

The Perfect Investment

Once an individual or family has reached the stage in life where there is enough income to easily pay the monthly bills, there is often a desire to put the excess monthly cash flow to work. For some, an inheritance, a large bonus, or a distribution from a qualified plan can provide an investable, lump sum of money. For most people, the key question is, “How do I put this money to work?” In a perfect world, the answer would be an investment that has certain, ideal characteristics:

- **High rate of return:** A total return high enough to out perform inflation and taxes, and still meet the investment goal.
- **Complete safety:** There would be no concern that any part of the investment could ever be lost.
- **Always liquid:** An investor would be able to redeem the investment, and receive cash, at any time of day or night, every day of the year without any penalty or loss of principal.
- **No income taxes:** There would never be any income taxes due on the investment’s yield or growth. The investor keeps everything earned.
- **No skill or knowledge required:** No special skill or knowledge would be required to manage the investment. One could just forget about the investment and enjoy life.

The Real World

Such a “perfect” investment does not exist, of course. In the real world, individual investors must choose from a confusing range of investment tools, each with different characteristics and uses. The process of selecting the best investment for a particular need or situation is made easier by clearly answering the following questions:

- **Why are you investing?** Do you need income for current expenses or are you accumulating money for a future need?
- **When will the money be needed?** At any moment? A year from now? At retirement, 25 years from now?
- **How much risk are you willing to undertake?** Can you afford to lose all or a part of the investment, and not have the loss affect how you live?
- **Are income taxes a concern?** If the investment is currently taxable, to what extent will the additional tax reduce investment growth or push you into a higher tax bracket?
- **What is the economic outlook?** Investment opportunities will vary depending on whether the economy is growing or shrinking.
- **Do you have the skill and knowledge needed to manage your investment?** Is professional investment management needed?
- **How much money is there available to invest?** Are smaller amounts available periodically, or is there currently a larger, lump sum of money?