Client Profiles

Client: Brandon Young

Occupation: Fitness trainer

Salary: $26,000

Age: 24

Brandon Young has been working at a gym as a fitness trainer since receiving his certification the year after he graduated high school. His monthly bills include rent, utilities, car payment, and auto insurance. He currently has no savings. After paying his bills, he tends to spend the remaining $350 per month on eating out or going out with friends and on purchases such as clothing, electronics, and entertainment.

Mr. Young already has a 32-inch television. However, he wants to purchase a 50-inch flat-screen high-definition television in time for a big Super Bowl party he is hosting in three weeks. A nearby electronics store has the model he wants on sale for $2,000. However, Mr. Young does not have $2,000 in his bank account.

Mr. Young is considering four options for paying for this purchase.

Option A: Use in-store financing. Apply for financing offered through the store. There will be no interest if there are no late payments and the balance is paid within the first year. If the balance is not paid off by the end of the year, or if any payments are late, there will be a retroactive 18% interest charge on the full purchase amount.

Option B: Use an existing credit card. Use a credit card he already has, which has an interest rate of 20%. He could then make small monthly payments until the balance is paid off. This option won't require him to make many changes to his lifestyle.

Option C: Save. Wait until he has saved $2,000 and then purchase the television. He estimates it would take about a year, and some significant changes in his spending habits, to save the money.

Option D: Use a combination of the options above. For example, he might use some of this month's cash and finance the remainder of the purchase through the store or with a credit card.

Which option would you recommend for this client? Why?

Client: Jeffery Gregory

Occupation: Administrative assistant

Salary: $28,000

Age: 22

Jeffery Gregory, a recent college graduate, was just hired as an administrative assistant at a law firm. He will be paid every two weeks.

His monthly bills include rent, utilities, auto insurance, and student loan payments. He also has a credit card bill for the $8,000 of debt he incurred during college. He has no savings or additional income aside from his new job.

Mr. Gregory is considering four options for storing and accessing the money he earns.

Option A: Use a check-cashing store. Cash his paycheck at a check-cashing store. He would be able to access his money immediately. The store charges a 5% fee for each check cashed. It also charges a $1 fee for each money order he would need to purchase to pay each of his monthly bills.

Option B: Use a checking account. Open a checking account, which would cost $10 per month. The fee is waived if he maintains a $750 minimum balance or sets up direct deposit of his paycheck. He would have unlimited ATM and debit card withdrawals and unlimited check writing. He would also have free online banking and bill payment.

Option C: Use a money market account. Place his money in a money market account. This would cost $20 a month and pay him 4.5% interest on the money in the account. The monthly fee would be waived if he maintains a $5,000 minimum balance. He would have unlimited withdrawals and could write up to three checks per month.

Option D: Use a combination of the options above. For example, he could place some of his money in a money market account and some in a checking account.

Which option would you recommend for this client? Why?

Clients: Maria and Jose Quintana

Occupations: Lawyer, elementary school teacher

Salary (combined): $163,000

Ages: 28, 29

Maria and Jose Quintana have been married for three years. They are currently saving money to buy a house. They would like to purchase a house within the next one to two years. They earn a high income and save about $1,500 per month. They currently have $20,000 saved, which is being stored in their checking account. They want to save an additional $20,000 to have a sufficient down payment for the type of house they would like to buy.

The Quintanas are considering four options for their savings.

Option A: Use a savings account. Link a savings account to their checking account. This would give them instant access to their money and pay them 2.5% interest on the money in the account. They could make unlimited withdrawals and transfers and would have no monthly fee, as long as they had a minimum daily balance of $2,500.

Option B: Use a money market account. Open a money market account that pays 4.5% interest on their balance. The account would have no monthly fee as well as unlimited withdrawals as long as they maintain a $10,000 minimum balance.

Option C: Use a high-yield certificate of deposit. Purchase a CD that pays 5.5% interest on their investment, with a minimum investment of $1,000. If they need to take the money out of the CD before the one-year investment period is complete, they would pay a penalty equal to six months' interest.

Option D: Use a combination of the options above. For example, they could open a savings account and purchase a CD.

Which option would you recommend for these clients? Why?

Client: Angela Yoshida

Occupation: Pastry chef

Salary: $46,000

Age: 28

Angela Yoshida has been working as a pastry chef at a popular restaurant for eight years. During that time, she has been saving money for a down payment on a two-bedroom condominium for herself and her daughter. Currently she is paying $900 a month in rent. She has saved about 10% of the purchase price of the type of condominium she is interested in buying. Ms. Yoshida is planning on taking out a fixed-rate mortgage to cover the cost of her home. In a fixed-rate mortgage, the interest rate remains the same for the life of the loan.

Ms. Yoshida is considering three options for a down payment.

Option A: Use a 20% down payment. Wait until she can save 20% of the cost of the condominium. This means she would not be able to buy a condominium for at least another year or two. But she would have a low interest rate and the lowest possible monthly mortgage payment.

Option B: Use a 10% down payment. Use the 10% she has saved as the down payment. Her interest rate would be slightly higher, as would her monthly payment, but within what she can afford.

Option C: Use a 0% down payment. Take advantage of a 0% down “money saver” loan that a local mortgage broker is offering. This would allow her to buy a condominium with no money down. She could put the 10% she has saved toward furnishings or other housing-related costs. This would be her highest monthly mortgage payment option.

Use the table to see how various down payments would likely affect Ms. Yoshida’s interest rate and monthly mortgage payment.

Costs of 30-year Fixed Mortgage				
Down Payment (percentage, amount)		Interest Rate	Loan Amount	Monthly Payment
20%	$36,000	6.00%	$144,000	$863
10%	18,000	6.25%	162,000	997
0%	0	6.75%	180,000	1,167

Which option would you recommend for this client? Why?

Client: Jessica Stossling

Occupation: Public relations director

Salary: $70,000

Age: 25

Jessica Stossling has three years of work experience in the public relations field. She has recently been hired by a major PR firm and earns substantially more than she made in her last job. Ms. Stossling had to relocate to a new city to accept this position. Because of her relocation expenses—as well as the increase in her cost of living—she has little left over after paying living expenses, student loans, bills, and basic necessities. She has a modest amount of savings for emergencies. She does not feel she has much to invest in retirement savings.

Her new company offers a 401(k) retirement plan that she has the opportunity to invest in. She is trying to decide what percentage of her salary, if any, she should invest in a 401(k). Her company will match whatever she invests up to 5% of her salary, or $3,500 a year.

Ms. Stossling is considering three options for her retirement savings.

Option A: Make a 20% contribution now. Contribute the recommended 20% of her income. This would require major changes in her lifestyle. These changes include finding a smaller apartment, which would be significantly farther from her workplace.

Option B: Make a 10% contribution now. Contribute 10% of her income this year, and increase by 5% each year until she reaches the recommended 20%. Because 401(k) withdrawals are taken before taxes, she would see only a modest decrease in her take-home pay as she gradually increased her contributions.

Option C: Make no contribution now. Not contributing this year would give her time to adjust to her new job and the increased cost of living in the new city. Beginning next year, she would start contributing at least 5%. She would increase her contribution by 5% each year until she reaches 20%.

Which option would you recommend for this client? Why?

Clients: Althea and Jonah Robinson

Occupations: Pediatric nurse, assistant principal
Salary (combined): $130,000
Ages: 56, 57

Althea and Jonah Robinson have two grown children and three grandchildren. In the next three to five years, they would like to buy a vacation home for their growing family. They want to invest some of their savings now to accumulate additional wealth. They will use this wealth as the down payment on their vacation home.

This couple has $30,000 they want to invest. They are hoping to grow their investment at least 7% to 10% in the next three to five years.

The Robinsons are considering four options for investing their money.

Option A: Invest in individual stocks. Stocks can generate large returns, but can also be more risky.

Option B: Invest in mutual funds. Mutual funds are highly diversified and have less chance of losing money than stocks, but they might not have as high a return.

Option C: Invest in government bonds. Government bonds are safe and generally have a fixed rate of return. Investment periods vary from 10 to 30 years, with lower returns on bonds with shorter investment periods.

Option D: Use a combination of the options above. For example, they could purchase some government securities and some stocks. Consult the table below for more information.

Investment Option	Relative Risk	Sample Annual Loss or Gain	Additional Information
Individual Stocks	high	–50% to +50%	You or a financial adviser must choose and monitor each stock and decide when to buy more or sell.
Mutual Funds	moderate	–10% to +30%	These funds are professionally managed.
Government Bonds	very low	3% to 5%	To achieve the stated return, you must hold the note or bond until maturity (10 to 30 years).

Which option would you recommend for these clients? Why?