

Asking The Right Questions Is One Of The Keys To Making Sound Financial Decisions

By Glen Ladau

One of the keys to making sound financial decisions is asking the right questions. The right answer to the wrong question may still be the wrong answer. A typical wrong question we hear quite often is "How much does the investment pay?"

The concept of an investment "paying" typically refers to income, either in the form of dividend or interest. When you evaluate investments based on how much they pay, you limit yourself to only considering fixed income investments. It is important for most people to have at least some growth investments, such as stocks, in their portfolio to protect against the impact of inflation. Yet when one applies the "How much does it pay?" test, they rarely will include these necessary investments.

There is a difference between total return and income. Income is typically paid as interest or dividends and is a component of total return. Total return also includes growth, either positive or negative, as a component. Although the income portion can frequently be known in advance, the growth portion can only be determined after it has occurred.

For example, you can purchase a bond that pays 5% interest. If you invested \$10,000 you know you will receive \$500 per year interest. We do not know, however, what the value of the bond will be at the end of one year, assuming the bond did not mature at the end of that year. If the value of the bond is only \$9,500, that represents a loss of 5%. In this case, the total return was 0% (5% income and negative 5% growth).

If you invested \$10,000 in a stock that did not pay any dividend, we know the stock pays no income. However, we do not know in advance what the value of the stock will be at the end of the year and therefore cannot know its total return in advance. If the stock appreciates to \$11,000 at the end of the year, it would have achieved a 10% total return, even though it paid zero income.

What has made the stock market historically a great place to invest is that its long-term average returns have exceeded the returns on other types of

investments. It is important to understand the meaning of "average returns" and why they cannot be evaluated with the "how much does it pay?" question. If we invest \$10,000 in a bond that pays 5% for ten years, we expect to receive 5%, or \$500, each and every year. However, even if we expect to earn an average of 10% on our stock portfolio, it does not mean we should expect to earn 10% every year.

It is unlikely our average return of 10% will be achieved with ten years of 10% returns. It is more likely, based on history, to be achieved with three or four losing years, four or five great years and two or three mediocre years. Of course, past performance is not a guarantee of future results, but there may be some lessons we can learn from history. If we understand what "average" means, then we realize we cannot possibly determine how much we will earn in the future based on how much we earned this year.

Whenever I discuss average returns of 8%, 9% or 10%, someone always asks, "Who's paying that much today?" Of course these returns are not guaranteed, but they do represent reasonable expectations based on the history of the stock market. If you understand the concept of total return and average returns, you will be in a much better position to invest your money appropriately. If you continue to apply the "How much does it pay?" test to investments, you will be forced into avoiding those investments which have historically provided higher returns.

It is important to work with a financial planner who can assist you in asking the right questions, help you identify your goals, objectives, fears, and concerns and develop and implement an efficient, effective strategy.

Glen Ladau, President of the Matrix Financial Group, is a Certified Financial Planner, Certified Public Accountant and Chartered Life Underwriter. He is a graduate of the Wharton School of Finance at the University of Pennsylvania. He has twenty years experience developing successful financial strategies. He incorporates a unique, personal approach to working with clients. As Glen describes it, "What we do best is listen."

Glen has offices in Boca Raton, Boynton Beach, Palm Beach Gardens and Plantation. Opinions offered are not intended as individual investment advice. If you have any questions, please call Glen at 888-356-3900.

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A New Focus For Those With Macular Degeneration

When I first evaluate a low vision patient I ask them for a visual "Wish List." They usually respond with a compilation of the things that they once did that made their lives more meaningful and enjoyable, things that they can no longer do. Among the more common entries on these lists are hobbies like painting, crafts, and playing

a musical instrument, to games like playing cards, bingo, and Mah-jong. These games are often more important than the actual act of playing, but frequently a means of social gathering and interpersonal interactions. These patients, when not able to play, often feel left out of the circle and find themselves alone at home instead of being with friends and sharing these experiences.



Dr. Marc J. Gannon

A while back I had a patient who came to see me. She was a world class tournament bridge player who could no longer see the cards in her hand or the cards that had been played on the table. I designed a special split tele-microscopic system for her. This system was designed to function like a bifocal where one part of the system would let her view the cards in her hand and the other part, the cards on the table. The system was further designed to be "wide angle" in nature, giving her the ability to see a large enough area on the table to function effectively when playing.

Since then I have designed similar systems for patients who enjoy bingo and other board games, as well as systems for painting, crafts, and playing music, all of which incorporate at least two ranges of function. Some of these systems meet very specific challenges, such as those of an artist who needs to view a subject at one distance off to the right side and then look back to the left and view a canvas. This was creatively accomplished with a vertical instead of a horizontal split system.

It is important to keep sight of the fact that there is still life after Macular Degeneration or visual loss from any cause. There are unique solutions to meet the needs of so many patients who would like to resume the enjoyment of the things they loved doing before their vision was compromised. Please don't let yourselves or your loved ones spend another day living with the frustration of not being able to participate in the things they love when a solution may be close at hand.

Dr. Gannon is a certified Optometric Physician specializing in Low Vision and is founder and director of the Low Vision Institute. He is available to speak to interested support groups without any fees. For information or to schedule an appointment, call 954-776-5223.

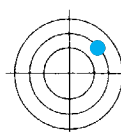
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