Unbiased Financial Information Provided by Financial Wisdom.

Mistake to Avoid

Using the wrong investment strategy for a child's college education funds.

Along with delaying saving for a college education, another mistake is to not properly invest the funds. Good returns make accumulating the needed funds easier. Historically, the best place to earn high returns has been the stock market. But, along with the high returns come higher risks. The ideal situation would be to earn the high returns in the stock market, while making sure the money will be there when needed for tuition bills.

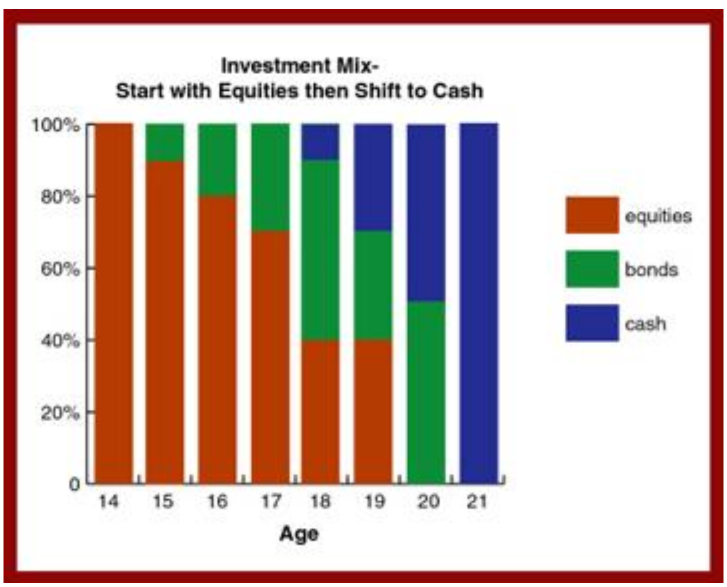
Here are the annual savings needed to accumulate $120,000 for today's five year old to attend an out of state college.

Rate of return	Annual savings needed
4%	$7200
6%	$6400
8%	$5600

Having the funds in the child's name with a "Uniform Transfer to Minors Act" account can make qualifying for financial aid more difficult, but can also provide some income tax relief once the child reaches age 14. The issue of control becomes important since the child will control the account at age 18 or 21 depending on state laws.

A sensible investment strategy is to use different types of investments as the child ages. Since funds need to be available when the child starts college each year, your time horizon is from now until that time. When the child is younger, you can take more risk to try to earn higher returns with equities.

As the child gets close to college, say at age 14, start slowly converting the equity investments into lower risk investments such as savings certificates. Consider certificates that mature annually as college begins.



An investments strategy that positions you to earn the high returns of stocks, and yet provides a means to move the funds to lower risk investments as the need for the funds approaches, can provide peace of mind that your children will be able to afford the college of choice.