INVESTMENT PLANNING

✦ TABLE OF CONTENTS

An investor without investment objectives
is like a traveler without a destination.
~Ralph Seger

✦ SETTING INVESTMENT GOALS

Before investing your money, it's imperative to analyze your long-term financial goals. Where do you see yourself in five, ten, twenty, or thirty years? Do you want to own your home free and clear? Pay for your child's college education out-of-pocket? Retire early through the fruits of your investments? Selecting your financial goals begins with envisioning the lifestyle you'd like to enjoy in the future.

With that said, your goals need to be in line with the earning potential of your investments. If you're investing all of your money into an investment with a notoriously low rate of return, chances are that you won't be able to earn $1,000,000 in twenty years. However, if you choose an investment that is known for its high returns and invest as much as you can reasonably afford, your chances of reaching your goal increase exponentially.

Refrain from setting loose goals. Stating that you'd like to improve your financial situation *"in the future"* leaves too much wiggle room. After all, when is *"the future"* anyway? This wiggle room will leave a gaping hole when trying to analyze the performance of your investments.

Set financial goals that are attainable, yet ambitious. Set both long-term and short-term goals for your finances. In doing so, you'll have a solid figure to work towards and have an honest method of evaluating the successes and vitality of your investment's performance.

> ***Why not invest your assets in companies you really like?***
> ***As Mae West said, "Too much of a good thing can be wonderful."***
> *~ Warren Buffet*

✦ HOW MUCH CAN YOU INVEST TO GET YOU MOVING TOWARDS YOUR GOAL?

Clearly, the more money you're able to put into your investment, the more likely you will receive a higher return. ***In the realm of investments, the old adage is true; it takes money to make money.***

Many first-time investors save for months or even years to build the funds for investing. If you're trying to save money for your investment, you may be able to build funds faster by shifting around a few numbers in your current budget.

However, this is not to say that you should force your family to subsist solely on Ramen Noodles and water for the next three months in order to fund your investment. If you must cut back that drastically to scrounge up your initial investment, you're better off opting for an opportunity with a lower bar of entry.

Let's say you currently have $5,000 set aside for your investment, but you'd like to wait until you have $10,000 in order to invest. An option to consider is to open a CD (Certificate of Deposit) with the $5,000 and choose a term that fits for your goals best. Generally, ***choosing a longer CD term will allow you to earn more money in interest as your CD matures.***

- A 6-month CD with an interest rate of 2% would allow you to earn an extra $50 for tying up your money.

- A 12-month CD with an interest rate of 2% would allow your CD to earn $100.

- A 2-year CD would allow you to earn $204 after your CD matures. $102 per year.
- A 5-year CD would allow you to earn $525 in maturity. $105 per year.

CDs certainly aren't the highest yielding investment. Nevertheless, if you're simply going to save your money in a bank account until you're able to save enough to fund your investment fully, it's certainly a better option. At the end of the day, you're making money rather than having your account remain stagnant or worse, at a loss.

> ***I have a problem with too much money. I can't reinvest it fast enough, and because I reinvest it, more money comes in. Yes, the rich do get richer.***
> *~ Robert Kiyosaki*

WORKING IT INTO YOUR BUDGET

It's important to consider the type of investment you want before you begin saving. Researching investments upfront will help you define the dollar amount to work towards before saving for your investment. Consulting with an investment advisor is a vital part during this stage of your investment planning.

Borrowing from your 401(k) or your child's college fund is an option to consider. However, in doing so, you're robbing Peter to pay Paul. If you lack sources to fund your investment immediately, the logical alternative is to ***save up for your investment funding by setting aside an established amount each month.***

Depending on your financial situation, it may be simple to set aside savings for your investment. If possible, set aside 5% to 10% of your income for your investment each month. Assuming that your household has an average income of $5,000 per month, you'd set aside $250 to $500 of your total income to save for your investment.

If you feel as if living on 10%, or even 5%, less of your monthly income is simply impossible for your family's current financial situation, don't feel locked into this percentage bracket. You can save less and still realize your goals of investing. However, it will take longer to save.

The more time it takes to save up the funds for your investment, the less time your money is earning interest.

If you're working on a limited income, it may be necessary to make budget cuts in other areas of your life. It's easy to find ways to save in your grocery budget, entertainment, and leisure shopping. If possible, make permanent changes (like using just one car or taking public transit) that will allow you to enjoy greater expendable income.

Try implementing these ideas to help you trim back your monthly expenditures and save towards funding your investment:

1. **Use coupons.** The simplest way to save money without sacrificing your current lifestyle is to use coupons whenever possible.

    - Before going to a store, search for printable coupons online. Searching for store coupons takes less than five minutes, and it can help you save 20% or more on a purchase you'd make anyways.

    - Join a couponing website, such as www.couponmom.com or www.thegrocerygame.com. The websites matchup the current printable and newspaper insert coupons with store sales in your area to help you get free or heavily discounted products.

2. **Prepare meals yourself.** The average fast food meal is between $5 and $7. For a family of four, a single trip to the drive thru can cost $20 to $28 before taxes.

    - If your family eats fast food once per week, you can save between $80 and $112 per month. If you frequent fast food restaurants twice weekly, you can save a whopping $160 to $224 per month! Surely, this would help fuel your investment.

    - Cut, shred and slice all of your vegetables yourself. Purchase whole chickens or slabs of meat and prepare them into portions at home rather than paying a premium for butchered meat at the supermarket.

    - Save on baby food by using a food processor to create healthier and less expensive alternatives to store-bought baby food.

3. **Save on utilities.** If you're like the average American family, your monthly utilities account for a large portion of your monthly housing costs. Save on your utilities by maximizing the efficiency in your home.

    - Switch out traditional incandescent light bulbs to CFL (Compact Fluorescent Lightbulbs) to reduce your energy bill instantly. CFL bulbs use up to 75% less energy than incandescent bulbs. Use them in areas where they're not likely to get broken, as these bulbs contain a toxic substance – mercury – which could be released when broken.

- Place draft stoppers on windows and doors to keep outside weather from entering your home. Draft stoppers can cost as little as $10. However, they can also be made easily at home with basic sewing skills.

Always keep in mind that several minor changes over a long period can equal big savings. Consider asking a family member to watch your children; even if you pay them, the cost will be significantly less than after school day care or pricey summer camp programs. Alternatively, rather than splurging on a family vacation, use your imagination to enjoy a family "*stay-cation*."

If you're willing to forgo the expenses that you perceive as conveniences, you'll likely uncover plenty of money to use towards funding your investment.

TIP: Living paycheck to paycheck can truly dampen any dreams of investing. In this particular situation, it may be necessary to take on a part time job to create a positive cash flow.

> ***In this business, if you're good, you're right six times out of ten. You're never right nine times out of ten.***
> *~ Peter Lynch*

TYPES OF INVESTMENTS

There are many types of investments to choose from. As a general rule, you'll be able to choose from low risk, low yield investments or high risk, high yield investments. Below, we'll identify just how risky some of the most popular types of investments can be and what the investments themselves entail.

- **Stocks:** When you purchase a stock, you're purchasing a small portion of the corporation by becoming a shareholder. ***Stocks are riskier investments because the market is very tumultuous and unpredictable.***

- **Bonds:** Purchasing bonds makes you a creditor of a company, rather than a shareholder. As a creditor, you're loaning your money for a specified amount of time. In exchange for your loan, the company will pay you the principle amount in addition to interest.

- **CDs:** When you invest in a certificate of deposit, you're agreeing to loan the CD issuer (usually the bank) your money for a specific amount of time. You're able to remove your funds at your discretion. Unfortunately, by removing the funds before the agreed upon date (the *maturity date)*, you'll incur a fee. ***CDs are very low risk investments.*** However, this low risk also leads to a low return.

- **Mutual funds:** Mutual funds are appealing to investors because they offer a diversified portfolio of stocks, bonds, and other types of investments all wrapped into one. Rather than investing privately, a mutual fund collects money from multiple private investors and uses the money to invest in several diversified investments. Investors then receive shares of the investments and are free to hold or sell them at their discretion.

> ***Risk comes from knowing what you're doing.***
> *~ Warren Buffet*

START AS EARLY AS POSSIBLE

Even if you have very little to invest now, it's important to start investing as early as possible. The sooner you begin, the sooner you can build wealth by increasing your assets. You don't need to have $20,000 to get started with investing; you can get started with as little as $1,000 for a single investment.

Some popular and profitable mutual funds even have investment plans that only cost $25 per month! If you need to start out with such a plan, that's better than nothing! That's $25 per month earning you some interest and building your assets that you didn't have before. Over time, it adds up considerably.

If you're starting out small, the fees for the guidance of an experienced investment advisor may be out of your reach. Nevertheless, you don't have to go it alone; there are inexpensive services available online which can guide you and allow you to buy, sell and trade.

A few reputable options for using an online service to invest are www.etrader.com, www.scottrade.com, www.schwab.com and www.fidelity.com.

Remember, investing even a small amount of money will earn you a higher return than doing nothing at all.

> ***Someone's sitting in the shade today because someone planted a tree a long time ago.***
> *~ Warren Buffet*

THE POWER OF LONG-TERM INTEREST

When investing large quantities of money, ***long-term interest can transform a modest five-figure investment into a six-figure return.*** Long-term interest compounds yearly. Therefore, if you were to invest $25,000 today, within a year you could easily have $27,000 - a $2,000 profit. This is assuming an 8% return with a stock, bond or money market account.

Though a $2,000 return may seem modest, this is actually a great return. When long-term interest compounds, your $25,000 has the ability to turn into much, much more.

The examples shown in the charts below showcase two initial investments, one of $25,000 and another of $75,000 earning interest over a 10-year time span. Both examples are based on an 8% interest rate.

As you'll see, in the first example your investment has more than doubled. With interest alone, you've earned $28,968! In the second example, your rather large investment has more than doubled as well. However, you've earned $86,914 in interest! If building long-term wealth is your goal, investment options with long-term interest should be considered.

When buying shares, ask yourself, would you buy the whole company?
~ Rene Rivkin

Example 1:

Initial Investment: $25,000		
Investment	**Interest**	**Year-end Total**
$25,000	8%	$27,000
$27,000	8%	$29,160
$29,160	8%	$31,492
$31,492	8%	$34,012
$34,012	8%	$36,732
$36,732	8%	$39,670
$39,670	8%	$42,843
$42,843	8%	$46,270
$46,270	8%	$49,971
$49,971	8%	$53,968

Example 2:

Initial Investment: $75,000		
Investment:	**Interest:**	**Year-end Total**
$75,000	8%	$81,000
$81,000	8%	$87,480
$87,480	8%	$94,478
$94,478	8%	$102,036
$102,036	8%	$110,198
$110,198	8%	$119,013
$119,013	8%	$128,534
$128,534	8%	$138,816
$138,816	8%	$149,921
$149,921	8%	$161,914

SHORT-TERM INVESTMENTS

Clearly, you've seen the benefits associated with long-term investments. Rather than making quick money, you're able to build true wealth by making calculated long-term investments that eventually lead to a high return by the compounded interest. However, this is not to say that short-term investments are any less profitable.

When played correctly, short-term investments have the ability to make incredibly high returns within a very short amount of time. Rather than waiting 5, 10, or 20 years for your money to mature, short-term investments allow you to enjoy the fruits of your investment within just a few short weeks.

The secret to truly making money with short-term investments is the art of lather, rinse, and repeat. If you're able to recreate the same profitable scenario repeatedly, not only have you found yourself a solid formula for success, but you've also found yourself a profitable income source.

With that said, the market is unpredictable, especially in the current state of the economy. It can be steady for days and then plummet unexpectedly the next morning.

This fluctuation makes short-term investments quite a bit riskier than long-term investments. But as is known in the world of investment, if you're willing to take a larger risk, you're in a better position to make more money. Only experienced traders and investors are advised to go-it-alone when considering short-term investments.

> ***An investor needs to do very few things right, as long as he avoids the big mistakes.***
> *~ Warren Buffet*

TAX-PREFERRED INVESTMENTS VS. REGULAR INVESTMENTS

Some investments, called tax-preferred investments, offer tax advantages.

Normally, when you successfully sell investments, such as stocks, you incur a capital gains tax. The amount of tax you must pay is based on your tax bracket. On other investments, you must pay taxes on the interest you earn each year.

Alternatively, tax-preferred investments offer the ability to collect interest without the income being subject to federal income tax. The federal government incentivizes these investments because it saves them money, makes them money, or helps you fund your retirement.

These investment vehicles are tax-preferred:

- 401(k)
- Traditional and Roth IRA
- Pension plan
- 529 College Savings Plan
- Tax-exempt bonds

Retirement plans are common and fairly understood, so we'll focus our discussion on the more mysterious 529 college savings plans and tax-exempt bonds.

If you're unfamiliar with a 529-college savings plan, it may pay to look into this investment option. By saving for your child's college education using a 529 fund (which earns interest through treasury-managed mutual funds), your yearly contributions are tax-deferred.

When purchasing a tax-exempt bond, your investment dollars are used to fund federal, state, and local projects. ***Any income earned from a tax-exempt bond is "free" money, meaning you don't have to pay taxes on your profits.***

Deciding between tax-preferred investment and a regular investment can become confusing. The thought of saving on taxes can be so appealing you may forget to look at the entire picture. If your purpose of investing is to save for your child's education or your retirement, it makes sense to opt for a tax-preferred investment vehicle.

However, if your goal is to make money and have access to that money before you retire, tax-preferred investments might not be a good fit for you. Of course, you can still choose to invest in a tax-exempt bond, but the interest rates on the bonds are typically unimpressive.

> ***Invest in a few moments of thinking. It will pay good interest.***
> *~ Author Unknown*

✦ CHOOSING AN INVESTMENT ADVISOR

Selecting an investment advisor is a worthy time investment to ensure the vitality of your future financial investments. As the name implies, an investment advisor helps you make the best possible investment decisions. Also, investment advisors manage your assets, explain the nuances of the various vehicles available for investing, and show you investment strategies that may make you the most money.

Investment advisors make their suggestions based upon your goals, budget, comfort levels with risk, and timeframe. An investment advisor can save you thousands by simply directing you away from mistakes, rather than allowing you to learn the hard (and rather expensive) way.

How do investment advisors get paid? You might pay your advisor through an upfront fee, hourly wage, or percentage of your asset management. Your advisor may also make commissions on the products he recommends. Always ask your advisor up front how he gets paid.

It's important to select an advisor that you're comfortable with. An inexperienced investment advisor can alter your financial future in a negative way. ***Make several appointments with highly regarded investment advisors in your area before you make your selection.***

TIP: An investment advisor should be registered with FINRA (Financial Industry Regulatory Authority) or the SEC if part of a larger firm.

> ***Money is better than poverty, if only for financial reasons.***
> *~ Woody Allen*

✦ CONCLUSION

Whether you have $1,000 or $100,000, ***investing is a solid step toward your financial security.*** While a higher investment will usually yield higher returns, don't be discouraged from investing based on your budget. A small investment can be flipped quickly and strategically for an enormous profit. The power of compound interest can grow small investments into large ones.

There are many components to investing. It takes time, tact, experience, a bit of money, and sometimes professional help to get it right. But by following these tips, you're already off to a productive start!