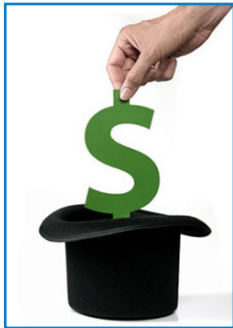


SECOND OPINION



## CLOSE YOUR EYES, HOLD YOUR BREATH, AND JUMP!

**Q:** Say I have a lump sum to invest - \$100,000. I've decided to put it into a fund like the Vanguard Wellington fund. Would you recommend putting it into the fund at one shot, or dollar-cost average it into the fund over a period of time? My concern is that if you choose one day to put all the money in, you may have picked the wrong day and the market may be overpriced at that time. - S.N., Spring, Texas

**A:** Repeated research has shown that the best time to invest is immediately, in a lump sum, because the market rises more than it falls. Basically, the odds favor investing today over investing tomorrow. One of the best exercises to demonstrate this was done years ago by the American Funds group. They told the story of two investors. One had an uncanny knack for selecting the best day of the year to invest - the day prices were lowest. The other had an uncanny knack for selecting the worst day of the year to invest - he unerringly invested at market tops.

At the end of a 10- or 15-year period of annual investments there is very little difference between the two investors. What is important is that they have invested over a long period of time. Any future investments you make will work to diminish the impact of having picked a bad day.

**Q:** My company recently changed our pension plan and froze the dollar amount under the previous plan. The new plan will probably be good for younger employees. But I am nearing Social Security age and had planned to retire by the end of next year or sometime the following year. I do not have time to recover the loss of lifetime monthly income under our new plan - and now am fearful

the company may make more changes after I retire.

I am considering taking half of my lump sum distribution, buying a lifetime annuity and investing the other half in a rollover along with my 401(k) funds. This plan, along with my Social Security benefits, should give me a more secure plan to last me the rest of my life.

Do you agree? Or I could take the full lump sum and invest it all. Taking 4% might run me a little short if the market is down. However, I would still have all of the money.- P.R., by e-mail

**A:** Life annuities are a good tool for reducing your living standard risk in retirement. If you invest a portion of your lump sum pension settlement in a life annuity, your retirement income will come from more sources - Social Security, pension/annuity, investments and (hopefully) debt-free homeownership.

Because life annuities deliver a relatively high income (as a percentage of dollars committed), converting a portion of your savings into a life annuity can work to reduce the amount of income you need from the savings that you invest, allowing

them to grow for later use and reducing the risk of large early withdrawals. One study has shown the portfolios are likely to survive longer if a portion of the portfolio is committed to a life annuity.

At [www.immediateannuities.com](http://www.immediateannuities.com) you can get quotes for different types of contracts. A \$100,000 investment would provide a life income of about \$650 a month for a man, \$605 a month for a woman, and \$550 a month for a joint and survivor annuity with a 100% benefit to the survivor. That last figure, \$550 a month, is 6.6% of the original investment, significantly more than you can safely withdraw from a portfolio.

When you purchase the annuity, make sure you understand the implications of its terms. Pensions require that you use a "joint and survivor" option - a lifetime income for you and your spouse - unless the spouse signs off on a "life only" annuity. While the survivor benefit is generally reduced, it can be a vital part of your long-term planning.

(Questions about personal finance and investments may be sent by e-mail to [scott@scottburns.com](mailto:scott@scottburns.com) or by fax to 505-424-0938. Check the Web site: [www.scottburns.com](http://www.scottburns.com). Questions of general interest will be answered in future columns.)

SECOND OPINION

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**On the Net**

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[assetbuilder.com:9669/blogs/scott\\_burns/  
archive/2002/02/26/Annuity-Income-May-  
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