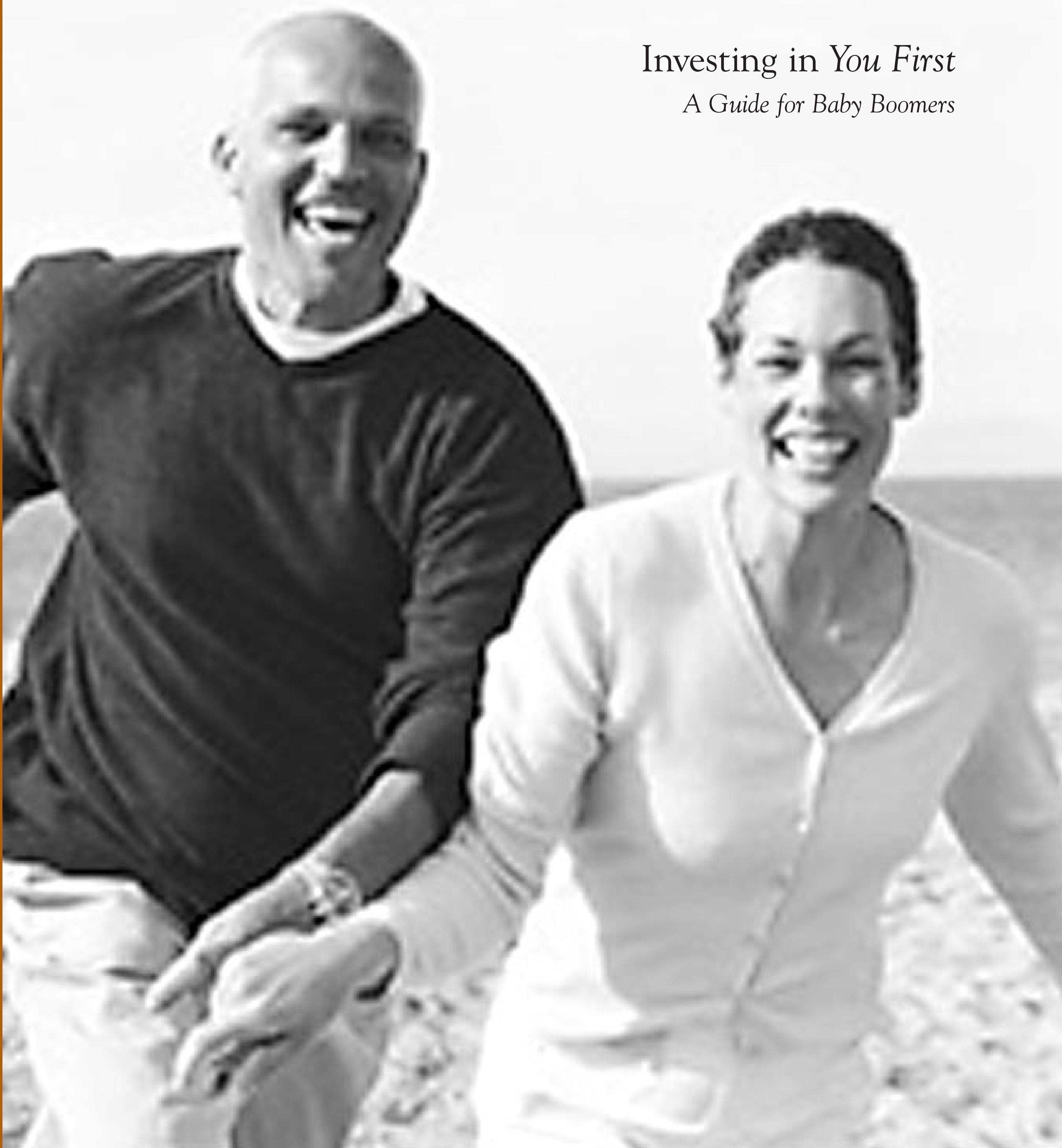
handbook 1

Investing in *You First*

A Guide for Baby Boomers

written by Christopher L. Hayes, Ph.D.



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Investing in *You First*

A Guide for Baby Boomers

National Endowment for Financial Education

Partnering for Financial Well-Being

William L. Anthes, Ph.D. President
Written by Christopher L. Hayes, Ph.D.

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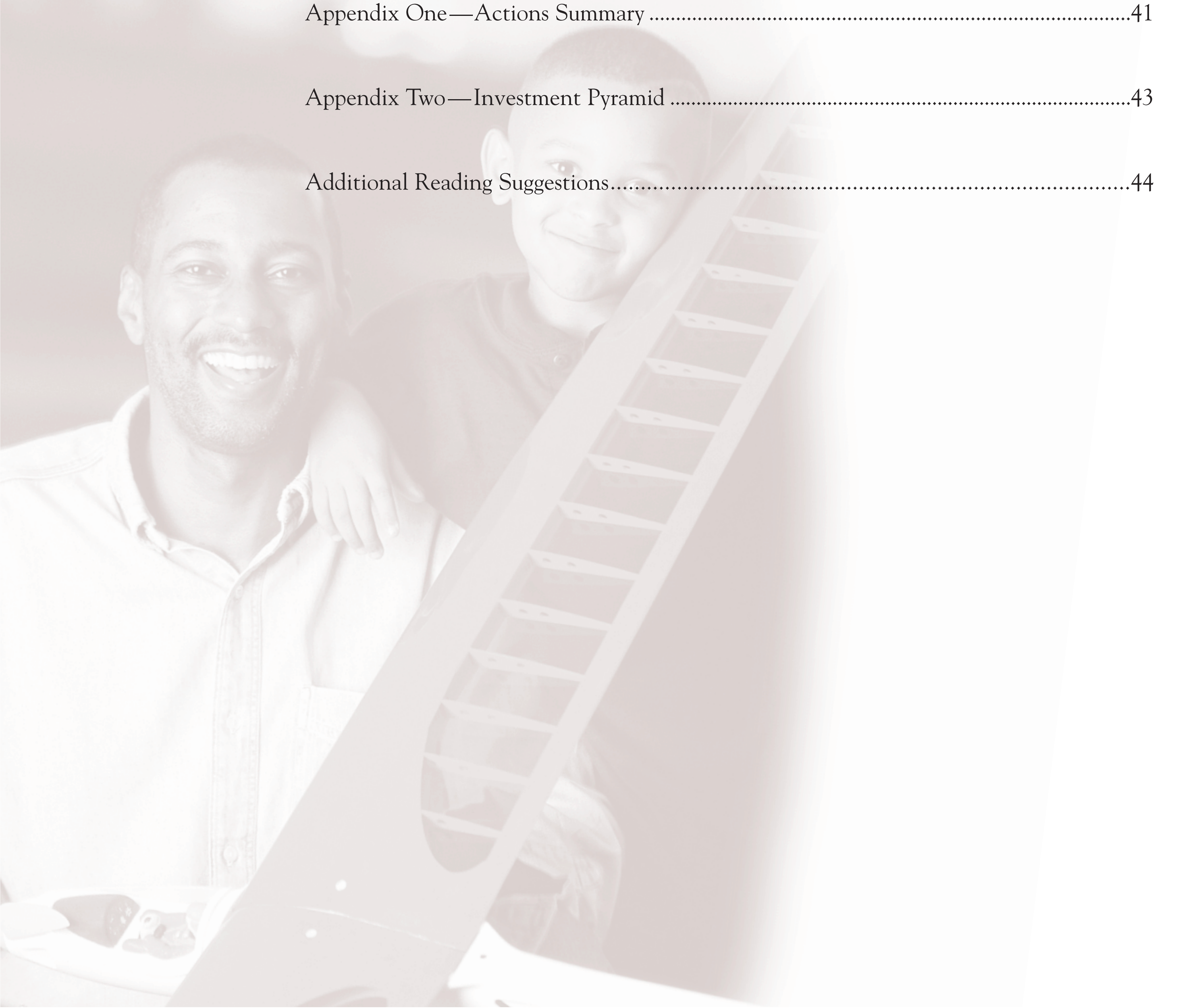


Introduction

The Baby Boom generation (born between 1946-1963) has marched into every stage of life with a unique set of values, perspectives, and needs. Even planning for retirement, Boomers march to a different beat, which is the reason for this series of handbooks. They were written to encourage Baby Boomers to harness their individuality in addressing present and future needs.

The *You First* Planning Process

Each handbook in this series is based on a concept we call *You First*. The term means that you have the power and ability to chart your own course to actualizing your goals and dreams. *You First* means that you have the power to learn and implement new strategies based on changing needs and circumstances. *You First* encourages you to use outside resources in an ongoing quest to make informed and educated decisions about present and future needs. Most importantly, these handbooks provide you with a foundation to sharpen your skills and abilities, putting you in control of the planning process.

Setting up your personal future is based on five principles:

– *You First understand* that your older years will be different from what any other generation, including your parents and grandparents, has experienced.

– *You First recognize* that your future is an individual responsibility. You cannot depend on others to meet your needs in later life.

– *You First* need to *believe* that planning takes minimal effort and will not add burdens to your already busy life.

– *You First* must *recognize* that taking any step forward builds momentum and creates greater opportunity for accomplishing your goals.

– *You First* need to *acknowledge* that your own individuality is a tremendous resource, which will nurture and guide you throughout the process.

The *You First* Steps to Planning

You First, as an infant, couldn't walk. Walking was part of a process that began with crawling before you advanced slowly onto two feet, with the occasional fall. Likewise, creating the future you want requires taking incremental steps, and sometimes making mistakes. Just like the marathon runner, you set the pace of completing each step in the handbook series. Each step is designed to be fun—unless you enjoy it, why would you continue? Every step contains suggested *You First* strategies, designed to enhance the likelihood of success.

Throughout each booklet you will read quotes from people just like you. These individuals act as companions who make the material "come to life." In fact, each handbook in the series was based on suggestions and insights from fellow Baby Boomers who were interviewed in groups for this project. At the end of each handbook is a series of *You First* action points based on the material covered.

You First Handbook Background

The *You First* handbooks were created and written by Christopher L. Hayes, Ph.D., Professor of Gerontology at Southampton College of Long Island University. The materials were developed as part of a National Endowment for Financial Education® (NEFE®) grant titled *Re-Casting Pre-Retirement Planning Information for the 21st Century*, produced by the Center for Aging Research and Education (CARE). An in-depth research report was generated from Baby Boomer focus groups, which encompassed a wide range of socio-economic and racial/ethnic backgrounds. The author of these *You First* handbooks wishes to thank NEFE for its support in helping reshape the scope and nature of pre-retirement planning materials.

The *You First* Handbook Series

Other handbooks in the series are:

– Investing in *You First*

– A New Career That Will Place *You First*

– Placing *You First* Within Financial Transitions

– Caring for the Long Term: *You First* Need Knowledge

"Retirement to me is a state of mind, not a specific lifestyle or the recognition that I am 'old.' Many individuals in my generation can't identify with the word 'retirement' because it represents withdrawing from activity. I am planning for the time wherein I have greater freedom to choose how I live my life…a period in my life that allows me to rediscover lost dreams and venture down unexplored roads." —Nancy W. (48 years old)

Retiring the "R" Word

We live in a different age, with fast changes, little time, and many bills. We keep hearing that retirement is something to plan for, but we can't identify with the word or what it symbolizes. The thought that often pops into our mind might be, "retirement just isn't me!" And you know what—it isn't. The word and concept of retirement were invented and used by government and labor. It just means leaving one phase of life—the world of income-producing work. That's it! The word is not a "human defining word." It has nothing to do with describing the person *you* are and will be as *you* grow older.

Maybe some better "R" words would be:

– Reinvent
– Renew
– Revision

Perhaps the most important "R" word is *reliving*. Let's *maximize* the word *live*, for that's exactly what we are going to want to do as we grow older: Live better, live fully, live *more*.

The "You First" Principles for Financial Investing

Setting up your personal and financial future is based on three simple principles:

– ***You First*** *need to identify your personal dreams and goals for the future.*
– ***You First*** *must prioritize those goals that require you to save and invest.*
– ***You First*** *should master some basic financial information and tools that will enhance your ability to reach your financial goal(s).*

Write down a few adjectives that come to mind when describing an older person:

____
____
____
____
____
____

Write down a few adjectives that you feel will describe yourself as an older person:

____
____
____
____
____
____

Think of your own "R" word, one that describes your personal statement about your later years:______________________________

We are our own person, always have been, and always will be. How we grow old will be on our own terms, not based on anyone else's stereotypes.

Where do you stand on the following statements?

– Aging will be *boring vs. adventurous.*
– Aging will be all *downhill vs. a growth experience.*
– Aging will be *empty vs. full.*
– Aging will be the *same vs. filled with change.*
– Aging will be *agony vs. challenge.*
– Aging is *sick vs. healthy.*
– Aging is *withdrawal vs. involvement.*
– Aging is *indifference vs. passion.*

Write down in a notebook a few adjectives that come to mind when describing an older person. In fact, it will be a good idea to have your notebook handy as you read this booklet and the other ones in the series to write down answers and questions pertinent to *your* life situation. Now, write down some adjectives that you feel will describe *yourself* as an older person. What are the differences, similarities?

FACT: Many of the negative concepts and adjectives that describe retirement and aging come from *younger* people. As a test, go ask an older person what it means to retire and age—you will probably be in for a surprise! We discover the positive view on aging as we actually experience age.

Back to the Present

Maybe you are saying to yourself: "That's all well and good, but I have a difficult time planning for my present needs, let alone planning and saving for my future needs and goals."

That's so true! We live in the *present* because that's what feels comfortable, rewarding, and secure. *Tomorrow* sounds exciting to think about, but we first must meet the obligations of *today*. There is so little time to get the things done we need to do that *planning* seems overwhelming. There never seems to be enough money to invest after paying the bills. We're caught up in saving for our children's college education or a rainy-day fund. We look forward to a new life someday, but there are so many challenges. And that's what we think about when we're told to plan ahead. It all seems so difficult!

Sound familiar?

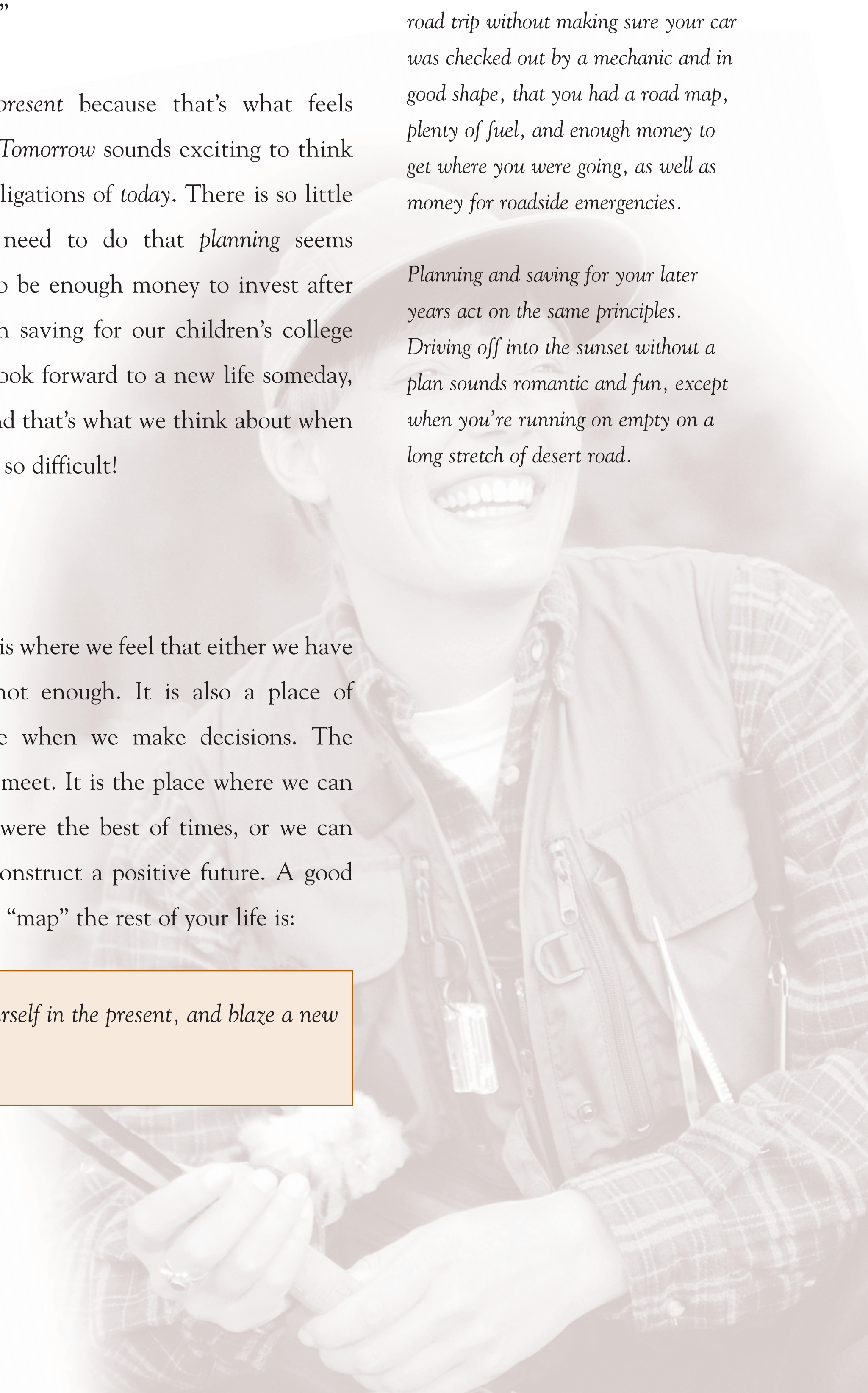
Life is lived in the "here and now." It is where we feel that either we have too much time on our hands or not enough. It is also a place of awareness, reflection, and the time when we make decisions. The present is where the past and future meet. It is the place where we can look back and think our past lives were the best of times, or we can embrace our present and begin to construct a positive future. A good thought to hold onto as you begin to "map" the rest of your life is:

> *"Be thoughtful of the past, anchor yourself in the present, and blaze a new trail for your future."*

The road trip of your life

Anchoring yourself in the present and blazing a trail to the future require a plan. You wouldn't leave on a long road trip without making sure your car was checked out by a mechanic and in good shape, that you had a road map, plenty of fuel, and enough money to get where you were going, as well as money for roadside emergencies.

Planning and saving for your later years act on the same principles. Driving off into the sunset without a plan sounds romantic and fun, except when you're running on empty on a long stretch of desert road.



"The other day I was flipping channels on the television and found a re-run of 'The Andy Griffith Show' that I watched as a kid. I sat in my chair wishing that the town of Mayberry existed and I had the life of Aunt Bea. Sure I realize that Mayberry never really existed, but don't we all yearn for the simplicity that embodied that show…I sure do." —Maxine B. (47 years old)

Understanding the change

Old Map:

- *Nuclear family*
- *Stay at home mom*
- *Long-term marriage*
- *Have kids in your 20's*
- *Job for life*
- *Education ends in early 20's*
- *Gold watch & pension*
- *Leisure suits & rocking chairs*

21st Century Map:

- *Extended & blended families*
- *Working mothers*
- *Divorce & serial marriage*
- *Have kids in your 20's, 30's, 40's*
- *Downsizing & serial jobs*
- *Lifelong education*
- *Disposable watch & no pension*
- *Quest for a new purpose*

Step no. 1 Getting from here to there: Mapping your personal & financial future

Who Switched the Map?

As you can see by the "maps" listed to the left, life is very different for Baby Boomers than it was for our parents and grandparents. Previously, life was remarkably uniform, predictable, and safe. We were educated early in life, settled down with one family, worked at one job until we retired with a good pension and government Social Security. Peoples' goals were easy to set and easy to maintain. But the *Life Map* has changed. The new millennium is a time of uncertainty, unspoken rules, and vast change. All through our adult lives we will have to shift our goals depending on our circumstances. All of this can be bewildering and unsettling. How can you establish goals for your short-term future, let alone plan for your retirement, in a world of constant change and uncertainty? The challenge is to find different ways to shape your life around this complex flow, and to uncover the motivation to keep you on track.

As you can see, the Life Map has changed drastically. To master your life both now and in the future *You First* must learn how to navigate through the peaks and valleys of an ever-changing territory.

Ask yourself: "How do I feel about living and growing older in a world with little precedent?" Are you excited? Scared? A little of both? Do you see yourself as a pioneer? Write down your thoughts in your notebook, journal, or here.

Remembering

Many of you may remember television shows like "Leave It to Beaver" with June and Ward Cleaver. They were the nuclear family. Mom stayed at home, Dad was the breadwinner—and he probably had a good pension plan. Life was orderly, stable, and predictable, except for the antics of Beaver. This was the American Dream of the 50's.

Just like you, Wally and Beaver, if their story continued, would be all grown up and thinking about what lies ahead. They are living with the new Life Map, full of change and unpredictability.

Here and Now

It's time to begin to walk the talk. The process begins by sitting down and mapping out your "here and now" goals and the dollars you may need to reach those goals.

In the list of goals below, mark the goals that you would like to accomplish ("A"), and note those that will require financial support ("F").

	A	F
Transition Goals		
Get married/divorced	☐	☐
Get a new job/career	☐	☐
Start a family	☐	☐
Return to school	☐	☐
Develop a business	☐	☐
Relocate	☐	☐
Other	☐	☐
Health & Emotional Well-Being		
Lose weight/exercise	☐	☐
Reduce stress	☐	☐
Medical/dental check-up	☐	☐
Take a vacation	☐	☐
Take a sabbatical	☐	☐
Develop a new hobby	☐	☐
Simplify my life	☐	☐
Other	☐	☐
Financial		
Eliminate credit card debt	☐	☐
Pay off student loans	☐	☐
Buy a home	☐	☐
Purchase a car	☐	☐
Children's education	☐	☐
Save for retirement	☐	☐
Other	☐	☐

"I was a 52-year-old woman who never had a plan or thought about goals. I thought I was a free spirit, 'let life just happen.' My mindset was back in 1973, which was fine for then. It was like carrying a peace sign, when everyone now is carrying cell phones. I worked as a secretary and for years was unhappy. I wanted to make more money and have a job that I really liked, especially when I knew I was going to be working well past the age of 65. I did a lot of talking and complaining to my friends about why I couldn't get my life together—it just seemed too overwhelming to tackle. A friend finally said to me: 'To get a life, get a plan.' I slowly started to list some goals and dreams, both realistic and unrealistic. Writing them down on paper made them more real and concrete—like I could really do this. That's how it started. My goal is to save $5,000 to go back to school to become a paralegal. For me it's one step and one deposit at a time." —Vera N.

Writing down your goals might help *you* as it did Vera. To the left is a list of common goals that individuals try to meet. Mark the ones that *you* would like to work on. The goals represent different aspects of a person's life. Some are directly related to finances, others relate to lifestyle but may need financial support to accomplish. Mark the goals that require financial support. Some might be short term (one or two years), and others might be medium term (three to five years). More about that later.

Do a Financial Check-up

You probably wouldn't go on a long journey without a physical check-up from your doctor. The same is true when it comes to making plans and setting goals. Do this Financial Check-Up before you journey on:

	Yes	No
– I always pay my bills on time.	☐	☐
– My credit card debt is minimal or non-existent.	☐	☐
– I contribute to a savings plan.	☐	☐
– I always pay my taxes on time.	☐	☐
– I live within my financial means.	☐	☐
– I know exactly where my money goes.	☐	☐
– I do not shop compulsively.	☐	☐
– I do not dream of winning the lottery.	☐	☐
– I avoid loaning money to friends or family.	☐	☐
– I balance my bank statement each month.	☐	☐

> *"During the last two months I have had to confront the realization that my finances are out of control. I cringe when the mail comes and I am faced with my credit card statements. I don't like answering the phone at night because I know it is a bank reminding me of my past- due notices. It may sound crazy, but I shop with money I don't have to make me feel better. I even loan money to friends and relatives that should be going to pay bills. I don't even know at this point where to begin to solve the problem."* —*Stacey A. (46 years old)*

If you feel you have too many "no's" in your Financial Check-Up or can relate to the plight of Stacey, don't despair! Becoming aware of the "no's" is the first step. Taking small simple steps will put you on the road to meeting your goals and improving your financial fitness. Remember: Inaction keeps you a victim!

"My entire family calls me 'the big dreamer.' I am always talking at the table about things I want to accomplish, like renovating the spare bedroom downstairs to become a home office. In the next breath, I'm talking about taking the family on a rafting trip down the Colorado River. I know they are only kidding me, but it sometimes hurts that I cannot seem to focus on one idea and see it through. I would love to show them that just one of my dreams can become a reality." —Michael B. (48 years old)

Let's look at how Michael might set up his action steps:

Goal: Renovate room for home office.

- *Needs equipment, building materials, contractor.*
- *Credit cards maxxed out.*

Action Steps:

- *Open a savings account earmarked just for this goal.*
- *Start developing the "habit" of saving. Put a certain amount away each week for one year.*
- *Secure a home equity loan for the rest.*
- *Pay off credit cards and have enough to renovate room for office at a lower interest rate.*
- *Buy new home computer equipment.*

Step no. 2 Prioritizing Your Goals

Achieving your goals starts with setting a short-term goal that will make you feel happy in the present. By building positive momentum in the present, you build self-confidence and create building blocks for medium-term goals. A major barrier to moving forward is feeling you have to address multiple goals at the same time. Don't fall into this trap—start with just one goal in mind:

Setting Your Own Goals

1. Identify one short-term goal that requires financial assistance.

   ____

2. What resources will you need (other than money) to achieve the goal?

   ____

3. Highlight any obstacles that might get in the way.

   ____

4 What strategy can you use to remove or minimize the obstacle(s)?

   ____

5. When you accomplish this goal, what do you want to do next?

   ____

"Ever since I was a little kid my dream has been to fly. But I never got around to figuring out how much it would cost to take lessons and get a license. The other day my wife encouraged me to call a local flight instruction school, but I pooh-poohed it because of the cost. I just realized that I made a snap decision to forget it without really fully exploring it. It's not as if I couldn't start saving some money to take lessons. The way I think, if I don't have the money now, it's not going to happen!" —Ed M. (46 years old)

Step no. 3 DETERMINING THE COST

To meet your goal, you need to know how much it is going to cost and consider how long you need to save. Many individuals like Ed dismiss their goal(s) because they don't have the funds to immediately pursue their dream. On the other hand, some individuals plunge into satisfying their immediate goals and spend money they cannot afford. By following a few key action steps you can quickly begin the process of goal-setting with sound information based on your circumstances.

Let's look below at how Ed figured out how long it would take to save enough money to learn to fly:

QUESTIONS TO ASK	*ED*	YOU
1. How long do you want to wait to achieve this goal?	*1. One Year*	1. ____________
2. What is the total cost of the goal?	*2. $8,000*	2. ____________
3. Amount already saved for the goal?	*3. $1,000*	3. ____________
4. Additional money needed?	*4. $7,000 total. Half from savings, half from home equity loan.*	4. ____________
5. Annual savings needed?	*5. $3,500*	5. ____________
6. Monthly investment needed?	*6. $292*	6. ____________

"I was a salesperson working at an electronics store, with the idea that it was impossible to save a dime. With two kids, a mortgage to pay, and other bills coming in, it seemed that putting money away was not going to happen. I became motivated to start saving when my children wanted to go to Disneyland for a vacation. To take the family for one week was going to cost $5,300. Instead of putting it on a credit card, I decided to pay for the trip by saving the money. Here is how I was able to save $50.00 a month." —Raymond A. (41 years old)

Step no. 4 Finding Those Savings Dollars

The biggest reason individuals provide for not saving or investing is they "don't have the money." You need to *believe* that regardless of how little or how much you earn, or what your expenses are, you can find the money. Here is a real success story to prove the point.

Ray's Savings Plan

- **Shopped strictly by list at the grocery store.** This prevented any impulse buying and immediately provided a dividend of saving $15 a month.
- **Bought in bulk.** Our local "food warehouse" allowed us to purchase items at radically reduced prices. Using this strategy saved us $10 a month.
- **Bought all non-food items when they were "on sale" or with a savings coupon.** This added, on average $5 a month.
- **Recycled money.** Once a month we took our soda cans back to the grocery store and put the deposit money into our savings account.

– **Put all loose change in a jar at the end of the day.** By the end of each month we usually had about $10-$15.

– **To keep the family motivated each month to reach our goal, the last Saturday night of each month was designated as *Surprise Night*.** Each of us took turns spending $20 on some treat all of us would enjoy.

Creating a Spending Plan

For longer-range goals that require more savings, you need to consider the following:

– Understand your cash flow by tracking your income and expenses for one month.

– Organize your income and expenses into categories.

– Develop a monthly cash-flow statement.

– Identify the amount of discretionary income you have for savings and investing.

– Devise a livable budget.

– Leave enough money to pay yourself first each month by earmarking funds for your savings/investment account(s).

Use the space below to create your own spending plan.

"My problem is that I knew exactly what I wanted—a sailboat I could use on Long Island Sound. Instead of putting money aside, I thought I could make a quick dollar trading stocks. I ended up losing most of what I saved towards the sailboat because the market took a dive, and I got scared and pulled everything out." —Jeffery N. (50 years old)

Step no. 5 Saving for a Short-term Goal

Financial experts usually agree that money you are going to need in less than five years should not be placed in the stock market. Thus, you should consider using savings vehicles that provide a minimal risk of losing your principal. This means you should consider conservative savings vehicles such as certificates of deposit, Treasury bills, or money market funds (the **Investment Pyramid**).

Savings Vehicles

- **Passbook Savings.** You can open a passbook account at a bank or credit union with a minimum deposit of about $25 to $100; it typically pays .50 to .75 percent interest (currently).
- **Savings Bonds.** The cost of a savings bond can be as low as $25.
- **Insured Money Market Accounts.** These have only U.S. Treasury bills and short-term government notes in them; the rates are usually a bit higher than those paid on a passbook savings account, and the money market account is just as liquid. In addition, the account is insured.

– **Money market mutual funds.** These accounts are similar to insured money market accounts but usually earn a higher interest rate. You can write checks off of these accounts, so they are very liquid. Some can be started with as little as $500 and are available from almost any mutual fund company.

– **Certificates of Deposit (CDs).** CDs are as liquid as a passbook savings account, but the interest rates are higher. CDs are loans you make to the bank. They can be purchased for as little as $500 at many financial institutions. The interest rate is guaranteed for a specific period of time.

Action Steps

– Before selecting any of the above savings vehicles, make sure to gather further information on which type will best meet your goal.

– Keep in mind that when you're looking for an interest-bearing account, the annual percentage yield is more important than the interest rate (see page 25 for what these terms mean).

– If you are unsure whether you have the stamina to save the monthly amount required, consider enrolling in a payroll savings plan at your place of employment.

– At the end of each month, after placing your money in the account, reward yourself with something—this is critically important!

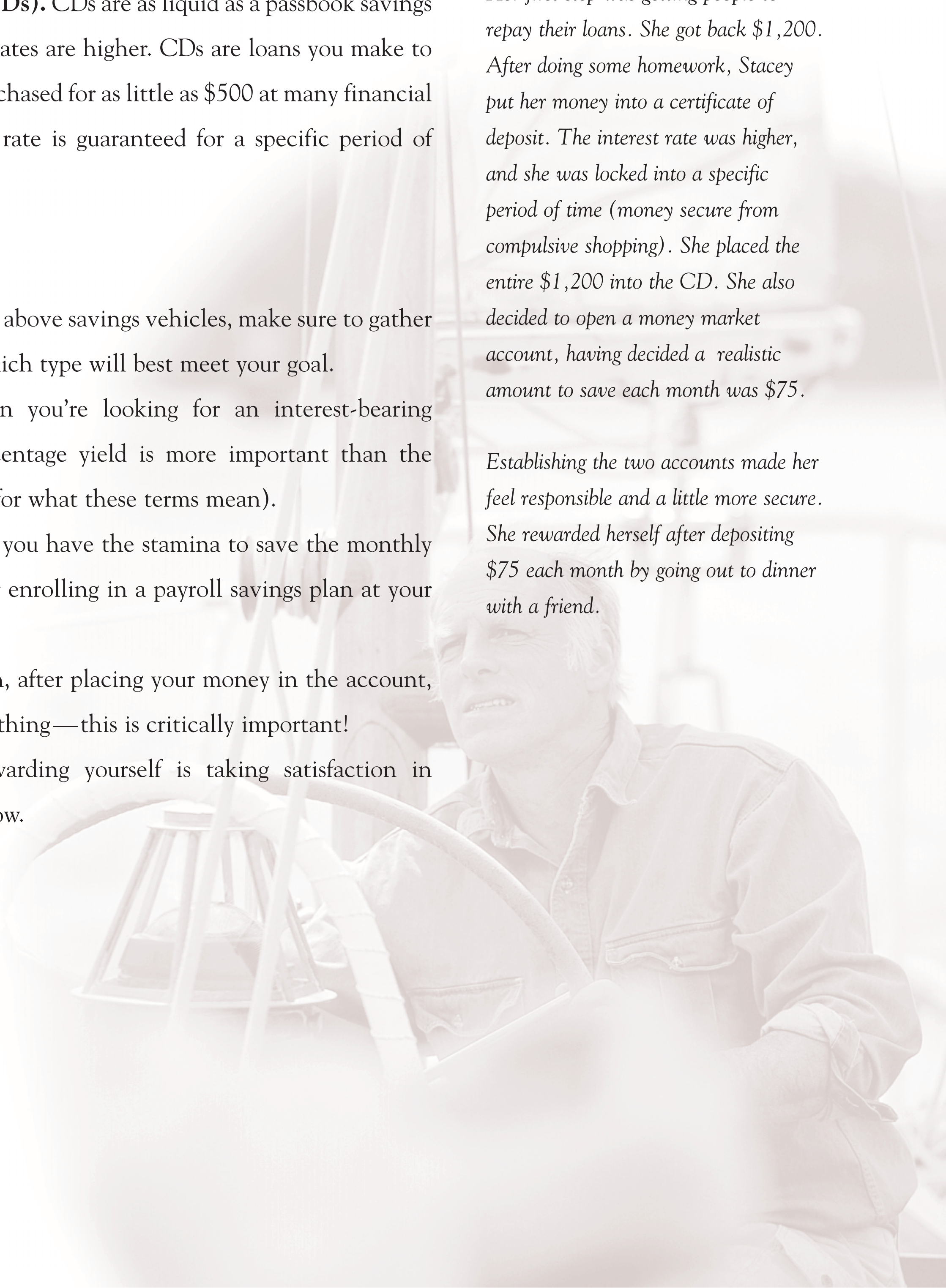
– Just as important as rewarding yourself is taking satisfaction in watching your account grow.

Stacey's Action Steps:

Remember Stacey from page 15? Her financial health was jeopardized by loaning money to friends and relatives, as well as being a compulsive shopper.

Her first step was getting people to repay their loans. She got back $1,200. After doing some homework, Stacey put her money into a certificate of deposit. The interest rate was higher, and she was locked into a specific period of time (money secure from compulsive shopping). She placed the entire $1,200 into the CD. She also decided to open a money market account, having decided a realistic amount to save each month was $75.

Establishing the two accounts made her feel responsible and a little more secure. She rewarded herself after depositing $75 each month by going out to dinner with a friend.



"The way I was able to stick to a savings plan was by getting my monthly statement from my bank. I placed $10,000 in a certificate of deposit that earned six percent. I couldn't believe that in ten years I had over $18,000! I think more people would save if they understood how money grows over time." —John B. (40 years old)

Compound Interest
A form of interest in which the interest is added to the principal rather than being paid out on a current basis. The interest accrued then earns interest in subsequent years.

Step no. 6 WATCHING YOUR MONEY GROW

Many of us don't realize how fast our money grows over time—we call this the *miracle of compounding*. The following table shows how a monthly deposit of $100 grows over a period of years. Compounding is monthly, and deposits are made at the beginning of the period. Take a look:

Interest Rate (%)	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
1.5	6,234	12,954	20,197	28,003	36,418	45,487
2.0	6,315	13,294	21,006	29,529	38,947	49,355
2.5	6,397	13,646	21,858	31,162	41,704	53,648
3.0	6,481	14,009	22,754	32,912	44,712	58,419
3.5	6,566	14,385	23,698	34,788	47,996	63,727
4.0	6,652	14,774	24,691	36,800	51,584	69,636
4.5	6,740	15,177	25,738	38,958	55,507	76,223
5.0	6,829	15,593	26,840	41,275	59,799	83,573
5.5	6,920	16,024	28,002	43,762	64,498	91,780
6.0	7,012	16,470	29,227	46,435	69,646	100,954
6.5	7,106	16,932	30,519	49,308	75,289	111,217
7.0	7,201	17,409	31,881	52,397	81,480	122,709
7.5	7,298	17,904	33,318	55,719	88,274	135,587
8.0	7,397	18,417	34,835	59,295	95,737	150,030
8.5	7,497	18,947	36,435	63,144	103,937	166,240
9.0	7,599	19,497	38,124	67,290	112,953	184,447
9.5	7,703	20,066	29,908	71,756	122,872	204,913
10.0	7,808	20,655	41,792	76,570	133,789	227,933

Let's face it, the *real power* of compounding lies in long-term investing. At the rate of six percent, you will have $7,012 after five years. But, look what happens to your monthly contributions after 20 years—you have over $46,000!

"My husband and I were in a real financial dilemma about 10 years ago. We both had great- paying jobs, but little savings. Both of us suddenly realized that we'd better start saving money for our daughter's college education. But, at the same time, we wanted to put money away for our own retirement. Many of our friends faced the same situation. The savings strategy we used really made a difference." —Veronica P. (49 years old)

Veronica's Savings Strategy

- Cut expenses (food, entertainment, gifts, travel, clothing, etc.) to the bone.
- Paid bills and current fixed expenses with husband's paycheck—no credit cards.
- Banked at least 50 percent of Veronica's paycheck ($20,000 a year).
- Through the process of compounding interest, in 10 years, saved approximately $320,000 (at six percent interest). Enough for daughter's education with money left over to build for a strong retirement.

"I know it is important to save and invest, but I feel ignorant about the whole process. Can't somebody just speak in plain English and tell me what I need to know to get started without overwhelming me?" —Francesca G. (48 years old)

Step no. 7 Investing Basics & Types

There are many individuals like Francesca who want a simplified foundation to begin investing. So here it is! Use the momentum that you generated from saving for a short-term goal to expand your horizons and begin investing for the long term. Go back to Step #1 and identify a goal that is five years or more away. Maybe you want to return to school, or build a vacation home, or retire early; whatever it is you should now have the confidence you need.

Write down your long-term investment goal:

____

____

____

____

____

____

Before you can begin investing to achieve the above goal, you need a fundamental understanding of a few key financial terms.

TERM	DEFINITION	EXAMPLE
Asset	Something of exchange-value owned by an individual or a business.	Stocks, bonds, real-estate, cash, etc…
Portfolio	The combined securities held by an investor.	Certain stocks, mutual funds or other investments.
Principal	The face value of a deposit or debt. The principal does not include interest earned or accrued.	An initial investment of $5,000 to purchase shares in a stock, mutual fund, etc…
Risk	The possibility that the actual return on an investment might be lower than expected.	Usually the more risk that is assumed, the greater the return.
Return	The profit or loss on an investment, usually expressed as a percentage.	An initial investment of $2,000 grew to $5,000 in five years, a 60 percent return on an annual basis.
Dividend	A cash payment made by a company on its stock and distributed to shareholders.	A stock that paid 10 cents a share for a given period.
Dividend Yield	A percentage figure calculated by dividing the dividend rate by the market price of a security.	If a stock paying $4 annually in dividends sells at $80, the dividend yield is four divided by 80, or five percent.

A vast array of books, magazines, and Internet sites are devoted to investing (see the back of this handbook). However, you don't need to be an investment expert to make sound decisions about funding your future. Here are some basic strategies to choosing the right investment:

– **Asset Allocation.** A strategy for balancing risk within a portfolio. A percentage of your dollars is placed in financial products that preserve principal. The remaining investment dollars are placed in financial products that seek growth. The goal is to achieve the highest expected return without taking on more risk than you want to accept.
– **Diversification.** After you decide on an asset allocation, you need to diversify your money into a number of different types of financial products to reduce the risk of poor performance as a result of any one type of investment having a major impact on overall portfolio performance.
– **Investments.** To do a good job at asset allocation and diversification, you need to have a basic idea of the types of investments highlighted in the **Investment Pyramid** (insert appendix #2).

– **Stocks.** By investing in stocks you have an ownership stake in a company. If profits are high, your share price should increase. A distinct advantage in owning stock involves the potential for higher returns (compared to other investments), which historically have outpaced inflation over long periods of time.
– **Bonds.** These are an IOU or certificate representing debt issued by a corporation, municipality, or the federal government. The issuer promises to pay you back the full loan amount (known as the face value or principal) at a stated time (called the maturity date). Sometimes called *fixed-income investments*, which offer you a steady income, bonds are usually less volatile (depending upon how close they are to maturity) than stocks. It is important to note that bond prices move up and down based on interest rates, and you could lose money if you don't hold them until the maturity date.
– **Mutual Funds.** These are simply *pooled* money of many individuals invested in stocks, bonds, or money market securities—or some combination of these three. There are thousands of different types of funds, and they tend to be very popular for the following benefits:
  – minimum investment requirements
  – may be diversified to lower risk
  – professionally managed
  – easy to purchase and redeem
  – automatically reinvest dividends and capital gains

Stocks have historically been a great investment for money you won't need for at least five years. Well-chosen mutual funds can be an affordable way to get in on this growth. Many individuals don't invest in mutual funds because they don't feel they have the time to investigate or learn more. Others stop themselves because of *options overload*—feeling overwhelmed by all the different products and types to choose from. Some think a great amount of money is needed to begin. Finding a mutual fund is not as difficult as it may seem.

"I keep hearing that 'mutual funds' are the way to go, since I am just starting out. But I looked in the back of my newspaper and there were thousands to select from. How is a person like me supposed to understand how to go about selecting one…it seems like such a big task. What are they supposed to do for me…?" —Martha L. (39 years old)

Step no. 8 Selecting the Right Mutual Fund

Mutual funds can be used for such goals as saving toward a down payment on a house, a child's college education, or a nest egg for your retirement years. To select a mutual fund that will meet your needs, you should consider three elements: *cost*, *performance*, and *service*.

Action Steps for Selecting a Mutual Fund

– Identify specific mutual funds (and their rankings) by consulting such publications as *Consumer Reports*, *The Wall Street Journal*, *Money Magazine*, etc. The American Association of Individual Investors (1-800-428-2244) publishes a quarterly report ranking all mutual funds. Also use financial Internet sites for further information.

– After you have found at least three-five good performing funds, call or e-mail the company(ies) involved for their prospectuses. Research the objective of the fund, the long-term performance, management fees, and operating expenses.

Compare Costs

Some funds are load funds, meaning that you pay a commission when you make your initial purchase (with a "back-end load" fund, the fee is paid when you sell). Others are no load; there will be no up-front charge. With all funds, however, there will be management fees embedded in the fund. Management fees vary considerably among firms. A fund's management fee must be listed in its prospectus, a document that describes the nature of an investment. Annual fees eat into your return, so find a fund with low costs relative to funds in its category (more about this next).

Performance

Mutual funds are organized based on their investment objective (i.e., aggressive growth, specialized, sector funds, etc.). Find the category that matches your needs. Next, compare funds in that category on a quarter-to-quarter and year-to-year basis. You *need to look for consistency over time. Ideally, this means you should look at a fund's record over a five-to ten-year period to examine its performance in both good and bad times. Look beyond last year's winners. Top performing mutual funds for their category could mean a fund is taking undue risk that can lead to a big loss when the market drops.*

Service

It is important to evaluate what services are offered by the fund's firm. For example, if you are starting out with a small nest egg, make sure you can open an account with a low minimum investment. Certain funds allow you to start with only $500 if you commit to putting the money into an IRA or trust accounts for children. Another important consideration is the fund's Internet site. Is it easy to access your account? Does the site provide investor education? Do you have the option to get personal attention on the telephone with knowledgeable service representatives?

- Decide on the total amount you can invest for your long-term goals and divide the amount among at least two or three funds for proper diversification.
- Prior to spending any money, make sure you find out when the fund(s) makes its *capital gains distributions* (payments to shareholders of profits realized on the sale of the fund's portfolio securities). Usually these distributions are made in the last month of the year. By sending in money in December, you are likely to receive a sizeable taxable gain before your fund starts to earn money for you.
- Lastly, it is critical to monitor the performance of a fund on a quarterly basis in relationship to its peers. Consider selling only if the fund has experienced four consecutive quarters of below-average returns or if the manager of the fund is switched and changes the philosophy or objective of the fund.

What are your investment ideas for mutual funds? Use the space below.

"Everyone is talking about making sure you have enough money for retirement, but have you ever tried to get a handle on what this number is? Last week I went to a financial Web site that contained a 'retirement calculator.' I filled in all the numbers (after 45 minutes), and in a few seconds the magic number of dollars I need to save appeared on the screen. To make sure it was correct, I tried another site that asked me all different questions, and the number was off by $300,000! I got out of the chair and told my wife, "We're going to wing it!'" —Troy S. (44 years old)

Step no. 9 Calculating Your Income needs Later In Life

We have found that many adults are frustrated by not having an easy way to calculate how much income they will need for their later years. The reality is that there is no one simple method to determine your retirement income needs. A general rule of thumb is that you will need 70 to 100 percent of your pre-retirement income. You can use the worksheet below to estimate what your income needs might be and how much money you should be investing now. Prior to filling out the worksheet keep the following points in mind:

- For many Baby Boomers, the word “retirement” does not mean leaving the workforce entirely. Thus, make sure to consider future income from a part-time job or home-based business.
- To make this worksheet more applicable to your individual situation, determine a target age when you want to depend on your nest egg as the major source of funds to allow you the freedom to do what you want to do.

Great Idea

If you have difficulty filling out this form, consider getting assistance from your accountant or another financial professional. You may also want to consider using a Retirement Calculator, which can be found on many financial education Internet sites identified later in this handbook.

– Do not get disheartened by the total sum you need to save. The figure you come up with is only an estimate, and you most likely are going to simplify your life and reduce your expenses.
– Use the worksheet as a "work in progress." As life circumstances change and your investments grow, make sure to modify the figures in the worksheet.

Estimated Retirement Worksheet

	Yours	**Spouse**	**Total**
Annual benefits from Social Security	$	$	$
Annual benefits from pension	$	$	$
Annual funds from 401(k)*	$	$	$
Funds from IRA*	$	$	$
Additional savings available	$	$	$
Income from investments	$	$	$
Insurance settlement	$	$	$
Income from work after retirement	$	$	$
Other sources of income	$	$	$
Total Retirement Income			$

**Your bank or credit union, or a financial advisor, can help you to estimate these.*

Compare your estimate of total income with 70 percent to 100 percent of your current yearly expenses.

Income $ ______________________

Expenses $ ______________________

If you have a gap between income and expenses, plan now to save and invest to close the gap (see information on investments, IRA's, etc.).

Difference $ ______________________

"I never really understood whether a financial advisor would benefit me. To be honest, I'm not even sure what they do." —Jason B. (46 years old)

Step no. 10 The Role of a Financial Advisor

Using a financial advisor to help you with saving and investing is an individual decision based on your particular financial needs, level of investing expertise, and personal circumstances. To make an informed decision, it is important to understand: (a) how a financial advisor may help you; (b) what specific services you may need; and (c) how to select one, if you decide such a resource would be helpful.

Financial advisors come in many varieties, including registered representatives at brokerage firms (often called stockbrokers), independent financial planners, bank representatives, and insurance agents who offer financial advice.

A good financial advisor can be a lifelong partner who:

– Listens to your needs and goals.
– Assesses what you have and what you'll need to secure a solid financial future (by completing a *financial plan*).

Which of the following services will meet your specific needs from a financial advisor? Check off as many as applicable:

Financial Advisor Needs Assessment

- ☐ *Setting up financial goals & objectives*
- ☐ *Tax planning*
- ☐ *Estate planning*
- ☐ *College funding*
- ☐ *Insurance needs*
- ☐ *401(k)/pension issues*
- ☐ *Cash management/budgeting*
- ☐ *Investment portfolio review*
- ☐ *Retirement planning*
- ☐ *On-line trading assistance*
- ☐ *Inheritance asset management*
- ☐ *Transition issues*

– Minimizes your income and estate taxes.
– Develops an appropriate financial strategy that meets your goals, and helps you to understand the risks and rewards of investing.
– Makes certain that your portfolio is diversified.
– Monitors your portfolio with occasional meetings/phone calls with you.
– Conducts a regular review of your insurance needs.

A good advisor will help *avoid*:

– Taking on too much debt.
– Panic selling, when the market dips.
– Failing to diversify.
– Buying high and selling low.
– Buying investments that don't match your financial goals.
– Exposing you to financial risk in the event of a disability or loss of a spouse.
– Outliving your income in retirement.

Identifying the Services You May Need

> *"It helped me to understand what I really needed from a financial advisor before contacting one. I asked myself one major question: 'What types of assistance do I need that I can't provide myself?' Answering this question really focused me on the type of financial advisor I was looking for, and what I expected in terms of results." —Jim R. (45 years old)*

"I had contributed to my 401(K) at work for about 11 years when I realized that it was important to find a financial advisor to make sure my investments were adequately diversified. What really held me back from picking an advisor is one word—'trust.' I didn't know how to go about finding one, and then didn't know what it was appropriate to pay. They don't teach you these kinds of things." —Jeffrey P. (52 years old)

Step no. 11 Selecting a Financial Advisor

One of the top reasons Baby Boomers don't use the services of a financial advisor is lack of trust. Although millions could benefit from having a "second partner" on their financial team, they are deterred by not understanding how planners are compensated, where to find a good one, and whether or not to trust one. The reality is that finding a good financial advisor takes as much time as you'd spend shopping for a car, and the process is a lot easier than you might think.

You need to consider three issues: how the advisor is paid; how knowledgeable he/she is about the issues that concern you most; and how good a "team" you make together.

Types of Planners

– **Fee-Only Planners.** Charge hourly rates ranging from $75 to $250 or more, or a flat fee, for advice. To manage your money, they charge an annual fee that's a percentage of your assets (typically one percent).

Financial Titles and Terms

Financial Planner, financial consultant, financial advisor are meaningless terms unless backed by one of the following:

CFP™: Certified Financial Planner™

Considered by many to be the standard because of the education and training required to pass the two-day, 10 hour exam. Continuing education required.

ChFC: Chartered Financial Consultant

A designation awarded by The American College in Bryn Mawr, Pennsylvania, to those who take a 75-hour course, pass an exam, and take continuing education courses.

CLU: Chartered Life Underwriter

Also issued by The American College, with an emphasis on insurance course work.

CPA/PFS: Certified Public Accountant with a Personal Financial Specialist
This means the CPA has passed a PFS examination given by the American Institute of CPA's.

RIA: Registered Investment Advisor
Obtained by registering with the Securities and Exchange Commission. Brokerage firms can be RIAs. No training required.

CFP and Certified Financial Planner are service marks of the Certified Financial Planner Board of Standards, Inc.

The fee for drawing up a financial plan depends on the complexity of your financial situation.

- **Fee-Plus Commission Planners.** Charge a combination of fees and commissions. This type of advisor might charge a flat fee for creating a financial plan and also earn commissions by selling investments that implement the plan. One way to evaluate these planners is to ask what percentage of their earnings comes from fees as opposed to commissions.
- **Commission Planners.** Paid based on the product they sell you. The commission is built into the sales price of the investment product. The commissions usually cover the cost of a financial plan. Again, most commission-only planners should disclose the fee they are earning on the product.

An important component in developing trust is being assured that a financial advisor has the appropriate training to meet your needs. Some financial planners have earned the *Certified Financial Planner*™ or *CFP*™ designation by passing a rigorous certification exam that demonstrates expertise in all aspects of financial planning. Many standard financial planning books on the market explain more fully what all the different financial credentials and designations mean. Use the accompanying Financial Titles and Terms chart to the left as a starting point. Most importantly, you want to find an advisor who is knowledgeable about investments, taxes, insurance, retirement, and estate planning.

"I used a great strategy to find a good financial advisor. I asked my family and friends for their recommendations. But, I didn't stop there. I asked a variety of national groups to give me referrals in my local area. I spent about three days interviewing planners from both, and I found one that is perfect!" —Eileen H. (47 years old)

Step no. 12 INTERVIEWING A FINANCIAL ADVISOR

You want to select a financial advisor with whom you feel comfortable and who can address a wide range of needs and issues. As highlighted in other *You First* booklets in this series, many Baby Boomers need help with an array of issues that impact their financial future. The following interview guide has been customized to help you identify someone who meets your long-term financial needs. Although these questions may seem intrusive, you have a right to ask them to protect your money.

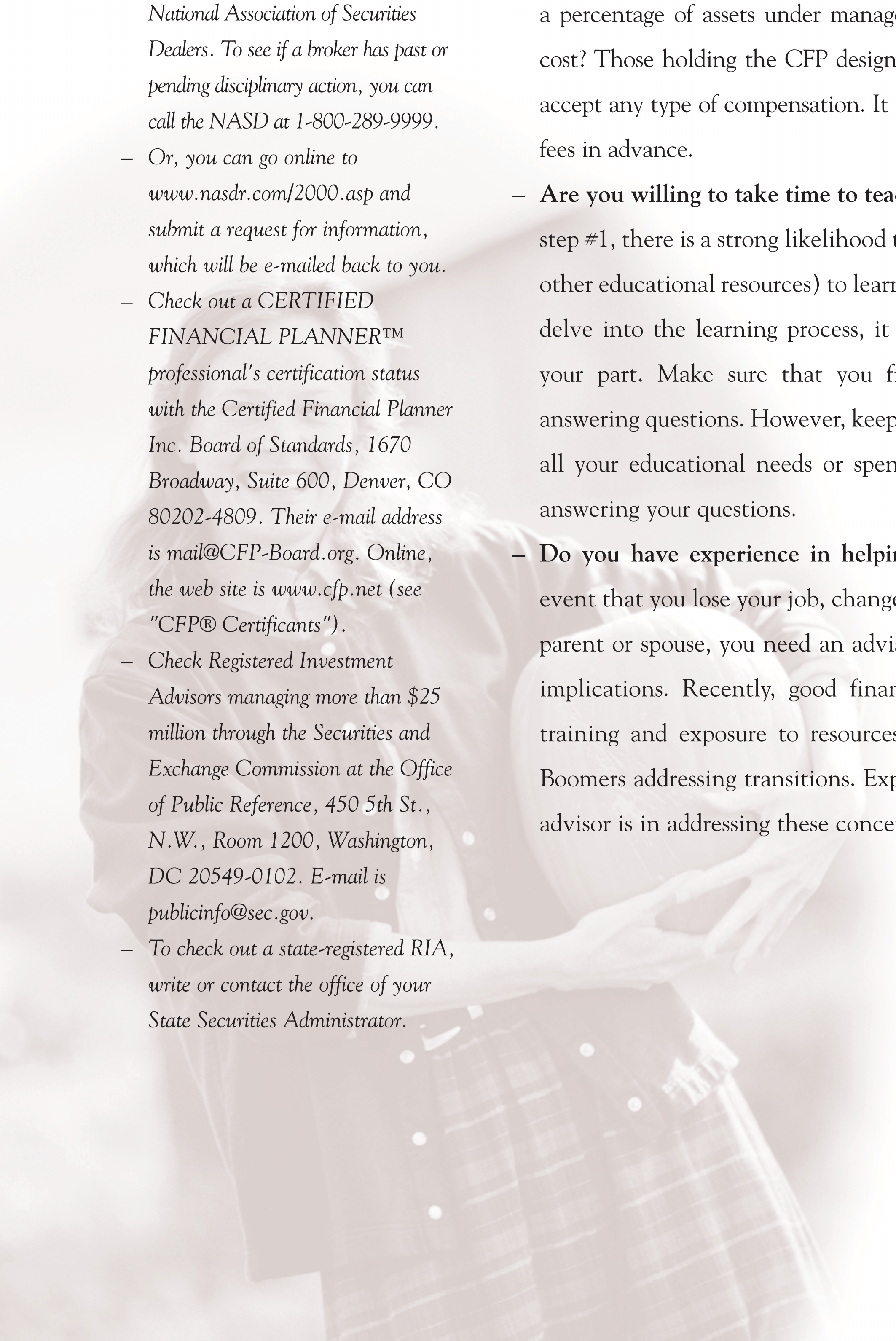
– **Do you work with clients whose backgrounds are similar to mine?** If you trade stocks on your own, you'll want to find an advisor who is comfortable providing advice in a "supporting role." Or, if you are starting with a limited amount of money, make sure your advisor works with clients who are just starting out. Ask other clients what they like best and least about the advisor.
– **Are you a Registered Investment Advisor? May I have a copy of your Form ADV Part II?** ADV is a form all RIAs file with the Securities and Exchange Commission. Part I of the form reveals any prior convictions for investment-related felonies, lawsuits, or arbitration proceedings.

Locating a Good Financial Advisor

– *The Financial Planning Association (1-800-647-6340). Promotes the CFP® certification as the designation of choice. Will provide referrals to financial planning practitioners (www.fpanet.org).*
– *National Association of Personal Financial Advisors (800-366-2732). NAPFA is a nonprofit organization that provides information and contacts for fee-only planners (www.napfa.org).*
– *Society of Financial Service Professionals (888-243-2258). Organization provides a list of financial advisors in your local area.(www.financialpro.org).*

Tips on Checking Out Your Financial Advisor

- *Many advisors are stockbrokers and registered representatives of the National Association of Securities Dealers. To see if a broker has past or pending disciplinary action, you can call the NASD at 1-800-289-9999.*
- *Or, you can go online to www.nasdr.com/2000.asp and submit a request for information, which will be e-mailed back to you.*
- *Check out a CERTIFIED FINANCIAL PLANNER™ professional's certification status with the Certified Financial Planner Inc. Board of Standards, 1670 Broadway, Suite 600, Denver, CO 80202-4809. Their e-mail address is mail@CFP-Board.org. Online, the web site is www.cfp.net (see "CFP® Certificants").*
- *Check Registered Investment Advisors managing more than $25 million through the Securities and Exchange Commission at the Office of Public Reference, 450 5th St., N.W., Room 1200, Washington, DC 20549-0102. E-mail is publicinfo@sec.gov.*
- *To check out a state-registered RIA, write or contact the office of your State Securities Administrator.*



Part II discloses the advisor's educational background, the types of services offered, and how she/he is compensated.

- **How are you compensated? If you earn commissions, what percentage of your total income do they represent?** If you charge an hourly rate or a percentage of assets under management, can you estimate my total cost? Those holding the CFP designation, as described in step #4, can accept any type of compensation. It is important to get a description of fees in advance.
- **Are you willing to take time to teach as we proceed?** As discussed in step #1, there is a strong likelihood that you will use the Internet (and other educational resources) to learn about financial planning. As you delve into the learning process, it will invariably spur questions on your part. Make sure that you find an advisor who is open to answering questions. However, keep in mind that no advisor can meet all your educational needs or spend an exorbitant amount of time answering your questions.
- **Do you have experience in helping with a life transition?** In the event that you lose your job, change jobs, or have to care for an older parent or spouse, you need an advisor who can address the financial implications. Recently, good financial advisors have sought extra training and exposure to resources that would be helpful to Baby Boomers addressing transitions. Explore how comfortable a potential advisor is in addressing these concerns.

Step no. 13 Accessing Investment Information & Education

Whether you have a financial advisor managing your investments, or you do it on your own, there is one component that is essential—*understanding what you have invested your money in.* Today, you have the advantage of doing a background check on any potential company or investment prior to purchasing it. Here are some excellent resources:

– **SEC Documents** (Securities and Exchange Commission). All companies traded on the stock exchange are required to file regular status reports. To access these reports for free go to: www.FreeEdgar.com.

– **Investment Research.** You can easily access information on specific stocks and mutual funds by using such sites as www.morningstar.com or by going to web portal sites such as Yahoo Finance (finance.yahoo.com); Excite (excite.com); Lycos (lycos.com), Google (google.com), and America Online (aol.com).

– **Calculators and Worksheets.** There are many sites on the web that allow you to construct a portfolio based on your projected retirement age, such as money.com. Or compare the yields on bonds at investingbonds.com.

– **Wall Street Research Reports.** You can order (usually for a price) detailed reports on stocks and other investments via the Web. Examples include such sites as www.investor.reuters.com. Also, you can get a snapshot of earnings estimates at www.thomsoninvest.com.

Sites For Financial Education

– *www.smartmoney.com. A basic resource on stocks, bonds, and mutual funds.*

– *www.financiallearning.com/ge/home.jsp. On-line financial tutorials and workshops on a wide variety of investment topics.*

– *www.zacks.com/invest101. Basic tutorial on investing options.*

– *www.sec.gov. The Securities and Exchange Commission offers basic financial information and warning tips for investors.*

"There are times when I just feel like I will never be able to save or invest enough dollars for my retirement. But I keep my mind positive and always say to myself 'what I am doing is the best I can'. This helps me keep socking those dollars away. I also use my friends and family to keep me disciplined. Everyone can save something…you just have to start!" —Maurice J. (44 years old)

Step no. 14 Keeping Up the Savings & Investing Momentum

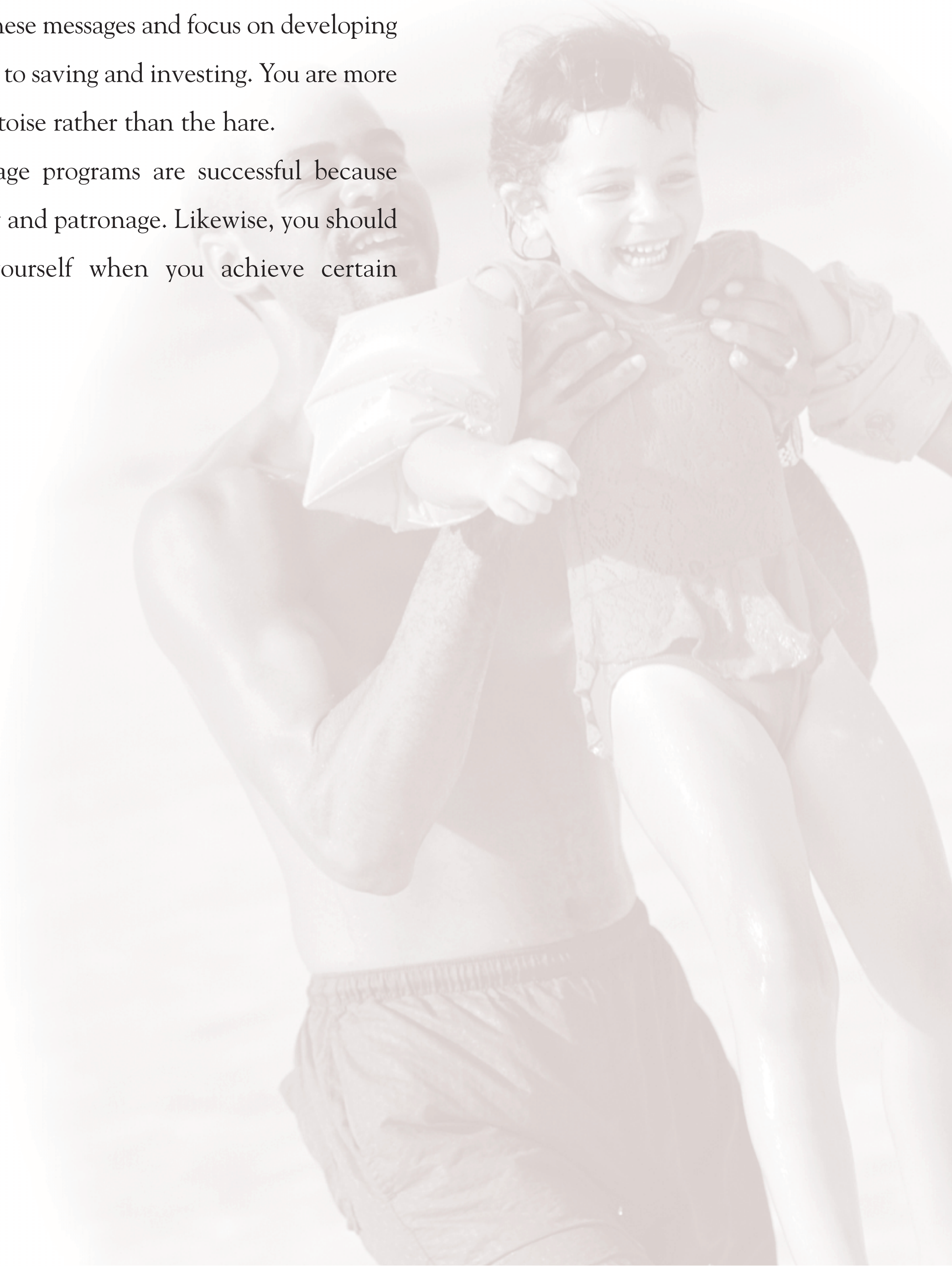
Even the best investors and savers find it difficult to maintain a long-term plan to accumulate a nest egg. Follow the advice below to keep up a full head of steam:

Action Steps

– **Keep your goals flexible and adaptable.** You are more likely to meet your short- and long-term goals by reassessing what is important to you. It is important to start the process of saving and investing with a short-term goal that provides a "payback" for your effort.

– **Develop a support system.** Many of us need a spouse, friend, or group to give us encouragement to save and invest. Don't be afraid to ask for help when you are tempted to divert funds slated for the goals you have established. Also, consider working with a financial professional for both the support and development of an investment program that is suited to your temperament and risk-tolerance.

- **Avoid credit card gratification.** Certainly, credit cards have their place in the world. However, they also are the primary source for causing us to spend funds we don't have. If you are saddled with credit card debt, make it a point to pay it off first. Then, divert the money that went to meeting your monthly payments to a savings/investment program.
- **Question the quick solution to wealth.** Today there seems to be a proliferation of "get rich quick" ideas, from buying lottery tickets to day trading. Building a secure future is not based on taking "chances" or exposing yourself to risk. Avoid these messages and focus on developing a disciplined, long-term approach to saving and investing. You are more likely to succeed by being the tortoise rather than the hare.
- **Reward yourself.** Airline mileage programs are successful because they reward customers for loyalty and patronage. Likewise, you should identify specific rewards for yourself when you achieve certain savings/investing benchmarks.



Some Final Thoughts

The "Inside/Out" Rule

In order to actualize your *You First* goals toward financial security, you need to understand your goals from the inside out. To stay the course and map your future, needs and goals have to be based on values and a belief system that is truly *yours*. You have to be anchored to your core values. This begins on the inside. All the goal-setting, financial information, and action steps in the world will be useless if not anchored to your personal values.

When we think about money we tend to distance it from our *inside* core values and say it is an *outside* thing. It isn't! In order to successfully navigate your financial life you have to match your inner needs and values to the external and broader goals you seek. Your many *outside* adult roles, such as worker, friend, family person, or community person, are extensions of your *inside* self. For example, you have always wanted to save money to start a little business after you retire. But you feel those around you want you to save toward a life in a retirement community playing a little golf and tennis. You probably will never save the money if you don't listen to your *inside* belief.

Appendix One

Actions Summary

#1 ☐ Envision financial goal(s) you want to accomplish.

#2 ☐ Complete Your "Financial Check-Up".

#3 ☐ Identify one specific short-term financial goal, and highlight the obstacles and strategies you will use to accomplish it.

#4 ☐ Conduct an analysis of how long it will take to complete your goal, the amount of money you will need, and how much you will need to save on a monthly basis.

#5 ☐ Create a savings and spending plan for your short-term financial goal.

#6 ☐ Assess which type of savings investment type is best for you and start making monthly contributions into the account.

#7 ☐ Figure out the "compounding interest" of your contributions and make it a habit to review your monthly or quarterly statement.

#8 ☐ Based on your forward momentum, identify a long-term financial goal and review different investment options.

#9 ☐ Prior to investing, determine level of risk, cost, and performance of a particular investment. Make sure that any investment(s) you make is adequately diversified.

#10 ☐ To build a solid long-term financial future, calculate your estimated retirement income.

#11 ☐ Assess whether you could benefit from the services of a financial advisor, and conduct all the necessary background research to select one.

#12 ☐ Make sure to regularly monitor your investments, and use the Internet, books, magazines, etc., to make on-going financial education a priority.

#13 ☐ Continue to monitor and change your long-term goals (as needed). Avoid the "traps" that can deter you from reaching your dreams.

Appendix Two

LEVEL 4 **High Earnings** **High Risk**	Speculative Stocks Limited Partnerships Growth Mutual Funds High Yield Corporate Bonds
LEVEL 3 **Income Producing** **with Moderate Risk**	Preferred Stock Certain Bond Mutual Funds Medium-Grade Corporate Bonds Growth and Income Mutual Funds
LEVEL 2 **Income Producing** **with Low Risk**	High-Grade Corporate Bonds High-Grade Municipal Bonds Certain Bond Mutual Funds U.S. Government Bonds
LEVEL 1 **Conservative**	Certificate of Deposit U.S. Savings Bonds Treasury Bills Money Market Funds
FINANCIAL **FOUNDATION**	Insurance: Life/Health/Property/Disability Retirement Funding: Keogh's/Annuities/Pension/IRA Emergency Fund: 3-6 Months Equity in Home

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NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

Partnering for Financial Well-Being