

Advice for the New Grad

Millions of Americans will graduate from high school or college this month and next. Deciding where to hang the diploma will be easy. Deciding how to start investing probably won't be.

With that in mind, we posed the following question to a handful of financial advisers: Assuming a lucky grad has as much as \$10,000 to invest, what one mutual fund or exchange-traded fund should launch a fledgling portfolio—and why?

While most of the advisers pointed to choices at low-fee fund companies for obvious reasons, they came up with a handful of differing themes regarding the best option for young, inexperienced investors.

Some recommended funds and ETFs that are 100% invested in stocks, while others suggested funds that include up to 40% in fixed-income assets. They had varying opinions about what role international exposure to emerging and established markets should play in a first fund. Some favored target-date funds, which include a mix of U.S. equities, fixed-income holdings and international assets. Others took a playful approach, opting for funds and ETFs with modern holdings designed to retain the Twitter generation's interest.

All Equities, All the Time

Once upon a time, young investors were told to put all their money in stocks. Conventional wisdom these days suggests that young investors temper an all-equities portfolio with some fixed-income holdings. But some advisers still support the all-stock approach because it offers the highest potential for returns, and young investors—who can recover from market drops—still benefit from it.

"If you're under 40, you should be 100% equities-focused," says Jake Engle, founder of Wealth Planning & Management LLC in Portland, Ore. He says investors planning to hold funds for at least five years should opt for Vanguard Small-Cap Value ETF, a domestic fund built from inexpensive small stocks, or WisdomTree International SmallCap Dividend, an ETF similarly focused on small stocks, but built entirely from non-U.S. companies. (About half its holdings come from Japan, Australia, and the U.K.)

Mr. Engle says these funds hold stocks with low price/earnings ratios, which make them inexpensive, while offering the potential for high returns over the long haul.

Sean Burgess, the founder and principal of San Francisco-based Burgess Financial Planning, agrees that young investors should be 100% in equities. He says that if given just one choice, investors should use Vanguard Total World Stock ETF, an all-equities ETF built from 2,600 stocks, including 60% international and 40% domestic holdings—ratios mirroring global market capitalizations.

Target-Date Funds

Investors of any age who are concerned about diversification but who lack the means to invest in multiple funds simultaneously can always turn to target-date funds, most of which are "funds of funds" that include a blend of domestic and foreign equities, as well as fixed-income holdings. Some consider them one-stop shopping.

Jeff Kostis, president of JK Financial Planning in Vernon Hills, Ill., likes T. Rowe Price Retirement 2050 for the younger set because it offers slightly higher foreign concentrations (about 22%, according to Morningstar Inc.) and lower bond holdings (about 8%) than some alternatives.

Garry Good, of Good Financial Advisors in Bloomington, Ill., recommends Vanguard Target Retirement 2050. Its holdings include funds indexed to the total U.S. stock market (about 72% of assets) and total U.S. bond market (about 10%), along with three international index funds.

Warren McIntyre, principal of VisionQuest Financial Planning LLC in Troy, Mich., likes Vanguard's 2050 fund, too, but says that investors with less than that fund's \$3,000 minimum investment can get a very similar asset mix with the exchange-traded iShares S&P Target Date 2040 Index.

Another option for novice investors is a fund that combines stocks and bonds in something resembling the 60%-to-40% proportion of classic balanced funds.

William Keffer, of Keffer Financial Planning in Wheaton, Ill., recommends Vanguard STAR for several reasons, including what he calls a "reasonable allocation to international stocks, often missing from balanced funds."

Vanguard STAR invests in 11 actively managed Vanguard funds, allocating between 60% and 70% to stocks. As of year-end, about 60% of the fund's assets were in stocks, with 16% of the total in foreign stocks, according to Morningstar. The fund's minimum investment is a relatively low \$1,000. Mr. Keffer says that while he generally doesn't like actively managed funds, the Vanguard fund's balanced mix of assets and low expense ratio make it attractive.

Kathleen Campbell, owner of Campbell Financial Partners LLC in Ft. Myers, Fla., also points to Vanguard STAR as a safe choice for younger investors who are saving for a long-term goal that's a decade or so away—say, a home purchase—versus for retirement in 40 years. For the latter, she likes Vanguard Total Stock Market or Vanguard Total World Stock Market portfolios, in ETF or fund form.

More Aggressive Picks

Most advisers say the younger generation will need to include a mix of international holdings in their portfolios, though not all think international exposure has to play a major role in a first fund pick. Taking what some would consider an aggressive tack, Charles Scott, of Pelleton Capital Management Ltd. in Scottsdale, Ariz., suggests new investors concentrate on the world's fastest-growing economies.

His pick: iShares MSCI Emerging Markets Index, an ETF containing large proportions of holdings from China, Brazil, South Korea, Taiwan and South Africa. Such stocks have posted some dramatic ups and downs, but Mr. Scott doesn't consider the fund to be a particularly aggressive one. "The emerging markets are the engine driving global expansion and growth," he says.

Another theme for young investors: Get them engaged with funds that contain equities representing businesses they know and growth industries where they might work.

Robert Laura, a partner in Synergos Financial Group of Howell, Mich., recommends PowerShares QQQ. The all-stock ETF tracks the Nasdaq 100 index, made up of the largest nonfinancial companies in the Nasdaq Composite Index. The portfolio is dominated by technology giants like Apple Inc., Microsoft Corp., Google Inc., Qualcomm Inc. and Oracle Corp.—and with online retail, pharmaceuticals/biotech, media and Starbucks Corp. thrown in for good measure.

"You want sex and sizzle," Mr. Laura says. "You want to keep it interesting."

Ms. Hodges is a writer in Seattle.