

Youth Movement:
How an 8-Year-Old Crafted a Simple, Winning, 'Lazy' Portfolio



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By PAUL B. FARRELL

ARROYO GRANDE, Calif. (MarketWatch) -- So I get this nice e-mail request from David who wants to know "about the 'super small' investor and what investing strategies you might have for them. I'm talking about the investor who has \$5,000 to \$10,000 to invest and can't afford even one of your lazy portfolios -- the kind of investor who is really just starting to be able to invest in funds. Any thoughts you have on specific funds and allocations would be appreciated."

First off, I'm glad you're finally committed to saving for retirement. It's a long journey. For a 25-year-old, it's 30 to 40 years down the road, to 2037 or 2047. Start by avoiding those silly online financial calculators and any financial planners who blabber on about needing \$1,000,000 to retire ... that's darn discouraging when you're stuck with lots of bills and little in the bank.

Here's how Kevin Roth, an 8-year-old second-grader got started. He got a gift from grandma and a few hints from his father, Allan, a no-nonsense financial planner in Colorado Springs. It's a simple portfolio of three no-load, low-cost index funds.

Yes, it does cost a minimum investment of \$3,000 in each of the funds, for a total of \$9,000. (Kevin was able to get those minimums waived because his father owns a lot of Vanguard funds.) But my advice to David is: You have to start somewhere, so shoot for this one.

See Kevin Roth's Portfolio

The second-grader starter portfolio (chart) Source: Morningstar Inc. data as of Dec. 31

Please note that this second grader's portfolio not only beat the S&P 500 by two percentage points last year according to Morningstar's data, it actually beat all five of our lazy portfolios in 2006, so we may add it to our list! [Read more on lazy portfolios.](#)

And if you prefer to use exchange-traded funds for your portfolio, you could replace the mutual funds with Vanguard Total Stock Market Index ([VTI](#)), iShares Lehman ^{60%} Aggregate Bond Index ([AGG](#)) and iShares MSCI EAFE International Index ([EFA](#)) ^{30%} _{10%}

Also note there's less risk here than with the S&P 500 alone. Morningstar's risk analyzer says there's a 5% probability that the S&P 500 fund will decline by 12% or more. But there is only a 5% probability the three-fund portfolio will decline by 10% or more. Here's how Allan describes the advantages his son has over most adults:

Your Portfolio Performance

- The calculations suggest Kevin's portfolio beats 95% of professional portfolios (the worst performing of the three funds beat 65% of its peers) in 2006.
- By owning the entire market, Kevin will beat the average dollar invested because his costs are so low.
- Don't confuse owning lots of funds with being diversified; three's enough.
- Kevin has other advantages over adults: He doesn't go to cocktail parties where people brag about their investments.
- No financial planners (a.k.a. salespeople) call on him to exploit emotions.
- He doesn't watch the financial shows on TV -- doesn't even know who Jim Cramer is.

The point is: Bite the bullet. It's time for some discipline, so forget about a new plasma TV and focus on a starter portfolio. There are a million ways to procrastinate ... but I promise you, once you start, it gets progressively easier (set up automatic deductions from payroll and get used to living on less). Just start! Do something! Action! Put a hundred bucks in the cookie jar. Buy one fund. Take responsibility.

Remember: Nothing saved equals nothing invested equals no compounding equals no comfortable retirement for you and your spouse. Heed Charles Schwab's caveat: For every five years you wait to start, you'll have to put aside twice as much annually to reach that million-dollar retirement nest egg.





