Key Investment Questions

Many individuals and families have both a need and a desire to accumulate wealth. The inevitable question is, "What do I invest the money in?"

The answer to the question usually depends on the needs, temperament, and available resources of each individual or family. The "best" investment for one person is often not the best for someone else. The process of choosing the most appropriate investment can be made easier by carefully considering, and answering, the following questions:

- **What are your investment goals?** In other words, "What do I want the money to do for me?" For example, an investor might need to have additional income, to meet current living expenses. Other common needs include saving for long term goals such as retirement, a child's education or a dream vacation, or for a quickly available source of emergency funds.

- **How liquid does the investment need to be?** The term "liquidity" refers to how quickly an investment can be turned into cash, without losing any of the invested dollars. The question might also read, "When will the money be needed?" For example, investments meeting longer term goals such as retirement generally do not need to be as liquid as those designed to hold emergency funds.

- **What is your risk tolerance?** Can you afford to risk losing a portion, or even all, of your investment without it affecting how you live? What would be the impact of a loss on your investment goals? In general, risk is related to return: the higher the risk, the higher the potential return; the lower the risk, the lower the potential return.

- **What is the impact of income taxes?** Income taxes can have a significant, negative impact on your investment results. For example, many high-income individuals invest in municipal bonds because the interest from such bonds is generally exempt from federal income tax; in some instances the interest is also exempt from state income tax. Qualified retirement plans, life insurance policies and annuity contracts are used to accumulate funds for retirement because of their tax-deferred nature; generally, no taxes are due until the money is withdrawn.

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- **What is the economic outlook?** The state of the economy as a whole can change the mix of desirable investments. For example, during periods of high inflation, tangible assets such as real estate, precious metals, and collectibles such as coins and art, have tended to produce good results. During periods of stable or declining inflation, intangible assets such as stocks and bonds have generally done well. Of course, there is no guarantee that history will repeat itself.

- **Is the skill and knowledge needed to manage the investment available?** An investor may not have the specialized skills and knowledge needed to properly select or manage an investment. In such instances professional investment advice, or investments where such advice is available, should be considered.

- **How much money is available to be invested?** The investment tools open to an investor can vary, depending on the amount of money available. For example, direct investment in the stock market can require a relatively large investment. Many mutual funds, however, will accept smaller contributions on a monthly basis.