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21 Days to Financial Fitness

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Morningstar's Christine Benz offers a step-by-step guide to getting in peak financial shape.

"To change one's life, start immediately, do it flamboyantly, no exceptions."—William James

James, a psychologist, was right on the money with the "immediate" part. But does enacting lasting change in your life need to be momentous or flamboyant? Nah. Instead, most people who have achieved big goals will tell you they've done so little by little, one small step at a time. The person who lost 30 pounds did so by walking an extra mile a day and putting skim milk in her coffee instead of half and half. The author who wrote a best-selling first novel got it done by writing a few pages a night, after he had put his kids to bed.

The same is true when you're aiming to achieve your investing goals. The broad goals of funding a comfortable retirement, paying for college, or buying a first home can seem daunting, particularly when you think through the dollar amounts that you'll need to save. But if you break these broad goals down into smaller, more manageable tasks, and tackle them one at a time, you can begin to make real progress toward your goals.

In this article I'll coach you on completing one investment task per day, with an eye toward getting in the best financial shape of your life. I'll discuss how to invest for goals that are close at hand, how to build a retirement portfolio, and how to make sure your investments are on track from year to year. In just three weeks, you can be financially fit!

Day 1: Start tracking your expenses
Degree of Difficulty: Easy
Let's start with a fairly easy task: beginning to track your spending habits. There are Web sites, apps, and financial software programs devoted to helping keep close tabs on your household's cash flows, but tracking your expenses can be as simple as jotting them down whenever you find yourself opening your wallet or writing a check. Group your expenses into one of two main categories: fixed (i.e., spending that doesn't change and you can't do without) and discretionary. Get a start with the Budget Worksheet included here.

Plan to keep track of your expenses for at least a month; that way you can identify patterns in your spending and zero in on your problem spots. Examining cash flows in this way is the first step in creating a budget that aligns with your priorities and the realities of your life. You may also find that tracking your expenditures will have the salutary effect of causing you to think twice before spending money on things you don't necessarily need.

Day 2: Take stock of your assets and liabilities
Degree of Difficulty: Moderate
Now that you're getting warmed up, it's time to move on to the key task that will show you how you're doing financially: checking up on your net worth.

If you keep good records and don't have many financial accounts, enumerating your assets and liabilities will be pretty straightforward and shouldn't be time-consuming. You've got more work ahead of you if your records and portfolio are in a state of sprawl, but think of this as your impetus to streamline and get organized.

Budget Worksheet

PREPARED FOR: DATE: / /

You'll Need:

- A record of your monthly income and expenses
- A list of your goals, along with when you hope to achieve them and how much they'll cost

INCOME: MONTHLY AMOUNT

Income	Monthly Amount
Salary (net: after taxes and benefits)	
Spouse's salary (net: after taxes and benefits)	
Pension income	
Social Security income	
Interest/investment income	
Other income (specify)	
Other income (specify)	
Other income (specify)	
TOTAL: Monthly Income Amount	

EXPENSES: MONTHLY AMOUNT

Fixed:	**Spent**	**Budget**
Mortgage or rent		
Other real estate payments (taxes, assessments, etc.)		
Auto loan		
Student loan		
Credit card payment		
Utilities		
Tuition		
Child care		
Food		
Clothing		
Insurance		
Other expenses (specify)		
Other expenses (specify)		
Other expenses (specify)		

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Budget Worksheet

PREPARED FOR: DATE: / /

Variable (Discretionary):	Spent	Budget
Personal care (haircuts, gym membership, etc.)		
Entertainment		
IRA contributions		
Dining out		
Other expenses (specify)		
Other expenses (specify)		
Other expenses (specify)		
Other expenses (specify)		
Other expenses (specify)		
TOTAL: Monthly Expenses Amount		

Spent ____ – Budget ____ = **TOTAL: Expected Savings** ____

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You don't need to get especially fancy; get started with the Net Worth Worksheet included here. To document your assets, simply retrieve your latest account balances and estimate the worth of your personal possessions, including real estate. On the other side of the ledger, record any debts you owe, including your mortgage; student, home equity, or auto loans; and credit card balances. Subtract your liabilities from your assets and you're looking at your net worth.

If your net worth is negative or barely positive, you've got your work cut out for you. Creating and sticking to a budget should be a key priority in the years ahead. And even if your net worth is comfortably positive, you should still spend time digging into the numbers. Is most of your money tied up in a single asset, such as company stock or your house? If so, a key goal should be to diversify your financial assets in the years ahead. Do you have an adequate amount—six months' worth of living expenses at a minimum—stashed in
an emergency fund? If you don't, prioritize building up your position in ultrasafe (and unfortunately, ultra-low-yielding) investments before investing in longer-term assets like stocks.

Day 3: Check your emergency fund

Degree of Difficulty: Easy

Before you begin saving for your long-term goals, it's crucial that you build an emergency fund—a basket of ultra-liquid investments that you can tap in case you lose your job or confront an unanticipated car or home repair.

The typical rule of thumb is to keep three to six months' worth of living expenses in your emergency fund. But perhaps a better way to decide how much to store in cash is to think about how much of a cushion you'd like to have in case you lost your job. If you go through that exercise, you're apt to conclude that three months' worth of living expenses is nowhere near enough. But don't go overboard with your cash hoard, either. After all, interest rates on money market accounts and funds are low, so being too conservative has an opportunity cost. As you calculate your emergency-fund requirement, don't use your real spending patterns to set your living expenses. Think about how much you could get by on in a pinch, excluding dinners out, house cleaners, and vacations.

Compare your emergency-fund target with the amount you have saved in CDs, money market accounts and funds, and checking and savings accounts. Don't include cash holdings that appear in long-term mutual funds. Building your emergency fund up to your target level should trump saving and investing for other goals, such as retirement or college.

Day 4: Get maximum mileage from your cash holdings

Degree of difficulty: Easy to moderate

Everyone needs cash, both for an emergency fund and to cover upcoming expenses such as your property tax bill or college tuition. Keeping that money safe is important, but the big drawback is that yields on CDs, money market accounts, and other cashlike vehicles are about as low as they can go right now.

When shopping for the best yields on cash investments, the list of don'ts is almost as long as the list of dos. While it's smart to be opportunistic and scout around for the best yields, my key piece of advice is not to get too cute. Safety is key for this portion of your portfolio, so resist the temptation to park some or all of your assets into a "cashlike" vehicle that offers a higher yield but also a greater risk to your principal. Ultrashort-bond funds and bank-loan funds are a great example of why you shouldn't chase yield: Although some investors had used funds in both categories as a higher-yielding money market substitute, the average fund in these groups lost 8% and 30%, respectively, in 2008's market shock.

CDs usually offer higher yields than money market funds and other cashlike vehicles, and they offer FDIC protection to boot. The big drawback is that you're locking yourself into a fixed term and rate. Money market mutual funds, bank-offered money market accounts, and high-yield savings accounts offered by online banks and credit unions can all buy new, higher-yielding securities if rates move up.

Net Worth Worksheet

PREPARED FOR: DATE: / /

Find out how much your assets are worth in total by filling out this worksheet. List assets by ownership.

You'll Need:

- Most recent investment statements for taxable accounts, retirement accounts, and college savings plans
- Most recent checking and savings account statements
- An estimate of the current market value of your home(s). (Be realistic! Unfortunately, it's not worth what it was three years ago.)
- An estimate of the current market value of other assets, including cars, jewelry, artwork, etc.
- Life insurance policy face values
- Most recent credit card statement(s), if you have a balance on your account
- Most recent mortgage and home equity loan statements
- Most recent statements from any other debts you owe, such as student or auto loans

NET WORTH: ASSETS

Taxable Accounts:	You	Spouse	Joint	Total
Checking				
Savings				
Credit union				
Money markets				
CDs				
Mutual funds				
Stocks				
Bonds				
Stock options (vested)				
Other				

Retirement Accounts:	You	Spouse	Joint	Total
Annuities				
Traditional IRAs				
Roth IRAs				
401(k), 403(b), 457				
Other				

Net Worth Worksheet

PREPARED FOR: DATE: / /

NET WORTH: ASSETS, CONTINUED

Personal Property:	You	Spouse	Joint	Total
Primary residence				
Secondary residence				
Cars				
Jewelry, furs, art				
Home furnishings				
Other				
Life insurance cash value				
TOTAL: Assets:				

NET WORTH: DEBT

Personal Property:	You	Spouse	Joint	Total
Mortgage				
Home equity loan				
Car loan				
Credit card debt				
Student loans				
Other				
TOTAL: Debt:				

TOTAL: Assets ______ – TOTAL: Debt ______ = **TOTAL: Net Worth** ______

If you're in a high tax bracket, another option for your cash is a municipal money market fund, whose income will be free of federal income tax. Most fund companies have a tax-equivalent yield function on their bond calculators that can help you determine whether you're better off in a muni or taxable money market fund once the tax effects are factored in.

Day 5: Map out your financial goals

Degree of difficulty: Easy

Most of us have a running list of financial goals: whether it's paying off our homes, financing college for the kids and grandkids, funding a comfortable retirement, or paying for here-and-now creature comforts like vacations and new cars. Few people, however, take time to document their goals and quantify exactly how much they'll cost, even though that step is key to helping you set your household's financial priorities. It's also pretty easy.

Today, take a moment to jot down your goals. Group them into one of three bands: short-term goals (goals you'd like to achieve in five or fewer years), intermediate-term goals (five to 15 years from now), and long-term goals (15 years or more in the future). Once you've done that, prioritize your goals within each time frame. Be sure to include debt retirement on your list of goals.

The next step is to estimate exactly how much those goals will cost you. If your goal is close at hand—such as buying a car next summer—quantifying it is straightforward. But if it's a goal that's further in the future or one that you'll pay for over several years, the calculation may be more complicated and you'll also have to factor in inflation. FinAid's College Cost Projector can help you calculate the cost of college using historic (and historically scary) inflation rates, and Bankrate's Retirement Calculator shows you how much you'll need to save for retirement. Morningstar.com's Savings Calculator is a multipurpose calculator that helps you see the interplay between your current savings, future contributions, and your expected rate of return.

Day 6: Allocate capital like a pro

Degree of difficulty: Moderate to difficult

Although Morningstar focuses on helping you invest in stocks, funds, and exchange-traded funds, the reality is that investors' highest-impact decisions precede the decision to invest in the market. Do you save enough? And when you have extra cash on hand, do you pay down debt, invest, or do a little of both?

When it comes to the latter decision, it's helpful to think of yourself as a business owner, steering your cash toward the opportunity that is apt to offer you the best return on your capital.

Paying off debt—even more benign types of debt like mortgage debt or student loans—offers you a knowable return on your money—always a good thing. If you're receiving a tax break on your interest, as is the case with mortgage interest and some student loans, you'll get less of a bang out of paying off the note prematurely. But in my experience, many mortgage-holders overestimate the benefits of their tax-deductible interest; later in the life of the mortgage, tax-deductible interest may be a small slice of the overall mortgage payment.

Investing in the market offers a potentially higher rate of return, but the hitch is that return, unlike paying off debt, isn't guaranteed. When forecasting returns for your investments, be conservative. I usually use a 6% rate of return for equities, a 2% return for bonds, and a 1% return for cash. Based on the asset mix of your portfolio, you can then forecast a ballpark return for it. Armed with that information, you can then determine whether investing in the market or paying off debt is the best return on your dough.

Day 7: Invest for mid-term goals

Degree of difficulty: Moderate

Yes, current yields on truly safe investments like CDs and money market funds are shrimpy. But if you're building an emergency fund or saving for a goal that's close at hand, the risks of venturing beyond ultra-safe investments outweigh any extra yield you're able to pick up. It's boring, but you'll need to rely on your own savings, rather than investment returns, to do the heavy lifting in these instances.

But what if you're saving for an intermediate-term goal and don't expect to need the money for another couple of years or even more? In that case, you can tolerate modest fluctuations in the value of your principal. A core intermediate-term bond fund can fit the bill. A few favorites among Morningstar analysts include Dodge & Cox Income (DODIX), Fidelity Total Bond (FTBFX), and Metropolitan West Total Return Bond (MWTRX).

If you have an even longer time horizon—anywhere between five and 10 years—you can hold stocks as well as bonds. Morningstar analysts like Vanguard Wellesley Income (VWINX) and Dodge & Cox Balanced (DODBX), which combine stocks and bonds together. If you hold one of these funds and are getting close to needing money to fund your goal, you can transition the assets to cash for safe-keeping.

Day 8: Identify the right vehicle for college savings
Degree of difficulty: Moderate
As with retirement investments, the college-savings landscape is far more cluttered and complicated than it needs to be, with myriad vehicles competing for investors' attention.

Due to their generous contribution limits and the potential for tax-free withdrawals, section 529 college-savings plans have emerged as the vehicle of choice for families looking to sock away a substantial sum for school. 529s have generally improved substantially over the past few years, with costs coming down and the quality of investment options going up. To see how these college-savings plan compare, consult Morningstar's annual 529 Plan Ratings.

Some investors, however, would like to invest for their kids outside the confines of a dedicated college-savings vehicle like a 529 or Coverdell Education Savings Account. If that's you, you have a couple of different options. Setting up a UGMA/UTMA account is one simple way to go, but the drawbacks probably outweigh the pluses, in my view. The assets become the property of the child once he or she reaches the age of majority (varies by state but usually age 18 or 21), when some young people may not yet be equipped to make good financial decisions. And if you're pretty sure your child is college-bound, you should know that those UGMA/UTMA assets will work against your child in financial aid calculations.

For those reasons, investors looking to save outside of a dedicated college-funding vehicle like a 529 or Coverdell should consider saving for their kids in one of a couple ways. The first would be simply to hold tax-efficient investments, such as low-turnover exchange-traded and index funds, individual non-dividend-paying stocks, municipal bonds/funds, or tax-managed mutual funds, within the confines of the parents' taxable account. Withdrawals won't be tax-free, as is the case with qualified withdrawals from a Coverdell or 529, but it's straightforward and investors gain the added flexibility to use the money outside of college expenses, penalty free, if the need arises.

Another option is to use a Roth IRA to save for your kids. In a Roth, you can pull out your contributions (not your gains), tax-free, at any time and for any reason, making the vehicle a great multi-tasker for those looking to save for retirement and college at once. The key drawbacks? Roth contribution limits are pretty low—currently $5,500 for those under 50 and $6,500 for those over—and pulling money out for your kids leaves less money at work for retirement.

Day 9: Invest your college-savings assets
Degree of difficulty: Moderate
The bear market of 2008 forced many retirees and pre-retirees to recalibrate their plans and, in some cases, to make meaningful reductions in their spending. But it also had a huge impact on another, much younger group: college-bound students. Unfortunately, many college-savings plans, including several professionally run 529s, were far too skewed toward stocks in the later stages of their investment paths coming into 2008, resulting in big savings shortfalls for students getting close to college.

If that experience had a silver lining, though, it was that it underscored the importance of holding on to what you already have versus gunning for big returns

in your child's college-savings plan, particularly as college draws near.

Many of the investment pros running 529 college-savings programs have scaled back the equity holdings of their age-based options to make them more conservative, and added index funds in place of poorly chosen actively managed funds, in the hopes of reducing the risk of a big shortfall at the worst possible time. Investors managing the asset allocations of their own college-savings programs should also take the lessons of 2008 to heart.

Here are a few quick tips:

- By the time your child hits the teenage years, more than 50% of his or her college fund should be in bonds and cash.

- By the time your child is a junior or senior in high school, equities should compose only a small slice (less than 20%) of his or her college dough.

- If you have to boost your college savings using a combination of financial aid, student loans, or work-study, it's better than risking the money you have been able to set aside.

Day 10: Decide between Roth and traditional contributions for retirement savings

Degree of difficulty: Moderate

Investors who are socking money away for retirement are apt to hit a fork in the road: Should they make "Traditional" or Roth contributions? Investors in a Traditional 401(k) will be able to contribute pretax dollars to their accounts; investors in a Traditional IRA may be able to deduct their contributions if their income falls below the income limits. (In 2016, individuals earning below $71,000 who can contribute to a company retirement plan at work can make at least a partially deductible IRA contribution; for married couples filing jointly with one spouse who can contribute to a company retirement plan, the threshold for a partially deductible IRA contribution is $118,000 in 2016.) Investors in both Traditional 401(k)s and IRAs can also take advantage of tax-deferred compounding. That sounds compelling, but the downside of building Traditional 401(k) or IRA assets is that the money is taxable upon withdrawal in retirement.

Roth contributions, whether to a 401(k) or IRA, receive exactly the opposite tax treatment: There aren't any tax breaks on contributions, but the money compounds on a tax-free basis and may be withdrawn in retirement without any taxes, too. (There are no income limits on 401(k) contributions, either Roth or Traditional, but income limits apply to Roth IRA contributions. Single taxpayers can make at least a partial Roth IRA contribution if their income is less than $132,000; for married couples filing jointly, that threshold is $194,000.)

The right answer rests on one big swing factor: whether you expect to be in a higher tax bracket in retirement than you are now. But unless you're quite close to retirement, the answer to that question is all but unknowable.

However, a few categories of individuals are good candidates for making all or at least part of their 401(k) contributions Roth-style. The first would be younger savers who aren't earning a lot currently but may do so in the future. For them, their own earnings trajectory, plus the possibility that future tax rates will trend higher across the board, make a strong argument for a Roth 401(k) and IRA.

Another good candidate for Roth assets is the upper-income individual who has a lot of retirement assets sitting in a traditional 401(k) and/or IRA. Opting for Roth contributions or even undertaking a conversion can give such individuals the opportunity to hedge their bets: If tax rates trend higher in the future, or they're in a higher tax bracket in retirement than they were in their accumulation years, they'll be glad they took the hit by making Roth contributions when tax rates were lower.

On the flipside, investors who haven't saved much for retirement and can make a deductible Traditional IRA contribution may be better off with that type of IRA. It's unlikely that their tax bracket will be higher than it is when they're working, so they're better off pocketing the tax break now.

Day 11: Check up on the quality of your company retirement plan
Degree of difficulty: Moderate to difficult
If you're earning a match on your 401(k) plan contributions, it's a no-brainer to invest at least enough to earn the match. But what if your company isn't matching, or if you'd like to make a larger contribution to your retirement than you're being matched on? Is it best to stick with the 401(k) or turn to another vehicle like a Roth IRA?

The answer to that question depends, at least in part, on the quality of your plan. To help determine whether your plan is worth investing in or a is a stinker, ask your HR administrator for a document called a Summary Plan Description, which lays out crucial information about your 401(k).

Beware: This document is apt to be crammed with legalese and not likely to be easy reading. But after a little bit of hunting, you should be able to locate your plan's administrative expenses. These fees may be depicted in percentage or dollar terms; if the latter, divide your plan's costs by the total dollars in the plan. If your plan doesn't have any additional administrative costs, that's a good sign. But if it layers on additional administrative fees that amount to 0.50% or more per year, that's a red flag that your plan is a costly one. Check to see whether your plan includes other bells and whistles, such as a brokerage window, which allows you to invest in options outside the plan; the ability to take a loan; and the ability to make Roth 401(k) contributions.

After that, conduct a quick checkup of the breadth and quality of your plan's holdings using the data and Analyst Reports on Morningstar.com. Look for a good array of core-type mutual funds: large-cap U.S. and foreign stock offerings, balanced funds, and core intermediate-term bond funds. For stock funds, look for expense ratios of less (preferably much less) than 1% per year, though specialized funds like international and small-cap offerings may charge a touch more. For bond funds, expense ratios of less than 0.75% are ideal. Read Morningstar's Analyst Reports for a quick checkup on the quality of the options in your plan.

If your plan checks out well on the above measures, funding it up to the maximum allowable level is apt to be a good use of your cash, thanks to the tax-deferred compounding that company-retirement plans afford. Before doing so, however, you should also deploy some of your retirement assets into an IRA. You can start and maintain an IRA with very low to no administrative expenses, and you can also access a broader range of investments than you can when investing inside of a company retirement plan like a 401(k).

Day 12: Maximize your match
Degree of difficulty: Easy
If you're not earning any matching funds on your 401(k), my usual advice is to fund an IRA up to the maximum allowable level first. The reason is that you can put any investment you'd like into an IRA, and you won't have to pay any additional administrative expenses to invest in one, in contrast with many 401(k) plans. IRA investors also enjoy tax breaks that parallel 401(k)s. If you find yourself with additional assets to invest after that, turn to your 401(k) (provided it's a good one!).

If you are lucky enough to earn matching contributions on your 401(k), plan to take advantage of each and every one of those dollars. This is particularly relevant if you're highly compensated and/or you expect to receive a large bonus early in the year. That's because many companies make matching contributions throughout the year, but if you hit your allowable 401(k) contribution well before year-end, you won't be able to take full advantage of any matching contributions your employer would've made in the remainder of the year. (Some companies make an adjustment to help employees receive a match on their full 401(k) contributions regardless of when those contributions were made, but others do not.)

If this is a potential issue for you, you'll need to lower your contribution rate per paycheck to ensure that you don't reach your maximum contribution too early in the year. People who receive large bonuses may be especially vulnerable to missing out on matching contributions; they can usually correct this

issue by lowering the percentage of their bonus that goes toward their 401(k).

Day 13: Use an IRA to Improve Your Portfolio
Degree of difficulty: Easy
If you have most of your retirement assets in a company-retirement plan and are using an IRA to supplement what you already have, you can use your IRA in one of two ways.

You can hold core-type investments, which tend to be mainstays in most 401(k) plans: index stock and bond funds, large-cap actively managed funds, balanced funds, and so forth.

Alternatively, you can use your IRA to fill holes in your company retirement plan. For example, say your plan includes adequate stock funds, but its bond funds charge more than 1% per year in annual expenses—sure to cut into your long-term returns. If that's the case, you can fill your company retirement plan with the decent stock funds and leave the bond portion of your portfolio to an IRA. Morningstar's Instant X-Ray tool can help you see where you've got holes in your existing asset mix.

You can also use your IRA to include asset types not commonly found in company retirement plans, including funds dedicated to real estate investment trusts, commodities, or Treasury Inflation-Protected Securities. All of these investment types do a good job of diversifying a portfolio that's composed primarily of conventional stocks and bonds. They also can be a headache when held outside of tax-sheltered accounts, because they generate a lot of taxable income. So, they're ideal holdings for an IRA.

Day 14: Manage your portfolio for tax efficiency
Degree of difficulty: Moderate
Although utilizing tax-sheltered vehicles like IRAs and 401(k)s can help you dodge the tax collector, at least temporarily, there are occasions when you'll need to save in your taxable accounts. Perhaps you're socking money away for a goal that's close at hand, for example, or maybe you've maxed out your contributions to the tax-sheltered vehicles available to you.

If that's the case, there are still some steps you can take to reduce the tax effects on these investments.

One of the key steps you can take is to limit your own trading activity, thereby reducing the taxable capital gains you'll owe from year to year. I'm also a big fan of actively pruning your taxable portfolio's losers, which helps you offset capital gains from your winners. Investors who are in the 10% and 15% income tax brackets can do the opposite—pre-emptively selling their long-term gainers and immediately re-buying them. The advantage of that strategy is that it's tax-free, as those in the 10% and 15% income-tax brackets currently pay a 0% rate on long-term capital gains, and it also increases the investor's cost basis in her holdings.

Finally, it pays to be careful about what types of investments you hold in your taxable accounts. High-turnover stock funds, whose short-term capital gains are taxed as ordinary income, are a definite "don't," as are high-income-producing investments such as REITs and junk-bond funds.

On the "buy" list for taxable investors are low-turnover exchange-traded funds and index funds, municipal-bond funds, individual stocks, and tax-managed funds.

Day 15: Conduct a "quick and dirty" portfolio checkup
Degree of difficulty: Easy to Moderate
A good starting point for a portfolio checkup is to take a snapshot of where your total portfolio is right now, with an eye toward flagging any notable trouble spots. The best tool for the job is Morningstar's Instant X-Ray tool. Simply plug in tickers for each of your holdings (use CASH$ for cash), then hit "Show Instant X-Ray" for a look at your portfolio's stock/bond/cash mix and breakdown by investment style, sector, and geographic breakdown.

That's a lot of information, and may not be valuable without some context. To help make sense of what you're looking at, click on the "Interpreter" tab under "Edit Holdings." As you do so, run through the following checklist and take notes as you go along:

1. Is your stock/bond/cash mix in line with your targets? Take note if your allocation to any one asset class is more than five or 10 percentage points higher or lower than your targets. If it is, it's time to rebalance.

2. Are you making big, inadvertent sector bets? Compare your weightings to the S&P 500's (provided in X-Ray). Again, look for big bets of five or 10 percentage points or more.

3. How about investment-style bets? To help provide a reference point, the Dow Jones Wilshire 5000 Index, a measure of the broad market, recently had the following breakdown in the Morningstar style box: 25% large value, 25% large blend, 24% large growth, 6% in each of the mid-cap boxes, 3% in small value, 3% in small blend, and 2% in small growth.

4. Is a big share of your portfolio in a single stock? To see, click on the Intersection tab. Positions amounting to 5% or more of your total portfolio can ramp up its risk level.

5. Do you have an adequate emergency fund? Make sure you have a bare minimum of three months' worth of living expenses in a cash or cashlike vehicle. (Don't use X-Ray to gauge your cash holdings because it is likely to overstate them by including cash holdings that appear in long-term mutual funds; you couldn't access that cash without selling the whole fund, so that money isn't really liquid.)

   If you have extra time, click the individual security names at the bottom of the main X-Ray page to see data and analyses for the stocks, mutual funds, and ETFs in your portfolio.

Day 16: Look for opportunities to streamline
Degree of difficulty: Moderate
Today's task is one that's relevant to investors of all ages and of all life stages: combating portfolio sprawl.

Diversification is a good thing, of course, but you can also overdo it. It requires time and research to keep track of important developments at stocks and funds, and that task is compounded when you have many different accounts. And the more investments you have, the greater the likelihood that your portfolio will behave like the market. There's nothing inherently wrong with market-like performance, but you don't want to have to pay active management fees when an index fund would have done the job just as well.

So what are some strategies for beating back the sprawl? Index mutual funds and exchange-traded funds that track a broad market segment are a good place to start if you're trying to streamline your financial life; Morningstar's mutual fund and exchange-traded fund pick lists include plenty of topnotch core index options.

Alternatively, you could take advantage of all-in-one options, either by using a target-date fund or a stock/bond hybrid fund. And if you're managing multiple accounts geared toward a single goal—for example, you and your spouse each have IRAs and 401(k)s, as well as taxable assets earmarked for retirement—think of them as a single entity rather than running each account as a well-diversified whole. Doing so gives you the freedom to pack a significant share of your assets into the best investments available to you within each account. Use Morningstar's Instant X-Ray tool to make sure the whole portfolio is diversified and that the asset allocation is in line with your target.

Day 17: See if you're on the right track for retirement savings
Degree of difficulty: Moderate
Most of the tasks in my 21-day investment fitness regimen have centered around helping you get your investment program up and running. But once you do, it's essential that you periodically check in to make sure that your portfolio and your savings rate put you on track to help you meet your goals.

One way to gauge whether your retirement plan is on track comes courtesy of Fidelity Investments. The firm recommends that investors in their 30s have retirement savings equal to their current salaries, those in their 40s have saved 3 times their current salaries, those in their 50s have saved 6 times, and those in their 60s have saved 8 times their current salaries.

For investors who are closing in on retirement and want to gauge their portfolio's viability to supply their in-retirement income needs, they can simply multiply their current balances by 0.04. If that amount, plus any predictable income they'll be able to rely on through Social Security and/or a pension, is sufficient to live on, they're likely on the right track. (Retirement researchers have found that withdrawing 4% of a retirement portfolio's balance in year 1 of retirement, then inflation-adjusting that dollar amount in subsequent years, gives a balanced portfolio a good shot of lasting for 25-30 years.)

Those are just rules of thumb, though. A financial advisor can provide a more precise read on the viability of your investment program, and can help you tweak it based on your own situation. Alternatively—or perhaps in addition to customized financial advice—you can turn to online tools to gauge the sufficiency of your retirement assets. T. Rowe Price's free Retirement Income Calculator is one of the most comprehensive. You'll be prompted to enter some information about yourself—your birth date, your expected retirement date, your current asset level and allocation, and your desired level of income in retirement. (You won't be asked to provide any personally identifying information, such as your name or Social Security number, though, so don't worry about anyone contacting you with a sales pitch.) The calculator will then give you a gauge of whether your portfolio in its current incarnation will support your desired level of income.

The bottom line with all of these tools is that they help you assess whether your portfolio can realistically support your goals. And the sooner you make that determination, the better positioned you will be to make changes so you don't fall short.

Day 18: Get a plan for your portfolio as you near retirement

Degree of difficulty: Moderate

Amassing enough assets to retire is the heaviest lifting that any of us will do in our investing lives. But even after you've cleared that hurdle, it's still important to have a plan for managing your assets during retirement.

Because encountering a bear market early in your retirement years can have a devastating impact on portfolios that are too aggressively positioned, it's a sensible idea to start moving a portion of your portfolio to safer securities like cash and bonds as retirement draws close.

Another key task for retirees and pre-retirees is to determine a realistic portfolio withdrawal rate. How much can you take out without running the risk of outliving your assets? There aren't any one-size-fits-all answers, but many planning experts agree that a 4% initial withdrawal rate, combined with ongoing adjustments to account for inflation, is sustainable with a 60% equity/40% bond portfolio over a 25-year retirement period. However, retirees with longer time horizons and/or more conservative equity allocations should take more modest withdrawals. It's also a good idea to adjust your withdrawal rate downward if you encounter a weak market; that way, more of your portfolio is in place to recover when stocks do.

Finally, if you've saved for retirement in various accounts—and most of us have—your retirement portfolio strategy must also include a plan for tapping those assets. As a general rule of thumb, you'll want to tap your taxable accounts first, deductible IRAs and company-retirement plan assets second, and Roth assets last. If you're subject to required minimum distributions, fulfilling those distributions comes first.

Day 19: Use a "bucketing" system when constructing your in-retirement portfolio

Degree of difficulty: Moderate to Difficult

One of the most daunting aspects of managing your finances is figuring out how to transition from accumulation mode into retirement, or "harvest" mode.

One intuitive way to construct a retirement portfolio is to create various buckets of money based on when you expect to tap them for living expenses. Bucket number one contains living expenses for the next 1 to 2 years, and therefore should consist of highly liquid investments like CDs and money market funds. This is money you can't afford to lose.

Bucket number two should be positioned for living expenses in years 3 through 10, and therefore you can afford to take on slightly more risk. Intermediate-term bond funds and even conservative stock funds or balanced fund are good choices for the intermediate sleeve of your retirement portfolio.

Those assets you don't expect to tap for at least 10 more years can be stashed in stocks and stock mutual funds. Because you've established you have a fairly long time horizon for this money, you won't be unduly upset if the stock market has periodic hiccups.

Day 20: Make sure your retirement portfolio includes inflation protection
Degree of difficulty: Easy

If you're already retired or getting ready to do so, one of the key risks that you'll need to guard against is inflation. Social Security payments are adjusted for inflation (assuming the Consumer Price Index is going up), but the paychecks you'll take from your retirement portfolio will grow smaller and smaller—in real terms—as the prices on the stuff you buy trend up. It's therefore important to position your portfolio to address that threat.

Although investors often debate the best investments to guard against inflation, with some favoring so-called hard assets like commodities and gold, Treasury Inflation-Protected Securities (TIPS) provide the most direct way to do so. The principal values of TIPS adjust upward to keep up with inflation, as measured by the Consumer Price Index, giving investors a straightforward, low-cost way to ensure that their portfolios keep up with higher prices. I-Bonds, which can be purchased directly from the U.S. Treasury, have similar inflation-defending features. (In contrast with TIPS, however, I-Bonds receive an adjustment to their interest payments to account for inflation.)

Day 21: Schedule regular checkups
Degree of difficulty: Moderate

Investors often make the mistake of checking up on their portfolios too frequently, or worse yet, only after big market moves, when they're most inclined to make rash decisions. To help avoid that pitfall, schedule regular checkups in advance. For most people, one comprehensive portfolio review per year is plenty, and much better than obsessing on a daily basis. Year-end--ideally around Thanksgiving, before the holidays gear up--is a good time to conduct your annual portfolio review, because you can still make adjustments to reduce your tax bill.

Morningstar.com's Portfolio Manager makes it easy to monitor your portfolio on an ongoing basis. You can either enter your portfolio directly into the tool or via our Instant X-Ray tool. After you've viewed the X-Ray for your portfolio, simply click Save Instant X-Ray as a Portfolio.

If you feel information overload setting in, fill in the Investment Policy Statement included here and also follow the steps in my "quick and dirty" portfolio checkup (Day 15). M

Investment Policy Statement

NAME: DATE: / /

You'll Need:

- Most recent statements for all of your investment accounts
- Inflation calculators, available at www.morningstar.com/goto/30MinuteSolutions

IDENTIFY INVESTING GOALS

Investing Goal | When
Duration | Estimated Cost
Current Assets | Additional Contributions/Frequency /

SPECIFY ASSET-ALLOCATION RANGES

Domestic Equity		**% to**	
Large Cap (optional)		% to	
Mid-Cap (optional)		% to	
Small Cap (optional)		% to	
Foreign Equity		**% to**	
Developed Markets (optional)		% to	
Developing Markets (optional)		% to	
Bond		**% to**	
Short Term (optional)		% to	
Intermediate Term (optional)		% to	
Long Term (optional)		% to	
Cash		**% to**	

PROJECT RATE OF RETURN

Equity	%	
Bond	%	
Cash	%	
Combined	%	

Investment Policy Statement

NAME:

DATE: / /

DETERMINE INVESTMENT CRITERIA (attach additional pages if needed)

Equity:

Bond:

SPECIFY MONITORING/REBALANCING FREQUENCY

○ Annually ○ Semiannually ○ Quarterly

Rebalance when allocations to broad asset classes are [ ] % points from targets.

IDENTIFY MONITORING CRITERIA (check all that apply)

Fundamental

○ Individual Investments vs. Investment Criteria

○ Portfolio Asset Allocation vs. Targets

○ Other (specify):

○ Other (specify):

○ Other (specify):

○ Other (specify):

Performance

○ Individual Investments' Return vs. Style-Specific Benchmark Return

○ Aggregate Asset-Class Return vs. Asset-Class Benchmark Return

○ Portfolio Return vs. Blended Benchmark Return

○ Portfolio Return vs. Portfolio's Projected Rate of Return

○ Current Assets vs. Goal Assets

○ Other (specify):