WALL STREET, CALIFORNIA; Money Make-Over: Southern Californians Learning How to Succeed in Personal Finances; Freelancer Wants Freedom to Last

[Home Edition]

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Lori Mayfield leads an exciting, active life.

Single and self-employed, the 36-year-old freelance advertising copy writer enjoys the personal and financial freedom to travel extensively and pursue interests such as snowboarding, photography and mountain biking.

Charging a day rate of $850, she's able to live well on an average annual salary of about $80,000. And though her monthly income can fluctuate wildly, she has earned as much as $95,000 in one year.

Her fixed living costs are a modest $795 a month, her part of the rent for a shared, two-bedroom apartment in a posh Westside neighborhood, but she does spend on some extras--about $1,700 a year for yoga, Pilates, rock-climbing and spinning classes, and she drives a $35,000 car.

A big chunk of her disposable income, she admits, goes to buying clothes (about $250 a month), as well as dining out, traveling and generally enjoying herself.

In the last three years alone, she has visited London four times and also trekked to Alaska, France, Africa and Peru. And she's planning a five-week trip to Nepal and Thailand in October.

"I'm having a lot of fun," she says, "but I'm a little stressed out about it on the financial end."

As a freelancer, Mayfield worries that business might dry up and clients stop calling, "so money is constantly on my mind."

Other than a car loan, however, she has no debts, and she pays her credit card bills in full every month to avoid interest charges, while collecting airline mileage program points based on her card purchases.

But she hasn't saved much.

If not for a recent inheritance of $30,000 and 6.6 acres of farmland in Texas, worth about $7,000, her only assets would be an IRA worth about $14,500 and a money market account worth about $2,000.

"I worry," she says, "if I'm being smart with my money."

Until recently, she hadn't given much thought to retirement planning because she thought she'd soon be married, possibly with a couple of children, living with her family in her own home.

"I'd hoped by now that there'd be some dual income" with a working husband, she says. "I still expect that will happen."

In the meantime, she says, "I'm at an age where a lot of my friends are buying houses and I'm thinking, 'Wow, that friend's doing the same type of work I'm doing. How did they make their money work for them?' "

Hoping to find some answers, she applied to The Times for a Money Make-Over and was put in touch with Eric D. Bruck, a fee-only financial planner based in Culver City.

His advice: Get serious.

Investing in Yourself Goes Only So Far

Mayfield's financial choices, he says, are based too much on the here and now. Mayfield agreed, but noted that some of her expenses pay off in ways that can't be measured in dollars and cents.

"Most of my investments have been in what's often referred to as 'the best investment you can make is in yourself,' in the form of travel," she says. "That yields some education, new perspectives, some creative material, memories--and a bunch of pretty pictures."

Bruck agrees that "investments" take many forms, and says education in any form is invaluable, but he says everyone will need cash when they stop working or the economy slows down.

"The money you earn today is the source of everything you're going to be funding in the future," he says, "so your lifestyle should not mortgage the future. It should take in tomorrow's realities and tomorrow's obligations. . . .

"It's better to try to design the way you want your life to proceed rather than live for the moment, which is what you've been doing. You haven't really planned for the future. You've planned for this year: If I have it, I'll spend it. If I don't, I'll scramble. That's been your approach."

Mayfield, he says, should prepare for the possibility that she may never marry and be prepared to take care of herself.

And she should start now.

"You say that you want your money to work a heck of a lot harder for you," he told her. "What's equally important is that you get time working for you," because savings tend to grow fastest only after a few decades have passed.

The Idea of a Steady Job Just Doesn't Cut It

One thing she might want to consider, he said, is taking a full-time position at an advertising firm, which probably would provide valuable perks such as a 401(k) retirement plan, subsidized medical benefits and disability insurance.

But she's not interested.

"Psychologically," says Mayfield, who has held staff positions in the past, "I like freelancing better. . . . I think there are two kinds of people: the kind that cling to the predictability and stability of a staff job and think that anything but that is unbearable, or those like me, who feel like that sort of thing feels like imprisonment."

If Mayfield wants that freedom, Bruck says, it's even more important that she educate herself about investing through books, magazine articles or seminars and build a financial structure of her own through a disciplined investing program.

Bruck said Mayfield can't expect anyone to know what's the best investment strategy for her; she must first know her own priorities, such as whether she wants to continue renting or how important it is to travel frequently.

"You are at the decision-making stage," he told her. "Any kind of planning requires that you first decide what you want to accomplish. You have to set goals. A goal is a wish with a deadline. When you apply a deadline to a wish, you're taking it seriously."

Any plan she follows, Bruck says, should include her own input, based on reading about investing and knowing exactly what she wants her money to do for her.

Bruck also said it is important that she not rely too much on informal or professional advisors. "One of the prime principles I try to impart is self-empowerment," he says. "The more you can look at your {options} and have an opinion about them, the happier you're going to be."

The planner says Mayfield's first priority should be to establish an emergency fund of about six months' living expenses--in case the phone stops ringing or she's unable to work for any reason.

Second, he strongly recommends that she buy disability insurance.

"All the goals and strategies that you lay out are all based on your ability to earn a living," he says. "If you aren't able to earn a living, you need a mechanism in place to make your plan self-completing."

Finally, he says Mayfield should curtail her spending and begin pouring money systematically into a diverse portfolio of growth-oriented equity mutual funds.

He suggested that she track her spending by creating a budget, possibly on her computer with Quicken.

"Education takes the fear away," he says, "because the biggest fear is the fear of the unknown. So the more action you

take on behalf of your own finances, the more you're going to understand them."

Bruck's wife is also a freelancer, producing television commercials and promotional spots, so the planner says he is aware of the anxiety involved in working irregularly.

Most of the time, he says, "the phone does ring. The trick is realizing that and learning to enjoy the down time." A large emergency fund allows flexibility and prevents panic if there is a long gap between projects.

Inheritance Offers Chance for Head Start

Mayfield, he says, should take advantage of the inheritance to get a head start, putting at least $10,000 of it in a money market mutual fund for emergencies.

The remaining $20,000 should be used to start her longer-term investments by buying into a diverse group of no-load mutual funds, spread among four investment sectors. He suggested the money be invested in three increments over the next six months, rather than all at once.

His advice to Mayfield was to put about a third of the money into Janus Worldwide (three-year average annual return: 22.6%), a third into the Merger Fund (three-year average annual return: 8.7%), 22% into Turner Mid Cap (created early last year, the fund has returned 44.5% in last 12 months) and 12% into American Century Equity Growth (three-year average annual return, 28.5%).

"These are good core holdings for an investment portfolio," he says. The Merger Fund, which invests in companies that are the object of acquisitions, has not performed as well as the others but is a less volatile fund.

In addition, Bruck says, Mayfield should move the $2,000 that's sitting in a money market fund in her IRA into Janus Worldwide and open a Roth IRA by putting $2,000 into Turner Mid Cap.

He advised keeping the rest of her IRA money invested in the Davis NY Venture Fund, a value fund that would require her to pay a back-end charge if she tried to sell it before 2003.

"We've built the rest of her portfolio around that investment," Bruck says. "We've given her a growth objective with a time horizon of 10 years or longer and we want her to make a commitment that she will not cash in for shorter-term goals. She needs to do that in order to weather market declines along the way."

(Mayfield would be eligible to save more for retirement though other kinds of IRAs if she were routinely paid as an independent contractor or if she were incorporated, but she doesn't have that option now.)

Bruck advised selling the Texas farmland to the farmer who currently leases it, charging him the amount of the monthly lease payments and making him responsible for the property taxes.

Beyond that, he says, Mayfield should continue to invest in her core group of mutual funds systematically, on a monthly basis if possible.

If current circumstances continue, he estimates that she needs to invest $650 a month until age 65 if she wants to maintain her current lifestyle in retirement.

"We've got to start somewhere," he says, "and using that figure as an alarm clock, we're hoping to illustrate to her that she really needs to get serious about putting money away for the future."

Mayfield got the message.

"The Money Make-Over process has been a tremendous awakening for me," she says. "It's had a ripple effect, too, with many of my friends . . . so many of my friends are in debt {that} I thought I was doing OK by just having my head above water."

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.com. To be considered for a published Money Make-Over, send your name, age, phone number, income, assets and financial goals to Money Make-Over, Business Section, Los Angeles Times, Times Mirror Square, Los Angeles, CA 90053. You can also e-mail to money@latimes.com, or you can save a step and print or download the questionnaire at http://www.latimes.com/HOME/BUSINESS/FINPLAN/make-over.htm.

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The Situation

* Investor: Lori Mayfield, 36

* Income: Averages $80,000 a year with no benefits, but amount varies.

* Problem: Unpredictable income, insufficient savings and no clear financial goal.

* Solution: Clarify long-term and short-term priorities, and increase savings for retirement and to maintain flexibility in case of income disruptions.

This Week's Make-Over

* Investor: Lori Mayfield, 36

* Gross annual income: Varies, averages $80,000.

* Goal: Get financial world in order.

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* Current portfolio

* Real estate: 6.6 acres of Texas farmland

* Cash and savings: $32,000 in various accounts

* Debt: $11,000 car loan at 7.4%

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Retirement account

* $14,500 in an IRA

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Recommendations

* Clarify financial goals.

* Start planning for future.

* Establish emergency fund of about six months' worth of living expenses.

* Buy disability insurance.

* Open a Roth IRA.

* Start investing in a core group of growth-oriented equity mutual funds, both in and outside retirement accounts.

Meet the Planner

Eric D. Bruck is a fee-only certified financial planner and principal of Bruck & Caine Advisory Inc. in Culver City and has been a registered investment advisor since 1984.

Bruck will be a panelist at The Times' Investment Strategies Conference, to be held Saturday and Sunday, May 22 and 23, at the Los Angeles Convention Center. Bruck will be on the retirement finances panel on Sunday, 3:15 to 4:30 p.m. To

register for the conference or for other information, call (800) 350-3211 or go to http://www.latimes.com/isc.

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