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## Money & Style

### Investing Unexpected Income

Compiled by Amy Selby

If you received a windfall of \$10K, \$50K or \$100K, what would you do? Would you spend it? A fully landscaped back yard oasis or a first class trip to Australia sure sound nice. Or would you invest it in your child's education or bulk up your retirement savings? We asked financial advisors for their take. Here's how they would guide you:

#### Ron Florance, Wells Fargo Wealth Management Group

Regardless of the amount in question, the first thing a chiropractor should ask is whether he's got six to 12 months of cash available for basic life expenses should he unexpectedly find his primary source of income not available. If not, this \$10,000, \$50,000 or \$100,000 should first be directed to build that account, and invested in short-term, highly liquid investments, such as a money market account, a CD (no longer than two year), a short-term bond fund or a stock value fund.

After that basic need is taken care of, he can begin looking at other investment opportunities for the money. With any investment strategy the first question should always be, "What is the money for?" This will help orrectly match the time horizon of the investment with the time horizon of the goal.

At the \$10,000 level, think short-term security. Invest in fixed income vehicles that will guarantee income when its anticipated need will arise in the next five years (for instance sending kids to college).

At \$50,000, consider a balanced portfolio that includes international opportunities like international exchange traded funds or mutual funds.

If retirement is 10 years off and you've got \$100,000 to invest, invest for the future through equities. Growth opportunities will reside in well-diversified stock funds.

#### Bruce K. Sneed, BK Sneed Financial Planning

My recommendations assume that this client has his basic financial planning needs in place. In particular, he should have adequate insurance to cover potential life, medical, property and business liabilities. Basic estate planning documents such as a will, durable power of attorney and advance medical directive should be obtained.

Chiropractors who are in the early accumulation stage of their career—starting practice, working long hours, recruiting employees and repaying business loans—should be focused on paying off debts, establishing an emergency fund and investing in retirement and their children's education. I suggest using \$10,000 to start a retirement fund; \$50,000 as a down payment on a home; \$100,000 to recruit employees and pay business loans.

If you're in your mid-career peak, you could consider using the \$10,000 as a bonus for your employees; the \$50,000 for paying college tuition; the \$100,000 toward a nicer home.

Chiropractors in their pre-retirement years may be thinking about sustaining and selling their practice and reducing their work hours and their staff. With \$10,000 you could donate it to a charity; with \$50,000 you could offer severance pay for your staff; with \$100,000 you could bolster your retirement savings.

#### Charles Stanley, Capital Financial Advisors, LLC

If your children are approaching their college years, my recommendation is to cover that cost to the fullest extent possible. This will allow your children to enter the workforce without the encumbrance of student loans, and they'll have a better start in the "real world."

If college is already taken care of, and there are no other significant family needs (not wants) that haven't been met through normal earnings, first make a charitable contribution to your community, and then add these funds to a well diversified global equity portfolio to take advantage of the global capital markets. Capitalism thrives best in a healthy community, so charitable contributions that will improve

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the health and well being of the community at large is a good capitalist practice—contrary to the belief of many. If workers aren't healthy, you can't extract their human capital. If workers aren't educated, you can't extract their human and intellectual capital. If workers don't have moral strength, you can't trust them to make a viable contribution to your enterprise. Investing via charitable contributions to religion, health care and education are some of the best investments that successful entrepreneurs can make in their own enlightened self-interest.

**J. Patrick Collins, Jr., Greenspring Wealth Management, Inc.**

I recommend allocating your excess income/savings into five areas—overweighting the areas that you feel are most important:

1. Giving
2. Spending
3. Savings
4. Taxes
5. Debt Reduction

With a \$100,000 windfall you could choose the following allocation:

1. Giving 10%—\$10,000
2. Spending 10%—\$10,000
3. Savings 30%—\$30,000
4. Taxes 20% —\$20,000
5. Debt Reduction 30%—\$30,000

These percentages should be pre-determined and based on your personal/financial goals and values. For example if the chiropractor is carrying a high debt load, savings may be cut and debt reduction increased. Or, if charitable giving is a major part of the chiropractor's life, he may want to give 20 percent of all excess money to charity and reduce their spending. I believe it is good to set these percentages in place early on and stick with this strategy of allocating excess funds.

**James A. Daniel, The Advisory Firm, LLC**

The easiest answer is to stash the maximum allowed into a self-directed retirement plan such as a SEP or Simple IRA. The more realistic answer is to understand what your true goals in life are: Do you have expansion plans for your practice? Any need for short-term money?

If it comes down to simply wanting an investment, then aside from a deferred retirement account, a taxable brokerage account is the most useful tool. There are many asset allocation funds that you could invest in with the lower dollar amount and be immediately diversified. (Vanguard target retirement funds are one option.) Once you get into the higher dollar amounts building a diversified portfolio using tax efficient exchange traded funds within the brokerage account is an option.

It's hard to make general recommendations, but I would suggest to not forsake short term needs as a business owner, but continue to invest for longer term financial security. You will definitely enhance your life in the long run.

**Jim King, Balasa Dinverno & Foltz, LLC**

My first piece of advice would be to save and invest the excess cash (whether it is \$10K, \$50K, or \$100K) for retirement or their children's college fund depending on their goals and time horizon for retirement and college. If enhancing their life is the ultimate goal, I would inform an individual that \$50,000 today if invested in a diversified portfolio over the next 15 years can easily be worth over \$135,000 (that is assuming 7 percent annual return). While if you took that same \$50,000 and purchased a new car you will be lucky if the car is worth more than \$10,000 in 15 years. By sacrificing their consumption today they will create many opportunities for tomorrow that will enrich their lives over the long run.

**Philip Stockton, Cambridge Cape Cod Advisors**

I would like to see them max out their SEP IRA and have their investments well diversified. Next I would take a look at their children's college funds. I would work with the client to determine how much they should save for their children's college education.

Lastly with retirement and college education properly funded, I would suggest that they plan a vacation or a large purchase (a new car, big screen TV, etc.). The remaining funds should be invested in low-cost index mutual funds for later expenses.