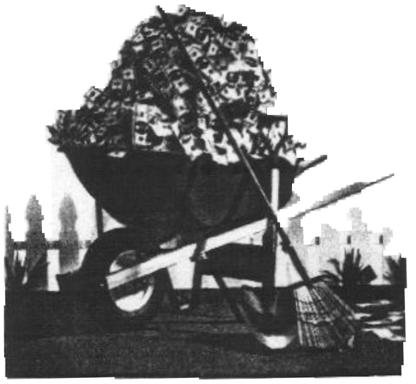

cipal back until your bond matures, yet TIPS investors must pay taxes on the gains from their inflation adjustments every year. That means it's usually best to do your TIPS investing under the shelter of a tax-deferred account such as an IRA.

You Can't Lose a Cent

Long a staple of 401(k) accounts, stable value funds have only recently been made available for direct purchase by individual investors for IRAs and other retirement accounts. These portfolios of short- and intermediate-term bonds wrapped in an insurance package guarantee that shareholders won't lose a penny of principal—a very attractive promise. And the funds pay much higher interest than such "safe" investments as money market funds and short-term certificates of deposit, yielding more than 4 percent recently, compared to just 1 percent for money funds.

In shopping for a stable value fund, consider only those with relatively low expenses, preferably charging 1 percent or less annually of your assets to manage the account. High redemption fees, typically a bruising 2 percent of the amount you withdraw, can also detract from your net gains, so be sure you plan to keep your money parked in the fund for a while. (These fees typically kick in when money market yields exceed those of the fund.)

Among the funds worth looking at: Scudder Preservation Plus Income (800-621-1048), recently yielding 5.1 percent, and Gartmore Morley Capital Accumulation (800-848-0920), 4.3 percent.

A word of warning: Be careful that you don't confuse stable value funds with another kind of guaranteed portfolio getting a lot of attention lately: principal protection funds. Like their stable value cousins, the latter funds rely on an insurance wrapper to guarantee that investors won't lose any of their initial investment. But principal protection funds contain a mix of both stocks and bonds. Theoretically, they can earn far higher returns. But financial advisers point out that portfolios of principal protection funds are so heavily weighted with bonds that the potential for stock-like profits is minor. Meanwhile, the management fees on the funds are exorbitant—many charge 2 percent or more annually—and restrictions abound on withdrawing your money without penalty before a stated maturity date.

The biggest plus with fixed annuities: They give you predictable cash flow. In an increasingly volatile and unpredictable world, that's very appealing.

Your Check's in the Mail

A combination insurance-and-investment product, the fixed annuity offers a guaranteed rate of return, tax-deferred growth, and a steady stream of income when you begin making withdrawals. No wonder business is booming, with an estimated $100 billion in fixed-annuity sales in 2002—twice the volume sold two years ago. "Annuities give you predictable cash flow, which in an increasingly volatile and unpredictable world is very appealing," says Michael K. Stein, a financial planner in Boulder, Colorado, and author of *The Prosperous Retirement: Guide to the New Reality*.

There are two basic kinds of fixed annuities—immediate and deferred. With either, you lock your money up for a long time (usually 7 to 10 years) and are penalized if you try to retrieve it.

With an immediate annuity, you make a single upfront payment, in return for which you receive a regular monthly check for the rest of your life. With a deferred annuity, you can either pay a big upfront premium or spread your payments over time and begin withdrawals at a later date. In both cases, you earn a substantially higher return than on traditional cash investments (4–5 percent for the first year of the contract) and get a guarantee that you'll be paid no less than a certain minimum rate (typically around 3 percent). Depending on the payout option you choose, the monthly checks typically last as long as you live, and sometimes longer, if your contract allows you to name a beneficiary. Says Stein, "Knowing that you can't outlive this income is a powerful selling point."

But peace of mind can come with a hefty price tag. The fees and commissions on fixed annuities are generally much higher than on other investment products—an important reason why financial advisers often suggest buying annuities from low-cost providers such as TIAA-CREF (800-223-1200) and Vanguard (800-522-5555), which sell directly to the public instead of going through an insurance agent.

Current buyers also may worry that they are locking themselves into lifetime payments while interest rates are at historic lows. "You don't want to tie up all of your retirement savings at such dismal rates of return, no matter how safety-conscious you've become," says Dee Lee. For this reason, she recommends putting no more than 25 percent of your savings into fixed annuities ($25,000 of a $100,000 portfolio, for example, if you're buying the immediate version), then dividing the rest among a diversified mix of stocks and fixed-income investments. Notes Lee, "Eventually stocks will rise again and, no matter how old you are, you need the long-term growth that they offer."

Contributing editor Diane Harris writes about personal finance and work.