



March '06 Newsletter – Increasing the Value of Your Portfolio

Michigan's economy has seen better days. For most of our lifetimes, Michigan has been blessed with the success of the auto industry with excellent job opportunities, rising property values and high standards of living. As the American auto industry struggles in the face of increasing pressure from foreign manufacturers, our state is feeling the pain and we may all be hurt financially in one way or another.

In times like these, the value of our investment portfolios become an extremely important part of our retirement. The ultimate value of our investment portfolio is determined by four factors: how much we save, how long we invest, rate of return and taxes. Of these factors it is tempting to focus on rate of return. In times such as these, when markets have been struggling to make historically average returns, it may be time to focus on the other factors.

Save more. What % of your after-tax income do you save? If you are not saving 30%, you may be living beyond your means. Modest changes in saving can dramatically affect your portfolio's value. For example, a 35 year old who is saving 6% of a \$50,000 salary would have \$339,850 at age 65 if the account averaged 8%* return compounded annually. Bump the saving up to 8% and there would be \$453,133 at age 65! Each 2% increase in savings would be \$30,000 in additional savings over 30 years but would be worth \$113,283 at age 65.

Start saving today. Compounding interest can have a dramatic impact on the ultimate size of your portfolio. Four people age 20, 30, 40 and 50 each invest \$10,000 today. What will the value of the original \$10,000 investment be for each individual when they turn 65 if they earn 8% interest compounded annually?

- 50 year old: \$31,722
- 40 year old: \$68,484
- 30 year old: \$147,854
- 20 year old: \$319,204 “The most powerful force in the universe is compound interest.” – Albert Einstein. Albert new more than just Physics!

Invest in a tax efficient way. Investment strategies that keep our partner Uncle Sam from getting his share of the profits for as long as possible can make a substantial difference in our portfolio's value. A study found high-net-worth individuals can increase their annual return 2% by using tax-efficient investments. There are a number of investments such as 401(k)'s, 403(b)'s, Roth and Traditional IRA's, 529 college savings plans and annuities which defer or pay no taxes upon distribution.

While it is easy to get caught up watching rate of return, concentrating on saving longer in a tax efficient manner can have a substantial impact on the value of a portfolio.

Have a great day,

Dave

* These examples are for illustrative purposes only and are not intended to project the performance of any specific investment.

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