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MENTOR CAPITAL

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Mentor Monthly Missive

In this issue:

Savings Bonds for college funds

U.S. Savings Bonds are a common gift for kids, especially as a college funding vehicle, but are they a good investment? Should you put that money instead into a 529 account, IRA or other investment vehicle?

Following the financial meltdown of 2007-2009, now is a good time to pay another visit to the U.S. Savings Bond. Compared to the volatility in the stock and bond markets, the Savings Bond is safe: It has a guaranteed rate of return, you won't lose your initial investment, and fees are minimal. Depending on your income and how long you hold the Savings Bond, the interest may even be tax-exempt.

There are 2 common types of Savings Bonds:

- **Series I Bonds**- You purchase the bond at face value and the return is calculated in 2 parts. Part of the return is at a fixed rate (set at purchase time) and the other part of the return varies with inflation. Interest accrues and is not taxed until maturity or redemption, although the owner may report interest and pay taxes on it each year. (This approach may be beneficial for young taxpayers in lower brackets.) The current rate is 1.74% through October 2010.
- **Series EE Bonds**- You purchase the bond at 50% of its face value, and the bond reaches face value in approximately 17 years. Additional interest accrues for up to 30 years and is not taxable until the bond matures or is cashed in. As with I Bonds, for tax purposes the owner can opt to report interest each year. The current rate is 1.40% through October 2010.

The trade-off for a safe rate of return is the lost opportunity to make an even greater return in a stock or mutual fund investment through a 529, IRA or other account. A 529 plan or IRA can offer even better tax benefits than the EE Bond.

Historically, the stock market has averaged a return of about 8% per year over the past 100 years. This far exceeds even the current I-Bond rate of 1.74%. However, over the past 10 years, the stock market has averaged around -.91% per year.

So, determining whether Savings Bonds or the stock market is a better choice really comes down to **how much risk you're willing to take**.

Savings Bonds will probably, but not definitely, give you a lower return over the next 30 years than will the stock market, but your principal investment will be safe and you'll have a set rate of return.

The stock market will probably, but not definitely, give you a higher return over 30 years than Savings Bonds, but your principal investment is certainly not guaranteed to be safe, and you may well have quite a few instances of stomach-turning years.

Low risk, probably lower returns. Higher risk, probably higher returns. Once you know the relative risks and potential rewards, then carefully examine your own attitudes, the choice becomes clearer.

One last thing before you retire…

So you've decided: You're going to cut the chains from your job and retire.

Not so fast! There's still work to do – not for wages, but for your life. During that final year before retirement – and preferably before you announce to the world that you're done being a wage slave – you have to take another look at your cash flow. (If you've been a good financial planner, you've looked at cash flow every couple of years.) The goal is to take a snapshot to calculate how much, if any, must be distributed from investment accounts to fill in the gap between income and expense.

If it looks as if you'll need to take more from your investments than what the portfolio can sustain, you may need to rethink your retirement plan – or your spending. What can a portfolio sustain? That depends on how it's invested. Studies have shown that a properly diversified investment portfolio with a substantial allocation to equities can sustain withdrawal rates of between 2.5% and 3.5% annually and not run into danger of being depleted.

One more step, and you're ready to go. Pay a visit to your friendly Social Security office to determine the best strategy to put into place for claiming benefits. Once you know what your Year 1 cash flow will look like, you'll know whether you have to claim now to or whether you can wait until full retirement age or later to claim a larger benefit. And if you're married, you'll want to explore the various scenarios available for claiming, then suspending, benefits.

Mentor Capital's wealth management team has broad experience preparing clients for retirement. Non-clients may phone to set an appointment for an initial consultation.

We want to hear from you

In this month's Missive, we cover the topic of U.S. Savings Bonds and if they are still a good gift/investment for young children. This topic was a suggestion from one of our clients, and we thought we would ask for additional ideas. Please let us know if there are any topics you would like us to cover in our upcoming newsletters. We try to bring up topics that are current and vital to that month, but let us know if you have any suggestions for the future. We would love to hear your thoughts. – *The editors*