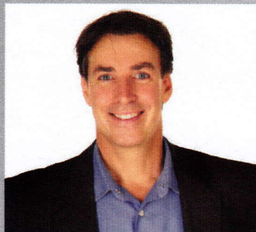
FEATURED ON FORTUNE.COM

ARTICLE BY: DONALD MURPHY

PUBLISHED FEBRUARY 2015

FORTUNE

ARE THERE REALLY THREE KINDS OF MONEY?



DONALD MURPHY

Everyone knows there's only one kind of money. It's green and it's the kind you spend… right? Not exactly. When you're planning for retirement, it's important to differentiate among three distinct kinds of money, depending on what you want your money to do.

What portion of your money should be set aside for short-term needs? What about long-term planning for retirement, and what about accumulation through venture or speculative types of vehicles? Let's explore these three types of money and the vehicles that drive them:

First, consider the three "features" that define each of the different vehicles: safety, liquidity and growth. Of course, it would be great to have all three in each of our vehicles. Unfortunately, no single vehicle can provide all three features at the same time. With each vehicle, you must be willing to relinquish one feature in order to benefit from the other two.

Life comes at you fast. That's why most financial advisors recommend cash reserves somewhere between 6 to 12 months of your cost-of-living to cover both planned and unexpected expenses.

Let's call this short-term money. This type of money needs to be safe and not subject to the ups and downs of the market, so you know it will be available to you. And it needs to be liquid, so you can get your hands on it quickly. In this case, you are willing to give up market growth in exchange for safety and liquidity.

The short-term money vehicles you are all familiar with are: checking accounts, savings accounts, and money market accounts. The two main features of these vehicles are safety and liquidity. These vehicles are not intended for growth, so you cannot expect them to keep pace with inflation.

At the other end of the spectrum is venture or speculative money. This type of money is intended for growth. Of the other two features, safety and liquidity, venture money requires liquidity, the ability to move money in and out of the market. The types of market-driven vehicles used to generate growth are: stocks, mutual funds, exchange traded funds (ETFs), precious

metals, variable life insurance, commodities, and real estate, among others. Many of you use these vehicles to grow your retirement savings. Since the two main features of this type of money are growth and liquidity, you live with the understanding that these investments are not safe since the market has inherent risk, which you accept.

The third type of money is called long-term money or "nest egg money." You've seen that short-term money offers safety and liquidity without growth, and venture money has liquidity and growth without safety. Now, let's consider long-term money.

Those of you approaching retirement, or those who are already retired are moving from the accumulation phase of your life to the preservation and distribution phase. In most cases, you don't want to subject your retirement nest egg to market volatility or risk, so a key consideration is safety. Long-term money features safety and growth to hedge against inflation and generate income for the rest of your retirement. Long-term money might also provide for your long-term care needs and it might possibly establish a legacy for heirs or a favorite charity. Of course, when planning for the future, you want to consider minimizing your tax liabilities to avoid taxes where legally possible. To accomplish these goals, the vehicles that are available build in safety and growth so you must be willing to give up some liquidity.

The types of investment vehicles that fall into the long-term money category are: Social Security, pensions, bonds, CDs, cash-value life insurance and annuities. All of these vehicles are considered safe from market risk. They provide safety of principal with long-term growth to outpace inflation and provide a retirement income stream that is intended to last a lifetime. Some of these plans will actually guarantee an income for life.

In a properly structured plan, we use a combination of short-term and long-term vehicles to have the proper balance of safety, liquidity and growth. We set aside the right amount of our principal in a short-term vehicle, which has safety and liquidity so we can access this money when and if we need it; we set aside the right amount of money in our long-term vehicle in order to provide safety and growth.

At every stage of your life you face important decisions to make with your retirement savings. Deciding upon which of the three vehicles you choose for your money will impact your finances for the rest of your life and the legacy you might leave behind.

www.platinumlifeinc.com

don@platinumlifeinc.com