Business

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Asset mix needed

By Dan Boyce
and Alan Ferrara
special writers

FAMILY FINANCES

Local financial planning experts reviewed the data of the family profiled here and made general recommendations based on the participants' resources and goals. The information is for educational purposes only; references are not intended as discrimination or endorsements by Observer & Eccentric Newspaper or the advisers.

To receive a free financial planning brochure or to obtain a questionnaire to have your finances reviewed in this column, write the Center for Financial Planning, Department 100, 877 S. Adams, Suite 202, Birmingham, Mich. 48009, or call 642-4000.

The only place where success comes before work is in the dictionary. This month's profiled family, Tim and Penny Morris, have worked hard to be successful financially. By sticking to those areas of investment that they know well, they have built a solid foundation for the attainment of their future financial goals.

Tim and Penny live in their Southfield house with their 4-month-old son. Tim, 39, is the manager of a real estate office, and Penny, 32, is a part-time teacher. They would like to have at least one more child within a couple of years.

Their short-term goals include an overseas trip and replacement of their household appliances. In about five years, they would like to buy a larger house. Longer term, they want to begin planning for the higher education costs for their son.

Tim has used his extensive knowledge in the real estate area to make a number of excellent investments in real estate. Rather than simply buying the real estate outright, he has joined a small group of investors who form limited partnerships to purchase the real estate. This has proven to be very lucrative, as shown by the face that more than half of the Morris gross income of $100,000 is provided by those limited partnerships.

We would note that it is very unusual for individuals in their 30s to have such significant income from investments. This is a real strength, but it has been accomplished only through hard work, thorough analysis before investing and the willingness to take significant risk.

IRONICALLY, IT IS this high-risk orientation that we would suggest they re-evaluate. They are now relatively secure financially. We would like to see them begin to concentrate their efforts toward building assets in other investment areas rather than continuing to direct the bulk of their investments into real estate. We are not suggesting that they ignore real estate as an investment area. We simply think that they should balance their portfolio with other, more liquid assets, such as stocks, bonds, certificates of deposits, etc.

If there was a significant downturn in the real estate markets, it is possible that they might be forced to significantly reduce their standard of living. Not only would their investment income decrease dramatically in such an environment, but Tim's employment income could also be reduced.

By making the effort to diversify into other investment areas, they are broadening the base of their financial security. Should real estate take a downturn, then they would be able to weather the storm until the real estate climate changed for the better.

Tim and Penny have maintained a relatively modest lifestyle. As a result, they have been able to build their assets rapidly. They continue to save almost $3,000 per month. Given that rate of accumulation, their financial goals appear both modest and readily attainable.

Their insurance coverages are in good shape, except in the disability area. Tim has no coverage protecting his family in case of a long-term disability. Were he to become incapacitated, his employment income could stop. One of Tim's major financial assets is his ability to earn an income over the next 25 years. If this ability were lost, it would be a significant blow.

Tim should purchase an individual disability income protection policy. This policy should cover both accidents and sickness and should provide him with income until age 65, should he be disabled for that length of time. Because he would purchase the policy as an individual, any benefits he received would be tax-free.

LAST YEAR Tim purchased a $1 million universal life insurance policy. The annual premium is close to $12,000, and he is concerned that he made a poor decision. "It seemed like a reasonable investment at the time, but I'm not sure I understand it or if I should continue to put my money into it," he said.

Universal life insurance can be an excellent addition to a person's financial situation under the right circumstances. Without seeing and evaluating the actual policy, it is difficult to make a specific recommendation to Tim. But some general guidelines might be helpful.

First, he should check that the amount of insurance coverage is appropriate. Too much coverage unnecessarily depletes the policy's cash values, and it increases the premiums he is required to pay. Too little coverage might leave his family without the resources to maintain their standard of living should something happen to Tim. He should review this with his insurance agent or his financial planner.

We would suggest that he not view this coverage primarily as an investment. Though universal life does have certain investment characteristics and tax advantages, it is first and foremost a life insurance policy.

He should be sure that the policy is with an established, high-quality insurance company. This is important in maintaining the long-term integrity of the policy assumptions.

Lastly, he should work either with his agent or by himself to be fully informed about universal life policies generally, and this policy in particularly. He should not be putting substantial assets into something he does not understand.

IN GENERAL, WE believe that universal life policy is probably appropriate for Tim. Given his need for additional diversification and need for coverage to protect his family, it is an appropriate type of policy. But he should review the amount of coverage and other items recommended.

Tim and Penny have indicated a desire to establish educational funding accounts for their son. Since they have 17 years to accumulate money for college, we would suggest a regular, monthly investment in a growth mutual fund account for this purpose. A relatively modest amount such as $100 per month would be appropriate. It is the regularity of the

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Financial Position

INVESTED ASSETS	
Fixed Interest Assets	
Savings and Checking	$5,000
Money market fund	$7,000
Certificate of Deposit	$25,000
Life insurance cash value	$5,500
IRAs (banks)	$21,000
Notes receivable	$47,000
Total Fixed Assets	$110,500
Growth assets	
Stocks	$25,000
Mutual funds	$5,000
Collectibles	$6,000
Real estate partnerships	$400,000
Total Growth Assets	$436,000
NON INVESTMENT ASSETS	
Residence	$85,000
Automobile	$4,500
Other personal assets	$10,000
Total Non-Investment Assets	$99,500
Total Assets	$646,000
LIABILITIES	
Home Mortgage	$38,400
Furniture	$1,300
Credit Cards	$300
Total Liabilities	$40,000
Net Worth	$606,000

The Bottom Line

Financial strengths

- Excellent net worth for their ages
- Income allows for significant savings
- Adequate life, medical, and property insurance
- Employment offers investment opportunities

Financial weaknesses

- Investment portfolio not well balanced
- No estate plan in place
- Tim has no disability insurance

U.S. census is fodder for market researchers

By Gerald Frawley
staff writer

"In those days a decree went out from Caesar Augustus that all the world should be enrolled." Luke 2:1

There are almost 250 million people out there, but who are they? That's what the 1990 census wants to find out.

And that's also what local marketing agencies want to find out.

Director of the Bureau of the Census Barbara Bryant — former vice president at Market Opinion Research in Detroit — told American Marketing Association members at the Embassy Suites hotel in Southfield recently that information gleaned from the census will have a tremendous impact on marketing professionals in the Detroit area.

"Much of the raw data (used by market researchers) really comes from the census, and (market researchers) work with that information," she said. "They all start with our figures."

As required by the U.S. Constitution, the census is used to reapportion the seats in the U.S. House of Representatives, Bryant said, but it is much more than that.

"The census has spawned the entire marketing industry," Bryant said.

The census will be taken this spring, using mailed forms and personal visits in an attempt to get the most accurate resident count in census history, Bryant said.

Bryant said the results of the 1990 census will be more accessible than in the past. In addition to printed documentation and computer tape, the census bureau will expand its use of computer on-line information and introduce census documentation on compact disc, the latest in computer information storage.

JAMES LEIMAN, vice president for Market Opinion Research in Detroit, said while he wouldn't go as far as to say the census spawned the marketing industry, there is no question it provides vital groundwork for what they do.

"It's a tool that lets you know where your basic target is, but we need more," Leiman said. Today, market researchers do additional surveys to enhance the census data, tailoring it to an individual client's needs.

Determining how to direct the message at the desired target and what might appeal to the target is a complicated step, he said.

Subha Ramesh, senior research project director for ESP Inc. in Livonia, said although the census is helpful, marketers do more than just interpret the census. If that were the case, marketing research wouldn't be necessary.

"A lot of what we do is helping companies better sell their products," she said. "The census alone can't do that."

"The problem with the census is that (marketers) are trying to appeal to individuals, and the census data is provided in aggregate," Ramesh said.

The census enables marketing researches to evaluate trends, population, people per household, racial makeup and expenditure patterns, but it is not specific enough to help marketing research firms in everything they do.

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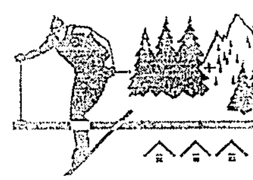

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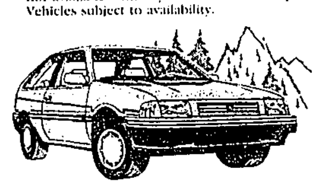

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