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The Weekly Guide to Managing Your Money *WSJ.com/Sunday*

Keeping Savings Safe From Inflation

By Ian Salisbury

With high food and energy prices driving up the cost of living, investors who like to play it safe with their savings are facing a dilemma: savings standbys like certificates of deposit and money-market funds are paying less than the rate of inflation.

The consumer-price index for May was up 4.2% from a year earlier, the government announced Friday, and some economists believe year-over-year inflation could soon top 5%. By contrast, the average yield on a six-month CD is just 1.93% and on a taxable money-market fund it's 1.87%, according to Bankrate.com and iMoneyNet.

Right now, "safe investments are risky," says John Deyeso, a New York financial planner. While your account balance may be going up, "if you don't beat inflation, you're actually losing" because the purchasing power of your nest egg will dwindle, he explains.

For many risk-averse investors, the best course may be to "grin and bear it," says Atlanta financial planner Don Patrick. That's because more attractive payouts usually entail more risks.

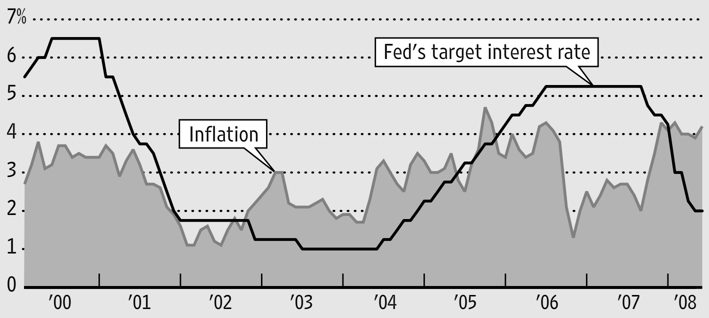
Still, investors can take some simple steps to improve their returns, such as shopping around for higher-yielding CDs and money funds and, in some cases, by switching to tax-exempt money funds from taxable ones. Some savers may want to buy bonds with returns linked to inflation, although the additional yield over the inflation rate is limited or none.

How long the situation will last is anyone's guess. It reflects not just rising prices, but also the Federal Reserve's efforts to boost the economy by lowering interest rates. While many observers think the Fed is done cutting rates, there is no guarantee it will start raising them anytime soon.

When the Fed chopped rates in 2002, its benchmark short-term interest rate remained below the inflation rate for more than two years.

Submerged

The combination of Federal Reserve interest-rate cuts and increased inflation has left the Fed's target rate below the year-over-year increase in consumer prices.



Sources: Bureau of Labor Statistics, WSJ Market Data Group

David Klein

CD Smarts

Comparison shopping is critical to get the best CD yields. Some small or less-known banks sweeten yields to compete with brand-name banks.

Bankrate.com is one Web site that collects rates from banks around the country.

As of Friday, the site showed Corus Bank of Chicago offering 3.7% on a six-month CD and E-Loan, a unit of Banco Popular North America in New York, offering 3.61%. (Those both require a minimum $10,000 investment.)

While investors might be wary of less-familiar issuers, as long as CDs are federally insured, the risk is minimal.

Money-Fund Math

You may be able to boost your money-fund return by switching to a fund that subtracts fewer expenses from the interest it collects on its portfolio of short-term debt instruments. Lower-cost funds include some that require large minimum investments or limit check-writing privileges, says Linthicum, Md., financial planner John Bacci.

A favorite of his, Fidelity Money Market Fund (SPRXX)—with a minimum initial investment of $25,000 and check-writing minimum of $1,000—currently yields 2.45%.

Another option is to switch to a tax-free fund that buys short-term state and municipal debt. Muni-debt interest is free from tax at the U.S. level and typically also tax-free to residents of the same state.

The average tax-free money fund yields 1.2%, according to iMoneyNet. For an investor in the top federal tax bracket and/or in a high-tax state, that could end up being more profitable than owning a taxable money fund and paying tax on the earnings.

Inflation Protection

Investors worrying inflation will rise further can also buy two types of government bonds designed to protect against that: I Bonds, a type of savings bonds, and Treasury Inflation-Protected Securities, or TIPS. The catch is that neither currently offers investors much in terms of yield after inflation is factored in.

Current buyers of I bonds, in fact, get a fluctuating return tied to the increase in the CPI and no return beyond that. That's a relatively new situation which has turned off some potential buyers. In the six months from November through April, I-bond buyers could lock in a return of 1.2 percentage points above the inflation rate.

"A critic will say you're guaranteed to make nothing," in I bonds, says Mr. Bacci of the new rate. On the other hand, "at least you're not losing ground with the inflation rate. For very, very conservative investors, that may be a good thing."

Savers can buy I bonds at the TreasuryDirect.gov Web site, through banks or by payroll deduction. One drawback: Investors are limited to buying $5,000 of bonds online and $5,000 of paper bonds a year.

Ten-year TIPS currently offer yields of about 1.7% on top of the promise that the bonds' principal will increase alongside inflation. That is lower than in some prior years. TIPS can be purchased through TreasuryDirect or brokerage firms. Investors can also buy mutual funds and exchange-traded funds that hold TIPS.

One risk: TIPS can go down in price, like other bonds, if interest rates in the marketplace rise. Pimco Real Return Fund (PRTNX), the top-performing TIPS fund over the past 10 years according to researcher Morningstar, posted a negative 3.1% return in the second quarter of 2004, its worst quarterly return during that 10-year period.

Other Options

Investors willing to take on some risk of fluctuating prices can also consider a range of other bonds and bond mutual funds. Note that the volatility of bond prices generally increases with the number of years to a bond's maturity.

One relatively low-risk choice is a short-term bond fund. For example, Vanguard Short-Term Investment-Grade Fund (VFSTX) currently yields 4.4%. Over the past 10 years it has posted an average annual return of 5.1%. Its worst quarter in the past decade was the second quarter of 2004, when its return was a negative 1.3%.

Email: forum.sunday03@wsj.com

Drive Less, Get Discount

If high gasoline prices have caused you to change your driving habits, check with your auto insurance agent for possible discounts.

People who are driving less may save an average of 5% to 15% on their coverage—or $47 to $142 a year, based on 2005 rates—according to a study released last week by the Consumer Federation of America.

TIP OF THE WEEK

Car insurers including State Farm Mutual Insurance, Travelers and Farmers Insurance Group offer "low mileage" programs for drivers who log less than 7,500 miles a year. Changing classifications "could lower your car insurance rates by 12 to 18%," says State Farm spokesman Dick Luedke.

If you still drive more than 7,500 miles a year, but have cut down on the amount you drive by using public transportation or by working from home, "it's still a good idea to contact your agent," and give an update of a new routine to be recorded on your policy, Mr. Luedke says.

Some insurers may be able to change your policy's classification from "long commute" to "short commute" or "occasional use," which could save you a few dollars on your insurance payments.

However, even if you've begun driving less, you may not see the savings right away. Depending on your specific policy and insurer, you may need to wait a few months for the company to confirm your lower mileage use and apply any discounts.

By Shelly Banjo

INVESTOR'S CALENDAR

THIS WEEK

■ **Wall Street Earnings:** Goldman Sachs Group, Morgan Stanley and Lehman Brothers Holdings report quarterly earnings this week; last week Lehman surprised investors by projecting a $2.8 billion loss.

Wall Street Journal Sunday writers regularly contribute to the Journal's weekday "Your Money Matters" personal-finance podcast. Listen at **WSJ.com/Podcasts**

■ **iPhone Rival:** In an effort to compete with Apple's iPhone, Sprint Nextel Friday introduces the $199 Samsung Instinct.

■ **Cellphone Fees:** A trial begins this week in a legal challenge to the fees Verizon Wireless charges customers who cancel their contracts early; last week Sprint Nextel prevailed in a similar case.

■ **Economic Indicators:** Reports on housing starts, the producer-price index and industrial production are out Tuesday.

■ **Big Buyback:** United Rentals' board approved a tender offer to begin this week for the repurchase of up to 31% of the company's shares.

LAST WEEK

■ **Stocks Mixed:** The Dow Jones Industrial Average rose 0.8% last week, while the Nasdaq Composite Index fell 0.8%. For the year to date, the Dow industrials are down 7.2% and the Nasdaq is down 7.5%.

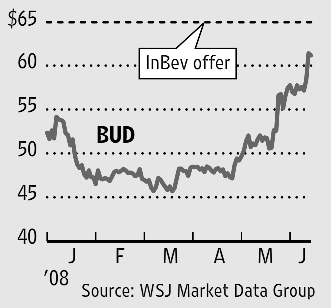
■ **This Bud's For Who?** To thwart an unsolicited $46.35 billion bid by Belgian-Brazilian beer giant InBev to acquire Anheuser-Busch, Anheuser began preliminary talks with Mexico's Grupo Modelo about a possible combination.

■ **Click Through:** Microsoft ended its pursuit of Yahoo, as Yahoo signed a search-ad pact with Google estimated to generate $800 million in annual revenue.

■ **Gas-Station Sales:** Exxon Mobil plans to sell its U.S. gasoline stations over the next few years.

IN THE MARKET

BID FOR BUD: InBev last week offered $65 a share for Anheuser-Busch (BUD), after rumors of deal talks pushed up Anheuser shares in recent months.



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Paul D. Bell
Vice President, Partner Businesses
(212) 659-1212
Paul.Bell@dowjones.com

Mark Pope
Director, The Journal Report & Special Projects
(212) 597-5868
Mark.Pope@dowjones.com

Steven A. Townsley
Director of Sales
(212) 597-5733
Steven.Townsley@dowjones.com

Corporate Headquarters
200 Liberty Street
New York, N.Y. 10281

Lawrence Rout, *Senior Editor*
Larry.Rout@wsj.com

David Crook, *Editor*
David.Crook@wsj.com

Karen Damato, *News Editor*
Karen.Damato@wsj.com

Mark Tyner, *Art Director*
Mark.Tyner@wsj.com

Telephone: (609) 520-4000
Email: sunday03@wsj.com
4300 Route 1 North
South Brunswick, N.J. 08852

For a Special Journal Subscription Offer, Call: 1-800-210-7788

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LOVE & MONEY

A New Chapter: We're Moving Abroad

By Jeff D. Opdyke

Dave Klug

Earlier this year I wrote about my long-held desire to work as a foreign correspondent, writing about the world for readers back home.

Well, be careful what you wish for. Amy and I are moving to Hong Kong later this summer.

After my wishes became known within the paper, gears began turning. The end result: Amy and I are packing our house and preparing the kids—and ourselves—for what we hope will be a memorable adventure.

The move, of course, raises a host of issues that I'll write about in coming weeks as we get ready to leave Louisiana (and as we wind down this column). Do we sell our house? And what about our lake house that we love so much? How long should we anticipate staying abroad, and how does that affect other financial decisions? Do we expect to come back to Louisiana at some point? How do we deal with the loss of income from Amy having to leave her job?

So many issues, and very little time to deal with them. But for this week, first things first: How did Amy and I decide to turn my dream into a reality?

* * *

No question, Amy and I have a wonderful life.

We own a nice house in a nice neighborhood in a city we like. I'm 15 years into my dream job; Amy loves working as a hospital administrator. Our two kids are happy in their school. We saved enough through the years to afford a weekend home on a nearby lake. So, at 41 and 42 years old, respectively, Amy and I are happy together and feel secure and content where we are.

Why, then, pursue the unknown?

Part of it, as I said, is simply the chance to live a dream I've had since I was a kid. I'll be writing from places like Australia, China, Japan, India and the United Arab Emirates. As readers of this column know, my idea of the perfect trip is to leave the beaten path, to go to countries and cities and villages that give me a window into other worlds. To do that—and get paid for it—is more than I could ask for.

Equally strong is my desire to teach my 12-year-old son and nearly five-year-old daughter that the world isn't just the U.S. and a bunch of vacation spots. I grew up traveling the world at no cost with my mom, who worked for a series of airlines. That instilled an appreciation of other cultures, and I see living abroad as a more intense opportunity that will benefit my kids, particularly given that they will learn Mandarin.

Moreover, living in Hong Kong means that instead of driving to beaches in Florida or flying to, say, Los Angeles on holiday, we can spend long weekends at beaches in nearby Thailand or vacation in New Zealand or China. I can show my kids a part of the world at far less cost and time than is required by traveling from the U.S. I am convinced that this experience will benefit them for their whole lives.

Amy also sees this as a rare opportunity to provide our children an education not available at home, and as a chance for the family to build unique memories together. But she has her own wants, too.

For most of the 16 years we've been married, she rejected the idea of expatriate living, primarily because she wanted to return to Louisiana to live near her family. She followed me from job to job, city to city, but we both assumed that eventually we'd settle in Baton Rouge, where we both grew up. When Amy was offered a great job here, we jumped at the chance. And although we came for Amy, and I was reluctant to leave New Jersey, I was surprised by how much I loved living here. I felt as if I was finally home.

But things have changed for both of us over the past year. I've gotten more restless in my job, looking for a new adventure. And while I do enjoy living here, I'm not sure if I'm ready to settle down in this one place for the rest of my life.

The big change, though, is on Amy's side. As our kids get older, Amy has felt a strong desire to spend more time with them. She wants to help guide our son through the difficult teenage years. And she wants to devote more time helping our daughter with speech-disability issues. These are things that her high-intensity management job just wouldn't allow.

Thus, she sees that accepting my dream means she gets to pursue her own as a stay-at-home mom.

* * *

We're not kidding ourselves, though: There are heavy financial and emotional costs involved in this move.

Hong Kong is insanely expensive. Rent for a three-bedroom apartment is more than triple the mortgage on our four-bedroom house. And despite a raise, our income will fall sharply because Amy will stop working and I'll lose the salary from this column. (Although I'll continue to write occasional columns, the week-to-week issues that Amy and I will face in Hong Kong won't be relevant to most of our readers.)

So, our standard of living will shrink, reducing our ability to save for retirement and spend as freely on discretionary items.

We're also leaving behind aging family members, affecting our ability to help my grandmother and aunt and Amy's grandfather and retired parents. Sadly, our kids won't have immediate access to Amy's parents, to whom they're quite close.

Ultimately, we don't know if the costs are worth the benefits. But sometimes you just turn the page in your personal book of life and hope the story turns out well. If nothing else, our new story should at least be interesting.

Jeff Opdyke covers personal finance for The Wall Street Journal. Email: **lovemoney@wsj.com**