WHAT'S IN YOUR **PORTFOLIO?**

THE THOMPSON'S COLLEGE FUND

The situation:

Janet and Steve Thompson are both high school teachers in their local school system. They each take home approximately 45,000 per year before taxes. Janet is 36 years of age, and Steve is 35. Their two children, Jerry and Samantha, are 12 and 10. The Thompson's fully expect that both of their children will attend college.

In preparation for the upcoming college tuition expenses, the Thompson's have done the following:

- **Bonds:** When each of the children was born, they purchased 10-year, high quality bonds. When those matured, they then put that money into 5-year bonds. Their plan is to then take that money and buy CD's until the kids start college.

- **Savings:** They have consistently saved $1,500 / year to be split between the two children. This money has been put into a regular savings account.

So, what’s wrong with this picture?

Timeline:

The Thompson’s have failed to keep their timeline in mind. Low-risk bonds are always a poor investment in the long-term, unless it’s the income itself that’s relevant to you. Attempting to accumulate money for college tuition with an 18-year horizon really doesn’t make sense in this case.

What would have been better?

A variety of carefully chosen stocks. If they didn’t have the time or the expertise to do that, there is always the option of hiring a professional or putting the money in one of the many equity (stock) mutual funds.

As it got closer to enrolling the kids in college, purchasing bonds wouldn’t be a bad idea. Because there wouldn’t be enough time to recover from a stock slump, and it’s easier to plan when you know exactly what the outcome is going to be.

Not to mention, bond interest is taxed at the marginal rate, as opposed to stocks that are held for at least a year. These stocks

would be taxed at the usually favorable capital gains rate.

The failure to use tax deferred accounts:
Everyone with a dependent heading to college should have a 529 plan. These are state sponsored investment accounts that allow after-tax money to be invested and used for college expenses.

The contributions are not deductible at the federal level, but are at the state level. What's really great is that any interest / capital gains you earn are not taxed, and the disbursements are not taxed either.

Don't pay taxes if you can avoid doing so!

Take a look at your plan to save money for college tuition; how does it stack up?

- Don't be too conservative if you still have several years to go.
- Don't be too risky towards the end.
- And be sure to look into a 529 plan as soon as possible.
- If you start soon, there's no telling where you child might be able to attend college.