

Making good use of your money

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Marine businesses often experience dramatic ups and downs in income. During an "up" year, there is usually adequate money to take care of basic money needs, and the problem is to make good use of extra money. During a "down" year, the basic money needs may not be satisfied, and the problem

is to decide which needs are most important.

This bulletin identifies some of your basic money needs and will help you decide which are most important. It also identifies some alternative uses for extra money and some characteristics of those alternatives. With this information, you should be better able to cope with fluctuating income and make better use of your money.

Where is the money?

A profit and loss analysis of your marine business, a balance sheet for your marine business and family, and a cash

Marine business management

flow projection for your marine business and family will help you determine the amount of money you have available. Procedures for preparing these are detailed in the publications listed in the "For further information" section.

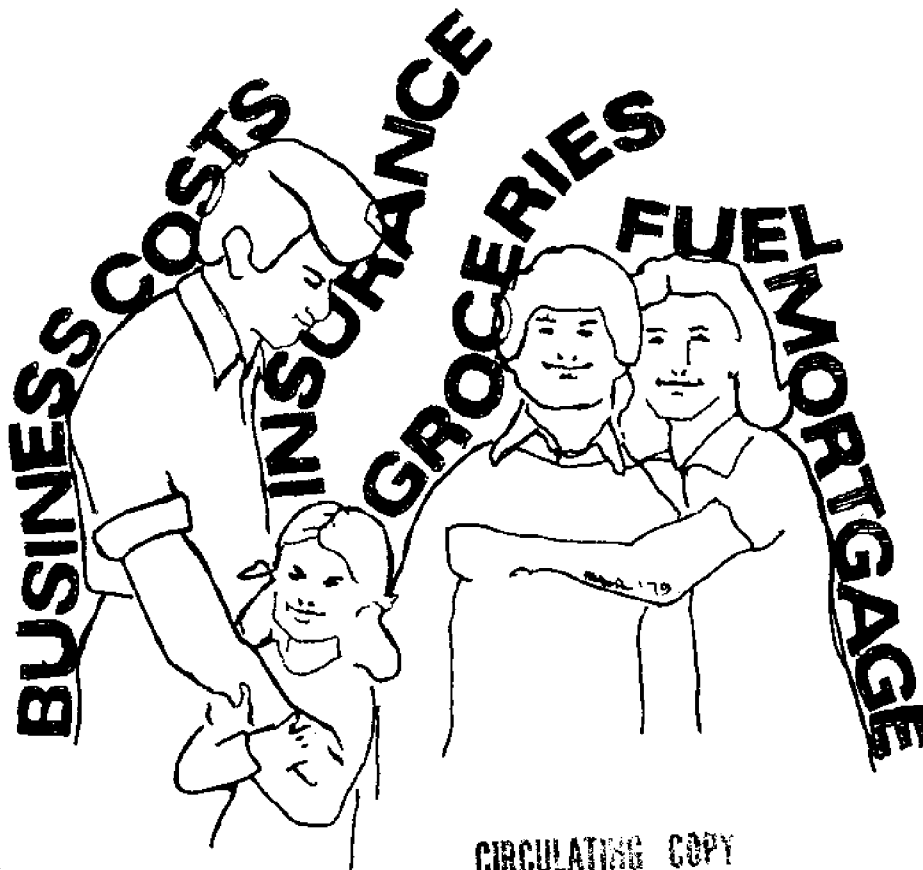
What are the basic money needs?

Probably the most important money need is to provide food and shelter. Money must be available each week, each month to pay your grocery bill, the utility bill, the mortgage, and other basic commitments. Money should also be available to make your monthly or annual payments on insurance, installment loans, college tuition, etc.

Very close in importance to these family commitments is money to operate your marine business. Your marine business is a source of money for food and shelter, and you must assure its continued existence and success. Money should be available to cover repairs, fuel bills, labor costs, licenses, insurance, and other costs when they are due.

Money for both family and business needs may come from your daily, weekly, or monthly income, or it may be necessary to withdraw from some form of savings or to borrow against future income. A monthly cash flow projection is extremely helpful in identifying times when your income will not cover basic money needs and savings withdrawals or borrowing will be required.

There are several other basic money needs that deserve attention. You should



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be able to provide food and shelter in case your family income is interrupted. Accidents, illnesses, strikes, and even death of the income earner can interrupt money availability for months and even years.

Money management experts recommend the maintenance of a money reserve sufficient to cover 4 to 5 months of family living. Beyond this, it usually is necessary to use some form of income insurance unless you are prepared to liquidate assets. In the event of the income earner's death, some form of life insurance is the commonest means of satisfying the family's money needs.

How do I put money to work?

The money you have set aside for emergencies should be readily available but should be earning some interest. A passbook savings account is the most readily accessible interest-earning way to hold money. Certificates of deposit and other forms of minimum deposit, specified-maturity-date accounts earn more interest than a passbook savings account, but the money is less accessible.

You should also look at the other side of the interest-earning coin. Do you have some short term, high-interest debts that you could pay off? The interest saved by paying off or substantially reducing your balance on a bank credit card account is likely to be greater than interest earned with the same dollars in a savings account—especially when you consider that inflation is steadily shrinking the value of those savings account dollars.

How about investing in my own marine business?

Your own marina, boatyard, tackle shop, fishing boat, or other business may be the best investment opportunity for money available after meeting basic needs. Such an investment should increase the profit-producing power of your business. What is the return on your current investment? If it is less than that of a good bond or other business investment, it is crucial that any additional investment increase profits.

The profit record for many marine businesses has not been good. However, there are two potential advantages to investing in your own marine business: (1) You control that business and can directly affect profit. (2) You already know your business and will have to pay less for investment counseling or information.

In addition, commercial fishers can take advantage of the Fishing Vessel Capital Construction Fund, which allows a faster than usual buildup of equity, and the Fishing Vessel Obligation Guarantee Program, which makes it possible to buy greater fishing power for a given equity. The combination of these two government programs can make fishing boat investment more attractive than comparable investments in other industries.

Increases in boat values and waterfront property values also make an investment in your own business attractive. Although increases in boat and property values will not pay your grocery and utility bills, they do increase your borrowing power and might help support your retirement if values hold up until then.

How about investing in someone else's business?

A direct investment in someone else's business may be more profitable than investing in your own business, even if you do not know as much about that business and you have less control over it. Most people invest in another business by purchasing stocks or bonds.

Stocks and bonds have been popular investments for many years. You can invest \$10 or \$10 million. Bonds issued by private companies are usually safer than stocks issued by private companies. Bonds have a fixed interest rate and a claim on company assets ahead of stocks. However, the market price of stocks is more likely to increase during inflationary periods (though this has not been the case in the past several years).

Bonds. Public bonds are usually sold only in denominations of \$5,000 or more (U.S. Government bonds, Series E and H, are available in smaller amounts). Government bonds are the safest bonds, but the earnings are usually less than on bonds issued by private companies or local government agencies.



Local governments issue tax-exempt bonds. Small investors usually invest in tax-exempt bonds through an investment company that markets such bonds. They then receive earnings that are exempt from Federal and some state income taxes. This could be equivalent to an 8.82 percent return from a 6 percent bond investment if taxable income is \$20,000. The benefits are greater as your taxable income increases.

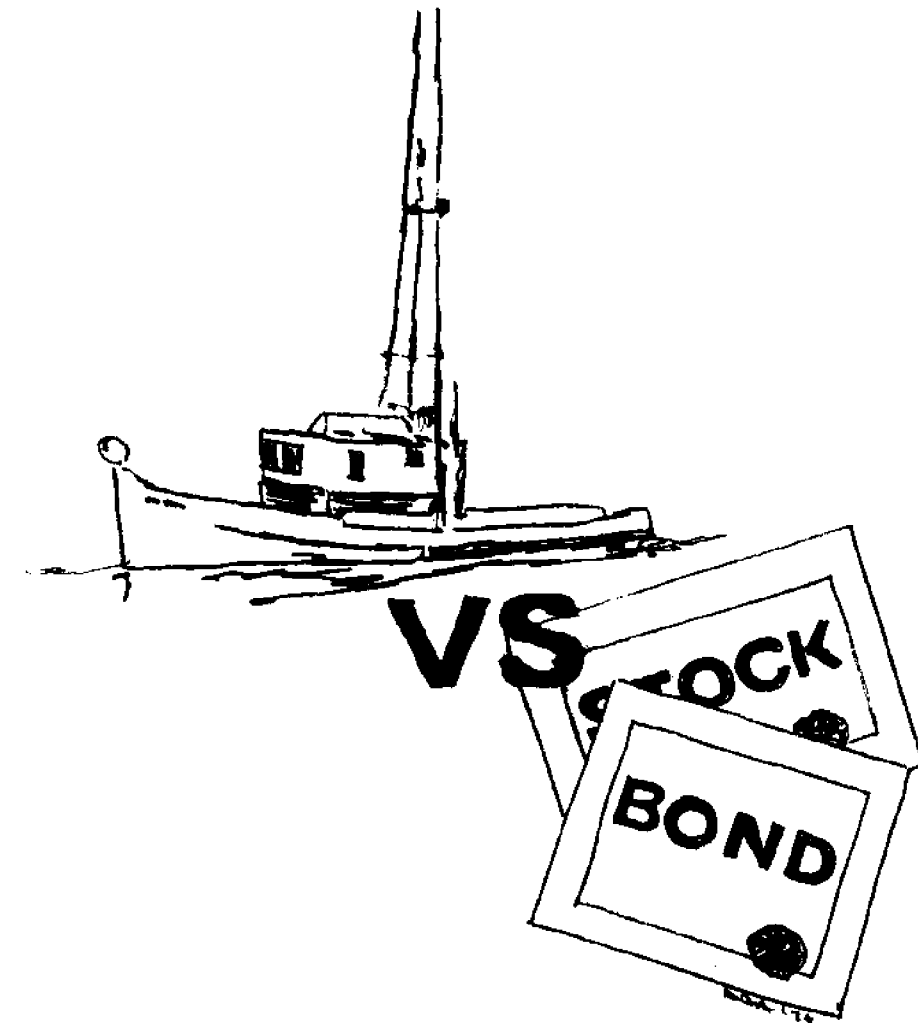
Stocks. You can purchase very risky stocks or very secure stocks. You can purchase stocks that emphasize growth in market value or stocks that emphasize dividend (interest) income. Generally, if you are already in a risky business, it is not wise to compound the risk by buying highly speculative stocks.

If you are young and want to build up a nest egg for the future, growth stocks are better than income stocks. However, if you are approaching retirement and want to supplement social security, stocks that are certain to pay dividends make more sense.

If you have spare time and enjoy following the stock market and studying the economic situation, you can save on investment costs by buying individual stocks through a broker. However, if you are like most people and do not even have enough time to run your own business properly, it would be wise to pay for professional investment management. You can do this by buying mutual fund shares.

How about investing in property?

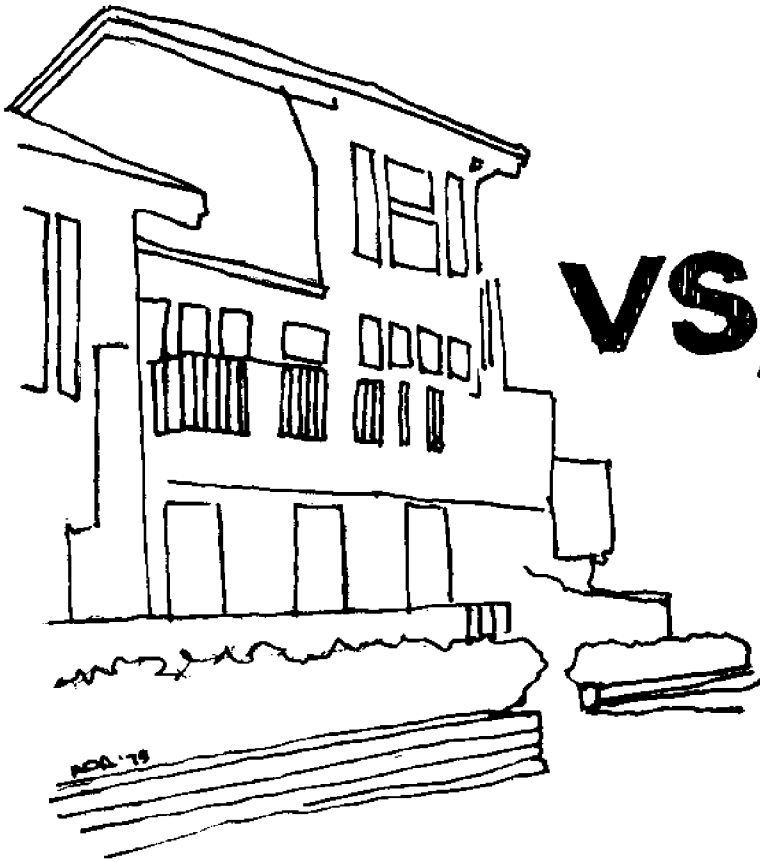
You can hedge against inflation by investing in property that will increase in value at least as fast as the inflation rate. A prime example is the value of your home. You can also buy income property such as rental houses, apartments, office buildings, business buildings, etc. Such property will produce income to help offset taxes, insurance, management, and upkeep while the market value increases (or decreases).



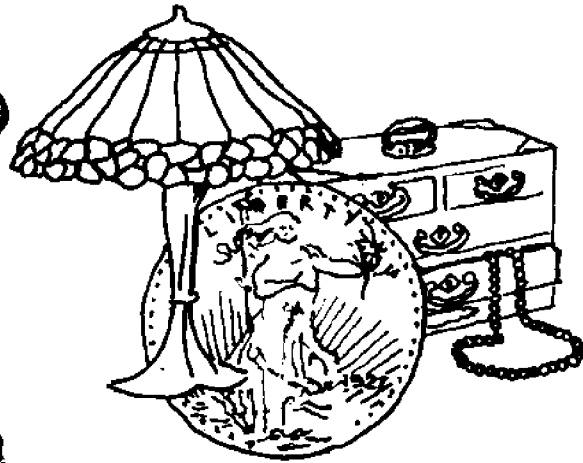
You may also buy property that is undeveloped but has a high potential for development. Vacant waterfront, land at highway intersections, land adjoining urban development, land adjoining airports are a few examples of property that has appreciated at very rapid rates.

You should remember, however, that such property will not produce money to cover, say, taxes and sewer charges; and it may be very hard to convert to cash if you should need it. You can readily convert stocks and bonds to cash, although you may have to sell when the market is low.

You can also invest in works of art—such as coins, jewelry, or metals—commonly referred to as *collectibles*. The value of collectibles has been increasing faster than the inflation rate. However, to be successful, you will have to develop certain skills; you must recognize good versus bad; and you must know current prices. Finally, you must have the time to seek out, buy, and sell collectibles.



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Once again

Satisfy the basic money needs first: living needs, business operating needs, and a reserve for emergencies and insurance protection. The next best use of money is probably in your own business, if it will contribute to profitability.

You could then put money into some combination of stocks, bonds, and property, depending on your tax situation, your age, the nature of your business, and your dependents.

Consult the publications below to learn about financial planning, budgeting, profit analysis, and investment—all important skills in getting the most out of extra money.

For further information

Fishing Vessel Capital Construction Fund, National Marine Fisheries Service (Washington: U. S. Government Printing Office, 1978-753-750).

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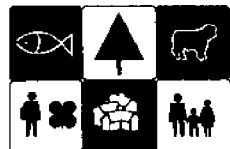
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