same general topic, check out William Bernstein's *The Intelligent Asset Allocator* and *The Four Pillars of Investing.*

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A Beginning Investor's Online Tool Kit

By David Kathman, CFA

In the previous article, we surveyed some of the best books for investors who are just starting out and trying to get their bearings. Such books are a great place to begin, but once you've become familiar with essential investing concepts, you still need to figure out which investments are right for you and keep tabs on your portfolio. In general, the fastest and easiest way to do that is on the Internet, where you can find lots of data about virtually any stock, bond, or mutual fund under the sun—so much that it's easy to suffer from information overload.

A big part of what we do at Morningstar is help people to make sense of all that information, and Morningstar Investment Research Center has lots of tools that can help with that goal. Here's an overview of those that are especially useful for beginning investors, including some tips on how to use them most effectively.

Narrowing the Field: Fund Screener and Stock Screener

One of the most daunting factors that any new investor faces is the sheer number of choices available. More than 10,000 stocks are publicly traded in the United States, along with a comparable number of mutual funds. Fortunately, you can turn to the Stock and Fund screeners on Morningstar Investment Research Center to help narrow down the field.

The Fund Screener lets you choose among several options for each of 55 different data points, including broad fund group, fund category, costs, Morningstar Rating for funds, risk, returns, and portfolio features. For example, you could screen for no-load domestic-stock funds with 4 or 5 stars, assets of less than $1 billion, and an expense ratio below the category average. When you get the results, you can look at them using any of four views (Snapshot, Performance, Portfolio, and Nuts & Bolts), and you can sort them by clicking on any of the column headings, such as Expense Ratio or Total Assets. If you're not sure what something means, click on the light bulb to the left of the label, and a popup window will appear in which you can get a detailed explanation of that data point.

The Stock Screener works in much the same way, except that its 82 data points include such factors as sector, Morningstar Style Box, market cap, stock grades, company performance, stock performance, and valuation. For example, you could screen for consumer-goods stocks with a market cap of at least $1 billion, a one-year return greater than the sector average, and a price/earnings ratio under 20. Here, you can see the results using one of five views (Snapshot, Stock Grades, Company Performance, Stock Performance, or Valuation), and you can sort those results by clicking on any of the column headings.

For many of the data points you can enter any value rather than picking from a limited number of options. If having all of those choices seems intimidating, note that both screeners include a button at the top that allows you to gain access to a number of preset Morningstar screens, which you can modify in any way that you choose. These preset screens are a good starting point for learning how the screeners work. You don't need to do complicated searches to find useful information with these tools; with Premium Fund Screener, for example, you can search for all Fund Analyst Picks in a given category or funds with 4 or 5 stars.

The Big Picture: Portfolio X-Ray

Finding good individual funds or stocks is important, but that's just a first step. It's just as important to make sure that your holdings fit together coherently in a portfolio and that this portfolio has the characteristics you want. For such big-picture analysis, Morningstar Investment Research Center offers a useful tools with which any beginning investor should become familiar: Portfolio X-Ray.

Portfolio X-Ray allows you to see the key features of any portfolio at a glance. To use it, enter a ticker symbol and a dollar amount for each holding (which can include both funds and individual stocks), and click View X-Ray. You'll see a comprehensive summary showing the portfolio's stock/bond/cash mix, style-box characteristics, sector, stock type, and regional distribution, average fees, and average stock stats, such as P/E and market cap. Several of these measures are shown relative to the S&P 500's weightings, making it easier to see whether you might be overweight or underweight relative to that index. By using the drop-down menu, you can get more detail in any of 10 other views; for example, Stock Intersection shows you which individual stocks have the biggest weighting in your portfolio as a whole. By clicking Edit Holdings, you can modify the portfolio—say, by adding a fund that you're thinking of buying or excluding one that you're thinking of selling.

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Newbies: Avoid These Investing Mistakes

By Hillary Fazzone,
Fund Analyst

A few weeks ago I laid out the case for newer investors to consider entering the stock market and put forth a few basic ways to do so prudently. Although the performance of domestic equities over the past 10 years has been weak, to put it mildly, and 2008's precipitous sell-off may have sucked the wind out of many investors' sails, stocks look cheap by many measures. Investing when you're young is always a great idea, because it allows you to take full advantage of the benefits of compounding, but it's doubly advantageous to start investing when the market has good upside potential.

But that doesn't mean that just any investing is good investing. What follows is a basic, though not exhaustive, road map to help you avoid some common mistakes many new investors make.

Mistake #1: Playing It Too Safe

Young investors have a big advantage over those who are closer to retirement: time. Investors with a long investment horizon can accommodate greater risk, and thus greater return potential, because there is adequate time to make up losses. The risk, then, is investing in securities that are too conservative and that don't have the potential to substantially outpace inflation over time.

If you're looking at the investments that have performed the best over the past three years, you might be inclined to stick with good old U.S. Treasuries or even a CD. From a risk standpoint it may seem prudent to do so, but it's more advantageous to strike a balance between risk and return potential through measured access to more aggressive asset classes, such as equities. You don't want to be in the position of not having saved enough.

Top fund shops such as T. Rowe Price and Vanguard have built their target-date lineups with this in mind. Both firms start their target date funds' equity stakes at 90% for investors who are furthest from retirement. (Currently, that applies to the 2050 and 2055 portfolios.) This means that these firms' asset-allocation committees, groups of highly experienced and successful investors who put a great deal of thought into this issue, are favoring stocks for younger investors.

Mistake #2: Disregarding Risk

The flip side of that coin is failing to pay enough attention to risk. It's easy to be tempted by investments that promise market-slaughtering returns, because in many cases and for short periods of time, those investments can deliver. People love to talk about outsized gains from niche investments like technology funds. (Remember those?) But stretches of explosive performance don't often last, and when these investments fall, they can fall hard.

Emerging-markets funds are a great recent example. This category's recent returns have been enticing, but the wide performance swings that characterize this asset class have been on display lately. From 2003 to 2007, the average emerging-markets fund gained more than 35%—a greater gain than that enjoyed by any other international-fund category, except for Latin America. Then, emerging-markets funds lost 54% in 2008 as the market indiscriminately shunned risk-prone investments. Now, in the first few months of 2009, the category is up 22% through May 7. Among international-fund categories, only Latin America funds are more volatile than emerging-markets funds, as measured by 15-year standard deviation. This isn't to say that emerging markets are not viable places to invest—quite the contrary, as their growth potential is considerable. Rather, newer investors are better off investing in such volatile asset classes at the margins of their portfolios, using either proven fund managers or broad-based index or exchange-traded funds. Our diversified emerging-markets Analyst Picks are a great place to start looking for ideas.

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Financial Advice for New Grads

By Christine Benz,
Director of Personal Finance

Whether you're recommending a career in the plastics industry or touting the virtues of wearing sunscreen, graduation seems a natural time to share advice with any young people in your life.

For example, I plan to tell my newly graduated nephew to travel as much as he can while he's young, before he cares a whit about good food and expensive hotels. I'll also share with him my very favorite piece of guidance, handed down from my mom: Don't waste your time worrying about what other people think about you, because they're probably not thinking about you very much at all. That may sound odd, but as a self-absorbed teen-ager, I found it reassuring to realize that the rest of the world wasn't paying nearly as much attention to me as I had imagined.

Because graduation often coincides with other life changes—including new jobs, moves, and sudden windfalls from generous relatives—it's also a great time to share financial guidance with any young graduates in your life. You no doubt have some tips of your own, but here are some of my best ideas for getting off to a good financial start.

1. Seize the day.
Although most new graduates aren't yet pulling down big salaries, the post-college years can actually be a great time to build a solid savings foundation. The young person in your life may have received some cash gifts upon graduation; urge him or her to save at least part of the windfall. And if they were accustomed to living on a shoestring budget while at school, new grads are apt to find it fairly easy to save part of each paycheck once they begin working, even if their income levels are still relatively low. The fact that many new graduates live at home for the first year or two after school provides an additional opportunity to sock away some cash. To help sell your new grad on the merits of saving, share a story about something exciting you were able to do or buy because you had saved money for the future rather than spending it right away.

2. Start small, but get started.
Young people might assume you need to have deep pockets to be an investor, but let the new grad in your life know that that's definitely not the case. Some terrific mutual funds, such as those from T. Rowe Price, will let you in the door for as little as $50 if you pledge to invest regularly; Morningstar's Fund Screener can help you identify low-minimum offerings with other attractive attributes, such as low costs.

Even if market returns are fairly paltry over the next few decades, the benefits of getting an early start on investing can be substantial: The 21-year-old who starts saving $1,000 a year and earns an annualized 5% on his money will have more than $150,000 when he turns 65; were he to wait even five years to begin saving, he'd have only $114,000 when it came time to retire.

3. Invest on autopilot.
Even investing veterans can attest to the fact that it's difficult to invest with discipline. As much as we all know that the goal is to buy low and sell high, it's a lot more fun to be an investor when everything's going up than when the market's in

the tank. Investing on a regular schedule is a particularly big challenge for young people, who can find plenty of other ways to spend their hard-earned cash.

That's why I'm such a big fan of automatic-investment plans, whereby you agree to invest a set amount every month. If your new graduate has landed a first job, urge him or her to take part in a 401(k) or any other defined-contribution plan—a familiar type of auto-invest plan. Because the participant's money is deducted from his or her paycheck on a pretax basis, contributions are particularly painless for young savers. A number of mutual fund companies also allow you into their funds with a relatively low minimum if you sign on for an automatic investment plan; T. Rowe Price will let you into any of its funds if you agree to invest just $50 a month.

4. Use credit wisely.

We've all heard about how banks bombard teenagers with credit card offers, and many college kids have been brandishing plastic for years. Those offers will only increase once the new graduate in your life lands a job, and the youngster will also likely be offered ever-higher credit limits. Because building and maintaining a good credit history will have an effect on almost everything your new grad might choose to do in this life—from buying a house or car to renting an apartment—graduation is a good time to review the dos and don'ts of managing credit.

Yes, a credit card can be handy in emergencies, and it makes sense for each person to establish a credit history in his or her own name. But keep it simple: A bank account and a single major credit card is all you really need to begin establishing a credit history. Urge the young person in your life to keep a running tally of any charges he or she makes and emphasize the importance of paying your balance in full each and every month. To drive the point home, discuss how credit cards can be "reverse savings accounts" if you carry a balance—that is, the interest rate you pay on your debt can easily wipe out the earnings from any money you manage to save or invest.

5. Know the real meaning of prestige.

Whether it's an iPod or a PlayStation, young people learn early on the value our society places on status symbols. But those status symbols can be illusory: The person driving that expensive car could be on the verge of bankruptcy, while the one in the 17-year-old station wagon could pay cash for 20 shiny new Mercedes.

Some people never learn this lesson, but you're on a slippery slope if you start defining yourself by your material possessions and the illusory "status" they confer. If you always need the newest, most expensive car, computer, or shoes (or whatever it is that floats your boat), you can easily set yourself up for financial disaster—or, at the very least, rob yourself of the chance to build real wealth.

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Tips for Investors Just Starting Out

By Hillary Fazzone, Fund Analyst

Not so long ago, my newly employed friends and I applauded ourselves for being responsible and choosing to make high automatic contributions to our 401(k)s. A few years later, we've hardly been rewarded for taking the "prudent" route. Far from watching our savings grow, we've lost much of it.

For those of us in our twenties who are beginning to generate income and wondering how to make the most of our savings, the behavior of the stock market during the past few years has been uninspiring to say the least. To start, the performance of domestic equities over the past 10 years has been unimpressive. If one invested $10,000 in the Dow Jones Wilshire 5000 Index, which tracks the 5,000-largest public companies in the United States and which is a nearly complete representation of the broader stock market, three years ago, it would have been worth about $6,500 at the end of March 2009 (based on the return of **SPDR DJ Wilshire Total Market** TMW, an exchange-traded fund that tracks the Wilshire 5000).

What's more, the precipitous marketwide downfall that characterized the second half of 2008 called into question for many the worth of diversification, as nearly all asset classes apart from Treasury bonds suffered severe blows. This came as a shock to those who believed that diversification would help them avoid portfoliowide stumbles. Furthermore, the deleterious and hard-to-predict impact that heavy-hitting, low-transparency vehicles such as hedge funds have had on the broader market recently, combined with the market's recent apparent disregard for company fundamentals, has left many less-sophisticated investors feeling as though the deck is stacked against them.

Yet investor sentiment often runs the most negative when it's most opportune to invest, and right now is shaping up as a golden opportunity for newbies. By many measures, stocks look cheap. Although they've been early, many of the mutual fund managers with whom Morningstar analysts speak daily have been touting the cheapness of stocks for months. Brian Rogers, T. Rowe Price's chief investment officer and manager of **T. Rowe Price Equity Income** PRFDX, has said that stocks look inexpensive relative to historic norms. Marty Whitman and Ian Lapey have been increasing their personal investments in their own **Third Avenue Value** TAVFX for the attractiveness of its current portfolio. Chuck Royce and Whitney George have been bargain-hunting for their **Royce Premier** RYPRX portfolio.

Morningstar's stock analysts and Warren Buffett agree. The stock market cap/gross domestic product ratio that he uses to gauge the market's attractiveness indicates that as of March 2009, the total value of publicly traded U.S. stocks represented just more than 60% of GDP. At the end of 2007, by contrast, the stock market represented more than 140% of GDP. Buffett thinks that a higher ratio indicates overvaluation while a lower ratio indicates undervaluation.

For all of the uncertainties that plague the market, the long-term upside potential appears to be there, and the rewards are apt to be particularly great for new investors who have many years to see their investments compound.

How to do it is the question. What follows is an introductory, though not exhaustive, explanation of some of the best ways to begin investing.

Index Funds

One of the most difficult decisions in investing is what kind of stocks to buy. Broadly diversified index funds make that decision easier by giving you exposure to many different companies and industries in a single mutual fund. The Dow Jones Wilshire 5000 Index, for example, captures practically every stock in the U.S. market. The Russell 2000 tracks the smaller end of the market-cap range, and so forth. In addition to providing one-stop diversification, index funds can also be cheap. Traditional index funds and exchange-traded funds that track major indexes typically cost much less than actively managed mutual funds. Fidelity is an industry leader on the low-cost index-fund front. Vanguard also provides some of the most competitively priced index funds and offers them with relatively low minimums, which make it easier for new investors to dip their toes in the water.

All-In-One Funds

Generally speaking, those of us in the early stages of our investing careers can tolerate higher stock allocations, which can present greater downside risk but also greater return potential, because we have longer time horizons over which to recoup our losses. Still, given the behavior of the stock market in recent years and the uncertainties that do remain in the current downturn, new investors may be uncomfortable having the bulk of their assets in stocks. All-in-one funds such as those in Morningstar's moderate-allocation category provide a nice middle ground, giving you stock exposure but also muting volatility with some bonds and cash. Target-date funds are an all-in-one, low-maintenance way to shift from a higher to a lower stock allocation over time as your risk tolerance decreases. Both target-date and moderate-allocation funds tend to offer smoother rides than equity-only funds and are good alternatives for those who would like to start investing but are nervous about the downside risk of equities. Morningstar's Analyst Picks in the moderate-allocation and target-date categories are a great place to start looking for topnotch all-in-one options.

Dollar-Cost Averaging

When to buy a particular stock or mutual fund is another hot topic for investors just starting out. It's a mistake to get too hung up trying to buy and sell at the perfect time; the typical investor isn't any good at calling the market's highs and lows. Dollar-cost averaging, which is the default investing method for most 401(k) plans, is an easier way. Once you've decided that a certain stock or fund is a good long-term fit for you, dollar-cost averaging enables you to invest in it gradually and regularly over time. By investing uniform chunks of money at set intervals, you reduce the chance that you'll be putting a lot of money to work right before the market goes down.

There is much more to investing than the simple tips I've laid forth here, such as navigating fund fee structures and understanding investment vehicles such as 401(k)s, but these introductory guidelines are a good start for investors who are wary of the stock market and wondering how to make good, basic decisions at a time when opportunity is abundant.

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The retirement guide. What the news ignores about retirement for baby boomers. Sam Sweitzer, CFA. Follow. Jun 26, 2019 Â· 2 min read.Â Retirement savings rate chart by Morningstar. Why the long-term downward trend? This dramatic change can be blamed on the shift of moving the responsibility of saving for retirement from corporations to employees. Defined-benefit pension plans were cut and replaced with defined contribution plans. In 1983, there were approximately 175,000 pension plans.Â Since the baby boomer generation was â€œmid-careerâ€ when the retirement landscape moved from defined benefit plans to 401(k)s, theyâ€™ve had less time to play catch-up. The shift in accountability has caused an increase in poorly managed, high-cost retirement plans. Baby Boomer Retirement Stocks, No. 2: Ventas Inc. A real estate investment trust (REIT) works kind of like a stock. A company that owns property can pay out some of its income to shareholders, similar to a dividend. What makes Ventas Inc. (NYSE: VTR) profitable is this REIT owns a total of 787 senior housing communities. Morningstar projects 40% of individuals will enter a nursing home in their lifetime. And according to LongTermCare.gov, the average cost of long-term senior care is around $4,000 to $7,000 per month. Forty percent of 74.9 million is 29.9 million. Some investment advisors are mobilized to guide their pre-retirement clients out of equities and into bonds in an effort to offer income and stability. But, now that interest rates have reached historical lows, traditional bond portfolios will have a difficult time providing an acceptable level of income while protecting purchasing power over the next 25 to 30 years. Structure your portfolio for both short- and long-term needs.Â Outliving your savings. Many boomers have a fear of outliving their money. If you are really worried about outliving your savings, one of the best things you can do is delay starting your government pension plans. You can reduce the stress of uncertainty with a slew of products available for income.