Your Enemies as an Investor – Inflation and Taxes
(Ghostwritten, published by a Certified Financial Planner on his website)

Investors face two natural enemies – inflation and taxes.

Inflation will eat away at long-term returns and there's not much to be done about it, other than making smart investment choices that will maximize those returns, thereby minimizing the damage.

Taxes are another story. Shoreline investors have a wide range of strategies available to tame the tax beast, since lawmakers set up the tax code to encourage certain financial practices and to discourage others.

Currently, the top tax rate on capital gains is 15 percent, but that cap is set to expire at the end of 2010 and many lawmakers are calling for an increase.

Here are some of the most effective ways to minimize the tax bite:

-- Invest in a tax-deferred retirement vehicle, such as a 401(k) plan. There are similar plans for people who work for schools and nonprofit organizations (the 403(b) plan) and those who are self-employed (Simplified Employee Pensions). In each case, your contributions and earnings are free from federal or state taxes until the time comes to withdraw the money, usually upon retirement. This allows your investment to build faster, since you contribute far more money with pre-tax dollars. It also means the money will likely be taxed at a lower rate, since your tax rate after you retire should be lower than during your working years. Also, many employers match a portion of your contributions, also with tax-deferred dollars.

-- Open a Roth IRA. Traditional Individual Retirement Accounts allow you to contribute pre-tax dollars and then pay the tax tab upon withdrawal, similar to a 401(k) plan but with strict limits on how much money you can contribute each year, and income limits governing deductibility. The Roth IRA turns that formula on its head, taking in post-tax contributions but allowing the investor to withdraw the funds tax-free at age 59½. Again, the amount of annual contributions is limited, and income limits apply. The Roth IRA can be advantageous for younger workers, who have a longer timeline to build up their account.

-- Consider tax-deferred annuities. For those who have maxed out their IRA contributions and other investment options, annuities can provide another tax-sheltered device for building wealth. You can invest in a tax-deferred annuity without paying federal or state taxes on that money until you withdraw the funds, after age 59½ without penalty.

-- Purchase municipal bonds. These bonds are issued by state, city and local governments to raise money for a wide variety of needs, and they offer unique tax advantages. Interest income on these bonds is usually exempt from federal and state taxes.

Paying taxes on your investments is actually a good thing, since it shows that you are making a profit, known as capital gains. But the investor's goal is to maximize those profits, so it's important to minimize the amount that goes to the tax man. These strategies give you a variety of simple ways to accomplish that goal.