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Making the Investments of a Lifetime: Home, College, Retirement

Saving and investing for several financial goals at once can be a difficult juggling act.

By Nanci Hellmich

Saving and investing for several financial goals at once can be a difficult juggling act.

Many people are scraping together the down payment for a home while investing for their children's college educations and tucking away money for retirement.

It might seem overwhelming, but one way to think about it is to see each financial goal as a bucket, says Joshua S. Haire, a CAPTRUST financial advisor in West Chester, Ohio.

If you add one drop to each bucket every month, you'll eventually fill it. You don't have to pour money into all your investments at once, he says. "But the sooner you start putting something in each one, the better off you're going to be in the long run."

Stan Kimball, a CAPTRUST financial advisor in Salt Lake City, agrees. He suggests prioritizing your goals, figuring out how much you would like to have for each objective, then saving and investing accordingly.

Buying a Home

When Kimball's clients talk about buying a home, he recommends they make sure the time is right and consider whether they want to make this investment at all.

Owning a home is part of the American dream, but many people today move frequently for jobs. He suggests asking yourself: Does it make sense to buy a home right now? Is it a good investment for me?

Buying, selling, and owning a home can be expensive, and real estate can lose value, he says. “There is an opportunity cost in having your resources tied up in a home versus having them invested elsewhere.”

Haire agrees and has experienced this himself. He and his wife bought a home soon after they married; two years later, he had to move for a job, forcing a home sale. The house’s value had fallen, and the couple lost money. “It’s painful to think about.”

Kimball encourages clients who are ready to buy a home to save enough to put at least 20 percent down to avoid paying mortgage insurance.

Many people want to make sure their down payment money is safe from stock market fluctuations, so he recommends they use fixed-income investments like bond funds or certificates of deposit (CDs) that offer a 2 to 3 percent rate of return rather than money market funds, which usually earn less than 1 percent.

Some clients want to put 10 to 20 percent of their savings into the stock market in hopes of a greater rate of return.

Haire agrees that prospective home buyers hoping to purchase in the next few years should keep their money in relatively safe short-term investments.

“One option we use for our clients is a capital preservation portfolio made up of mostly municipal bond funds paying 3 to 3½ percent,” he says. “We try to earn more than you can get at a bank without taking a whole lot of risk.”

If his clients don’t need their down payment for 10 years or longer—because they’re planning to buy their dream home or retirement home—he advises them to put some money into stocks.

Planning for College

When saving for children’s college education, Haire recommends 529 plans, a tax-advantaged strategy designed for education savings.

College savers can choose from a variety of investment portfolio options, which often include mutual fund and exchange-traded fund (ETF) portfolios and a principal-protected bank product, according to the Securities and Exchange Commission.

Investment portfolios range from conservative to aggressive, Kimball says. “We recommend that the donor controls the account so that it’s invested wisely and used for educational purposes.”

The accounts generate tax-free investment income, as long as the money is used for qualified education purposes. Using the funds for another purpose makes it taxable and subject to penalties, he says.

When Haire’s clients set up 529 plans, he advises them to consider an age-based strategy or target-date option. These are portfolios run by fund managers with investment strategies determined by the year the beneficiary will go to college.

Funds are usually invested more aggressively when the beneficiaries are younger and moved to more conservative investments as they near college age, he says.

Anyone can set up a 529 plan––parents, grandparents, relatives, or friends who want to help fund a younger person’s education. Several of Haire’s clients have used an inheritance from their parents, including the proceeds from the sale of a home, to fund 529 plans for their children.

Friends and family can make contributions to the account on special occasions such as the beneficiary's birthday, first communion, bar mitzvah, Hanukkah, or Christmas. Others take advantage of dollar-cost averaging by adding money on a monthly basis.

Haire's father invests $100 every month in 529 plans for each of his 13 grandchildren. "This gives peace of mind to his adult children," Haire says. "The grandkids don't realize yet the amazing gift they've been given."

When work Life Winds Down

When investing for retirement, there's no one-size-fits-all answer; people need to carefully look at their options, Kimball says.

Often, people in their 20s and 30s invest too conservatively, he says. "If they have a long time horizon, then they can afford to be fully invested in the market, so they can accumulate a significant nest egg over time."

Haire tells clients who are 25 years away from retirement to take as much risk as they are comfortable with. "It's fine with me if they are 100 percent in stocks in their 401(k)s."

As people get closer to retirement age, he suggests they gradually decrease the amount in equities to about 60 percent.

In retirement, investors should have about 40 percent in stocks, Haire says. "Most retirees still need the growth that stocks provide, because some of them will spend as many years in retirement as they did working."

Kimball also advises many retirees to have at least 40 percent of their assets in stocks, because people are living longer and they may need their money to last for 30 years or more.

To keep things simple, some investors choose professionally managed target-date funds, which are designed to provide a diversified mix of stocks, bonds, and cash, he says.

The "target" in a target-date fund is normally the year in which a person plans to retire or the year they turn 65. The funds' asset allocation adjusts over time to become more conservative as investors near retirement age.

With retirement investing, the key is starting early, Kimball says. "You get the miracle of compounding working to your benefit."

Haire adds, "Every drop in the bucket can really add up over time."

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.