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When Investing, Choose Carefully

By John K. Ryan, The Star
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While America is becoming a nation of debtors, whose mantra seems to be "spend, spend, spend," savings still exist. But those savings are in more sophisticated mechanisms than in past generations. The dwindling interest in traditional savings, added to the fear of many Americans that Social Security may not be an option by the time they retire, makes it apparent why Americans are finding new ways to save, or not save at all.

"As new investment products come along, good old-fashioned savings get put aside," said Catherine Williams, vice president of financial literacy for Consumer Credit Counseling Services of Greater Chicago. "Savings accounts are viewed as boring, earning low interest. But they do represent security and build the habit of putting money away." Matt Brashinger, a financial adviser from Frankfort, said the standard "passbook" savings accounts are still prevalent with many of his clients. "A lot of people use them as 'put and take' accounts, where money is put in and taken out a short time later for down payments on such things as cars or washing machines," he said.

There's no denying the advantages other investment vehicles offer that a simple 2 percent yield spun from a savings account cannot match. Replacing the savings account are such mechanisms as real estate, the money market account, certificates of deposit, Individual Retirement Accounts, 401(k) plans and investing in the stock market.

Safe and accessible

The money market account is a relatively safe type of investment offered by banks and credit unions, the same as regular savings accounts. The difference is money market accounts usually pay higher interest, have higher minimum balance requirements (sometimes $1,000 to $2,500), and only allow three to six withdrawals per month. "Money markets are popular across the generational board because of their extreme liquidity. People can get the money out just by writing checks," Brashinger said. Money market accounts offered by banks are insured by the Federal Deposit Insurance Corp., but those offered by mutual funds are not. This has some investors sinking their money in certificates of deposit instead. "With recent stock market fluctuations, CDs have become very popular, especially with investors who are higher in age. They are insured up to $100,000," Brashinger said.

The company choice

Easily one of the most popular forms of investing today is the 401(k), in large part because money earned through it is tax-deferred. "The problem with that, young people have to realize, is that there may be a lot of provisions tied in with accessing it before the contributor is 59-and-a-half years old," said Cindy Menker, a financial planner with Contour Financial in Orland Park. Still, 401(k) accounts, available chiefly through employees' companies, are permeating the savings landscape.

According to the Profit Sharing/401(k) Council of America, Americans have more than $1.5 trillion invested in 401(k) plans. Unlike a traditional pension plan, a 401(k) plan does not specify from the onset how much money an employee will receive upon retirement. The plans provide employees with a great amount of flexibility, allowing them to regularly change how much they wish to contribute to their plan, and how their savings will be invested over time.

"I consider 401(k) plans to be the best first place to invest if you don't need the money right away," Brashinger said. "So many companies have got rid of pension plans that 401(k) plans are all that will be there, besides Social Security, when younger people reach retirement age."

A stock option

The standard "book" on investing in the stock market was that it was more for younger investors, who could recoup losses sustained in this riskier investment vehicle. Older investors' portfolios tend to be more weighted toward bonds and cash than in stocks. Officials at the Calvert Group, of Bethesda, Md., which specializes in "socially responsible investing," claims a typical young saver, putting away money for retirement in 20 to 30 years, is likely to be most aggressive. He or she would have 75 percent of assets in stocks, 20 percent in bonds and 5 percent in money market funds.

Meanwhile, an investor who needs the money in 10 years, say for a child's education, might be more cautious with 60 percent in stocks, 30 percent in bonds and 10 percent in money market funds.
An older investor close to retirement would be even more conservative, with 30 percent in stocks, 50 percent in bonds and 20 percent in money market funds, according to Calvert.

Brashinger said such rules do apply, for the most part, with those who invest through 401(k) plans. However, he added that he sees investing more as a personal preference scenario for individual investors. "It depends on a person's own comfort level in where they want to invest," he said. "It has more to do with a personal belief in the growth of the stock market, rather than with age." Brashinger said he sees more of a difference between genders than between generations when it comes to investment habits. "Women tend to be more conservative, while men are the risk-takers," he said. "You see it even in how 401(k) plans are organized. "Women are willing to sacrifice return for more security."

For the bulk of investors, however, Brashinger said investing comes back to a traditional philosophy. "When it's all said and done, for most investors, the common wisdom about building a portfolio is to diversify."

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