7 tried-and-true retirement-savings strategies

Some key investment tools cost nothing: time, patience, vigilance, and perseverance. Use them with even small investments for big payoffs at retirement. Check out these retirement-savings strategies.

Start early

Stock-price increases and compound dividends can turn a molehill into a mountain over time. Between 1928 and year-end 2014, the Standard & Poor’s 500 Index returned an average 9.6 percent annually, not adjusted for inflation. Even at a more conservative rate of 6.5 percent for a 100 percent stock portfolio, a 22-year-old investing $200 per month—roughly the cost of a sandwich and soda each day—would end up with $248,600 at age 67, even if he never invested anything after age 30. If he invested $200 per month for all 45 years, he’d have more than $591,000.

Invest regularly

Save 10 to 15 percent of your income. Automatic contributions from your paycheck let you benefit from “dollar-cost-averaging.” The principle: That $200 per month buys fewer shares when prices are high, and more when share prices are low. The average share price is potentially lower than if you had invested sporadically and depended on market timing.

Avoid future taxes

They'll erode earnings. While your income is relatively low, use tax-advantaged Roth 401(k) and IRA plans. You won't get a tax break up front, but your investments grow tax-free—a huge lift to returns—and you'll pay no tax on withdrawal years later, when your presumably higher income could be subject to higher tax rates.

Diversify and allocate

Varying your holdings reduces your risk of losing money; usually when some holdings go down, others go up. Mutual funds—collections of stocks or bonds—provide that diversification. Investing in several mutual funds that focus on different types and sizes of companies—large-cap, small-cap, and international, for example—reduces your risk more. While you're young, put all or nearly all of your holdings in growth-oriented, equity (stock) mutual funds. As you age, shift gradually to less risky bond holdings.

Focus on low cost

By one estimate, a typical couple loses more than $150,000 to mutual-fund fees over a lifetime of 401(k) savings. Pick index mutual funds keyed to broad-based market indices such as the S&P 500; they have low fees because they require little active management. Investment researcher Morningstar has shown a high correlation between low cost and superior performance over time.

Rebalance

Periodically sell holdings that have grown to reset to the proper proportion of stocks to bonds. Target-date retirement funds are baskets of low-cost, index mutual funds that rebalance automatically as you age. They're the default investment option in many 401(k) plans for good reason. They encompass many of the key principles of investing mentioned here: diversification, low cost, and automatic rebalancing.

Be patient

Studies by the investment research company Dalbar have shown that folks who stay put during market volatility do far better than those who panic and sell, expecting to return to the markets later. So buy, hold, and reap the rewards.

http://finance.yahoo.com/news/7-tried-true-retirement-savings-130000697.html

*Diversification and asset allocation strategies do not assure profit or protect against loss. Investing regular amounts steadily over time (dollar-cost averaging) may lower your average per-share cost. Periodic investment programs cannot guarantee profit or protect against loss in a declining market. Dollar-cost averaging is a long-term strategy involving continuous investing, regardless of fluctuating price levels, and, as a result, you should consider your financial ability to continue to invest during periods of fluctuating price levels.