10 rules for building wealth

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Fumbling when it comes to investing? Don't panic. There are easy ways to get your money to work for you. By Jia Lynn Yang, Fortune reporter

1. Start early More than any one stock or mutual fund pick, the age you start investing will determine how much wealth you build. To illustrate: Employee A starts putting away $100 a month when she's 22. Her money grows at 8 percent a year, and after ten years she stops contributing - and lets her stake grow.

Employee B waits until he's 32 to set aside $100 a month, also growing at 8 percent a year, and he keeps it up until he hits 64. When they both retire at 64, she will have $234,600, and he'll have only $177,400. Need we say more?

2. Use your 401(k) If you're not already enrolled in your company's plan, stop reading now and sign up. Since you're putting in pretax dollars, a 401(k) is an unrivaled savings vehicle, and passing up an employer match is - literally - giving up free money. Confused about how to manage all the choices in your 401(k) plan? New pension legislation is encouraging companies to offer third-party investment advisory services, so call HR to find out if yours offers any on-the-house guidance.

3. Keep it simple If you have a full-time job and it's not picking stocks, acknowledge that. Choosing three or four index funds - say, an S&P 500 fund, an EAFE fund, and a small-cap stock fund - will give you broad exposure. ETFs (low-cost mutual funds that trade like stocks) are also an easy way to invest in more exotic asset classes, like commodities. If you're close to retirement, consider life-cycle funds from Vanguard or T. Rowe Price, which will automatically rebalance your account according to your goals.

4. Don't try to beat the market Even the best fund managers have trouble beating the S&P 500, so give up the chase. The most straightforward way to avoid this trap is to diversify your assets and then rebalance your portfolio at least once a year. Check your asset breakdown with Morningstar's free Instant X-Ray tool (www.morningstar.com). Essentially, rebalancing means selling some winners that are taking up too big a share of your portfolio and redeploying that cash to bulk up in areas that have lagged. (Buy low, sell high - get it?)

5. Don't chase trends You want to grow your money for the long haul, so you can't switch your strategy every time you read the headlines. If you see an asset class that's catching fire - like real estate investment trusts (REITs) in the late '90s or commodities this year - ask yourself some basic questions: Can I describe how it works in plain English? If not, start your research at Investopedia.com. Why is it so popular right now? If the answer is "Paris Hilton bought some," best to stay away.

6. Make saving automatic No one wants to think about saving - so don't. Already more companies are making 401(k) enrollment automatic (34 percent of big companies, vs. virtually none ten years ago). If you're already maxing out your 401(k), see whether your company can transfer money directly from your paycheck into your Roth IRA or a taxable account. Or ask if your bank can transfer a set amount (even $100 a month) from your checking account into a high-interest-bearing online savings account (check out HSBC's and ING's offerings).

7. Go heavy on stocks The more time you have, the more risk you should take. If you're just starting out, 80 percent to 100 percent of your assets ought to be in stocks. The simplest trick? Subtract your age from 120: That's the percentage you should have in stocks; the rest should be in bonds. "If you have, say, 30 or 40 years, what happens over the next three months or even three years doesn't matter. If you need the money in two years and it drops 40 percent in one year, that's a problem," says Stuart Ritter, a certified financial planner with T. Rowe Price.

8. Hold down fees Be wary of any mutual fund charging a management fee higher than 1 percent (a few stellar managers may be worth it; most are not). A manager with a high buying and selling rate (called "turnover") should also set off warning bells. If you aren't interested in watching your fund manager like a hawk, stick with an index fund, like one from Vanguard, where expenses are typically around 0.2 percent. And if you're trading stocks, don't be fooled by low commissions: They add up.

9. Ditch credit card debt All debt is not created equal, so rank yours by interest rate and pay off the bad stuff first. That usually means credit cards, which can carry interest rates as high as 30 percent. (Compare your card's APR with others at Bankrate.com.) On the other end of the scale are student loans. Those rates are generally between 3 and 6 percent, so consider making the minimum payment and investing in your 401(k) instead. Hey, even Supreme Court Justice Clarence Thomas was still paying off his school loans when he joined the bench.

10. Defer taxes Eager to lock in your gains on a hot investment? Before you click on sell, consider the tax implications. In a taxable account, you'll pay 15 percent in capital gains taxes every time you sell a winner you've owned for more than a year (the longer you can defer paying taxes, the more time you're giving your money to grow). Come tax time, however, it can be a good move to sell losers in your portfolio to take advantage of the annual $3,000 capital-loss deduction limit and offset any capital gains on your winning picks.