### OAKLAND BUSINESS A Finance

### Seize success criteria for investment

Second of two parts. Part I of this article was published last week.

shie article west published last took. In the investment world, it's the slow and steady investor who wins the race, while investors who wins the race, while investors who wins the race, clindy and Paula. Here's an example. Two investors, Cindy and Paula, have \$100,000 each to invest for a period of five years. Cindy a ruke averse person and settles for a period of five years. Cindy as ruke averse person and settles for a period of five years. Cindy as ruke averse person and settles for a period of five years. Cindy will have \$147,000 Trake years. Cindy will have \$147,000 Trake of the home run. As revealed by Take J. in four out of five years, her investment returns exceeded to percent. Finally, she had only one bad year, in which have been done of result achieved by Cindy. Take ruke

Too on first base. Here is an example of how you can succeed by carrially managing your risks, as long as time is on your side.

Assume you wish to invest \$100,000 for 20 years. If you invested in a CD paying 5 percent, by ignoring taxes, in 20 years, in will grow to \$255,500. Now suppose you invest an equal share of \$20,000 each in five different investments bearing various degrees of risks.

\$20,000 each in five different inwestments bearing various degrees
of risks.

Here is how your investment
fared at the end of the 20-year period. The first investment was totailly lost, the second investment
didn't earn a penny, the third investment gree by only 5 percent ayear, the fourth investment increased by 10 percent a year, the
fifth investment gree at 15 percent a year. And yet, in this case,
your investment gree to \$530,397.

102 percent higher than the
first investment (Figure 1).Let
tagree work for you

taxes work for you

In many instances, it is advisable to clude the tax man by investing in tax-deferred invest-

ments. You can do so by contributing the maximum permissible amount into your 410(k), prefix haring, or 18(k) part 18(k) permissible annuits and variable life insurance policies to achieve similar objectives. And what about your tarable investments? You can delay capital-gains tarse by hanging on to your winning investments longer of the your winning investments for Switching to index funds can also reduce your tax burden, because these funds typically make smaller capital gains distributions than regular mutual funds. Match investment need with strategy with strategy

with strategy

It is inappropriate to maximize
your return for all investment dollars, no matter what objectives
they have been sazined to secompilish. Here is why.

Over long periods, stocks will
outpace bonds, and bond will outperform cash. If you are a longterm investor, the surrest way from
you to achieve your objective is to
keep as much of your money in
stocks as you possibly can.

But there are several instances
in which you would prefer to deviate from the above strategy. For
instance, an emergency fund

in which you would prefer to deviate from the above strategy. For
instance, an emergency fund
should be held in a money market
account. If you are contemplating
retirement, funds earmarked for
generating retirement income in
leas than five years should not be
invested in the stock market. Finally, if you are looking for the
source of funds you cannot outlive, you will be better off selecting an annuity to accomplish that
objective.Keep it simple
Unleas you are an astute investor, it is better to keep your investments simple and managable. For instance, sophisticated
tas shelters, limited partnerships,
and etotic derivatives all have
their rightful places in the portfolio of an investor who is comfortable tashing the risks associated with them. But if you are not
one of them, then it is better to
stay away from them. Stay tuned
Even if you have carefully put
together an ideal portfolio, periodically it will need your tender lowtogether an ideal portfolio, periodically it will need your tender lowing care. It is therefore advisable
to review your portfolio twice as
year and fine-tune it in order to
keep it current and focused towards your stated objectives.

Sid Mittra, Ph.D., CFP, is Pro-fessor of Finance, Oakland Uni-versity, Rochester Hills, and owner, Mittra & Associates, a Troy financial consulting firm Oakland University Professor Jer-rold Grossman critically reviewed this column rold Grossm this column.

### Table 1

### \$100,000 Deposit

<u>Year</u>	XYZ Fund	Fixed Annuity
1	+20%	+8%
2	+21%	+8%
3	+10%	+8%
4	-16%	+8%
5	<u>+10%</u> •	+8%
	\$147,000	<b>►►► \$147,000</b>

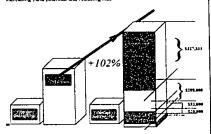
Both have equal results, but one was guaranteed!

\*To be precise, this return should be 9.567%

#### Figure 1

### Portfolio Diversification

A diversified portfolio can balance weak performance in one investment with good performance in another, increasing yield potential and reducing tisk.



vestment earning 52 x A VEAL

Diversified Portfolio
The same \$100,000 split into five
\$20,000 savestments, each earning
a different rate of return (in one
case showing a loss), for the same
20-year period

### **Promoted**

At Madenna University: Dr. Miriam Fabian, a Farmington Hills resident, was promoted to professor of English and communication arts at Madonna University in Livenia, Fabian, who has been at Madonna for eight years, earned a Ph.D. from the University of Michigan, an undergraduate degree from Marina College in Indiana and a master's from John Carroll University in Ohio.



## to board of association

Donn Wolf, Oakland County commissions who represents Farmington, Farmington Hills and Southfield, has been re-slected to the board of directors of the National Association of Counties (NACO).

The National Association of Counties is the only national association representing county povernment in the country, lie peak is to improve county government, act as a lision between the nation's counties and other levels of government and serve as a national spokeman for county pre-

As a director, Welf automati-cally sits on the Board's Resolu-

tion Committee which has overall jurisdiction over all steering committee policies and resolutions. Wolf, who was also named chair of NACo's Energy Committee, serves on the By-Laws and Finance Committee. He has been an active member of NACo for the past seven years. Upon his re-election to the National Office, Wolf said, "I ambended to have been elected to NACo's board and to be able to continue a leadership role in such a prestigious organization. I did sail I can to strengthen county government in Michigan and throughout the country."

NACo was founded in 1935.

# Commissioner re-elected



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## 'ngham's



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Sunday, August 13 11 A.M. to 5 P.M.

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11:00 A.M. Birmingham Police Auction

12 HOOM "Kid's Take Note" & 2:00 P.M. Kid's music & fun with Anne Shaheen

Stagecrafters Presents: Deltay Reggae Band 4:30 P+.M.

Sunday, August 12 Stagecrafters Presents: 1:30 P.M.

Stagecrafters of Royal Oak

51∞ Admission ( oblideen under 12 FREE)

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