Personal Finance Q & A about Investing with Carter & King

(Eric King is a financial planner with Bridges Wealth Management)

Q – In general, do agree with Dave Ramsey's advice?

A - He agrees with Dave Ramsey's advice, except in regards to mortgages. He believes that since you can get a home mortgage loan for around 4-5% and write off the interest on your taxes, a 30-year loan is better for most people. You could be investing the extra money ($1000 for 30 year, $1400 for 15 year – so the $400) and making 8-12% on that money. In this way, you have more control of your money and have more available for emergencies.

Note – 1) This assumes that you would be investing that money, not just spending it on other things – in which case it is not really available to you for emergencies. 2) This assumes that most people don't have an emergency fund – which is true of the average adult (less than $1000), but WILL NOT be true for you guys – right? Right!

Also, he thinks Credit Cards can be used as a tool as long as you carry a zero balance (pay the balance off, in full, every month).

Note – 1) On average people spend about 18% more with plastic (even if they pay it off) because it doesn't hurt like it does to hand over cash. 2) Most people don't pay off the balance every month and end up owing a lot in interest!

Q – Do you like traditional IRAs or Roth IRAs?

A – It is best to start with a Roth IRA while you don't owe much in taxes. (But . . . always take advantage of free money, i.e. – an employer's match to a 401k.)

Q – At what age should you start investing? Is there a minimum age limit to start a mutual fund?

A - You must be 18 to open an account individually, but you can start at any age with your parents' help/signature. Start investing as soon as you can.

Q - Is there a minimum opening balance required for a Mutual fund? If so, how much is it?

A - The opening deposit averages from $0 - $1000. It is often lower if you guarantee a minimum monthly payment (i.e. $50/month, etc.). Some require regular contributions (at least $25/month) and some don't

Q – How much should I invest? Are there limits to what I can invest?

A – A good goal is to it least $2000 a year for 5 years, starting at age 15 – so that you have $10,000 invested by age 20 (or ASAP).

The maximum IRA contribution per year is $6000 for those under age 50 ($7000 if over 50 years). That is $500/month. (401k participants with incomes below $75,000, or $124,000 per couple, can also make IRA contributions.)

Q – How should you pick which IRA to invest in? How do you choose a financial advisor?

A - You probably don't need a financial advisor at your age. Use Fidelity or Vanguard to open an account. Choose an S & P 500 index fund (the top 500 companies in the US). As you get older seek the help of a financial advisor.

Note – Interview several different advisors, ask lots of questions: – how are they paid?, how long have they been in business?, how many clients do they have?, what do they invest in?, how many different products they represent?, etc. Also, do they talk down to you?, are their explanations clear?, etc.

Q - Dave Ramsey suggests investing 25% into growth/mid-cap mutual funds, 25% into growth & income/large-cap mutual funds, 25% into aggressive/small-cap mutual funds, and 25% into international mutual funds. Do you agree with this recommendation?

A - The type of funds to invest in depends upon your goals and the length of time you have to invest.

Q – How should you pick which mutual funds to invest in?

A - Ask your financial advisor how they invest their money! Look for a fund with a good 5-10 year track record.

Note – 1) You can invest in one account or several. 2) You can structure your mutual fund accounts to include just stocks, just bonds, or both. 3) The Dow Jones average only tracks 30 companies.

Q - What are the biggest mistakes people make when investing?

A – The biggest mistake – buy high and sell low. Instead, you should buy low and sell high!

Note – With mutual funds a trained advisor makes those decisions for you. (You can always give input as you review/update your account.)

Q - What happens if I start investing, but then life gets hard and I can't keep contributing?

A – It depends on how the account was set up. (Most of the time what you have already invested continues to grow and earn interest. Occasionally you have to move the money to a different account.)

Q – What happens if I start a 401k at work, but then change jobs?

A – (If you are fully vested (amount of money and/or # years of contributions) you can leave it and let it grow, or you can roll it over into a new 401k at your new job. If you aren't fully vested or a new 401k is not available, you can roll the money over into a traditional IRA, a Roth IRA with a fee, or take it out with penalties and additional tax fees.

Q - We know that most IRAs & 401ks lock your money down until retirement. Can you invest in mutual funds outside of a retirement account? How long is your money locked down? Can you ever withdraw some without penalty?

A – See chart; if you withdraw funds early from a retirement account they become part of your gross income, plus you are assessed a 10% additional tax penalty.

Q - Do you take your money out as a lump sum or in installments? Is there an end date to the investment and you withdraw it all, or do you withdraw some and leave the rest in the account? What happens to the money if I die before I use it all?

A – See chart; when you sign up, establish a beneficiary. This person will get your money if you die.

Traditional IRA/401 K	**Roth IRA**	**Non-Qualified Plan**
Mutual fund A	Mutual fund A	Mutual fund A
Mutual fund B	Mutual fund B	Mutual fund B
Mutual fund E	Mutual fund C	Mutual fund D
	Mutual fund D	
Tax deferred	Pay taxes upfront	Pay taxes annually on $ earned that year
Pay taxes when $ is withdrawn	No taxes when $ is withdrawn	
You can't withdraw your money until age 59 ½, but then you can choose – lump sum, installments, etc.		You can withdraw your money at any time – you choose how