DOLLARS & Sense

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Creative Ways to Conserve Your Money

If you have been diligently depositing money into a traditional IRA to prepare for retirement, it is upsetting to see that money start to dwindle during a bad economy. It may be that you chose a traditional IRA over a Roth IRA so that you could avoid paying income taxes on the money that you deposited. With a Roth IRA, you would have had to pay income tax on the money you deposited but be able to withdraw the money tax free after age 59½.

Convert from a Traditional IRA to a Roth IRA

While a bad economy may eat into your retirement savings, it can also provide you with an unusual "opportunity" to convert your traditional IRA into a Roth IRA with a reduced tax hit. While it's true that when you convert a traditional IRA to a Roth IRA, you must pay income tax on the money you roll over, if the balance in your account has declined due to market loss, you will have less tax to pay to roll it over to a Roth IRA. Fewer dollars in your account means a smaller tax bill.

The big perk of Roth IRAs is that withdrawals taken after age 59 ½ are completely tax free so an economic downturn is an opportunity for you to save on taxes with a rollover and then save again on taxes once your money has grown again with an upswing in the economy because you will not have to pay taxes when you withdraw from your Roth account. And there will be an upswing so if you can hold on until that happens, you will have saved yourself some money.

Roth IRAs are usually recommended for younger investors since they have a longer time to benefit from the compounding interest, but during a declining stock market, a Roth IRA could benefit most anyone. As long as your adjusted gross income is $100,000 or less for the year, this is an opportunity to consider. If your annual income is greater than $100,000, you won't qualify to open a Roth IRA. Be sure to ask your financial adviser if this is a good option for you.

Diving into the Stock Market

When the economy takes a plunge, you'll undoubtedly hear financial gurus talking about what a good time it is to buy. If you've ever been tempted to give the stock market a try, you might be convinced that a bad economy is a signal for you to take that money you have in your emergency fund and try your chances on purchasing stock to see if you can make a little quick money.

Taking a chance on the stock market is not necessarily a bad thing if you follow some simple advice. The kind of financial risk you are prepared to take and the return on your investment that you hope to get will influence the kinds of investments you make. Here are some suggestions that will help you stay in a comfortable risk zone—and let you sleep at night.

1. Do your research and don't invest until you have. Your first stock investments should be built on a solid foundation of knowledge and risk-free funds that will help you be assured you won't lose everything your first time out. Proper insurance coverage and a significant emergency fund that you promise not to touch should be in place before you make any investments in stock. Only when you have that in place are you ready to start investing.

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2. Divide your investments into long-term and short-term options. As the old saying goes—don't put all your eggs in one basket. Investing in stocks should be viewed as another way to help you achieve your long-term financial goals, not as a get-rich-quick scheme. For money that you will need within two or three years, a solid savings account or bank CD is much more appropriate.

3. Don't invest large proportions of your money in anything that you don't feel comfortable about. Find out as much as you can about the strengths and weaknesses of the company you are considering investing money in. It really is true that there's no such thing as a free lunch or an overnight success. The bigger the promised reward, the bigger your risk. That doesn't mean you can't try some high-risk options; just don't do it with anymore than what you could comfortably lose. If you couldn't comfortably lose anything, don't invest anything in risky stocks.

4. Make sure you know how to sell the stock when the time is right. Some tangible investments, such as antiques and gemstones may be easy to buy but selling them requires specialized assistance. You can really get stuck "holding the bag." The same goes for stocks. Be sure that you have a knowledgeable stock broker giving you advice on how and when is the best time to sell your stock. If you want to get the most benefit from your stock-investment experience, take the time to do the legwork. It will more than reward you in the long run.

Avoid Investment Scams

It seems like anytime a real opportunity comes along for people to better their lifestyle, there's someone who's willing to find a way to use it to take advantage of people. There's hardly a legitimate form of investment that isn't considered fair game by the unscrupulous. Stock investing is no exception. Unfortunately, there are investment scams out there just waiting to take your hard-earned money off your hands so beware. To protect yourself from becoming a victim of the deceitful, keep the following two rules in mind:

> October: This is one of the peculiarly dangerous months to speculate in stocks in. The others are July, January, September, April, November, May, March, June, December, August and February.
>
> ~Mark Twain

1.Trust only established businesses with excellent reputation Check with your local Better Business Bureau. Ask other investors you trust to recommend an investing firm they have had experience with. Research firms with publicly acknowledged reputations. Make sure that the firm you are looking at doing business with has a legitimate address, business license, and has been around doing business for a while. If there really are windfalls to be had, good firms will know about them. You can find out if any complaints have been filed against a particular investment firm by contacting one of the following:

- For stockbrokers and mutual funds: Financial Industry Regulatory Authority (301-590-6500; www.finra.org).
- For business opportunities: Federal Trade Commission (877-382-4357; www.ftc.gov). The Federal Trade Commission can only tell you about complaints it has acted on.
- For land investments: U.S. Department of Housing and Urban Development (202) 708-1112 (www.hud.gov).

2. Don't buy anything that you don't understand. Many stocks require special knowledge to make an investment that has any chance of making you a profit. It may be that you have a career in an industry that has allowed you to acquire good insight into what's possible in the future and what would be an unrealistic attempt at something new. Oil, gas, certain commodities, art prints, etc., are all specialized areas in which the experts sometimes make money and amateurs almost always lose. If you don't have a good understanding of what you're thinking of investing in, get the advice of someone who does.

The Language of Stocks

There are many terms to know when it comes to understanding the different stock options you have. We have collected some of the basic ones below to get you started. Your 401(k) plan manager can help you understand these terms as well.

1. Blue-chip stock: A blue chip stock is the stock of a well-established company which has stable earnings. The term comes from casinos, where blue chips stand for counters of the highest value. Most blue chip stocks pay regular dividends, even when business is less than terrific. The phrase was coined by Oliver Gingold of Dow Jones sometime in the early 1920s and has been in use ever since.

2. Growth stocks: These stocks appreciate in value and yield a high return on your investment. To be classified as a growth stock, analysts usually expect to see at least 15%

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return on equity. They are more volatile than blue-chip stocks but have a higher potential for gain.

3. Small company stocks: These stocks have the greatest risks but also the greatest potential for growth. The term “small” can be deceiving. Some people define a small public company as one with a market cap under $1 billion. Others define small cap as under $2 billion. It can also be less than $50 million. Ask your plan manager about these stock options.

4. Preferred stock: If you own preferred stock, this means that you get preference when it comes to paying dividends should the company file bankruptcy or be closed. Preferred stocks usually pay a fixed interest return or a fixed dividend.

5. Dow Jones Industrial Average: This average is calculated from the stock prices of 30 of the largest and most widely held public companies in the United States. The “Industrial” part of the name is largely historical as originally many of the 30 companies were involved in heavy industry. Today that is not true. The companies of the DJIA are occasionally changed as market conditions warrant. When

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Making the Most of Your Liquid Savings

It is important for every family to have “liquid savings” in a time of economic difficulty. What are liquid savings? This is money you have saved somewhere but can still access immediately if you need to. Times of financial difficulty can find us wishing we had followed all that financial advice we received if we haven’t disciplined ourselves enough to be prepared when hard times hit.

Make sure you deposit your liquid savings in banks that are federally insured. The good thing about the liquid savings you keep in these institutions is that they are insured by the federal government, usually up to $250,000, so you don’t run the risk of losing money that you run with stock investments when the economy is in trouble. While these accounts don’t pay the kind of increases that can be possible with other more risky funds, there are ways to build your liquid savings.

Learn how interest rates affect you. The Federal Reserve sets interest rates nationwide. Sometimes they go up, sometimes they fall, and sometimes they stay the same. But no matter what action the Federal Reserve takes, your liquid savings account will be impacted. High rates mean you’ll see more of a return on your deposits. But when times are tough and interest rates drop, you can expect less return on your money.

Research how much interest you can make. Different savings plans offer different types of interest and that can make a big difference in how much money you accrue. When you understand how much money you can make from interest, you’ll make the best decision about where to keep your liquid savings. You can open a savings account at any local bank or credit union and earn at least some interest. A minimum balance may be required but this shouldn’t be more than $25 or $50. Money market accounts are also available through your local bank or credit union. These usually require a higher minimum balance than a savings account, but they also earn about twice as much in interest and still allow you to write checks from the account.

What is “Rate” and “Yield”?

“Rate” is the basic interest the money in your account will earn and is given as a percent. Yield can be given as a percentage or as a monetary amount the actual amount of money your investment earns.

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Dow Jones Industrial Average Companies

Company	Symbol	Company	Symbol
3M Co	(MMM)	International Business Machines Co.	(IBM)
Alcoa Inc	(AA)	Johnson & Johnson	(JNJ)
American Express Co	(AXP)	JPMorgan Chase and Co	(JPM)
AT&T Inc	(T)	McDonald's Corp	(MCD)
Bank of America Corp	(BAC)	Merck & Co Inc	(MRK)
Boeing Co	(BA)	Microsoft Corp	(MSFT)
Caterpillar Inc	(CAT)	Pfizer Inc	(PFE)
Chevron Corporation	(CVX)	Procter & Gamble Co	(PG)
Cisco Systems, Inc	(CSCO)	The Coca-Cola Co	(KO)
I. du Pont de Nemours and Co	(DD)	Travelers Companies Inc	(TRV)
ExxonMobil Corp	(XOM)	United Technologies Corporation	(UTX)
General Electric Co	(GE)	United Health Group Inc	(UNH)
Hewlett-Packard Co	(HPQ)	Verizon Communications	(VZ)
Home Depot Inc	(HD)	Walmart	(WMT)
Intel Corp	(INTC)	Walt Disney Co	(DIS)

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For example, if you have a CD account that pays a 5% annual percentage rate, interest is calculated by multiplying the amount of money you have in the CD account by 5% and by the fraction of a year the money is invested. Some CD accounts allow you to invest for as little as six months but still pay you a higher interest rate than a basic savings account. Some CDs pay interest once a year while others pay more frequently. If you deposit $1,000 in a CD account that pays 5% annually, after one year your money will have earned $50 in interest. In this example, the "rate" is 5% and the "yield" is 5% or $50.

When an investment pays interest annually, its rate and its yield are the same, but when interest is paid more frequently, the yield is higher than the rate. If you were to invest your same $1,000 in an account that paid interest every six months, your yield would be $50.63. Why? At six months, your account would be paid half of the year's interest, which is $25. At this point, the $25 starts earning interest, as well. It earns 63 cents in interest during the next six months.

At the end of the year, your money has earned $50.63 instead of $50. That's how compounding interest works. If you had deposited $10,000, your money would have earned $506.25 in interest. The "rate" on this CD is still 5%, but its "yield" is 5.06%. You can see why it is important to understand the interest rate and how it is paid before you choose what account to deposit your money into.

Savings Accounts

Savings accounts are liquid savings. You can withdraw your money any time you want to. Because of the ability to withdraw money immediately as needed, a savings account is a good place to keep your emergency fund. Federal regulations do, however, limit the number of transfers you can make, for example to your checking account, each month to six. Be sure you fully understand your bank's policies before opening a savings account.

Money Market Accounts

Money market accounts are also a good place to deposit your liquid savings and earn some return. These accounts are most commonly used by people who sell stock at a profit. They put the proceeds in a money market account until they are ready to reinvest the cash. But money market accounts are also a good place to build your emergency fund if you have a substantial amount of money that you can afford to leave in the bank for a period of time.

Most institutions offer federally insured money market accounts and they pay a better interest rate than a basic savings account. Money market accounts are investment accounts but they do not invest in risky stocks. No consumer has ever lost money in a money market account due to a financial institution making a poor investment decision.

Money put into a money market account is subject to management fees that can reduce the yield The bank pays a person to oversee Fees can vary from bank to bank so look for a fund with a low expense ratio. The bank can provide you with this information so be sure to ask for it. Money market accounts are available at most banks and credit unions. ■

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companies are replaced, the scale factor used to calculate the index is also adjusted so that the value of the average is not directly affected by the change. For example, in 1999, Chevron, Goodyear Tire and Rubber Company, Sears Roebuck, and Union Carbide were removed from the DJIA and replaced by Intel, Microsoft, Home Depot, and SBC Communications. ■

Find more ways to put your money to work for you on our website. Our certified credit counselors can help you make sense of your finances, set good long and short term goals, and get you started on your journey to financial freedom.
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Family Financial Education Foundation
ACCESS EDUCATION SYSTEMS
724 Front Street, Suite 340
Evanston, WY 82930
contact: (877) 789-4175
www.ffef.org | info@ffef.org

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