

Plan income to beat inflation, fight taxes

By Christopher Bush
special writer

The main goal of investing and financial planning is to beat inflation and reduce taxes," according to Gerald Norris, account executive of E.P. Hutton.

Norris spoke at a financial-planning seminar sponsored by the Farmington Public Library at the Farmington Hills Branch on 13 Hill Road recently.

Norris listed three methods to follow the "beat inflation/reduce taxes" strategy:

- As soon as possible, move any money held in savings accounts, which pay only 5-percent interest, to NOW and money market accounts which pay much higher interest.

- Convert Ordinary Income (OI), which is a person's regular income, into Long-Term Capital Gains. Long-Term Capital Gains are stocks, bonds, held for more than one year and one day. LTCG are important because they are taxed at a lower rate than OI: for each dollar in OI, the maximum tax is 50 cents; for each dollar in LTCG, the maximum tax is only 20 cents.

- Know the changes in tax laws. Norris placed the "beat inflation/reduce taxes" strategy at the bottom third of a three-part "investment pyramid."

At the very bottom third are investments designed to "preserve your capital assets;" such investments are sav-

ings/checking accounts, CDs, retirement programs and life insurance policies (cash value).

In the middle third are "growth vehicles," such as stocks and bonds, personal property, mutual funds and T-Bills. At the top third of the pyramid are "speculative" investments such as precious metals and commodities.

NORRIS RECOMMENDED that individual investors start at the bottom of the pyramid and move up. He suggested that investors put 10-20 percent of their investment in the "preserve assets" portion at the bottom third of the pyramid.

Investors should place 60-80 percent of their investment into the "growth vehicles" in the middle third of the pyramid, he said. Only 10-20 percent of their investment should go into "speculative investments" — "burn money" and that people should only invest here if they can afford to lose.

In order to maximize earnings from this pyramid, the key is financial planning, Norris said.

He passed out some statistics that pointed out the importance of financial planning:

- 93 percent of men at 65 who have failed financially said it was because of lack of financial planning.

- 75 percent of people who reach age 65 are dependent on relatives or charity.

- fewer men are worth \$100 at age 65 than at age 18.

- 85 percent of people reaching age 65 don't even have \$250.

- only 1 percent of those involved in stock market trading make money

- 93 percent lose and only 2 percent break even.

Norris said that financial planning could help investors avoid these disastrous statistics. Norris pointed out that financial planning first involves you as an individual and where you are in life.

FOR EXAMPLE, individuals in their 20s want growth investments whereas people at retirement are looking for income. Any financial planning, Norris said, must start with the individual's investment goals, whether retirement, growth, educating children, travel, etc. Along that line, he passed out a "Personal Planning Data Sheet" to help individuals sit down and do an analysis of their investment objectives.

Then there is the matter of selecting a financial adviser. Norris recommended that individual investors seek out professional advice instead of doing it on their own. Norris advised the audience to use a "referral" system in locating a qualified, reliable financial planner. This "referral" system operates simply: someone you know recommends their financial adviser to you.

Michigan does certify financial advisers, Norris said. Such certified advisers are called CFP for Certified Fi-

ancial Planner. However, Norris told the audience that certification is not that important in and of itself; certification only involves "taking some classes," and individual investors should not place too much emphasis on the title.

Along with the "referral system" and CFP, Norris advised the audience to make sure their financial planner "asks all the right questions." Norris explained that a bona fide financial adviser, before giving advice, will want to ask you questions about your partic-

ular financial situation.

If your adviser doesn't ask such questions, Norris cautioned, then find another adviser. Norris added that above all, an investor should be comfortable with his/her financial planner.

Throughout the evening, Norris — who passed out 10 information sheets as well as made use of both a flip chart and a slide projector — gave several financial tips. He was enthusiastic about mutual funds but cautious on bonds. He gave the audience a chart on compounding interest they could use

for their own personal calculations.

Bill Jenkins, the library official who co-ordinated the seminar, said Farmington Library has a program of 4-6 financial seminars throughout the year.

The next scheduled seminar is July 2, titled "Conservative Investments: Increase Your Investment Return." Jenkins said that the library would try to alternate the seminars between Farmington and Farmington Hills libraries. For more information, call the library at 553-9300 and ask for Bill Jenkins.

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