The Color of Money

We want the blue team, right mom? This is a question Asa often asks in the gym or at the field. Blue is the Pointers, our high school team's color.

When you think about it, we associate a lot to color… the teams we cheer for, traffic signs, the type of truck… As for Asa, his favorite color is red because that is the color of fire trucks!

We find it easy to identify things based on color, so we decided to color money too!

Yellow Money

First, Yellow Money is simply cash reserves or highly liquid assets. You'd probably consider it to be your emergency money, and we advise everyone to put money away in an emergency fund. The principal is not at risk in Yellow Money, but on the downside, growth is next to nothing. So, having too much of your portfolio in Yellow Money can also cause you to take on another risk, that is, inflation. Loss of purchasing power over time will decrease the amount you can buy with the same dollar figure.

Green Money

Green Money is protected growth assets. These offer potentially moderate returns, are tax-deferred or tax-free, and offer partial withdrawals. The principal is protected, and previous years gains are retained as interest. The annual returns on these assets vary greatly from 0% to as high as 16%. These assets are designed to be the middle ground between Yellow and Red Money. Generally, Green Money assets offer only partial withdrawals without a penalty for the contract period which could be anywhere for two to 20 years, 10 years being the average.

In the investing world, you'll hear people use the term "Fixed Income Asset." This is most widely used when Wall Street talks about bonds. When you buy a bond, your money will be given back to you after it matures. The one problem is that there are no guarantees that it will! Green Money is really bond alternatives and most follow these three rules.

- Protect principal
- Retain gains
- Guarantee income (when or if you need it)

Green Money is really one of the best kept secrets in the financial world.

Red Money

Finally, Red Money assets represent risk. Red Money is working money that can lose value. Securities such as stocks, bonds, mutual funds, ETFs, variable annuities, options, REITs, and the like make up these monies. While investors usually see higher gains over time, at the same time these assets can lose significantly in a year, sometimes 30% or more. Your principal is not protected from market fluctuations, so every loss must be recovered 100%, and then growth begins on top of that.

As you approach retirement, your capacity for Red Money risk may decrease, understandably so. However, even in your DREAM Retirement, it may be important to keep some Red Money. You can still avoid significant Red Money losses by following the three M's when investing in Red Money: Measure, Manage and Monitor.

First, Measure the amount of risk you're comfortable with and make sure your investments mirror that level. Then, use Managers and Management styles that fit your personal risk level. Then, Monitor their performance. Be sure that the risk you're holding doesn't exceed your comfort level, and reallocate your assets if they do. You can do this management yourself if you like, but you can also take advantage of the services of those who manage and monitor the way you yourself would. This is why you pay your account managers and other financial professionals—so you can enjoy your retirement with peace of mind that it's being handled well!

Why you didn't know this

Here is the reason your advisor or manager hasn't told you about all these options: It takes a different license for advisors to offer each of these colors of money. Also, advisors are paid differently on each type of money. Many advisors can't utilize all types of money because of the license of the company they work for. Or they won't offer all types because they prefer being paid in a certain way.

Red Money This takes some type of securities license. Advisors are paid mostly via management fees, however sometimes they receive commisions or other revenue share as well. Big Wire houses like Morgan Stanely, Fidelity and Ewdward Jones. They may have some yellopw money options such as brokerage CD's and money markets, but no green money. There are a few tools available here the guarantee income or death benefit, but that is not the same as guarnteed principle, be cautous with those said gurantees.

Green Money requires an insurnace license. Advisors are paid by a commission from the company for the investment vechiles they utilize instead of collecting on-going management fees. Some insurance companies also offer red money products, so be alert that not all products from an insurance company are green money.

Yellow money is primarly accounts held at a bank or credit union. Some banks also have investment services that would normally fall more into red money, some will have a few green money options as well.

<u>It is important to know where a company or advisor is coming from.</u> Often advisors in the different colors of money war with each other, they don't like what they don't do or don't get paid for or don't like they way they get paid for one type vs the other. The red money world will say that green money charges large commissons up front (not usually true) while green money will say red gets paid too high of management fees. It should be more about what is right for you vs what is right for the advisor (aka, how they are paid). So, take what is said or advertised in this light, understanding the why is often more important that the what that is being said.

It normally takes an independent advisor who isn't bound to just one company or brokerage house that limits the tools and products to be able to offer both Green and Red Money. Your best case retirement income scenario is probably some arrangement in both colors, so it's in your best interests to find an advisor who understands and can access both types.

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