The Perfect Investment

Once an individual or family has reached the stage in life where there is enough income to easily pay the monthly bills, there is often a desire to put the excess monthly cash flow to work. For some, an inheritance, a large bonus, or a distribution from a qualified plan can provide an investable, lump sum of money. For most people, the key question is, "How do I put this money to work?" In a perfect world, the answer would be an investment that has certain, ideal characteristics:

- High rate of return: A total return high enough to out perform inflation and taxes, and still meet the investment goal.
- Complete safety: There would be no concern that any part of the investment could ever be lost.
- Always liquid: An investor would be able to redeem the investment, and receive cash, at any time of day or night, every day of the year without any penalty or loss of principal.
- No income taxes: There would never be any income taxes due on the investment's yield or growth. The investor keeps everything earned.
- No skill or knowledge required: No special skill or knowledge would be required to manage the investment. One could just forget about the investment and enjoy life.

The Real World

Such a "perfect" investment does not exist, of course. Most notably, investing involves risk, including the possible loss of all or a part of your principal. In the real world, individual investors must choose from a confusing range of investment tools, each with different characteristics and uses. The process of selecting the best investment for a particular need or situation is made easier by clearly answering the following questions:

- Why are you investing? Do you need income for current expenses or are you accumulating money for a future need?
- When will the money be needed? At any moment? A year from now? At retirement, 25 years from now?

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- How much risk are you willing to undertake? Can you afford to lose all or a part of the investment, and not have the loss affect how you live?
- Are income taxes a concern? If the investment is currently taxable, to what extent will the additional tax reduce investment growth or push you into a higher tax bracket?
- What is the economic outlook? Investment opportunities will vary depending on whether the economy is growing or shrinking.
- Do you have the skill and knowledge needed to manage your investment? Is professional investment management needed?
- How much money is there available to invest? Are smaller amounts available periodically, or is there currently a larger, lump sum of money?