USAA MAGAZINE

A MEMBER'S GUIDE TO FINANCIAL SECURITY

Build a Better NEST EGG

Simple advice for saving, spending, and taking care of yourself

OUR PRIVACY PROMISE PAGE 28

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Robert G. Davis,
Chairman and Chief Executive Officer

As the trusted financial services provider to more than 6 million members, USAA takes seriously its responsibility for safeguarding your personal and financial information. We have many policies and practices in place to protect your privacy, starting with our Code of Ethics that requires that member information be held in strict confidence. Our Privacy Promise, which you will find on page 28 of this magazine, details our commitment to protect the security and confidentiality of your information.

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Today, more than half of our members enjoy the convenience and security of doing business on usaa.com. In the online world, protecting member information requires USAA and its members to work together. With our Online Security Guarantee,* you have our word that we will do our part to keep your information safe. But we need you to do your part. If you protect your computer and safeguard your information, we will reimburse funds removed without authorization from your USAA accounts through usaa.com, should that ever happen.

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Keeping your information safe and secure in today's world requires constant vigilance — on USAA's part and on yours. When we work together, as a team, we have the best chance of ensuring that your private information stays private. Thank you for trusting USAA to help you meet your financial needs.

Sincerely,

Bob Davis

Robert G. Davis
Chairman and Chief Executive Officer

Our Privacy Promise to you

On page 28, read how USAA safeguards your personal information.

*See our Online Security Guarantee on usaa.com for further terms and conditions.

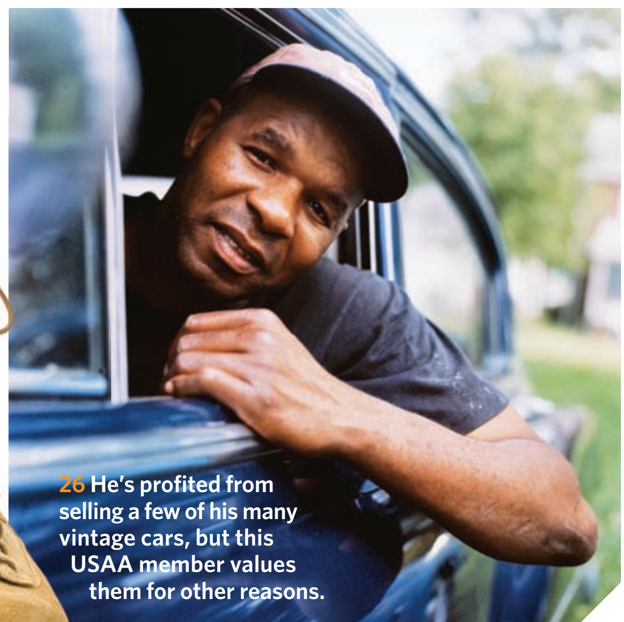
USAA MAGAZINE

A MEMBER'S GUIDE TO FINANCIAL SECURITY

FALL 2007 • VOLUME 43 • NUMBER 3

14 USAA member Kendra Todd won "The Apprentice: Season 3" and now shares winning tips for investing in real estate.

23 Whether you long to wear work boots or wingtips, learn how to launch a second career.



26 He's profited from selling a few of his many vintage cars, but this USAA member values them for other reasons.

COVER PHOTO: C.J. BURTON

For tips and advice on planning toward retirement, read:

In Every Issue

USAA.COM

Doing your part

USAA treats your personal information with the utmost security, but you also have a role to play

Learn to spot scammers who set out to steal your personal information through fraudulent e-mails. Watch for e-mails that:

- urge you to act quickly because your account may be suspended or closed.
- don't address you by name, but use a more generic title such as "Dear valued customer."
- ask for account numbers, passwords, or other personal information.

Remember, USAA will never ask you for personal information, such as account numbers, passwords, or PINs, in an e-mail. Do not respond to any e-mail that directs you to update your personal information online or by dialing a telephone number. Use only the customer service numbers listed on usaa.com.

For more, visit the Security Center on usaa.com.

It's easy — and safe — to do business online

Check out the tools and features that make your life easier

Use the debt analyzer management tool.	Is there "good" and "bad" debt? How much is too much? Get guidance about paying it down — which balance to pay off first, refinancing a loan, and more helpful tips.
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MISSION: USAA's mission is to facilitate the financial security of its members, associates, and their families through provision of a full range of highly competitive financial products and services; in so doing, USAA seeks to be the provider of choice for the military community.

USAA products and services are available only in those jurisdictions where USAA is authorized by local law to promote and sell them.

USAA ALSO PUBLISHES: *usaa.com magazine* for USAA members beginning their financial journey, *U Magazine* for members who are elementary and middle-school age, *U-TURN* for young teen members, and *U.25* for young adults.

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MAIL CALL

Why rebuild in harm's way?


Learn how to create such a strong financial foundation that you're able to weather a natural catastrophe or whatever life brings.

Maybe you're nearing retirement and worry a market downturn will wipe out your savings. Perhaps you're trying to manage finances while your spouse is deployed. From the minor crises, such as your 16-year-old bouncing a check, to the major ones, such as the heartbreaking loss of a spouse, plan now so you'll stand strong then.

A FINANCIAL $urvival Guide

BY MARK HENRICKS

PHOTOGRAPH BY ERIC MILLETTE

14 USAA MAGAZINE SUMMER 2007

"Having sufficient insurance dramatically changed the outcome."
— Robert Younger, 2003 wildfire victim

MOTHER NATURE

A FINANCIAL $urvival Guide

A Great Escape

Glad they had excellent insurance coverage, USAA members Robert and Sandra Younger live in a new home almost identical to the original one burned in a 2003 wildfire. This narrow road served as the couple's escape route

Robert and Sandra Younger lost everything but their pets, one car, his wallet, her purse, and a few pictures in October 2003, when a wildfire destroyed their home near San Diego. The USAA members escaped down a flame-choked canyon road in the middle of the night.

Grateful they survived, the couple faced months of what turned out to be the most difficult part of recovery: making a list of all their vanished possessions — from memory. "We were not well-prepared for the aftermath," Mr. Younger admits. "It sort of became a full-time job putting together 'The List,' as everyone calls it."

Needless to say, he recommends doing a home inventory before disaster strikes and sees the wisdom in being prepared for what you never think can happen to you.

It's critical to prepare now for catastrophes related to wind, water, earthquake, or fire, says Lynne Strang of the American Financial Services Association in Washington, D.C. "Develop a plan," she says. "People need to know what to do to take care of themselves financially once the danger is past and they're able to think about other things."

Among her recommendations? Compile a list of financial obligations, set aside emergency funds, back up computer files, and update insurance policies.

After a disaster, "resist the temptation to rush into anything," Ms. Strang advises. Unscrupulous contractors and lenders may prey on people rebuilding after a loss, she warns, so get referrals and check references.

The worst behind them, the Youngers moved into their rebuilt home 20 months after the fire, with new appreciation for disaster preparedness and the value of insurance. "Having sufficient insurance dramatically changed the outcome," Mr. Younger says.

usaa.com For our "Be prepared" checklist and a story on how to create a home inventory, visit usaa.com/magazines and enter your password and PIN.

WHEN TO MAKE A CLAIM
Remember that your insurance policy is designed to cover significant losses. By keeping up with regular home maintenance, you can avoid making minor claims that drive up premium prices.

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Regarding the article about the couple who rebuilt their burned home after a canyon wildfire ("A Great Escape," Summer 2007): What the story doesn't say may be more important than what it does say. The Youngers "moved into their rebuilt home 20 months after the fire," but will their rebuilt home also be "down a flame-choked canyon road" when the next wildfire hits?

The dark side of homeowners insurance coverage is that it encourages people to rebuild repeatedly in hazardous areas, driving up the cost of insurance for all of us. We see this along the coasts of Florida, where I live: Beach homes are rebuilt over and over after hurricanes, and the rest of us in the state pay the price.

Insurance companies, governments, and individuals all bear the responsibility of helping to control insurance costs by restricting growth and construction in hazardous areas. Homeowners who do build in hazardous areas need to pay a much larger proportion of the cost to insure their properties.

Kathy Kiely, Winter Park, Fla.

Send your feedback

Visit usaa.com/magazines and look for "Contact Us." Or, mail letters to *USAA Magazine*, Mail Call, E-1-E, 9800 Fredericksburg Road, San Antonio, TX 78288-3533. Please include a daytime phone number.

All or part of your letter may be printed in an upcoming issue. It may be edited for clarity and length. • The opinions expressed here are those of individual members and not necessarily of USAA. If you have comments regarding an individual claim or concerns that do not pertain to items in the magazine, please refer to usaa.com for a comprehensive list of contact numbers.

Reader: 'No' to homeownership

In "Homeownership: Glass half empty or half full?" (Summer 2007), you wanted comments on the "psychological benefits" of homeownership for military members. Use of the term "benefit" implies a positive, but I always considered homeownership during my career as a negative.

First, there is the uncertainty associated with the value of the home and the ability to sell it when permanent change of station orders come.

Then there is a long list of positives associated with living on base: the tightknit community, the willingness of everyone to help out, the cohesiveness of the military environment, the security for the family when the military member goes on temporary duty or deploys, and the proximity to facilities like the BX, the commissary, and health care. When something goes wrong, you just call the housing maintenance office. And during my last two assignments, I was able to walk to work. No commuting stress, and my wife and I easily got by with one car.

Col. Stetson Siler, USAF (Ret.), Oak Park, Ill.

FYI

PHOTOGRAPHY BY ANTHONY WOOD

In service

This retired medical doctor and USAA member volunteers — again

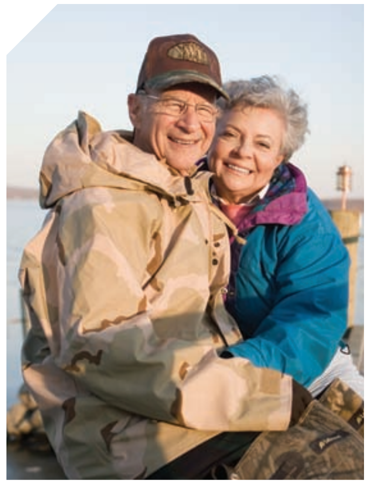
At 76, Col. William Bernhard could have chosen to cast a line three times a week near his home in Maryland, and sail, swim, and kayak the other four days with his wife, Therese, a retired nurse who goes by the nickname "MP."

Instead, he chose a deployment this summer to Germany. His fourth volunteer tour in four years follows a trip to Afghanistan and two others into the war zone. Last year he provided medical support to soldiers fighting alongside and training the Afghan National Army. "Wearing body armor, ballistic eye protection, gloves, and a knife, and carrying a 9 mm pistol became second nature to me," he says.

Serving through a 180-day "Boots-on-the-Ground" rotation policy for physicians and dentists, Col. Bernhard is currently the oldest deployed military officer with the Army National Guard.

In his current deployment he's working in aviation medicine, looking after the physical health of pilots and aircrews, but in Afghanistan he treated patients suffering from sinusitis, ear infections, intestinal problems, and vehicle-rollover injuries. "I can put up with [it all] because I am taking care of soldiers, sailors, Marines, and U.S. government employees," says Dr. B., as he's known among the troops.

That's something this USAA member has been doing for more than 40 years, first on active duty in the U.S. Navy, then in the Army Reserve for 22 years. He served 10 years at the University of Maryland's R. Adams Cowley Shock Trauma Center, where he trained military medics. Col. Bernhard is also one of the Army's most experienced flight surgeons. "Bottom line for me," he says, "is that I feel honored to serve."



Col. William Bernhard enjoys time with his wife, MP, between volunteer deployments. He's currently in Germany, completing his fourth deployment in four years.

THE ROSTER

Enjoy these fall events, all sponsored by USAA. For more, visit usaa.com/events.

SEPTEMBER 17

Fleet Week San Diego Padres Baseball Game

San Diego ■ USAA helps the Padres salute the military at this game against the Pittsburgh Pirates. The event kicks off other Fleet Week activities this fall.

OCTOBER 26 *to* 28

Marine Corps Marathon

Washington, D.C. ■ Starting in Arlington, Va., then winding through the District of Columbia and around the National Mall, this year's course ends at the Marine Corps War Memorial. USAA is a primary sponsor of the race and weekend festivities.

USAA member Lt. Col. Jim Brandon runs in last year's race.

NOVEMBER 3

Army vs. Air Force Football Game

Colorado Springs, Colo. ■ USAA will greet Army and Air Force fans alike as the Falcons host the Black Knights in the battle for the Commander in Chief's Trophy.

Age and safety on the road

Who is at greater risk on the road — teens or older seniors? The answer may surprise you: Both.

Drivers at both extremes have higher deadly accident rates than those in the middle, according to the Insurance Institute for Highway Safety.

Fatal crashes per 100 million miles driven, per age group

Source: Insurance Institute for Highway Safety

PHOTOGRAPHY COURTESY OF BRATS WITHOUT BORDERS INC.

Military brats unite

"Where are you from?" An easy icebreaker for most, it can be an awkward question for the millions who grew up in military families and proudly call themselves "brats."

USAA member and Army brat Donna Musil moved six times and endured two years of separation from her father before she was 8 years old. In adulthood, her experience led her to found Brats Without Borders, a nonprofit organization that produced a documentary about brats' challenges and experiences. "Brats: Our Journey Home" is narrated by military brat Kris Kristofferson and features interviews with a variety of brats, including Gen. Norman Schwarzkopf.

Ms. Musil's next project? A new video and a mentoring program that will match Vietnam-generation brats with today's brats. For more, visit bratsfilm.com.

Donna Musil with her father during her years as a "brat."

FYI

What to do if you inherit an IRA

An IRA is trickier to inherit than a savings account or a painting — you face decisions that will affect your tax bills and your wealth.

- Cash-out option. Everyone has the option to cash out an inherited IRA in a lump sum, but since you'll owe taxes on it all at once, that's seldom a wise choice.
- Spouse option. If you inherited it from your spouse, things are simpler: You can make your spouse's IRA your own by rolling it over to a new IRA in your name or by merging it with your own IRA. Unlike non-spouse beneficiaries, you can keep contributing to it.
- Options for a non-spouse beneficiary. If you didn't inherit it from a spouse, starting Dec. 31 of the year following the death of the original IRA owner, you can:
  - establish a beneficiary IRA and take annual distributions based on your single life expectancy, as calculated from an Internal Revenue Service table, with the option to take a lump sum at any time.
  - take no distributions, but cash out of the IRA completely by Dec. 31 of the fifth year following the IRA owner's death.

  As a non-spouse, you can't continue contributions.

The longer you stretch your distributions over time, the longer you stretch your tax bill payments, too. Plus, the more money you leave in the IRA, the better chance the funds have to grow tax-deferred over time. For more, consult a tax advisor.

Call to action

Help keep hazardous wastes out of the nation's landfills. Cell phones are becoming an ever-larger factor in this ecological challenge. Here's what to do.

- **Erase personal data.** WirelessRecyling.com tells how to remove names and numbers before you sell or donate your phone.
- **Sell your cell.** Your wireless company may give credit on a trade-in; other companies offer to buy old phones.
- **Donate it.** Some charities sell phones at good prices; others use them to provide 911 access to battered spouses or the elderly. Cell Phones for Soldiers collects and recycles them for cash, which goes to buy prepaid calling cards for soldiers. Visit CellPhonesForSoldiers.com.

Topping the charts

No. 1 on the list

Military Spouse magazine named USAA No. 1 on its list of Top 10 Military Spouse-friendly employers. The company actively recruits military spouses and offers access to on-site child care, tuition assistance, specialized support during deployments, as well as other benefits.

USAA ranks highest again

For the fourth straight year, USAA had the highest customer advocacy scores of any insurance company in a Forrester Research Inc. report.* When asked about customer advocacy, 88 percent of members surveyed agreed that USAA does what's best for them, not just its own bottom line. USAA ranked highest on a survey of 5,005 U.S. households that evaluates 53 leading U.S. banks, brokerages, insurers, and credit card issuers.

**Source: "Customer Advocacy 2007: How Consumers Rate Their Banks, Brokerages, And Insurers," Forrester Research Inc., June 25, 2007*

Time is money

Windey and Jessy Eismann need to know if they're on target for a lofty goal — early retirement

The Eismanns are stationed in Ansbach, Germany.

Things move fast for military families. By the time you read this, Jessy Eismann, 35, an Army warrant officer and Black Hawk helicopter pilot, already will have deployed to Iraq, returning to the region for the fourth time since the Gulf War. His wife, Windey, 38, will stay in Ansbach, Germany, with the couple's 6-year-old daughter, substitute teaching and working on a master's degree in social work.

Mrs. Eismann has long managed the family finances. With another deployment around the corner and Mr. Eismann's retirement closing in, Mrs. Eismann wrote to *USAA Magazine* experts for a second opinion on the job she's doing. She explained that Mr. Eismann expects to retire from the Army within the next three to nine years. The couple hope to be financially independent by then and to retire back home in Alaska, their home state, or perhaps in the Midwest. Her husband's military pension plays a key role in their retirement calculations, and they plan to save 100 percent of the net income she'll earn when she goes back to work after finishing her master's. Still, she wondered, will they have saved enough?

When USAA Certified Financial Planner™ practitioner J.J. Montanaro examined the couple's finances, he was impressed with what he found: zero debt, a healthy $16,000 emergency fund, $60,000 already in retirement savings, and a savings rate equal to 24 percent of the family's current income. And though they had coverage through Servicemembers' Group Life Insurance, they also had taken additional term life insurance policies to ensure their family is protected — another wise move.

"They've done a great job of living within their means and saving for their future," says Mr. Montanaro, who did find a few opportunities to help the Eismanns reach their retirement target.

With their current savings, revised investment plan, disciplined spending, and Mr. Eismann's robust military pension, the family should be able to meet their goals and maintain their living standard over the next 40 years.

Making the most of the Roth IRA

The Eismanns' savings rate gives them the potential to meet their retirement goals, but they should consider shifting the way they're saving for that day.

Mr. Eismann puts 16 percent of his military pay into the Thrift Savings Plan, which is similar to a civilian 401(k) plan but with no matching contribution, and the couple also contribute $2,400 a year to two Roth IRAs, one in her name and one in his. That's great, but the maximum amount allowed for Roth contributions for people younger than age 50 is $4,000 each year, Mr. Montanaro explains. "For their situation, I'd like to see them ease back on the Thrift Savings Plan so they can each contribute the maximum

PHOTOGRAPHY BY ROGER TEEL

Eismann Retirement Summary

The Challenge	The Solution	The Benefit
Taking full advantage of both Roth IRAs	Decrease Thrift Savings Plan contributions to allow the maximum $4,000 a year to each Roth IRA	Tax-free withdrawals in retirement
Mitigating risk related to stock-heavy Roth IRAs	Move funds from an S&P 500 index fund to an asset allocation fund	Easy diversification and lower risk
Tapping investments at a young age when retiring from the military	Build a $100,000 non-retirement investment account, such as a mutual fund	Penalty-free withdrawals before age 59½
Saving for the future while deployed	Take advantage of the Savings Deposit Program for servicemembers deployed to combat zones	Earn a guaranteed 10 percent interest on up to $10,000 in savings

The preceding discussion is not tax, legal, or estate planning advice and is unique to the Eismanns only. Consult your tax, legal, or estate planning professional regarding your specific situation.

to the Roths." Unlike the Thrift Savings Plan or a 401(k), Roth IRAs provide no current-year tax relief, but withdrawals during retirement are tax-free.

Dealing with risk

Today, the couple's Roth IRAs are invested in mutual funds that track the performance of the Standard & Poor's 500 stock index. Mr. Montanaro recommended they consider exchanging their S&P 500 index funds for asset allocation funds — which provide one-stop diversification by investing in a wide variety of stocks and bonds.

"As their Roth IRAs become a larger part of their portfolio, it's important they're fully diversified," Mr. Montanaro says. "Without a change, their portfolio could become increasingly volatile and wholly dependent on the performance of large U.S. stocks."

Creating an easy-access account

The Eismanns should save an additional $100,000 in non-retirement accounts by the time Mr. Eismann retires. "Retirement accounts offer great tax advantages — but with strings attached," Mr. Montanaro says. Specifically, investors face a 10 percent tax penalty for withdrawals before age 59½.

"Since the Eismanns will only be in their late 30s or early 40s when Jessy retires from the Army, they need money they can tap without penalties," Mr. Montanaro adds. He recommended the Eismanns use a type of mutual fund called a balanced mutual fund for this goal — one that has about 60 percent of its assets in stocks and 40 percent in bonds.

Deployment savings opportunity

The Eismanns can take advantage of a powerful opportunity to build savings while Mr. Eismann is deployed — the military's Savings Deposit Program.

"This program lets servicemembers deploying to combat zones deposit up to $10,000 in a special savings account," Mr. Montanaro explains. "The interest is taxable, but the account pays a guaranteed interest rate of 10 percent during deployment — a phenomenal rate for a guaranteed investment." The Eismanns should seize the Savings Deposit Program opportunity with gusto, and they plan to sell one of their two cars and Mr. Eismann's motorcycle to create more cash that can be invested.

Ready for what's next

"It was very encouraging to find we weren't that far off," Mrs. Eismann says about USAA's assessment and advice. "Now I have more confidence in my ability to make financial decisions." «

See other important legal disclosures on page 36.

Decisions, decisions

BY SCOTT BURNS

Rent or own? Where to stash savings? What to do when an IRA takes a hit? Scott Burns gives you answers

Q I invested $4,000 in a traditional IRA during or before the dot-com bubble. I held stock of a local company that was sold at pennies. My account is now worth about $120. I don't know whether I can take out that money and declare a loss on the stock. Or should I keep the money as is and painfully watch it grow to $150 over the next 20 years? — *R.P., by e-mail*

A You can't take a loss because IRAs hold pretax income. This is one of the reasons we should never use qualified plan money for speculative purposes.

If you're going to speculate, do it in a plain vanilla taxable account. Then you can take losses and, if necessary, deduct them (up to $3,000 a year) against earned income.

If the IRA account is with a firm you want to continue doing business with, I suggest you keep the account. But start funding it with different investments. It will remind you not to do silly things with your money. If you want to do business with another firm, the easiest thing to do is sell the stock, liquidate the IRA, and start over.

Q Our townhome will be paid for in two years. My husband and I will both be 61. If we sold at that time, we would probably walk away with $400,000 to $450,000. The townhome will be about 15 years old. I am sure there will need to be some repairs — new roof, siding, etc. — due to the age of the building.

Why would it not be better to invest the money in a CD at 5 percent interest? That would yield about $20,000 a year without ever touching the principal. Then we could rent rather than own. I realize homeownership may eventually gain income, but homes also take a lot of money to maintain.

The $20,000 a year would more than cover the rental, and our money would be safely invested. Even if we had to pay taxes on the interest income, we would still be in a fairly low tax bracket. Your comments? — *D.S., by e-mail*

A Very good idea. And ahead of the crowd. You are likely to find that the rent and utilities will be less than the operating cost of your house. And since you'll no longer have equity tied up in a house, you can put it to work to pay your rental expenses.

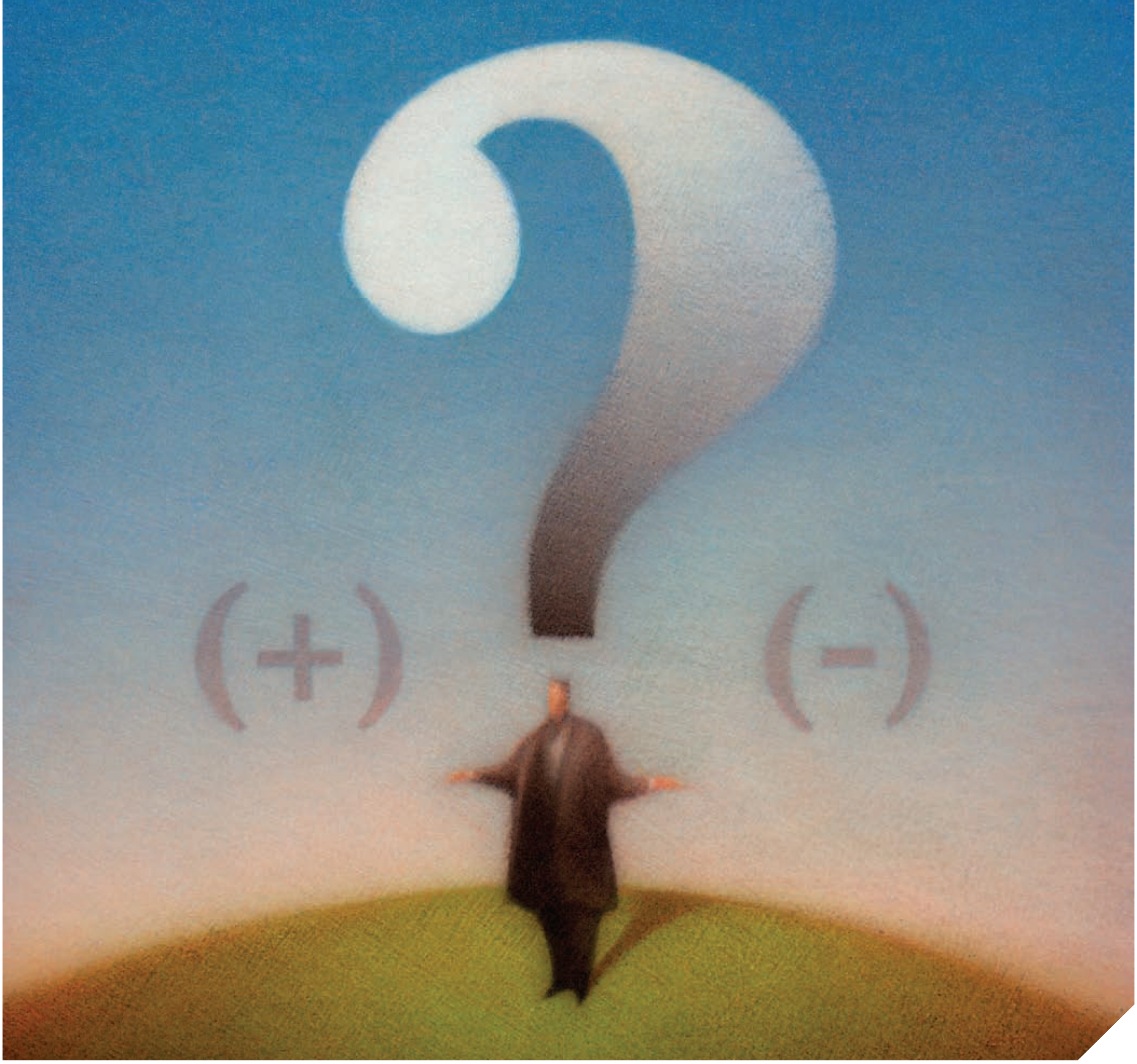
I believe many middle-income Americans will discover that the equity in their home is the biggest single lever on their retirement standard of living. They will learn that they can either have a lot of shelter, or they can choose to have less shelter and more disposable income.

The one revision I would make to your plan is to invest the money in a conservative portfolio that includes equities. If the money is all in CDs or other fixed-income investments, your interest income will remain constant — but your rent will

Have a question?

To send questions about personal finance and investments, visit usaa.com/magazines and look for "Contact Us." Questions of general interest may be answered in future columns. For more on Scott Burns, visit scottburns.com.

ILLUSTRATION BY NEIL BRENNAN



rise with inflation. Eventually, there will be a significant gap. This is a virtual certainty.

Invested conservatively, you could draw from your shelter nest egg at 4 percent to 5 percent. You would have a high probability of keeping up with inflation. Another benefit is that your dividend and capital gains income would be taxable at 15 percent.

I wish more people had your foresight. The most common problem older people have is being incapable of moving even when the house no longer suits their needs and is increasingly expensive, hard to maintain, and too large.

Many people who do move from a house to an apartment discover that they can live just as well in far less space. Many people who live in houses ranging from 2,000 to 3,000 square feet, for instance, will have all the space they need in 1,100 to 1,300 square feet.

Q My wife and I will soon turn 60. We have about $750,000 that we would like to put in a safe place. I know we would lose the rate of return we now are enjoying from stocks and bonds (allocated 60 percent/40 percent). But I am growing increasingly uncomfortable with the market and the U.S. economy in general. What are safe havens for personal savings? — ***D.D., by e-mail***

A The only reasonable thing to do is to diversify further. It won't cure your worry, but it should reduce it. And it will be better than the dream of Promised Land Investing.

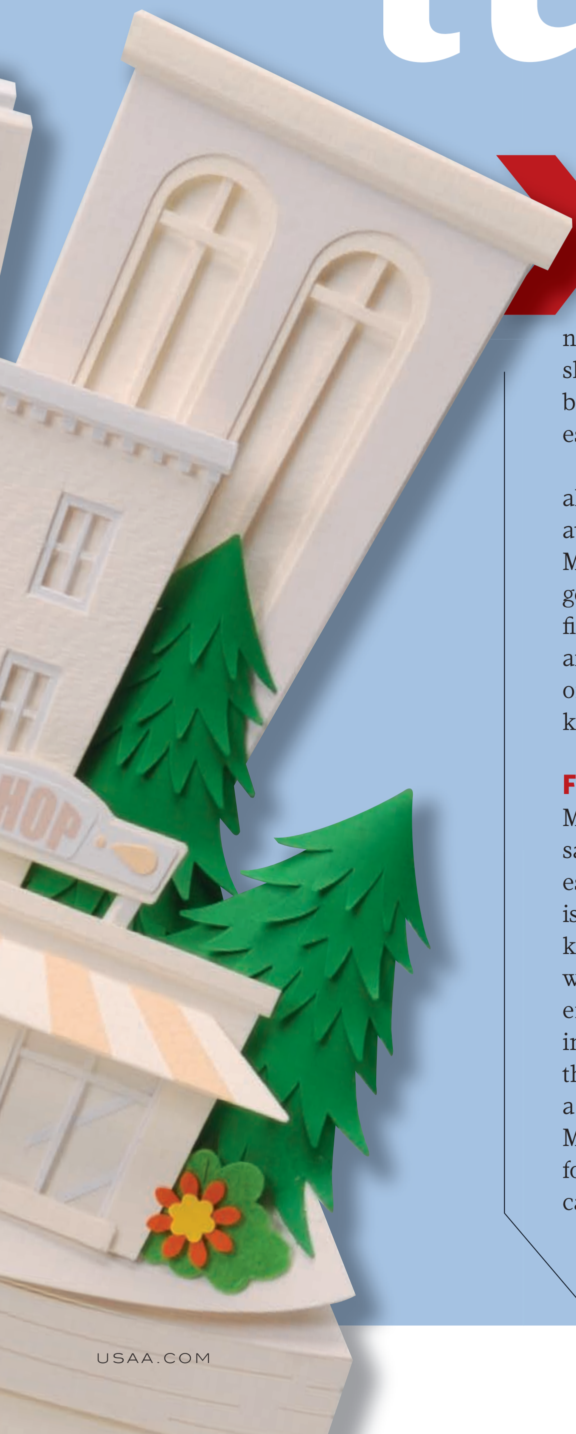
All-or-none cures are usually a good way to shoot yourself in the foot. You will probably preserve more purchasing power by being diversified than by timing yourself into the purported safety of gold and other havens for the worried. «

Get the **straight story** on investing in real estate. Experts offer **smart strategies** for **adding property** to your investment portfolio

ILLUSTRATION BY SALLY VISKY

Real (Estate) page turners

BY LISA HOLTON



There's never a particularly bad market in the mind of Kendra Todd, a USAA member, real estate broker, and winner of "The Apprentice: Season 3." What she considers bad, however, is the number of people who want to invest in real estate without doing their homework.

"Somewhere in America, there's always a boomtown," says Ms. Todd, author of "Risk and Grow Rich: How to Make Millions in Real Estate." "Finding good values in real estate is all about finding the right place at the right time, and it could be a particular state, city, or a particular block in a place you know well."

Falling prices

Ms. Todd disagrees with those who say that there has been a bust for real estate. "What's dropped in some areas is market expectations more than market values," she argues. "Most people who are complaining have already encountered significant appreciation in their property, and they're upset that they're going to make $50,000 on a $200,000 property and not $75,000. Most who have owned their homes for at least a few years still have significant gains in their property."

Ms. Todd, who bought her first property at 23, preaches that no one can become a successful investor without taking on risk. The trick is managing it successfully.

Risk doesn't mean taking out a huge loan and throwing the dice, she explains. It means not overborrowing and having cash in reserve to cover contingencies such as deadbeat tenants, overbudget renovation projects, and, yes, downward markets.

It also means having an ear constantly to the ground to pick up on opportunities others might miss. Do that by getting to know people who live or do business in an area where you want to invest, learning about who's moving in and out, and, most important, gauging how honest potential sellers are. Then you'll develop a sense of timing and a sense of whom you will and will not do business with.

Although Ms. Todd advises people to take a chance on properties they've thoroughly researched, she doesn't encourage chancy financing. "Don't overleverage yourself with some of the high-risk mortgages that are out there," she says.

In fact, in early summer, Ms. Todd admitted she was holding back her investment dollars as the slowing real estate market neared a bottom. But she wasn't planning to wait for long. "I actually love buyers markets, because I don't feel pressured. Sellers do," she says.

Ready to jump in?

Before you make your first buy, define the difference between ownership and investment. Michael Kitces, a CERTIFIED FINANCIAL PLANNER™ practitioner and director of financial planning for an investment advisory firm, puts it this way: "If you're not ready to sell your house tomorrow because it's appreciated and go rent a place, then maybe you really don't consider your home an investment."

Sure, he concedes, a home can be sold years later and its proceeds used to cover the full cost of a smaller place, but that's not truly an investment. "A home represents personal security, an enjoyable living space," he explains. "Ideally, an investment is an asset that you buy and sell unemotionally, and it's a very different way to think."

If you can operate with that mindset, you might be ready for real estate investing. But first consult a tax advisor or financial planner who can assess your situation objectively. For instance, if you have a child nearing college age, you might not want to take out a chunk of tuition cash to put on a condo you hope to sell in a year or two. Or pending retirement might be a factor. Make real estate holdings part of a comprehensive financial plan.

Next comes a tough question — what types of property to target? For many, the first step is a second home, usually a vacation home, or a rental property they may occupy as landlord. Others eye commercial property.

"Commercial spaces behave differently than residential space," Mr. Kitces says. Once his clients understand the sort of deal they're making, Mr. Kitces asks if they're really ready to operate the property as a business. When told about finance, construction, and tenant issues they might face, many rethink the matter or take more time to learn.

Entering the marketplace

If you proceed, you'll find that sales of vacation homes have been up, while investment-home sales have been down.

That means people are still willing to take a risk on property they'll actually use or rent during vacation seasons, but there's much less speculation on general investment property than at the market peak in 2005. "People may think they have a high personal tolerance for risk," Mr. Kitces says, "but when they look at their financial capacity to handle it, their overall view of risk tolerance changes."

The proud owner

Despite the uncertainty, you still might feel the market's allure. If you buy, Ms. Todd believes an exit strategy is a must. "With every investment, you need to establish a price at which you'll sell, hopefully at a market high," she says, noting that smart investors hold cash from property sales in reserve for opportunities when the market goes down a bit — the essence of "buy low, sell high."

While that cash is in the bank, investors need to be looking, always looking. «

Kendra Todd says almost anyone can become a smart real estate investor. She is the founding real estate broker of the Kendra Todd Group and hosts HGTV's "My House Is Worth What?"

PHOTOGRAPH BY KEMP DAVIS

Real estate wunderkind

Most teenagers worry what video game to buy next. In 2004, 13-year-old USAA member Turner Stanley was buying his first house. He did it by pooling years of Christmas, birthday, and part-time-job money from his pet-sitting business.

Now 17, Turner may buy his second house soon. "It's not the best way to make money fast, but it's relatively stable," the Coronado, Calif., teen says.

He's following family footsteps. His mother, Anna, above, bought her first house at 19. She and husband Henry, a retired U.S. Navy commander, have invested in real estate throughout their marriage, and she reports that Turner got the bug when she'd take him as a kid to visit properties and tenants. "From a young age, Turner was intrigued that we actually owned a house we didn't live in," says Mrs. Stanley, who recently wrote a book called "Going Up? Generation Y's Elevator to Financial Success." "We told him that renters paid the mortgage on the property."

Turner wasn't able to buy a home outright at 13 — his parents co-signed for it — but he has handled every other aspect of property ownership, making sure tenants pay rent on time and applying it toward the mortgage. He plans to pay off the 15-year note five years early, and he's kept the home in mint condition for resale. He also lent his younger sister $7,000 so she could buy a rental property too.

Turner lucked into his three-bedroom, two-bath home in a desirable neighborhood in Corpus Christi, Texas, where his grandparents live. He discovered the owners had to move quickly, so the price was right. "You definitely have to find the best combination of price, location, and circumstance," says Turner, a high school junior who plans to major in math when he gets to college.

» usaa.com *If you're thinking of venturing into the market, see our "Ready to Invest in Real Estate?" checklist at usaa.com/magazines.*

BUDGETING *for* BABY

You may have to spend your money in different ways once your new bundle of joy comes along. But a little planning can help you maintain financial security as your family grows

BY MARK HENRICKS

ILLUSTRATIONS BY CAROLINE HAMEL

Denise Dorman has a two-word explanation for why she didn't do much financial planning before the birth of her son, Jack, and it's not "morning sickness." "Hurricane Ivan," she says.

This USAA member and her husband, Dave, had half of their home destroyed in September 2004, a month before she was due. "So we just sort of winged it," Mrs. Dorman says. "Budgeting? At that point, we didn't." After a near-miss from Hurricane Dennis the following summer, the couple moved from Florida to hurricane-free Geneva, Ill. But Mrs. Dorman, a public relations consultant, and her husband, an artist, still struggle with postpartum finances. The biggest shock: day-care costs. "It's much more expensive than we thought it would be," Mrs. Dorman says.

Most couples can't claim a hurricane as an excuse for not planning. Even if parents

try, it's tough to come up with an actual figure for what they'll spend on each new baby. The U.S. Department of Agriculture estimates raising a child from birth through age 17 costs the typical middle-income, two-child family $197,700 in 2006 dollars, the most recent numbers available.

Diapers and day care are just the beginning. Expectant parents also must budget for life insurance — the foundation of any financial plan. And they should begin thinking about saving for their child's college tuition, without compromising retirement savings. Whew. Now, that's a lot to consider.

But take a deep breath. A few smart steps can get your finances in order and let you concentrate on your little one.

A trial run

Long before the due date, take a good look at how your baby will affect everyday living expenses. If you and your mate are unfamiliar with the price of day gowns and diapers, stroll through a baby store or two — and take notes.

Paying for the convenience of disposable diapers instead of cloth may be worth it to you, but expect to spend a total of $1,500 to $2,000 until your child is potty-trained, according to *Consumer Reports*. The cost of formula, if you use it, adds up quickly, too. "Store-brand formula is almost identical to brand-name, but half the cost," says financial planner Sean Sebold.

Next, redo your annual budget to include the new line items. That exercise can help you figure out if you need to cut spending in other areas.

If one parent is thinking of leaving the workplace to care for the baby at home, experiment with living on one income to see how feasible it is. "See what it feels like — the earlier the better," says financial planner Dianne Nolin. Sock the second income into savings for child-related expenses.

Baby-clothes bonanza

It's fun to buy new hoodies and onesies, but the Financial Planning Association recommends investigating hand-me-downs, consignment shops, and garage sales. Mrs. Dorman is a regular on eBay, where she finds box loads of gently used, quality children's clothes for a few dollars.

Ask gift-givers for items you really need, Ms. Nolin suggests. Otherwise, you're likely to be overwhelmed with newborn outfits that are outgrown in a few weeks.

House notes

Beyond expenses for the crib and any decorating you might want to do in the nursery or other kids' rooms, think twice before buying a new home for your growing family. You may find yourself baby-rich and house-poor like USAA members Lisa and Luis Rivero.

The 32-year-old professionals rented an upscale but affordable apartment in downtown Boston before buying a home in Ipswich, Mass., a few weeks after their first child was born. Unexpected repairs and maintenance more than stole the savings on day care that motivated the move. "Now we live paycheck to paycheck," Mrs. Rivero says.

You can save on housing by moving, but not necessarily to heavily populated areas in the Northeast or out West. Child-rearing costs are lowest in the Midwest and South, according to the U.S. Department of Agriculture, largely because of lower housing expenses.

Not moving at all might be better, at least for a while. Mrs. Rivero wishes they had rented for another year.

Hot wheels

Contrary to the misguided thinking of many expectant parents, you don't really need a minivan or sport utility vehicle

GIFTS *from* GRANDPARE

Beyond the gift of baby-sitting, grandparents with dollars to share can ease college costs by funding tax-deferred 529 college savings plans, suggests financial planner Terry Gaertner. Under current rules, grandparents could even front-load 529 contributions by putting in up to five years of the maximum annual amount, currently

BABY STEPS

These fundamental moves help protect a growing family

- **Look at life insurance.** For parents, it's essential, and much more affordable than you might think. You'll also get better rates when you're young. Talk to your life insurance company about what amount will give your family the best protection, and don't leave your loved ones in the lurch.

- **Update your will and appoint a guardian.** Sean Sebold, an Illinois financial planner, recommends naming a contingent guardian and updating the will in case the primary guardian's status changes. Otherwise, a judge might have to appoint someone you've never met to raise your kids.

- **Take advantage of tax savings.** The Internal Revenue Service allows an exemption for every new dependent and also grants child credits currently worth $1,000 per child younger than age 17. The earned income tax credit can save on taxes for parents whose income qualifies them. And parents who have to work and pay for day care can take advantage of a child-care credit.

to parent properly. Mrs. Rivero regrets trading her paid-for sedan for a luxury SUV just before gas prices soared. "I would return it to the dealer in a heartbeat," she says.

Day-care solutions

Perhaps the most meaningful financial assistance grandparents, other relatives, and friends can give is volunteering to baby-sit. "That's very helpful, particularly when the baby's young," says Park Ridge, Ill., financial planner Terry Gaertner. "You have to develop some sort of support system for baby care."

For those without such a system, here's a tip from the Financial Planning Association: If your employer offers a flexible spending account, you may be able to use it to pay for up to $5,000 in child-care expenses a year using money exempt from income taxes.

Bye-bye to brand names

Perhaps you can afford that designer diaper bag, but if it's a stretch, one from the discount store might have to do.

Your baby won't know the difference between top-of-the-line baby blankets and less expensive, quality ones that feel just as snuggly.

> Saving for retirement should take priority over saving for your child's college tuition. Student loans and part-time jobs abound for the college crowd, but loans generally are not used for retirement.

Look ahead to higher education

If you start planning for college in the delivery room, you won't be jumping the gun, Ms. Nolin says.

The College Board estimated the average cost of tuition and fees for the 2006-07 school year was $5,836 for a public college, up 6.3 percent from the previous year, and $22,218 for a private college, up 5.9 percent from the previous year. By the time your baby is a freshman, who knows what tuition, board, and books will cost?

Financial aid and part-time jobs may help your child pay for college, but if you want to contribute, experts suggest 529 college savings plans and Coverdell educational savings accounts.

For now, college is far from Mrs. Dorman's mind. But the good news is that the financial sacrifice, even the day-care cost, is worth it. "My son is thriving," she says. «

NTS

$12,000, without incurring gift taxes* — that's $60,000. "So they could, between the two, put in $120,000 in one year without incurring any gift tax," Mr. Gaertner explains. Don't have that kind of money? Whatever you give now will be an investment and can grow over time.

Consult your tax advisor regarding your specific situation.
*Subject to add-back rule if contributor dies within five years of giving gift.

Invest in your Health

Make the right choices now and reap dividends later

BY KAREN J. BANNAN

There's no doubt that physical and fiscal health have strong ties. Fast-forward to retirement and they can become an inextricable knot. Why? Limited income smacks up against ever-spiraling health-care costs.

Factor in the longer life expectancies that better technology and health care have brought, and you could find yourself in a financial fix later in life. "People can't assume that when they reach 65 they only have 15 more years," says Don Atherton, president of a Houston-based financial planning firm. "They have to assume they may live into their 80s and 90s and will need resources to afford their lives."

As you make healthy lifestyle choices now, you can plan for the financial realities of living longer and enjoy better quality of life as you age.

The average first-year cost of a heart attack per patient is $50,214, says Judith O'Brien, director of cost research at Caro Research Institute. Extra weight strains joints in knees and hips, and the cost of a hip replacement averages $32,450 per patient for the surgery and follow-up care, Ms. O'Brien says. America's growing obesity problem causes many to suffer from hypertension, bad cholesterol, and ultimately strokes and heart attacks. Sure, health plans or Medicare may help cover costs, but you can stretch your health-care dollars by taking care of yourself now rather than face an unknown cost in the future.

WHAT YOU CAN DO NOW

There's still time for people in their 30s, 40s, 50s, and 60s to make changes before their anticipated golden years. But baby boomers may face more health challenges than younger generations, who have more time to correct bad habits. "This retiring generation of boomers will be the unhealthiest generation we have ever anticipated," warns Larry Luter, M.D., of health-care provider Meritain Health. "It's going to affect them financially and physically in terms of quality of life. But they can make changes now so they don't become the future sick."

We all know to do the basics — eat right and exercise. And, if you smoke, stop; smokers lessen their normal life expectancy by 13 to 15 years, according to the American Lung Association. Here's a list of other steps you can take to improve your health.

> "Take advantage of as many preventive measures as you can, and enjoy life, too."
>
> — Larry Luter, M.D., of health-care provider Meritain Health

Make some reductions. An average reduction of 12 to 13 points in systolic blood pressure over four years of follow-up can reduce your chances of getting coronary heart disease by 21 percent and reduce your risk of a stroke by 37 percent, reports the Centers for Disease Control and Prevention. Reduce your cholesterol by 10 percent and you'll reduce your incidence of stroke or heart attack by 30 percent.

You'll save money making both reductions — avoiding that average price tag of $50,214 per heart attack and warding off a stroke, which Ms. O'Brien says costs an average of $31,045 in the first year.

If you're overweight, shed some pounds. You'll feel better, but you'll also save thousands. To determine if you qualify as overweight or obese, visit the CDC Web site, cdc.gov, for a look at the body mass index tables.

Annual medical costs for an obese person are almost 38 percent higher — or $732 more — than for a person of healthy weight, according to a study by the CDC and Research Triangle Institute International. Those in the obese range also pay more for life insurance — two to four times as much, according to *The New York Times*.

Sleep more. A good night's sleep is crucial to overall health and well-being. And people who sleep four hours or less each night are 73 percent more likely to be obese than those who sleep seven to nine hours per night, according to a study by researchers at Columbia University and the Obesity Research Center. Those who sleep six hours are only 23 percent more at risk.

Stave off type 2 diabetes. Many get diagnosed with this disease each year, and with obesity on the rise, Americans are more at risk.

APPLE PHOTOGRAPH BY STUDIO EYE, PHOTO ILLUSTRATION BY TIM DOWNS

Eat right and stay fit, and you could reduce your chances of getting this disease. You'll save $10,683 each year — the difference between the cost of care for a healthy person versus for someone with diabetes, according to the U.S. Department of Health and Human Services.

Only 3 percent of American adults follow all four of these healthy lifestyle choices:

- Maintain a healthy weight.
- Don't smoke.
- Eat five fruits and vegetables a day.
- Exercise regularly.

— American Heart Association

Go to the doctor. Sounds simple, but many fail to go for those regular checkups. Dr. Luter says monitoring blood chemistries and taking preventive tests are two often-overlooked habits. "Know the critical numbers: your cholesterol, your blood pressure, your blood sugar," the doctor explains.

Men need prostate-specific antigen tests, known as PSA tests, that show the first clues for prostate cancer, and women need mammograms. "People say they are too busy to go to the doctor," Dr. Luter says, "but I always remind them: Will you be too busy to go to the hospital if you have a heart attack?"

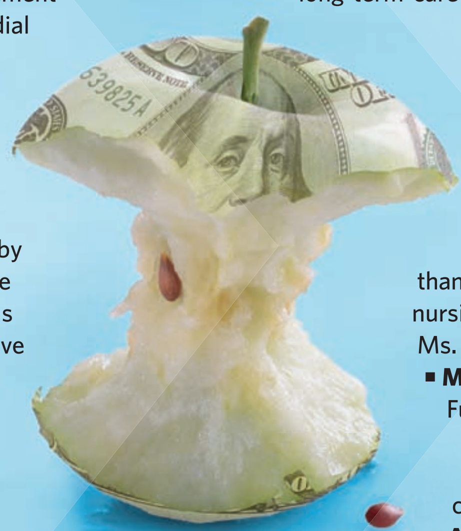
Study family history. If you know, for example, that your mother has diabetes and your grandfather died of a stroke, you can make preventive changes now that could ward off the same fate. "Just because your parents have a disease doesn't mean you have to, too," Dr. Luter says. "The only risk factor we can't control is family history, but when we pay attention, most prevention is in our control."

THROUGH THE YEARS

So stop fretting about the future and take charge of it. After all, experts say, worrying too much about anything can contribute to health problems. "Retirement isn't about money," Mr. Atherton says, "it's about living." «

Insure for health-care costs

» Americans tend to rely on Medicare, which gives medical coverage to Americans 65 and older, and Medicare supplement policies to cover any gaps. But neither Medicare nor supplement policies covers long-term custodial care, reminds Terry Savage, personal finance expert and author of "The Savage Number: How Much Money Do You Need to Retire?"



APPLE PHOTOGRAPH BY MICHAEL ROSENFELD, PHOTO ILLUSTRATION BY TIM DOWNS

"There's no way the government can take care of all the baby boomers in their old age, who are going to live longer than any of us expect," she says. "We would have to tax our children to death."

And there is certainly no way that state-funded Medicaid programs can pay boomers' long-term custodial care, even if they qualify for it, since, under the law, they must deplete their own assets before tapping Medicaid. Even worse, getting custodial care under Medicaid takes away choice; such care is almost always in state-funded nursing homes.

Adds Ms. Savage: "People think they can transfer their assets to their children and protect themselves, but now the government looks back at your finances for three years, and soon it will be five or 10 years, to recapture assets gifted to children. Your only answer is buying long-term-care insurance."

Indeed, long-term-care insurance, which is designed to pay for your daily care and board should you become unable to perform tasks such as bathing or eating, is an appealing option, especially since the U.S. Department of Health and Human Services estimates that it costs more than $70,000 per year for a private room in a nursing home. How can you get the best deal? Ms. Savage provides these tips:

- **Make sure you buy the right amount.** Full-time care costs around $200 per day. Get as close as possible to that amount without overstressing your current financial situation.
- **Ask about inflation protection.** Your policy should keep up with the cost of care since what costs $200 today will be significantly more tomorrow.
- **Make sure your policy is flexible.** Your benefits will go a lot further if you can use only what you need. Some policies let you use, for example, $100 each day for part-time care and save the rest for later.

next Steps

Daydreaming about a job change? Is a career switch staring you in the face? Here's how to find the right path for you

BY MICHELE MEYER

Bill Gaul's favorite T-shirt reads, "Do what you love, love what you do." That's his motto since separating from the Army — and why he's done so well.

As you consider a midcareer switch, open yourself up to the possibilities.

"You just need to help employers figure out where you fit in," says Mr. Gaul, a USAA member and former helicopter pilot who became a high-tech salesman and then a headhunter who helps match transitioning military with jobs. "Each life experience created a steppingstone to my next career change," he says. "I didn't limit myself to what I could do, but focused on what I wanted to do, and sought skills needed to be successful.

"As a pilot, I needed to focus on the big picture, yet pay attention to details, like my airspeed indicator, or I could crash," he adds. "And in business, since I was prepared for worst-case scenarios, the customer never saw me sweat."

You, too, can put your skills to new uses and reinvent yourself — whatever the reason for your job hunt.

Pursuing a passion

Always wanted to write a thriller? To teach kids? To enter the CIA — as in The Culinary Institute of America — and become a chef?

Then do it.

But don't jump in without breaking down your goal into achievable, smaller bites. "Otherwise, it can be paralyzing," says Elizabeth Freedman, author of "Work 101: Learning the Ropes of the Workplace without Hanging Yourself." "So sit down and plot the route from here to your dream job." Think about whether you'll need more education and how you'll support your family financially in the interim.

If you're unable to name your bliss, apply for unpaid internships or take a career personality test on PrincetonReview.com or ProjectCareer.com. Mull over memories of what you most enjoy doing, including hobbies, advises

Richard Nelson Bolles, author of career bible "What Color Is Your Parachute?"

Launching your own business

We all know somebody who has a garage full of half-baked ideas, half-finished projects. That's because they leapt before they looked. So enter entrepreneurship with forethought.

First, research your potential product, clients, and expenses. "When I created LANDMARK Destiny Group, my online database for veterans, I thought it'd only cost me $30,000 to develop a software program," Mr. Gaul says, remembering the painful mistake. "It ended up costing me $1.3 million."

> "Hope isn't a good strategy. In battle, it gets you killed."
>
> — USAA member and entrepreneur Ted Daywalt, on launching a business

Are you ready?

Ask yourself these questions before hanging out your own shingle, says Evan Lesser, director of ClearanceJobs.com — a site that matches employees who already have government security clearance with new job positions.

1. Have I researched enough to determine that there's a need for my service or product and a market willing to buy it?
2. Can I survive working 10 to 12 hours a day, with lots of stress, no vacation, and no pay for one to five years?
3. Are bills paid and is my family on board for the sacrifice?
4. Do I have the patience to wait two to five years for the business to succeed?
5. Am I a people person, given that 75 percent of my success depends on my ability to market and network and 25 percent on the service I'll provide?

That's why it's vital to consult those who've succeeded in similar businesses. Ponder which skills you have and which you don't, and budget to hire others to help with the latter.

USAA member Ted Daywalt, who launched a Web site that helps veterans find jobs, says to assume you'll underestimate the costs and time required and that you'll overestimate the profits. Even a well-conceived campaign may falter. One-third of all startups fail within two years, according to the Small Business Administration. Fewer than half are still chugging on after four years. But for the independent-minded, the satisfaction of running their own businesses is worth the risk.

Another way to test the waters is to buy into a franchise, be it a real estate office or a fast-food restaurant, Mr. Gaul says. "It's a lot easier than the way I did it, by the seat of my pants," he adds. Watch for fraud, though, as you pursue franchise opportunities, and consult the Federal Trade Commission for tips at ftc.gov.

Getting downsized

When you get laid off, it may feel like the end of the world. It isn't. It's a second chance to embark on your dream career.

Older workers sometimes fear age discrimination, but job experience can work in your favor. "Good companies don't care how old you are," Mr. Daywalt says. "If you're willing to work for a few years, they want you."

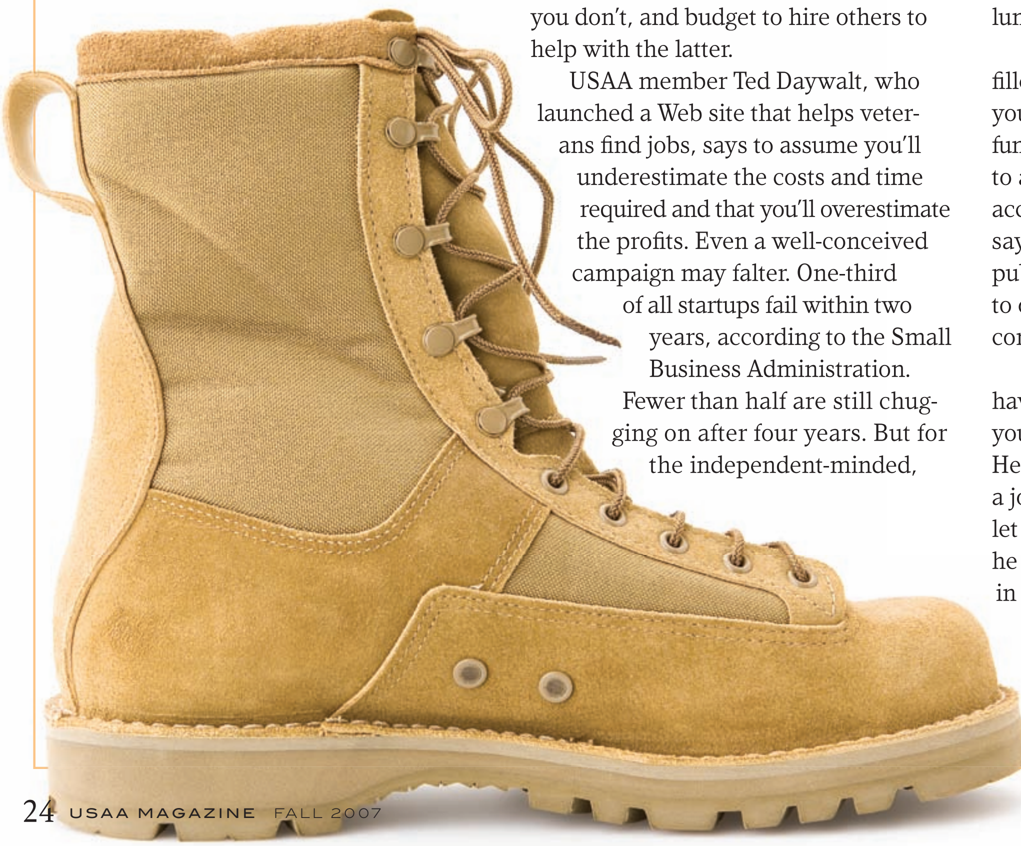
As you move to the next phase, make smart use of your severance package. That includes taking it in one lump sum so you can invest it wisely.

If you've built an emergency fund filled with six months' living expenses, you won't have to dip into severance funds or your retirement account. "Speak to a financial planner, a banker, or an accountant before taking drastic steps," says Sid Weiss, a California certified public accountant. "They can alert you to other options — and explain any tax consequences."

Manage your emotions too. "You have to get over your bitterness before you can face forward," Mr. Bolles says. He recommends pouring feelings into a journal or talking to friends. "Don't let disappointment limit your dreams," he says. "Often the obstacles are only in your mind."

Separating from the military

"In the military, your uniform tells others your job title and rank," says



Savvy moves after military service

Following orders. Easy. Following your heart. Not so easy. But sooner or later, you'll move from your career's Act One, serving your country, to Act Two, serving yourself. Check out these sites that cater to people with military experience.

- **DoDTransPortal.dod.mil** — a helpful Department of Defense site
- **CareerOneStop.org/militarytransition** — a section of a larger site from the Department of Labor
- **VetJobs.com** — caters to separated or transitioning military
- **OperationHeroForHire.com** — site for companies looking to recruit former military
- **ClearanceJobs.com** — matches job seekers who have active security clearances with hiring companies
- **TAOnline.com** — stands for Transition Assistance Online and serves as a single source for those separating from the military
- **DestinyGroup.com** — a résumé database and job board where employers can reach transitioning/former-military job seekers

PHOTOGRAPHY BY JEFF NEWTON

Dick Crampton, a job placement director who works with former military. "The military provides your network of friends, structure, a role to play, and your clothing. The minute you leave, that's all gone."

Former Brig. Gen. Karen Rankin admits she didn't prepare well for leaving the Air Force after her 31-year career. "I was so driven to have another job, I just leapt into it, without asking good questions," she says, adding that she felt out of place and off-kilter in the civilian world. "It was as if I'd forgotten everything I knew how to do. You've got to build a whole new set of relationships and your credibility has to be re-established." Now that she's done that, she's regained confidence and serves as vice chair of the Texas Veterans Commission.

A master's in business administration helped USAA member Chris Baxley get respect, gain corporate skills, and learn the lingo for a start in investment banking after seven years in the Army. "Some of my friends made snap decisions to get out of the Army and later regretted it," he says. "You've got to be deliberate about the career path you pursue. An M.B.A. was necessary to get where I wanted to go."

Networking also can bridge the gap. Job hunt half the day, and spend the rest volunteering or working part time to gain insight into the working style of most Americans. Civic clubs, Internet social networks, and trade or military alumni associations may connect you to people in your field.

And play up your military service. It gives you respect and can translate to good pay. If you have a security clearance, for instance, you could command a 25 percent higher salary for federal jobs and easier access to Department of Defense contracting posts than civilians.

usaa.com *For advice if you've received a severance package, visit usaa.com/magazines and click "Make smart use of your severance."*

Mint Conditions

USAA member Henry Ford loves classic cars so much that he owns almost 20. And, yes, that's his real name

BY CATHLEEN McCARTHY

Army Lt. Col. Henry Ford collects classic cars because he loves their designs — not to mention driving them. He takes each of his 18 vintage vehicles for the occasional spin to keep them in good working order.

Given that this USAA member shares a name with the founder of Ford Motor Co., it's no surprise that Fords have always held a particular attraction. As a child growing up in Coffeeville, Miss., he played with toy cars until his teens and dreamed of owning a '59 Ford Fairlane like his dad's.

Although he never acquired a Fairlane, Lt. Col. Ford now owns 18 other classics — and learned not to limit himself to Fords. "The car market goes up and down, just like the stock market," he explains. "One brand is good one year and maybe bad the next."

And like a good investment portfolio, Lt. Col. Ford's car collection is diversified. His most valuable cars? The '53 Ford Mainline, '49 Studebaker, '51 Packard, '52 Chevy, '53 GMC truck, and a '57 Lincoln Premiere he bought for $1,250 and promptly dismantled. Once restored, the Lincoln will be worth close to $30,000. "You have to be careful when you put your money into cars," he says. "You can't always get it back out. You really

PHOTOGRAPH BY CHRIS HARTLOVE

have to do your homework." Value depends on rarity, condition, and specific design aspects of each model.

But his hobby took on greater value as an emotional outlet for him after he returned from serving in the first Gulf War. Hours tinkering under the hood helped him make the transition, and he's continued to spend off-duty hours in the garage.

COUNTING THE COST

Through the years, Lt. Col. Ford discovered that vintage cars are not the most portable collectible. When the military moved him from Kansas to Virginia, he had to make a separate trip for each car. He houses most of them in a garage in Hampton, Va., but keeps two close to him where he is currently stationed, in Raeford, N.C., just a few hours away from the rest of his collection.

Routine maintenance for classic cars isn't costly — Lt. Col. Ford pays $25 for auto tags and insures 12 cars for less than $400 every six months with a special policy — but restoration is. Vintage parts cost three times more than new ones and old cars have to be driven regularly or rubber seals dry out and condensation builds up in the brake lines and fuel tanks. "For an investor who purchases vehicles for profit only, it's better to buy something already restored and sitting in a garage," he says.

Although it's doing the dirty work himself that thrills this collector, he's come to a point where he doesn't mind selling off a few of his vintage beauties. He recently let four cars go for good prices, including a 1940 Buick bought for $800 in 2001 and sold last year for five figures. But in September, he added another — his oldest yet, a 1929 Ford Model A. Though he doesn't like to state the amount of profit he gains from his sales, his solid and liquid assets put him into seven figures. Not bad for a man with a passion for junk cars.

"If old cars are your passion, you can't put a price on that," he says. "But values change as you get older. At the beginning, I bought whatever I liked. Now I like my cars well enough to make money off them." «

"At the beginning, I bought whatever I liked. Now I like my cars well enough to make money off them," says Lt. Col. Henry Ford, a USAA member for more than 25 years who recently sold four vintage cars but still has 18 in his collection, including a recently acquired 1929 Ford Model A.

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Auto Policies: Save Up to $600 a Year! Page 32

MEMBER SAVINGS

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A USAA American Express® card with an introductory 0 percent annual percentage rate.

A joint USAA Free Checking With Rewards account.

A refinanced auto loan — saving them $70 a month.

$438 annual auto savings for two vehicles

$595 annual savings for a USAA Free Checking With Rewards account[1]

$1,033 IN SAVINGS

"Knowing that I'm secure — with not only an affordable life insurance policy, but a good life insurance policy — makes it easier to sleep at night."

— New USAA member Christina Owens

PHOTOGRAPH BY TADD MYERS

LOW-RATE, HASSLE-FREE LOANS FOR HOMEOWNERS!

See page 33

Do you have **All the Pieces** in place for **Lifelong Security?**

A WORLD OF OPTIONS TO PROTECT YOUR FAMILY

Life insurance is the best gift you can give your family. How much protection do you need? What type of policy makes the most sense? When should you buy life insurance? Our licensed, noncommissioned advisors provide objective advice to assess your needs and make sure that, no matter what your future brings, you're covered.

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protection for a specific number of years

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lifetime protection

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As your assets grow and your financial needs change, let Permanent Insurance keep up with you.

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- Builds cash value on a tax-deferred basis
- Offers lifetime coverage with fixed and flexible premium options

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Protect Your Hard-Earned Assets

Let us help you protect your hard-earned assets with Long-Term-Care Insurance.[2]

- Get affordable options and discounted premium rates
- Help maintain the quality of life you deserve
- Decide how and where you receive care so your loved ones won't have to later

What's Your Life Insurance I.Q.?

1 **Life insurance benefits are not subject to federal income tax.**
❑ True ❑ False

2 **Young, healthy people don't need life insurance.**
❑ True ❑ False

3 **You can name only your spouse or children as beneficiaries.**
❑ True ❑ False

Answers

1. True. Unlike many income investments, life insurance benefits generally are not subject to federal income tax.

2. False. The younger and healthier you are when you get life insurance, generally the lower your rates will be.

3. False. Life insurance can be used to support anyone who depends on your income after you're gone, including elderly parents.

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PHOTOGRAPH BY YANG LIU/CORBIS

PHOTOGRAPH BY STEPHEN BEAUDET/ZEFA/CORBIS

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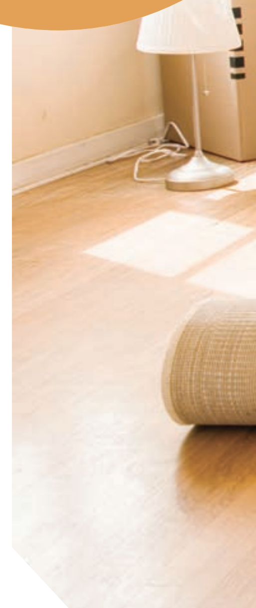
APPLY ONLINE AND SAVE.
Log on to **usaa.com** and enter keyword **USAAAutoEvent.**



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Protect your most valuable asset

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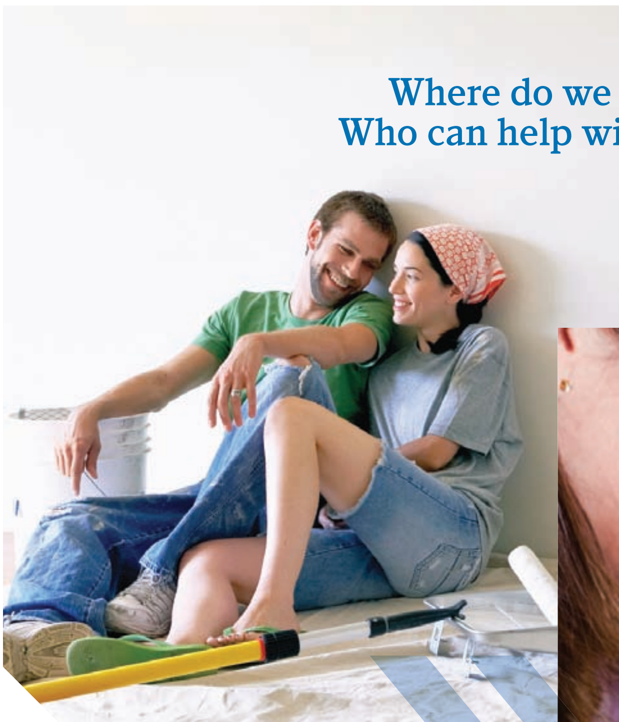

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Who can help with planning?

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The S&P 500 index is a well-known stock market index that includes common stocks of 500 companies from several industrial sectors representing a significant portion of the market value of all stocks publicly traded in the United States. Most of these stocks are listed on the New York Stock Exchange.

Certified Financial Planner Board of Standards Inc. owns the certification marks CFP® and Certified Financial Planner™ in the U.S., which it awards to individuals who successfully complete CFP board's initial and ongoing certification requirements.

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[1]$595 based on potential savings with USAA checking compared with average fee information on 2005 most recent bankrate.com checking survey.

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[2]USAA Life General Agency, Inc. (LGA) (known in CA and NY as USAA Health and Life Insurance Agency) acts as an agent for select insurance companies to provide long-term-care insurance to USAA members. LGA representatives are salaried and receive no commissions. However, LGA receives commissions from those companies that can include compensation based on the total quantity and quality of insurance coverage purchased through LGA. Plans not available in all states.

[3]USAA Life Military Protection Plus is level term life insurance. Initial life insurance coverage limited to $250,000. Form LLT49045ST 01-05 (may vary by state). Dismemberment protection and option to increase coverage to replace SGLI provided by riders. Increases in coverage require payment of additional premium. Rider forms LBR57941ST 05-06 and LBR57939ST 05-06 (may vary by state). Availability of increased life insurance coverage depends on characterization of military separation. Call for details on specific policy costs, benefits, limitations, and availability in your state. This product is not available in New York.

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[4]$4 a month provides $2,500 on scheduled jewelry. Rates may vary due to location.

[5]Annual savings based on countrywide survey of new customers from 1/1/07 through 3/31/07 and include a discount for online purchase or quote. Actual savings may vary. Savings do not apply in NJ and MA. Online discount not available in CA, FL, GA, HI, MA, ME, and NC. Discount is up to $30 in MO.

[6]Not available in AK, CA, CO, CT, DE, FL, GA, HI, IA, ME, MD, MA, MI, MS, NE, NV, NH, NY, NC, ND, PA, RI, WA, and WV. Must be insured five years with USAA and have no accidents for past five years.

[7]Restrictions may apply to installment payment options.

[8]Online discount not available in CA, FL, GA, HI, MA, ME, and NC. Discount is up to $30 in MO.

[9]$1,000 limit applies in AK, NJ, and NY. Coverage not available in NC. Refer to your policy for your coverage limits.

Coverage descriptions are brief and subject to the terms and conditions of your policy.

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[10]Rates subject to change without notice. Rate you may receive will depend on your individual circumstances, including your credit history, loan amount, available equity, and our internal credit criteria. Consult a tax advisor regarding the deductibility of interest. Additional restrictions apply to TX home equity lines. Offer not available in all locations.

$1,200 savings figure based on comparison of $200,000, 30-year, fixed-rate loan.

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Closing date guarantee applies to conventional purchase mortgages, and $500 is applied in the form of a credit toward closing costs.

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[11]Systematic investment plans do not assure a profit or protect against loss in declining markets.

[12]Free trade offer expires 12/31/07. Offer not eligible for transaction fee mutual funds. Free trades limited to domestic, NYSE-, AMEX-, or NASDAQ-listed securities, up to 1,000 shares placed on the Internet or self-service telephone system. After 25 free trades or 30 days, whichever comes first, account will revert to gold or platinum fee schedule, depending on asset and activity levels. Offer limited to one account per person. Valid for U.S. citizens or permanent residents. Void where prohibited. Offer may be modified or terminated without notice prior to application and is not valid with any other offers. Other restrictions may apply. Commissions may change without notice. For information and a commission schedule, visit usaa.com. Brokerage account holders who have signed up to receive all investment account confirmations and account statements online and who trade stocks 25 or more times per quarter or who trade stocks 16 or more times per quarter and have $50,000 or more in eligible assets with USAA Investments qualify for $5.95 Internet or self-service telephone trades. Commissions are based on stock trades executed in a rolling 90-day period. Commission rate applies up to 1,000 shares. Eligible assets include those held in USAA Private Investment Management, USAA Strategic Fund Adviser and USAA College Savings Plan (529) accounts, and USAA mutual funds; non-USAA-managed assets held in USAA brokerage or asset management accounts (AMA) are not included in calculation of eligible assets. Other restrictions may apply. Commissions may change without notice. For information and a commission schedule, visit usaa.com.

Mutual fund operating expenses apply and continue throughout the life of the fund.

[13]The American Association of Individual Investors (AAII) is an independent nonprofit association whose purpose is to help its members become effective managers of their own assets through programs of education, information, and research. The 2006 survey, reported in the February 2007 issue of the AAII Journal, asked its members to identify and then rate their discount brokers for trade price, execution speed, reliability, and overall satisfaction. USAA was ranked #1 for overall satisfaction and #2 for trade price, execution speed, and reliability. In the 2005 survey, USAA ranked #1 in all four categories. Fifty-six firms were covered in the 2006 survey and the 10 most popular brokers (those for whom 10 or more member responses were received) were ranked based on member ratings. Go to aaii.com for more information.

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USAA Companies

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Lonnie Johnson

USAA member since 1975

According to Lonnie Johnson, if you were on the moon and pulled the trigger of the water pistol he invented, your ammo would turn into a spray of ice particles and then vaporize, ending any lunar water fights. He should know.

This creative thinker is a former Air Force captain and NASA engineer who also helped design spacecraft sent toward Mars and Jupiter. His patents include the famous Hasbro Arctic Blast Super Soaker®, rocket launchers, and even a musical wet-diaper detector.

"The Super Soaker changed my life," says Mr. Johnson, now president of Johnson Research & Development in Atlanta. "It gave me the financial freedom to pursue my own ideas." He came up with the kid favorite in his basement lab as he worked on a refrigeration system that uses water instead of Freon®. One new project has him developing technology that could provide sustainable energy sources based on solar energy conversion. With his track record, he just might do it. Plus, he's known to be pretty good with that Super Soaker.

With more than 100 patents to his name, Super Soaker® inventor Lonnie Johnson takes aim at problems such as improving battery technology to make electric cars more viable.

PHOTOGRAPH BY LYNDA GREEN