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What Speed And Risk Is Your Money Traveling?

By Fred Smids
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Investment vehicles are like automobiles; some accelerate forward fast and reverse faster; some go forward then backward; some stall out; and some are dependable, safe and secure but have no reverse gear. When you add it all up, how fast and furious is your money growing?

It all depends on your vehicle of choice and, of course, your driver.

Before choosing your vehicle, there are 5 things to consider:

1) Where are you going?

Many people have no idea what their goal is for their money. A simple goal is to double your money in 10 years.

The rule of 72 says that money will double in about 10 years at 7% interest.

Ask yourself: Did my vehicle double my money since 2003? If not, why do I OWN IT?

Solution: Find vehicles that doubled their value in the last 10 years.

2) How much of a reverse gear does your investment vehicle hold? How much could your account go backward at any given time?

Ask yourself: If my investment vehicle lost 20-40% in the down years, could this reflect the future?

Solution: Look for vehicles with low reverse histories. If no reverse gear is your goal, then consider safe and secure vehicles like CDs or annuities. Fixed indexed annuities are showing some really nice interest credits with no risk to principle.

3) Who is driving your vehicle?

When the financial storms appear, is there someone to get your vehicle off the road to a safe money market garage or cash equivalent hotel until the storm passes? Just think, when your kids are playing in the backyard and a thunderstorm comes up, do you tell them to keep playing outside since the storm will pass? No! So why would you do your investments any different?

Solution: There are safe and secure vehicles and low-risk managed accounts that move your earning potential to a low-risk account when market volatility rises. They also move your earning potential back into the higher market risk when the volatility goes down.

4) Are you sure your vehicle will return your money and give you a return on your money?

Solution: Insurance companies have been doing this for many years. If you haven't been to a show room lately, you are in for a surprise. It's time to kick a few tires. By contract, insurance companies insure the return of your principle, along with some interest.

5) I like the market and faster vehicles, but how can I reduce my risk?

If a tour bus is going 65 mph or earning 6.5% % per year, then why is your money riding in a riskier Stock car or a James Bond sport coupe that averages the same speed?

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It could be that your vehicle sales person earned a better commission putting you in a stock car than he would by getting you a ticket on the tour bus.

If your forward speed has a matching reverse speed, you may consider a tour bus with experienced drivers and sparkling driving records available that can show no reverse years or very minimal reverse years.

Solution: Choose a low-risk vehicle driven by proven drivers. Demand to see their 10-year driving record.

The main issue for account holders today is to know what vehicle their money is traveling in and the potential forward speed and loss speed of that vehicle.

You may find there are some safe and secure accounts that go fast enough for your liking. You don't need double-digit returns if you don't have double-digit losses. Money could double in 14 years at only 5% annually compounded. Discuss with your advisor the speed and risk of your investment vehicle. You'll be glad you did.