Investment Alternatives for Funding a College Education

College should be considered a lifetime investment rather than just a four-year expense. It requires financial planning and personal sacrifices. The earlier you start saving and investing, the less money you will have to save and invest later.

Furthermore, the earlier you start saving, the less risk you'll have to take in your investment choices because long-term investing generally carries less risk.

There are many investment alternatives suitable for college savings. Here is a partial list of some such investments:

1. U.S. Savings Bonds (conservative):
Interest on EE bonds is tied to yield on 5-year treasury bonds and is adjusted every six months; bonds available for $24 and up; no fees or commissions on purchase or redemption; income is exempt from all state and local taxes. Federal income tax can be deferred until bonds are redeemed.

2. Certificates of deposit (conservative):
Guaranteed rate of return; penalty for early withdrawal, income earned from CDs purchased in your name is taxed as ordinary income. FDIC insured up to $100,000 per account per institution.

3. Corporate and municipal bonds (conservative / moderate):
Fixed-income investments paying a predetermined interest periodically; return of principal at maturity; impacted by market conditions.

4. Zero coupon bonds (conservative / moderate / aggressive):
Purchased at a discount from face value; no periodic interest payment; yield is compounded for payout at maturity; bondholder taxed annually as if interest were received.

5. Stripped municipal securities (moderate / aggressive):
Municipal bonds sold in two parts: interest portion for investors seeking current income and principal portion for those seeking lump-sum and potential for capital gains at maturity; gains are usually tax-exempt.

6. Common stock (moderate / aggressive):
Potential for capital appreciation and dividend yield; sales commission charged for purchase.

The longer you have until funds will be needed, the more aggressive you may invest. As college draws closer, your portfolio should reflect less risk and volatility.