

and more sacrifices are in order. In other words, get used to packing your lunch.

Second, a young professional like Kelli should have four months' gross pay in the bank in case of emergency, Frick says. If Kelli loses her job, for example, she'll have this cash reserve to fall back on. Based on Kelli's salary, she should work toward putting away \$6,750. This money should be placed in low-risk and easily liquidated investments, says Adamic.

A short-term treasury bill, a short-term CD, and a money market are good cash reserve investments.

**RETIREMENT READY** After paying down her high-interest debts and setting up an emergency fund, Kelli needs to contribute to her employer's 401(k) plan as soon as she is eligible (this varies by employer, but in Kelli's case it's one year). See for yourself how lucrative this form of saving is: At age 25, if Kelli puts 10 percent of her annual salary and bonus into a 401(k) account, and if her account is diversified in a range of investments ("no wimpy bond funds," Frick says), she'll have \$1.8 million (around \$770,000 in today's dollars) when she retires at age 65 (assuming a 10 percent annual return). If she had started saving at age 22, just three years earlier, she would have \$950,000 in today's dollars—a difference of \$180,000. "The idea is that if you start early, you're not going to have to save that much to end up with a ton of money in retirement," says Frick.

Federal law limits your 401(k) contribution to 15 percent of your salary, but individual employers may set lower limits. When Kelli begins contributing to her 401(k), the money will be deducted automatically from her paycheck (before taxes), so there's no danger that she'll spend it on clothes or entertainment. Frick adds that if Kelli's employer has a matching policy, it's important for her to think of that contribution as gravy. If your company does not offer a 401(k), you should open a Roth IRA, which is also a tax-deferred investment. Unlike the 401(k), you can only contribute up to \$2,000 a year and there is no matching benefit.

**RISK AND RETURN** Once Kelli has paid off her credit card, has a cash reserve for emergencies, and is contributing the maximum to her 401(k), Frick advises that she start additional investments. This is the money that Kelli will eventually use to

buy a car or make a down payment on a house. She'll have to prioritize and moderate her spending (dare we say the word budget?) to build this "disciplined savings." Adamic suggests investing in a growth mutual fund, which is a somewhat riskier,

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higher-return investment than Kelli's cash reserve account. She can safely assume the risk because she won't need the money for many years, and the longer you can invest your money, the more risk you can afford. Kelli should follow the stocks in her growth fund and begin to learn more about risk and return in the stock market. Once her disciplined savings account gets fairly fat—around \$10,000, says Frick—Kelli can consider investing a small amount of it (maybe 10 percent) in more-aggressive funds. At this point in her financial life, Kelli can't afford to lose any money in casual online investing. Anyone who does dabble in online stock trading should not rely exclusively on those investments.

Kelli's last priority should be paying down her student loan. Even though it's her single largest liability, she should pay only the minimum amount due each month. That's because Kelli can earn a higher rate of return on her investments (12 percent in the stock market, on average) than she is

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being charged on her loans (the current rate on Stafford loans is less than 8 percent), thereby offsetting the money she has to pay on the loan.

Frick says every individual's investment strategy starts with setting priorities, and Kelli shouldn't feel overwhelmed by the options he has set out for her. "At this point in Kelli's life, as long as she's putting the max into her 401(k) she's going to be in very good shape," he says. His investment philosophy is one we can all live with: "It's got to be a balance. You need to have fun, and you need to enjoy life." 

*Senior Editor Laura Sweeney hasn't balanced her checkbook since she was in college.*