

THE INFINITY HORIZON

An informational newsletter designed with stewardship in mind for those who want to maximize their financial potential.

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It only takes a minute to learn a lesson for a lifetime.

Stewardship Emphasis

A great plan without implementation is like a recipe that you don't cook. You will never enjoy the flavor of the meal until you make the effort of putting the ingredients together and preparing the dish.

Test the Waters, Get Into the Game

In working with clients over the years, it is interesting to observe the range of emotions of people who are looking to begin an investment program. Often times the person has recognized a need to plan for the future or a particular need and are excited and ready to put their money to work. As the planning process continues, however, something strange sometimes happens. They begin to realize that it is their money that they are dealing with and they are putting their money at some level of risk. It is at that time that fear often kicks in, and they are caught between wanting to achieve their goals and being paralyzed to take action because of the fear. The results of the last three years in the



stock market have only served to give people a "justification" for the fear because in general investment returns have been undesirable. In the last installment of The Infinity Horizon, we discussed how a long-term perspective and discipline could allow you to benefit from a market downturn. The same perspective is needed if you find yourself in that fearful position about getting started on your investment program because one of the major principles of investing is that time is one of your biggest allies. Many times the difference between achieving your goals and falling short of them is how long you wait to get started. So don't wait, get started.

The Plan Itself Is Not Enough

Investment professionals spend a lot of time preaching about the importance of having a good financial plan and will work with you to assess your needs and make recommendations that will put you on the road to achieving your goals. A comprehensive financial plan is a valuable tool, but a plan is nothing more than words and figures on paper if it is not implemented. One of the reasons people are hesitant to move ahead with a plan they agree with is the fear of making a mistake. Every recommendation is not going to work out as it is intended because planners are not always right. But, the beauty of a plan is that it is a working document that gives you a direction, and if you determine that you need to change your course you have the flexibility to do that. This allows you to keep a mistake from becoming a failure.

It is important to remember that you should never just go with the advice of a planner if you are uneasy about what they are recommending. That is not to say that you should not consider expanding your comfort zone if you are looking at a long-term investment, but you should not make decisions that are beyond your risk tolerance. If you do, you ultimately are likely to become more gunshy if things do not go well. On the other hand, if you start early enough, you give yourself more time to recover from unfavorable investment results, and because time is on your side, you may be able to achieve your goals with less risk than if you are indecisive and wait until later to implement your plan.

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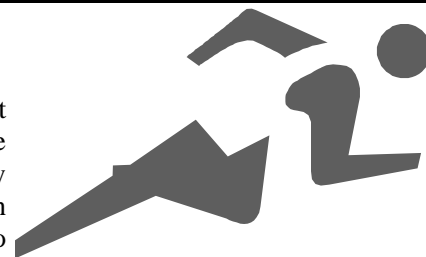
For a free consultation or for more information contact:

Kevin Turner



www.theinfinitygroupinc.com

A Fast Start Can Win You the Race



You have most likely heard the saying, “It’s not how you start but how you finish that counts”. When it comes to investing your money, how you finish can not only be strongly impacted by how you start but by when you start. Another saying, “The early bird gets the worm”, probably speaks to the benefits of getting started on implementing your investment plan as well as any saying. While there are no guarantees of how your investment will perform at any time, there is no better time than the present to at least get the process started because the longer you wait, it will usually require either a greater level of investment or a higher return on investment to get you to the same goal. For an illustration of that point, consider the following hypothetical scenarios.

The Early Bird vs. The Procrastinator – Two investors starting their investment programs five years apart

Example 1 - Two Investors Operating at the Same Level of Risk

The Early Bird investor begins immediately putting away \$100 per month (\$1,200 per year). The Procrastinator decides that now is not the right time to start an investment program. The Early Bird’s investment grows at a 10.5% return annually, and she continues to invest for a period of 10 years, at which point she decides to do something else with her money. The Procrastinator, who is a friend of The Early Bird, saw that she was doing well with her investment and after 5 years, he decided to get into the same investment. Because the investment is still returning 10.5% annually and he started later than The Early Bird, at the 15 year mark The Procrastinator is still well behind The Early Bird in investment value, so he continues investing. In fact, The Procrastinator continued investing until year 30. As you can see by Table 1, even though he put away a total of \$18,000 more than The Early Bird, at the end of 30 years his investment value is still well behind that of The Early Bird. The Early Bird gets the worm.

Table 1 - Performance with Identical Investment Returns

Year	The Early Bird		The Procrastinator	
	Contribs	Inv. Value	Contribs	Inv. Value
5	7,200	9,376	1,200	1,200
10	12,000	21,646	7,200	9,376
15	12,000	35,661	13,200	22,846
20	12,000	58,750	19,200	45,038
25	12,000	96,788	25,200	81,596
30	12,000	159,452	30,000	140,625

Example 2 - Two Investors Operating at Different Levels of Risk

Again, The Early Bird begins investing immediately putting away \$100 per month but decides to take on a little less risk in her investment approach. Because of the lower level of risk in the investment, her return falls to 9% annually. Also, in this case, The Procrastinator, takes a wait and see approach and holds off for 5 years before beginning his investment program. Once he begins, he realizes he needs to be a little more aggressive than The Early Bird, and his investment returns 10.5% annually. In this example, The Early Bird invests her money for 15 years and stops, while The Procrastinator invests after year 5 and goes to year 30. Analyzing the results in Table 2, we now see that The Early Bird invested \$12,000 less than The Procrastinator and took on less risk, yet she was still able to nearly match the results of her counterpart after 30 years. The Early Bird still gets the worm.

Table 2 - Performance with Different Investment Returns

Year	The Early Bird		The Procrastinator	
	Contribs	Inv. Value	Contribs	Inv. Value
5	7,200	9,028	1,200	1,200
10	13,200	21,072	7,200	9,376
15	18,000	38,404	13,200	22,846
20	18,000	59,089	19,200	45,038
25	18,000	90,916	25,200	81,596
30	18,000	139,886	30,000	140,625

Don’t Play the Game of Catch Up, Get Into the Game Now

Maybe you don’t have 30 years left to invest your money or maybe you have limited funds available to invest, but that is all the more reason to take the opportunity as soon as it is available to you. Even if you cannot invest as much as you would like to right away, it is better to invest on a smaller scale and build up as you are able than to do nothing now and wait until later. All it takes is a little bit of courage and a firm commitment to what you are trying to achieve, and you can start on the road that will lead you toward your desired destination. And when you think about it, being on the journey is more important than the end result, so take the initiative and get on the road. Miles later, you’ll be glad you did.

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8505 Natural Bridge • St. Louis, MO 63121
Phone: 314-428-2244 Fax: 314-428-7351