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INVESTING IT/MUTUAL FUNDS; Handyman Seeks a Financial Blueprint

By ROY FURCHGOTT MARCH 22, 1998

DARRIN SCHOEN'S friends call him ''the Specialist.'' A 20-something construction manager, he can fix anything: tune cars, clear drains, repair masonry. When it comes to fixing his finances, though, Mr. Schoen doesn't know the stock market from a circular saw.

He owns no securities. He has never put money anywhere except in a checking account. And recently, when Maury Zanoff, a financial planner and a friend of Mr. Schoen, gingerly said, ''I don't know how much you know about mutual funds . . .,'' Mr. Schoen quickly put his index finger and thumb together to signal ''zero.''

But several changes in his life have convinced Mr. Schoen, who lives in Bethesda, Md., to begin investing. In January, he abandoned plans to go to graduate school to become a physical therapist, choosing instead to make a full-time career out of his part-time work in construction. And one builder for whom he works has held out the possibility of an office job if a construction project that Mr. Schoen is supervising goes well. The promotion would mean a raise, to $40,000 from $31,200. Mr. Schoen is even toying with the idea of starting his own construction business someday, and has begun to think about retirement, too.

''I realize I am 27, and for the first time I am looking at the future,'' said Mr.

Schoen, who is single. "It's ridiculous to think you can save money as a student, but now I have a career and I have to invest."

Mr. Schoen gets no health or pension benefits from his work. He sees that this offers yet more reason to save and invest.

For all these reasons, Mr. Schoen recently visited Mr. Zanoff at the Chevy Chase, Md., office of Bernard Wolfe & Associates, a financial planning firm. The first big task: an inventory of Mr. Schoen's debts.

Mr. Schoen has accumulated $1,959 in balances on his three credit cards, all of which impose annual interest charges of more than 20 percent. He also carries an $8,279 loan, at 8 percent interest, on a 1994 Honda Civic that he bought used in 1996. And he has student loans of about $14,300, at a bit more than 8 percent interest, on which he has deferred payments since his graduation from West Virginia University in 1994.

Then come his other expenses. Mr. Schoen's after-tax pay, $23,491 last year, translates into $1,958 a month. From that amount he pays $450 in monthly rent on a house he shares with some other young men, $410 for entertainment, $180 for telephone and utilities, $100 for groceries and $100 for meals away from home. Add in the $247 payment on his car loan and $100 on his credit cards, plus $60 for cigarettes and other outlays for gasoline, clothes and the like, and not much remains.

But Mr. Schoen does have some resources, primarily $6,000 in his checking account. He had saved it to pay his 1997 income taxes, but Mr. Zanoff said his paycheck withholding would cover them. In fact, the planner calculated that Mr. Schoen could expect a Federal tax refund of $1,597 and a state refund of $207.

These slim resources, however, were not enough to quell Mr. Schoen's sense of trepidation two weeks ago, when he visited Mr. Zanoff a second time to hear his plan.

"Should I be afraid?" Mr. Schoen asked. "Will I be eating rice cakes for the next six years?"

Mr. Zanoff replied, "You will have to make a few adjustments."

For one, Mr. Zanoff recommended that Mr. Schoen pay off his entire credit card debt and stop using all but his lowest-interest card, and that he consider getting a debit card for emergencies.

Also for emergencies, Mr. Zanoff suggested putting $1,000 in a money market fund, the Calvert Insured Plus Account, which yields 4.59 percent. Another $750, the planner said, should be reserved to begin paying off Mr. Schoen's student loans.

Mr. Zanoff further advised Mr. Schoen to set up an I.R.A. for the 1997 tax year. Mr. Schoen's income is low enough that a $2,000 contribution will be tax-deductible.

Mr. Schoen also needs to buy health insurance, which Mr. Zanoff budgeted at $1,800 a year. ''That's definitely first on my list,'' Mr. Schoen said. ''I haven't been to a doctor in four years.''

The health insurance premium, of course, can be paid at $150 a month, but all the other suggested outlays would be big and immediate hits, leaving just a few hundred dollars in his bank account.

But then there is the $1,804 in tax refunds. With that money, Mr. Schoen should set up a second I.R.A., this one for 1998 and of the Roth variety, Mr. Zanoff said. In a Roth I.R.A., contributions are not only tax-deferred, as in a traditional I.R.A., but also forever tax-free. Mr. Zanoff said a Roth was right for Mr. Schoen because he is in the low, 15 percent tax bracket and because of his long investing horizon, allowing tax-free earnings to compound significantly.

For both I.R.A.'s, Mr. Zanoff recommended the Davis New York Venture fund, a large-company value fund that had a 33.7 percent return last year, putting it in the top 10 percent of its category. ''It's been around 29 years, it's conservative with great returns, and it's a good starting point for a portfolio,'' Mr. Zanoff said.

Guy Cumbie, a planner from Fort Worth, who, at the request of The New York Times, also looked at Mr. Schoen's finances, agreed with most of Mr. Zanoff's proposals. But he differed on the fund choice for the I.R.A.'s.

''The Davis fund is a good fund, but it is concentrated in one of the most overvalued asset classes," Mr. Cumbie said. Because Mr. Schoen has few resources, Mr. Cumbie recommended instead a more diversified fund, Sogen International. That fund earned 8.54 percent last year, compared with 6.69 percent for its peers in the international hybrid category tracked by Morningstar, the financial publisher in Chicago.

"It is a global balanced fund with value-oriented, U.S. and foreign, small-, medium- and large-cap stocks, bonds and high-yield debt," Mr. Cumbie said. "On a risk-adjusted basis, it is really outstanding and he is less likely to have his head handed to him."

Mr. Zanoff said that if Mr. Schoen received his expected raise, he should put $175 a month into another mutual fund, perhaps through an automatic-deduction program to help him maintain his investing discipline. He suggested Hartford Capital Appreciation, a small-cap fund that earned 55.11 percent last year -- more than double the average of other small-cap funds that follow a blend of growth and value strategies. Mr. Cumbie approved of that selection.

VEN with his raise, however, Mr. Schoen's new outlays -- health premiums, student loan payments, monthly investments -- mean he must do some budgeting. Mr. Zanoff said that two expense categories stood out as good candidates for trims: entertainment and cigarettes.

Mr. Schoen said he was already cutting down on the first, going out only half as much as he formerly did. To formalize that change, Mr. Zanoff suggested an entertainment budget of $50 a week before the raise and $60 a week after. That compares with nearly $100 a week at the old pace.

Perhaps as much as a friend as a planner, Mr. Zanoff also noted that if the $720 spent on cigarettes each year were invested annually and grew at 8.5 percent, it would amount to $280,000 by Mr. Schoen's retirement. "A quarter of a million puffed away," Mr. Schoen said.

He would also save on health insurance by giving up smoking, Mr. Zanoff added.

Mr. Schoen is determined to adopt Mr. Zanoff's plan, but he worries about his ability to stick to it. As he looked over his projected 1998 budget, though, it seemed that he had already developed a great deal of respect for the proposed guidelines.

After investments are made and bills are paid, the budget showed money left over -- one dollar, to be exact. Noticing this, he asked Mr. Zanoff, "Can I spend that any way I want?"