

Mid-Year Look at Investments

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Can you believe 1997 is halfway over already? Tax time has come and gone and summer is here. Have you saved enough money to take that vacation you dreamed about all winter? And what about saving for the future? Will you be able to live the lifestyle you have been accustomed to once you reach retirement age? Stuffing your hard-earned dollars into a piggy bank or under the mattress provides *no* return on investment; however, many investment opportunities are available that provide a higher return than simply refunding your original contribution. Whether you have been investing for years or are considering investments for the first time, now is a good time to review the options of the best way to invest your hard-earned money.

There are two main classifications in investments, qualified and non-qualified, as well as additional methods of investing, such as individual stocks, mutual funds, etc. Qualified investments relate to government approved retirement programs or plans. No tax is paid on the earnings invested today, and there is no penalty for withdrawals made at age 59 1/2. Penalties and taxes are assessed on money taken out before 59 1/2; however, certain exceptions can be made through 72(t) distributions under government rules. Qualified investments include 401(k)s, 403(b)s, SEPs, and IRAs.

Employer-Sponsored Retirement Accounts - 401(k)s are offered by profit organizations, while 403(b)s are offered by non-profit organizations such as schools and hospitals. Both get their names from the IRS chapter codes which contain rules and regulations pertaining to them. SEPs, or Simplified Employer Pensions, exist for small businesses of 25 or fewer employees, when it is not economically possible to offer a 401(k) due to high administrative costs. Employer-sponsored retirement accounts may provide matching funds up to a set percentage. It is in the employee's best interest to contribute at least as much as the employer's matching contribution, or money will be left on the table!

Individual Retirement Accounts - IRAs are offered through banks, common savings and loans, brokerage firms and mutual funds. An IRA can be used to "roll over" money invested in a 401(k) account into the IRA. The money is then subject to IRA rules, and once the money rolls down, it cannot roll back up. The exception is "virgin money", or 401(k) money which has never been commingled with other money. With permission of a new employer, this money may be moved to a new 401(k).

Non-qualified investments are made with funds which have already been taxed.

Most earn taxable interest, even if money is not taken out and interest is reinvested (known as "phantom income"). Non-qualified investments include stocks, bonds, CDs, money market accounts, and mutual funds.

Stocks - Stocks are listed on the New York Stock Exchange, NASDAQ and other exchanges. Risks are usually higher than other types of investments, but the performance of stocks usually brings higher returns.

Bonds - Purchasing bonds is basically like lending money and receiving interest back on the investment. Bonds are available through the federal government, a corporation, or municipality (state or county). Foreign bonds are also available and work the same as domestic bonds. Bonds are lower risk than stocks but are not a guaranteed investment, and interest rates can be low.

Certificate of Deposit - CDs are available through a bank or savings and loan and are purchased for a set period of time. A penalty is assessed for early withdrawal, but these penalties are also deductible at the end of the year. CDs are a guaranteed investment with low risk and low return.

Money Market Accounts - Money market accounts are usually set up through a mutual fund, but can also be set up through a bank or savings and loan. Money markets are liquid accounts, providing access to the money with no penalty. Keep in mind, however, the more liquid an account is, the lower the return. Money market accounts are not a guaranteed investment, and taxes are assessed on all interest earned. These accounts are good for the person setting money aside for emergencies or other short-term savings goals.

A **mutual fund** is more a method of investing rather than an investment itself. Your investment money is pooled with investments from other people; the manager of the mutual fund buys and sells the investments contained inside. The number of mutual funds available has greatly increased over the years; at the end of 1964, the list was only a foot long. At the end of 1996, however, the list skyrocketed to 20 feet! There are over 8,000 mutual funds available today, which is more than the number of available stocks.

Different investment options can be mixed and matched to create the portfolio that's just right for you and your temperament. For example, if you are adverse to risk but also want to see your money grow, you may want to start with a bond and move a little of the money into stocks each month. This gives your money the option to grow without "putting all your eggs into one basket." If there is a drop in the stock market, the opportunity and money are there to buy in at a lower rate.

How you invest depends on your goals, your tax bracket, the level of income you need today, your risk tolerance, and your understanding of investment options. Most people still don't have a clear investment plan and are probably not achieving the success they could. A good way to get started is to consult a

financial advisor who can match your objectives with the available options and help you develop a clear plan for achieving your goals.