



BANKING FEATURE

Choosing Wisely

[By Philip D. Lukens]

[Lukens Financial Group]

Don't you just love social gatherings? Everybody is semi-bragging about himself or herself without totally revealing his or her true person. Isn't that frustrating? It seems to take forever to break through the many layers people have around themselves. Now, take yourself out of that setting and move into your financial planner's office.

It's the same. It's embarrassing for people to reveal "the rest of the story." It's hard to swallow the fact that we have made bad decisions. It's hard to face the fact that we don't always know what's right. Of course, how do financial advisors know they're right? What makes them so great? They lose people's money all the time, and they sure as hell had better not lose mine.

Well, the sad truth is not all of them are right. Not all of them are current. Not all of them have your best interests at hand. So let's look at a secret that will help you make great financial decisions. In order to do that, you will have to understand some terminology.

The rule of 72. What moron came up with

such a term, and does it mean anything? This is a formula that is used to determine the number of years it will take for a debt or investment to double in value. Case in point: 72 divided by the interest percentage equals the years to double the money. (72 ÷ 4.85% = 14.84 years to double your money.) To understand how important this is, take a look at the chart below:

72 ÷	3%	=	24 years to double your money.
72 ÷	4%	=	18 years to double your money.
72 ÷	5%	=	14.4 years to double your money.
72 ÷	6%	=	12 years to double your money.
72 ÷	7%	=	10.28 years to double your money.
72 ÷	8%	=	9 years to double your money.
72 ÷	9%	=	8 years to double your money.
72 ÷	10%	=	7.2 years to double your money.

That's why stockbrokers try to get you to place your money in higher-risk accounts-so you can make more. But is that actually better? Let's compare a recommended mutual fund to an EIA:

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Market Spreadsheet		
EIA		
Initial Investment	Rate of Return	Annual Return
50,000.00	0.1779	\$8,895.00
58,895.00	0.0475	\$2,797.51
61,692.51	0.0025	\$154.23
61,846.74	0.0824	\$5,096.17
66,942.92	0.14	\$9,372.01
76,314.92 Total Growth In Five Years		
Sun America Large Cap (SSFAX)		
50,000.00	0.126	\$6,300.00
56,300.00	-0.093	-\$5,235.90
51,064.10	0.014	\$714.90
51,779.00	-0.161	-\$8,336.42
43,442.58	-0.054	-\$2,345.90
41,096.68 Total Growth In Five Years		

Obviously in this scenario an EIA is better. Using the rule of 72, you can tell how much growth you can have and then estimate how long until you will have your desired nest egg. But you had better choose your fund wisely, or you could end up with less than you started with.

That's why there is so much controversy regarding mutual funds. That's why there are lawsuits. They are not actuarially sound. The

average investor is not in a place to absorb that sort of loss. It almost always goes to the get-rich-quick scheme. Yes, a person could have a 50% return in one year in a mutual fund, but that only occurs approximately 7% of the time. The other 93% is like riding the rapids on the Colorado River.

You are probably thinking, "That's great, but what is an EIA?" It's an equity indexed annuity. That's right, a fixed annuity that brings better

returns than most mutual funds-the dreaded fund of the broker because he or she can't get annual fees from it. This means the broker has to work harder to make a living, and you make more interest. Selah.

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