

Successful Start and the Office of Student Services Present:

THE ABC'S OF FINANCIAL PLANNING

AGENDA

- ✕ Basic planning tools
 - + Net worth
 - + Cash flow
- ✕ Investments
- ✕ Debt
- ✕ Taxes
- ✕ Retirement
- ✕ Insurance
- ✕ Estate planning
- ✕ Questions

BASIC PLANNING TOOLS

NET WORTH

Net Worth



ADAM'S NET WORTH As of December 31, 2007

	<u>12/31/07</u>	<u>12/31/06</u>	<u>CHANGE</u>
<u>ASSETS</u>			
CHECKING ACCOUNT	5,000		
UGMA ACCOUNT	25,000		
ROTH IRA	4,500		

TOTAL INVESTMENTS	34,500		
TOTAL REAL ESTATE	0		
TOTAL ASSETS	34,500		

<u>LIABILITIES</u>			
STUDENT LOANS	(10,000)		

NET WORTH	24,500	20,000	23%
	=====	=====	



Snapshot of financial position; update every January

Braver Wealth Management, Inc.

CASH FLOW

Cash Flow

ADAM'S CASH FLOW 2008			
INFLOW		OUTFLOW	
After-tax pay	\$40,000	Rent	\$18,000
		Utilities	1,200
TOTAL INFLOW	\$40,000	Car lease	2,400
		Car insurance	1,000
		Cell phone	600
		Cable TV/internet	600
		Student loan (15 yr @6%)	1,030
		Subtotal fixed	24,830
		Auto gas maint	2,500
		Grocery	2,000
		Restaurant	1,000
		Clothing	2,000
		Gifts	500
		Charity	500
		Out of pocket medical/dental	500
		Entertainment	1,000
		Vacation	1,000
		Misc	500
		Subtotal discretionary	11,500
		TOTAL OUTFLOW	\$36,330
		NET CASH FLOW	\$3,670



Monitor annual spending every few years to see where income goes – use Quicken, if possible

INVESTMENTS

WHY INVEST?

Why invest –
because inflation erodes purchasing power!



Median family
income

1979	\$16,240¹	\$0.50⁴	\$19,587⁵
2004	\$28,000²	\$0.98⁴	\$56,174⁵
2029	\$58,626³	\$2.05³	\$117,615⁵

1. U.S. Dept. of Commerce, Bureau of Economic Analysis, 2006 2. Motor Trend, "Average New-Vehicle MSRP Tops \$28,000 for First Time," July 2004. 3. Fidelity Investments, 2006, based on 3% inflation over 25 years from 2004 prices. 4. Actual price data from U.S. Dept. of Labor, Bureau of Labor Statistics, 2006. 5. U.S. Census Bureau 2006. Median family income from 1947 to 2001. Data for 2004 and 2029 projected from 2001 median income based on 3% inflation.

THREE OPTIONS TO SAVE \$1,000

Three Options to Save \$1,000



Mattress



Value in ten years:
\$1,000
(real \$737)



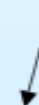
Checking account



\$1,104
(real \$817)



Invest Stocks/Bonds



\$1,967
(real \$1,480)

Note: Assumes inflation = 3%, checking
account pays 1%, stock/bonds earn 7%

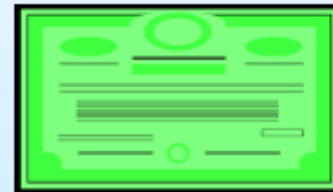
Braver Wealth Management, Inc.

TYPES OF INVESTMENTS-ASSET CLASSES

Types of Investments – Asset Classes



- Cash
- Bonds
- Stocks
- Commodities
- Real estate
- Collectibles



CASH...

Cash....

Cash can be in many different forms. It can be in hard currency or a checking account or a money market fund. Generally the maturity is less than three months. An investor receives a stated rate of return in the form of interest payments for lending their money. There is little to no risk in cash.



Range of returns (as of 2/15/08):

Lower	Coins and dollar bills	Checking account	Treasury Bills	Money market	Certificates of Deposit	Higher
	0%	1.0%	2.0%	3.4%	3.6%	

BONDS...

Bonds....

Bonds (fixed income investments) are loans made to corporations, municipalities and governments by investors like you and me. An investor (the lender) gets a stated coupon (income) every period until the last period, where the principal is returned with the last coupon.

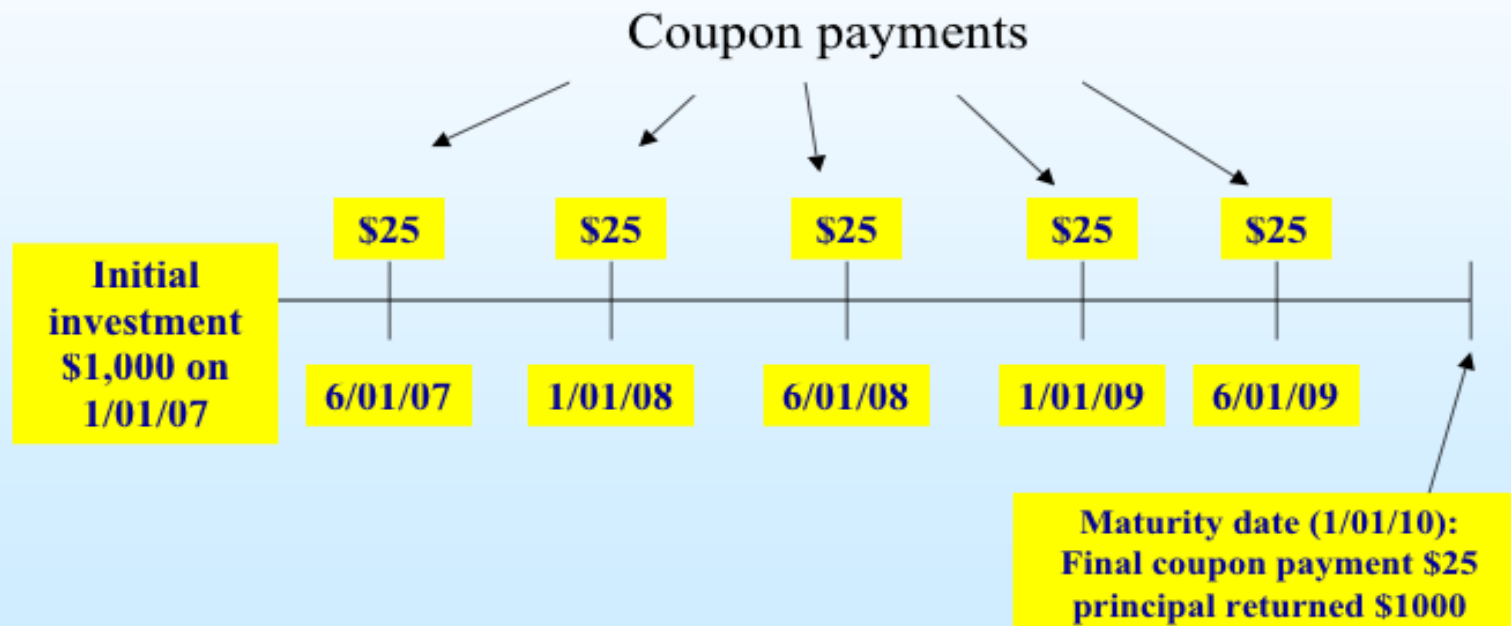
- Municipal bonds
- Treasury bonds
- Corporate bonds (GE, GM)
- High yield corporate bonds (aka junk bonds)
- Foreign bonds

BONDS...

Bonds....

Example

Purchase a three year, US Treasury bond with 5% coupon, paid semi-annually.



BONDS...ONE YEAR LATER

Bonds....one year later

Example

One year later (1/02/08) if we value our US Treasury bond with 5% coupon, paid semi-annually.

If market rate stays at 5%, bond price is \$1,000

If market rate goes down to 3%, bond price is \$1,057

If market rate goes up to 7%, bond price is \$947

STOCKS...

Stocks....

Stock (equity) is an ownership share of a public company. The company that sells shares might be an American company or an international company, and it might be a large, mid or small cap company

Your stock may or may not pay dividends. The price of your stock will fluctuate over time based on the market's expectations for the company's future earnings.

IBM

MSFT

GE

GOOG

GM

AMZN

**Sale of shares:
May be worth more or
less than amount invested**

TYPES OF STOCKS

Types of Stocks

Geography

- domestic (US)
- international



Size (market cap)

- mega cap – over \$25 billion
- large cap – between \$10 and \$25 billion
- mid cap – between \$2 and \$10 billion
- small cap – between \$300 million and \$2 billion
- micro cap – under \$300 million




Style

- growth – stock with faster than average gains in earnings
- value – stock priced below its market value (out of favor)

OTHER ASSET CLASSES

Other Asset Classes

There are various other asset classes available to investors




Collectibles

Art
Antiques
Coins
Stamps



Real estate

Residential
Commercial
Shopping malls
Industrial



Commodities

Oil/gas
Gold/silver
Timber
Wheat/corn

PRIMARY INVESTMENT VEHICLES

Primary Investment Vehicles

Mutual funds – A mutual fund is an investment company that pools the money of many investors to buy a portfolio of securities. Each fund generally has a specific investment goal and investment style that it will follow. Mutual fund transactions are executed at 4:00pm.

Index funds – An index fund is a mutual fund that is designed to track a specific market benchmark (i.e. S&P 500.) Index funds generally are more tax efficient and less expensive than actively managed mutual funds.

Exchange-traded funds – ETFs are similar to index funds in that they track a benchmark, are generally inexpensive, and are tax efficient. However, ETFs trade on exchanges like stocks so they can be purchased intraday and are commissionable.

WHAT IS RETURN?

What is Return?

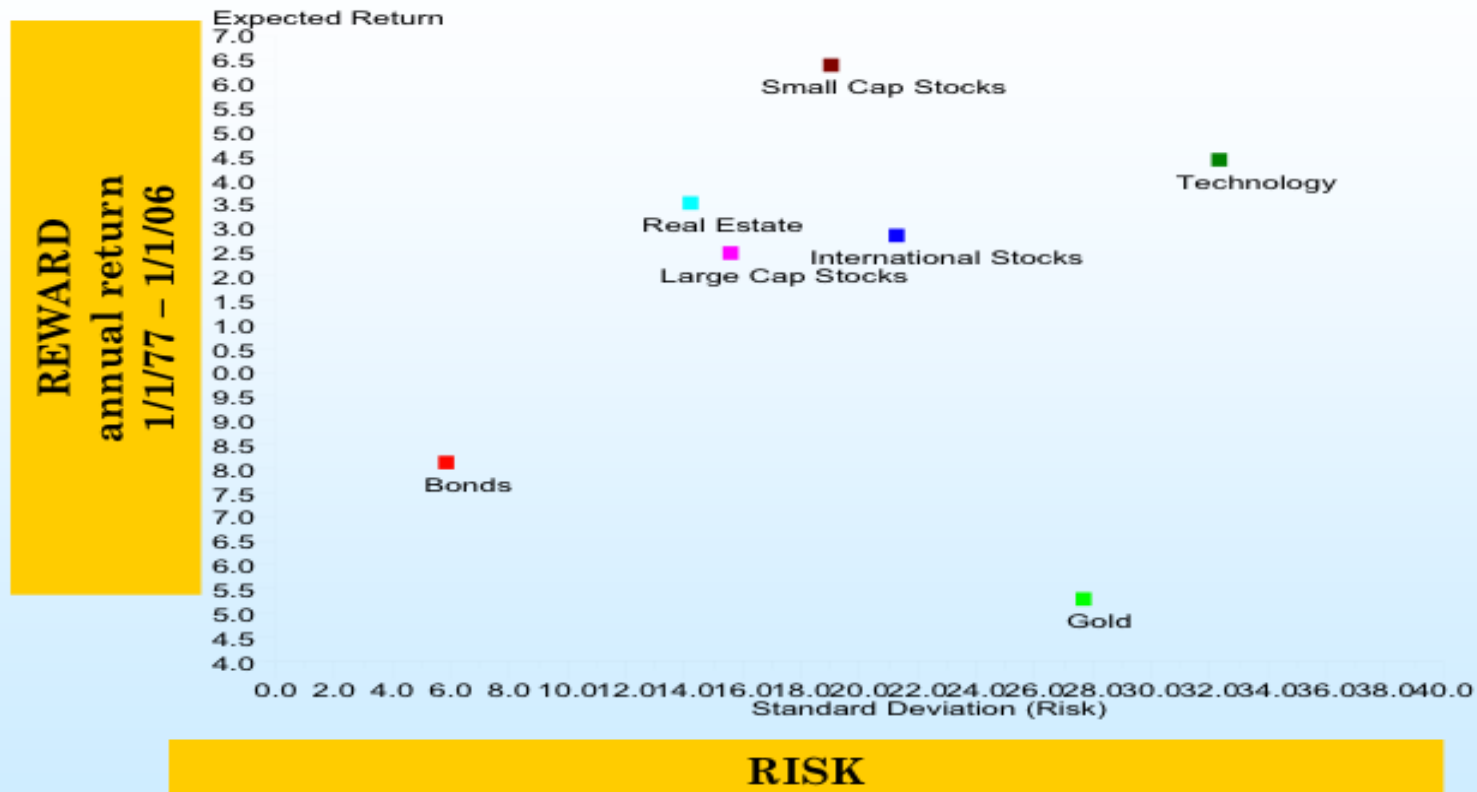
$$\boxed{\text{RETURN}} = \text{INCOME} + \text{APPRECIATION}$$

- Dividend (stock)
- Interest (money market)
- Coupon (bond)
- Increase in the asset's value

Total return (income + appreciation) is the best measure of investment performance!

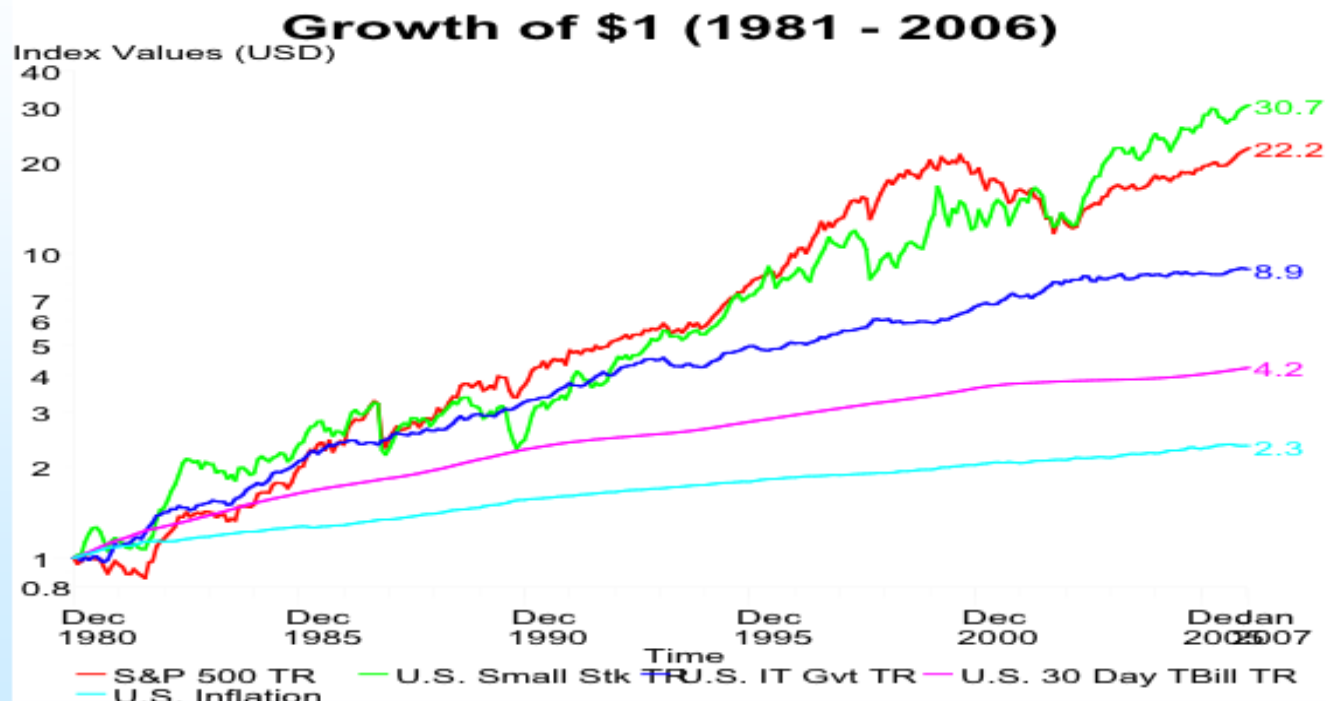
RISK V. REWARD

Risk vs. Reward



IMPORTANCE OF EQUITIES

Importance of Equities



BASIC INVESTING SUMMARY

Basic Investing Summary

1. Understand your risk profile
2. Diversify investments across asset classes (stocks, bonds, real estate, commodities, etc.)
3. Watch fees and expenses - use no-load mutual funds or index funds
4. Ignore short-term market swings – keep a long-term perspective
5. Monitor your performance (or your advisor's) versus appropriate benchmarks



DEBT

HOW TO BORROW SAFELY

Debt – How to Borrow Safely

1. Borrow against **appreciating** assets (homes, educations), not **depreciating** assets (cars)
2. Avoid **ALL** credit card debt (if you cannot pay the bill at month's end, don't buy it!)
3. Pay off your highest interest rate debt first
4. Try to minimize use of all debt



TAXES

BASIC TAX RATES

Basic Tax Rates

- Federal income tax (rate depends on income, highest rate is currently 35%)
- State income tax (5.3% MA)
- FICA - Social Security (6.2%)
- Medicare (1.45%)
- Capital gains (0%/5%/15% depending on income)



PREPARING YOUR TAXES

Preparing Your Taxes

- Federal and state taxes need to be filed by the following April 15th
- You can buy a software program like TaxCut or TurboTax (from Staples) to do your taxes yourself ... or you can go to H&R Block for tax return preparation
- Watch your paycheck withholding to ensure you're not giving the US government an interest-free loan (if you get a refund in April, then you withheld too much)

RETIREMENT

WHY SAVE NOW FOR RETIREMENT?

Why Save Now for Retirement?

- Value of compounding makes early contributions especially valuable
 - Example: To accumulate \$1,000,000 for retirement by age 65, you'd need to save \$400 per month if you start at age 25 versus over \$2,000 per month if you wait until age 45 (assumes 7% per year growth)
- Employers often offer “free money” matches to contributions to retirement plans
- Because retirement costs much more than people expect and there are no loans!



WHERE TO SAVE FOR RETIREMENT

Where to Save for Retirement (or “pay yourself first”)

#1 Employer 401(k) and 403(b)

- NEVER MISS A MATCH!
- Contribution limit in 2008 is \$15,500
- If self-employed, then open a solo 401(k)



2 IRAs – Individual retirement accounts

- Contribution limit is \$5,000 in 2008
- If you are in a lower bracket, Roth is typically a better choice (no tax deduction now but money will grow tax-free forever)

#3 Taxable investment account – set up automatic payment account at Fidelity or Vanguard!

INSURANCE

WHAT INSURANCE DO YOU NEED?

What Insurance do you Need?

- Life Insurance – Only if you have dependents
- Disability Insurance – If employed, it can replace up to 65% of your income if you become disabled
- Health Insurance – ALWAYS!
- Other Important Insurance
 - Home (owner or renter)
 - Automobile (required)
 - Umbrella (only if significant assets to protect)



MA HEALTH INSURANCE REQUIREMENT

MA Health Insurance Requirement

- First state in US requiring individuals to purchase health insurance
 - Employers of 11+ full-time employees need to offer coverage
 - All individuals must prove they are covered
 - Penalties are large (in 2008 penalty is 50% of cost of the minimum plan)
- Insurance cost example
 - 23 year old self-employed tax preparer would pay between \$100-\$200/mo depending on the plan
 - MA Health Insurance Connector website offers detailed quotes



CORPORATE BENEFITS

Corporate Benefits

- Health insurance is often a significant corporate benefit (employee typically pays percentage)
- Other key benefits include:
 - Vacation and holiday time off
 - Retirement plan (sometimes match)
 - Life and/or disability insurance
 - Pre-tax health savings or dependent care account



ESTATE PLANNING

WHICH DOCUMENTS DO YOU REALLY NEED?











Estate planning: Which documents do you really need?

- Will – specifies who will inherit your property, names executor for your estate and guardian for your children
- Living will – indicates which medical measures you want taken if you are incapacitated
- Health care proxy – designates person to guide medical treatment if you are incapacitated
- Durable power of attorney – designates person to make financial and legal decisions if you are incapacitated



TOP 10 TIPS TO GET STARTED

Top 10 Tips to Get Started

-  Organize your financial life while it is simple
-  Calculate your net worth every year
-  Use Quicken to manage cash flow
-  Never miss a company savings match
-  Save via Roth IRA or Roth 401K
-  Maximize your earning potential
-  Avoid personal debt
-  Turn on automatic investment programs
-  Do your tax return yourself
-  Keep learning about finances



QUESTIONS?

- ✕ www.bc.edu/successfulstart
- ✕ successfulstart@bc.edu
- ✕ <http://twitter.com/#!/SuccessfulStart>