What are the best ways for young adults to begin investing?

BY JOSEPH F. ALEXANDER~CONTRIBUTOR~WORTH MAGAZINE

Even growing up in a high net worth family does not guarantee you know how to invest when you reach adulthood.

Many of our clients tell us that their children and grandchildren need help investing. College prepared them for getting a job, but not for managing their finances and investments. So, welcome to Investing 101—a four-step primer for all those young adults out there.

Step 1: Get your company's match money. While plans differ by employer, companies typically match employee contributions to their 401(k) or other qualified retirement plan, say, dollar for dollar for the first 3 percent contributed and 50 cents to the dollar for the next 3 percent.

If you have a $75,000 salary and set aside 5 percent, your $3,750 investment gets you $3,000 of free, tax-deferred money from your employer. That's an 80 percent return! But one quarter of participants in such plans fail to contribute enough to receive the full company match, according to TIAA-CREF.

Step 2, Part I: Contribute to a Roth IRA if you can. If you make less than $131,000 (single) or $193,000 (married, filing jointly), you can contribute as much as $5,500 to a Roth in 2015. These contributions are after-tax money, but unless tax laws are changed, the earnings will never be taxed.

Part 2: If you are unable to contribute to a Roth because your income exceeds the limits, as an alternative, make a nondeductible $5,500 contribution to a traditional IRA annually and convert it to a Roth. This back-door strategy is beneficial only if you use non-IRA or Roth IRA dollars to pay the tax on the conversion amount.

Step 3: Max-out your 401(k) account with additional income. The current limit for total contributions is $18,000. (Those aged 50 and older are allowed an additional $6,000.) If you cannot max it out right away, allocate your annual raise to your account. That way, you will keep your spending in line as you earn more and will eventually max out.

The benefits of a 401(k) or like plan are numerous: Contributions are tax-deductible, earnings are tax-deferred and most plans do not allow investments in stocks, concentrated mutual funds or exchange-traded funds. This limitation saves you from the temptation to put your retirement funds at risk by investing based on a hot-stock tip from a friend.

Step 4 (graduate level): Invest through a brokerage account or a registered investment advisor if you still have disposable income to sock away after maxing-out your 401(k) and Roth. Aside from those four steps, keep the following in mind: For investment allocations, people in their 20s and 30s should invest their retirement dollars in global equities, and perhaps real estate and commodity funds if available. Don’t add bonds before your early-to mid-40s, assuming you intend to work to age 65 or beyond.

Invest in index funds unless your (or your family’s investment advisor) vets your 401(k) choices. If you prefer to be a hands-off investor without turning over the decisions to someone else, consider a target-date fund, which becomes less risky the closer you get to retirement.

It may be impossible for those of you barely past college age to take all four of these steps immediately, especially if you are paying or saving for a home or a car. But be kind to your future self, regardless of immediate financial obligations. At least contribute enough to your 401(k) to get the full company match, and invest in a Roth IRA. Then raise your investing amount annually.

Class dismissed!