

Sound Financial Advice – Answer Sheet

Directions: Using what you've just learned about the stages of saving and investing, give them sound financial advice.

1. Hello. My name is Eric! I'm looking for some advice on what type of investments to consider. I'm 53, my kids are through college and out on their own, and I have what I feel is a pretty healthy, diversified portfolio of stocks, bonds, mutual funds, and real estate. I'm earning more on dividends and interest payments than I need to support my family right now, so I'd like to find something to do with this money to make it grow. What should I consider?

Eric should consider if he is comfortable enough with risk to move into speculative investing with his extra money. The key: he has a diversified portfolio – the goal of step four – and assets left over, which means he's ready to move on to the fifth step if he is comfortable with that level of risk.

2. Hi, I'm Monique! I'm a high school senior and I've been saving money from my landscaping job for a couple of years now in a savings account. I've got enough in the account to not have to worry about running out of money at the end of the month, and my parents say that I have enough money to consider investing it in order to earn a greater return. (I'm earning 0.8% interest on my checking account. Now THAT'S not going to make me a millionaire any time soon.) What should I do?

Since she already has her put-and-take account under control, Monique can move on to beginning investing. She should try low-risk investments, and she should be prepared for lower returns than she might earn from riskier investments. This would be a good time to talk about being patient and knowing that not losing this money is more important than reaching for the highest rate of return that you can find.

3. My name is Felicia McMillian, and I was referred to you by a friend. I have a question about what I should do with my money. I've been working as a pharmaceutical sales representative for just two years now, but I've already started investing a little bit of my income. Right now, I have a checking account, a money market account, and I've started buying small bonds. I am beginning to earn a little more income, and I'm starting to think about future goals, like buying a house, helping my kids pay for college, retirement. . . all things that are more than 10 years down the road. What would you advise me to do at this point?

She's got her put-and-take account under control and she's already started her beginning investments. Since Felicia's thinking about long-term goals, she's ready for systematic investing, where she chooses an investment and commits a certain percentage of her income to that investment over a long period of time.

4. Hi! This is James Cook. We spoke on the phone yesterday; you asked me to e-mail you some specifics on my present financial situation, so you could give me appropriate advice on what investments I should consider. I'm 34 years old and I own a local cooking specialty store. Through my credit union, I have a share account that I use to write checks to pay for day-to-day necessities. I've also dabbled in mutual funds and am currently investing 5% of my monthly income in Tyson stock. I'm starting to have some leftover money from my paycheck and from Tyson dividends; what should I do with it? Thank you!

James is currently in the systematic investing stage because he's putting 5% of his income into stock. He's ready for the strategic investment stage, where he looks at his portfolio and focuses on diversification. He should look for the investments that are going to give him the greatest return in 5 to 10 years. Since he's currently investing in stock, a great way to balance out risk is to also invest in bonds (remember that stocks and bonds often respond in opposite ways to market factors). Two other topics that would be good to bring up now: reinvesting dividends, and how that helps money grow; and credit unions (where James banks).

5. Hello! I saw an advertisement for your financial advisement firm in the paper and I need some help getting my finances in order. I'm a 30-year-old nurse, and I have a checking account, but I usually end up running out of money at the end of the pay period. I'm trying to invest in things that will make my money grow, but it seems like I've been picking the wrong ones. I find a stock that has gone up a lot recently, and I buy some, but then it usually goes down quickly and I sell it to get rid of it. What am I doing wrong? How can I really make my money grow?

The problem here is that our nurse has skipped a stage or two. She needs to get her put-and-take account under control before she starts investing. And when she does start looking at stocks, she should avoid the risky ones that are better reserved for the speculative stage. This would be a good time to talk about how to research investments, especially stocks. Many investors believe, incorrectly, that all you have to do is find the stock that has gone up the most in the least amount of time and put your money into it.