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Six Burning Investment Questions, Answered

Choices. Investors today have so many options for where to put their money, selecting the right ones—as in, those that best match their financial goals, life stage, monetary philosophy and tolerance for risk—can be daunting, even downright confusing.

Making sense of the many options starts by enlisting the services of a CERTIFIED FINANCIAL PLANNER™. A CFP® is trained specifically to help you make the right investment choices based on a big-picture analysis of your current circumstances and priorities as well as your situation going forward. To find one in your area, visit the Financial Planning Association's national database of personal finance experts at www.plannersearch.org.

With your hard-earned money at stake, here are some of the key choices you are likely to face, to help you sort through the options and to prep you for that must-have discussion with a financial planner:

1. Should I prioritize investing over paying down debt? Given how fast debt — from credit card balances, school loans and the like — can compound, Keith Newcomb, CFP®, at Full Life Financial LLC in Nashville, Tenn., said paying down debt in many cases should take precedent over investing the money instead. People with minimal debt can do both at once.

2. Should I invest my discretionary income toward retirement or spend it now on stuff I want? Members of Generations X and Y, according to some estimates, will need to save upwards of $2 million to live comfortably throughout retirement. Bottom line: The earlier a person starts investing for retirement, the better off they will be financially during retirement, even if it's investing only a small amount to start. So if you have discretionary income after your expenses are covered and your short-term money goals (paying off a credit card, saving for a car or a home, etc.) are addressed, invest it in a retirement vehicle now and save that 72-inch TV purchase for later.

3. Should I put money in my work-based retirement plan [such as an IRA or 401(k)] or open my own individual retirement account (IRA)? Whether it's a work-offered IRA or 401(k) or an IRA you open yourself, these types of account offer the advantage of letting you make contributions tax-free (tax-deductible). But if faced with a choice, you may want to opt for an employer-based retirement account over one you open yourself for several key reasons: (1) your employer may offer matching contributions; (2) you may be able to contribute more each year to a work-based retirement plan, depending on the type of plan; and (3) contributions to a work-based plan can be set up to come automatically out of your paycheck. There's also the option of investing in both a work-based plan and your own IRA. Regardless, this is an issue that deserves a deeper discussion with a financial planner.

4. What type of IRA should I invest in, a traditional IRA or a Roth IRA? Given the tax implications, here's another issue to take up with a financial planner. But before you do, know that with a Roth IRA, contributions aren't tax-deductible on the front-end; you're investing after-tax money, but that money comes out tax-free on the back end. It's the other way around with a traditional IRA, whose distributions typically are taxed on the back end. Many financial planners recommend putting money in both types of IRA to diversify the tax status of their IRA distributions.

5. When it comes to an investing strategy, should I rely on a traditional (stocks-and-bonds-focused) approach or a less traditional asset-allocation model? Ultimately, it comes down to the investor's comfort level and risk tolerance, said Newcomb. "There are may approaches to successful investing. My advice is to be open-minded to breaking with tradition." Tradition, embodied in what's called "modern portfolio theory," holds that investors should diversify their portfolio with equity investments (stocks and stock mutual funds, for example), fixed-return investments (such as bonds and bond mutual funds) and a small amount of cash. Now more than 60 years old, that theory lately has begun to show signs of wear, notes Newcomb, who said the best approach is to "invest in harmony with market conditions" — and in consultation with a financial planner.

6. Am I better suited to investments that require a hands-on, self-directed approach or to those where I can take a more hands-off, autopilot type of approach? Some investors prefer building a portfolio of individual, hand-selected equities (such as the stocks of individual companies) and fixed-income investments. Others prefer vehicles such as mutual funds (including target-date or lifecycle funds) that take certain investment choices out of the investor's hands and put them in the hands of a third-party portfolio manager. The more hands-off you want to be, the more you should rely on investment vehicles in the latter category, said Newcomb. "Target-date funds are good for people who don't want to make any [investment] decisions themselves."

Whatever approach you prefer, he adds, it's always best to develop an investment strategy with the help of a qualified financial professional.

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