

Investment Options for Funding College

College should be considered a lifetime investment rather than just a four-year expense. It requires financial planning and personal sacrifice. The earlier you start saving and investing, the less money you will have to save and invest later and, most likely, the more assets you'll end up accumulating.

What's more, the earlier you start saving, the less risk you'll probably have to take in your investment choices. That's because long-term investing generally carries less risk as you allow more time for your assets to ride out economic and bull/bear market cycles.



Many investment alternatives are suitable for college savings. Here are just a few:

1. U.S. Savings Bonds (conservative): Interest on EE bonds is tied to yield on 5-year Treasury bonds and is adjusted every six months; bonds are available for \$24 and up; there are no fees or commissions on purchase or redemption; and income is exempt from all state and local taxes. Federal income tax can be deferred until bonds are redeemed.
2. Certificates of deposit (conservative): Guaranteed rate of return; there are penalties for early withdrawal; and income earned from CDs purchased in your name is taxed as ordinary income. FDIC insured up to \$100,000 per account per institution.
3. Corporate and municipal bonds (conservative/moderate): Fixed-income investments pay a predetermined interest periodically; your principal is returned at maturity; bond prices are influenced by market conditions.
4. Zero coupon bonds (conservative to aggressive): Purchased at a discount from face value; does not pay periodic interest; yield is compounded for payout at maturity; bondholders are taxed annually as if interest were received.
5. Stripped municipal securities (moderate/aggressive): Municipal bonds are sold in two parts: the interest portion is for investors seeking current income and principal portion for those seeking lump-sum and potential for capital gains at maturity; gains are usually tax-exempt.
6. Mutual funds (conservative to aggressive): Broad spectrum of choices ranging from money market funds (conservative) to balanced funds (moderate) to growth stock funds (aggressive); mutual fund owners enjoy professional management of their money and liquidity; capital gains taxes may apply every year; some funds may distribute taxable dividends.
7. Common stock (moderate/aggressive): Potential for capital appreciation and dividend yield; sales commission charged for purchase.

The longer you have until funds will be needed, the more aggressive you may invest. As college draws closer, your portfolio should reflect less risk and volatility. To review all these options and decide which are best for your situation, please feel free to contact us.

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