

Name: **BRYAN COWAN**



If You Had \$100,000 to Invest, What Would You Invest in and Why?

My mother tells me when she was expecting in 1988 she bought an issue of "Money" magazine. It had an article saying the best gift you could give a newborn was a gift of \$20,000. She laughed out loud wondering who these people were writing for; it certainly wasn't for the ordinary American family. However, she did get a subscription to the magazine and has been reading sections of it to me every since I can remember. She has consistently taught me two lessons. First always take care of necessary expenses and requirements, for example rent, utilities, credit card bills, etc. Second, never invest any money you can't afford to lose because few investments are guaranteed.

Using these lessons, the first item on the list would be necessary or required expenses. Number one in receiving a gift of this size is always the taxman. However, I would look for ways to defer the tax bill. After I can defer the tax bill, or a portion of the tax bill, the next necessary item would be to put the money away to fund either an MBA or law degree. My parents have the Florida Prepaid Plan for my college costs, so I have four years to try and accumulate enough to pay for my subsequent schooling.

Using the University of Florida's website as a reference, and using today's dollars, it would cost approximately \$21,300 for just tuition and books for three years of post graduate study. It would cost another \$33,500 for some computer costs, housing, meals, transportation, clothing maintenance and insurance for these same three years. Since it is four years until I need the funds, and three additional years before all of the money will be needed, I will need to adjust for inflation. Using a

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conservative approach, I will plan to need approximately \$29,000 for tuition and books and \$50,000 for housing, etc. This is a total of \$79,000.

For this investment, I would look to invest in a 529 Plan, which allows money to be put away for school, tax deferred. A couple of items about these plans, first I am making the assumption this \$100,000 has been given to me by my parents or a guardian since I am under 18 years old. Using this assumption means the gift is tax exempt up to \$110,000 provided no more gifts are made to the beneficiary (me) for a five-year period. If I invest \$58,000 of the \$100,000 gift, and receive a rate of return of 5% and if the expenses of the plan are no more than 1.6% I would have enough for tuition, books and any taxes required. This is based on the premise I start to remove funds in year five and remove approximately one-third of the principle per year.

As of now, 529 Plan earnings grow free from federal taxes when used for higher education and other qualifying expenses, but only until December 31, 2010. Thereafter the earnings portion of the qualified withdrawals would be taxed at my tax rate unless Congress extends the date. Assuming I am not working while in school, or only working at low paying jobs, the taxes will not be very sizable.

This leaves \$42,000 of the original amount to invest. Now we must first go back to the necessary expenses and pay the taxes on this remaining amount. For simplicity sake I use the assumption I am not working earning extra income and I have no deductions. Using this data would put me in the 25% tax bracket. According to the IRS website of tax rates for 2006 I would owe \$4,220 plus 25% on the amount over \$30,650 or \$11,350.00. This would be an additional \$2,837.50 for a total of \$7,057.50 in taxes. My \$42,000 is now reduced to approximately \$35,000.

With the essentials taken care of I can be more creative. I would split the remaining money four ways, i.e. charity, conservative, moderate and more bullish with goals for each investment. Why a charitable contribution is considered an investment? What goal do I have with this investment? I consider giving to organizations which help people help themselves to be one of the greatest investments one can make in a family's future and in the future of their city. I would donate \$5,000 to Habitat for Humanity. With this contribution I am investing in a family's future home. It will help a family

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leave a bad situation and in the company of other families try to achieve the American dream. If it gives one child a better future with hopes and dreams then this investment will more than double.

For a conservative investment, I would choose a 10-year Treasury notes or Zero Coupon bond. My goal for this \$10,000 would be to have, after I graduate, a guaranteed amount that can be used as a down payment on a home after settling into my first full time job.

As a moderate investment I would invest \$10,000 in a mutual fund that is indexed to the S&P 500. This has more risk than a federally guaranteed bond. For a company to qualify it would have to have no upfront commission and as well as low fees. The companies to look at would include large firms such as Vanguard and Fidelity. My goal for this investment would be to invest for the long haul and not to switch in and out of funds after only a short period. This would be a start on funding my retirement.

As a more bullish investment, I would go with Warren Buffet's advice. He says to invest in what you know. I know technology. I would take the remaining \$10, and invest it in technology stock. Yes many of them have outrageously high stock price, but unlike technology stocks of the late 90s, these are real companies with real earnings not a bet on what might someday be a good company. My goal would be to double my investment. Then I would take the doubled portion and reinvest it in what makes sense at the time, maybe more technology stock or maybe something completely different. This will obviously require much more time than either the bond or mutual fund investment I have already mentioned. I will need to watch the business news, read about the potential ups and downs for tech stocks, and know all the ratios I learned in my financial planning class so when I feel the ratios are not what I am comfortable with I can get out quickly.

This has been a fun exercise. It is wonderful imagining what I would do with the funds. For simplicity I have completely left out hedging my bets with gold futures or dabbling in oil futures or even buying the hottest car. I don't have the knowledge to invest in them and just as important I don't have the time required to monitor their progress all the time.