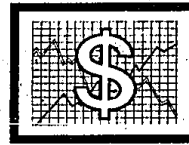


# Business

Darryl Jensen editor/591-2300



Thursday, October 25, 1984 O&amp;E

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## Zero-coupon bonds can be part of your IRA

By Sid Mittra  
and Dean Calvert  
special writers

Part I

As explained in last week's column, a zero-coupon bond is a deep discount bond that increases in value at a compound rate so that at maturity it is worth several times the initial investment.

These bonds are particularly suited for Individual Retirement Accounts, Keogh plans and other pension funds for which income is tax-deferred.

Zero-coupon bonds come in a wide range of maturities and denominations. A person planning to retire in 1998 might invest \$24,242 and have at retirement \$100,000. Another might pay just \$484 for a bond producing \$1,000 in 1990.

ANOTHER ADVANTAGE of zero-coupon bonds is that the end result of the investment is known, since the compounding rate is not affected by changes in interest rates.

For example, a person gave a \$10,000 zero-coupon bond to his grandson. Actually, he bought a \$10,000, 17-year zero-coupon bond at a cost of only \$1,982.

Another man, 42, plans to retire between his 52nd and 62nd birthdays. He bought \$10,000 stripped bonds maturing 10 to 20 years ahead. During each of the ten years beginning in 1994, he will receive \$10,000. The cost of these bonds was \$26,776.

### SOME DISADVANTAGES

You should be aware of several disadvantages of investing in zero-coupon bonds.

A bond is only as good as its issuer's creditworthiness. While there is no repayment worry with federal securities, there could be with others some high-rated bonds are insured by private groups that guarantee principal and interest.

For uninsured bonds, I recommend that you stick to tax-exempt issues with an AA rating or better issued by nationally known issuers.

BECAUSE THE compounding rate is fixed, the maturity you choose will depend on your inflation outlook. If you feel inflation will remain low, you may choose to buy a long term (20-year) bond. The maturities should also be related to your personal cash flow needs.

Finally, you should carefully look for



finances and you

Sid  
Mittra

call provisions. Most bonds cannot be called or redeemed in less than 10 years, but some housing issues have special redemption calls that permit redemption in less than three years.

In case of doubts, consult your CPA, investment advisor or a financial planner who is well-versed with your personal financial situation.

EDUCATIONAL SEMINAR: The Observer & Eccentric Newspapers and the Coordinated Financial Planning Staff will conduct a seminar 7-10 p.m. Tuesday, Nov. 13, at the Kingsley Inn, 1475 N. Woodward Ave., Bloomfield Hills. This seminar will address the following questions: Taxes — how to defer or eliminate them. Investments — how

to invest in stocks for growth, income or stability. Real estate — how to find partnerships with excellent prospects. Financial plan — for whom and what it offers. Two out-of-town speakers will discuss specific real estate and oil and gas limited partnership investments. The seminar is free, but registration is

required. For more details, call 64-8888.

• Sid Mittra is president of Coordinated Financial Planning Inc. in Troy and a professor of economics and management at Oakland University, Rochester.

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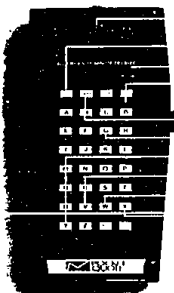
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