$uccessful 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

**ADAM’S NET WORTH**  
As of December 31, 2007

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>12/31/07</th>
<th>12/31/06</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHECKING ACCOUNT</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UGMA ACCOUNT</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROTH IRA</td>
<td>4,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL INVESTMENTS</td>
<td>34,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL REAL ESTATE</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>34,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| LIABILITIES                   |          |          |        |
| STUDENT LOANS                 | (10,000) |          |        |

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

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Snapshot of financial position; update every January

Braver Wealth Management, Inc.
Cash Flow

ADAM'S CASH FLOW
2008

INFLOW

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>After-tax pay</td>
<td>$40,000</td>
</tr>
<tr>
<td>TOTAL INFLOW</td>
<td>$40,000</td>
</tr>
</tbody>
</table>

OUTFLOW

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>$18,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>1,200</td>
</tr>
<tr>
<td>Car lease</td>
<td>2,400</td>
</tr>
<tr>
<td>Car insurance</td>
<td>1,000</td>
</tr>
<tr>
<td>Cell phone</td>
<td>600</td>
</tr>
<tr>
<td>Cable TV/internet</td>
<td>600</td>
</tr>
<tr>
<td>Student loan (15 yr @6%)</td>
<td>1,030</td>
</tr>
<tr>
<td>Subtotal fixed</td>
<td>24,830</td>
</tr>
<tr>
<td>Auto gas maint</td>
<td>2,500</td>
</tr>
<tr>
<td>Grocery</td>
<td>2,000</td>
</tr>
<tr>
<td>Restaurant</td>
<td>1,000</td>
</tr>
<tr>
<td>Clothing</td>
<td>2,000</td>
</tr>
<tr>
<td>Gifts</td>
<td>500</td>
</tr>
<tr>
<td>Charity</td>
<td>500</td>
</tr>
<tr>
<td>Out of pocket medical/dental</td>
<td>500</td>
</tr>
<tr>
<td>Entertainment</td>
<td>1,000</td>
</tr>
<tr>
<td>Vacation</td>
<td>1,000</td>
</tr>
<tr>
<td>Misc</td>
<td>500</td>
</tr>
<tr>
<td>Subtotal discretionary</td>
<td>11,500</td>
</tr>
<tr>
<td>TOTAL OUTFLOW</td>
<td>$36,330</td>
</tr>
<tr>
<td>NET CASH FLOW</td>
<td>$3,670</td>
</tr>
</tbody>
</table>

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

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**Why invest – because inflation erodes purchasing power!**

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Family Income</th>
<th>Inflation Adjusted Income</th>
<th>Median Family Income Adjusted for Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>$16,240&lt;sup&gt;1&lt;/sup&gt;</td>
<td>$0.50&lt;sup&gt;4&lt;/sup&gt;</td>
<td>$19,587&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
<tr>
<td>2004</td>
<td>$28,000&lt;sup&gt;2&lt;/sup&gt;</td>
<td>$0.98&lt;sup&gt;4&lt;/sup&gt;</td>
<td>$56,174&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
<tr>
<td>2029</td>
<td>$58,626&lt;sup&gt;3&lt;/sup&gt;</td>
<td>$2.05&lt;sup&gt;3&lt;/sup&gt;</td>
<td>$117,615&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

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%

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Types of Investments – Asset Classes

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

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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): 

<table>
<thead>
<tr>
<th>Lower</th>
<th>Coins and dollar bills</th>
<th>Checking account</th>
<th>Treasury Bills</th>
<th>Money market</th>
<th>Certificates of Deposit</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>1.0%</td>
<td>2.0%</td>
<td></td>
<td>3.4%</td>
<td>3.6%</td>
<td></td>
</tr>
</tbody>
</table>

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Bonds (fixed income investments) are loans made to corporations, municipalities and governments by investors like you and me. An investor (the loaner) 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

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Bonds....

Example

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

Coupon payments

Initial investment $1,000 on 1/01/07

$25  6/01/07
$25  1/01/08
$25  6/01/08
$25  1/01/09
$25  6/01/09

Maturity date (1/01/10): Final coupon payment $25 principal returned $1000

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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

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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.

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

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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)

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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

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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.

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What is Return?

RETURN = INCOME + 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!

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Risk vs. Reward

Expected Return
7.0
6.5
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
9.5
9.0
8.5
8.0
7.5
7.0
6.5
6.0
5.5
5.0
4.5
4.0
0.0 2.0 4.0 6.0 8.0 10.0 12.0 14.0 16.0 18.0 20.0 22.0 24.0 26.0 28.0 30.0 32.0 34.0 36.0 38.0 40.0
Standard Deviation (Risk)

Small Cap Stocks
Real Estate
International Stocks
Large Cap Stocks
Technology
Bonds
Gold

RISK V. REWARD

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Importance of Equities

Growth of $1 (1981 - 2006)

Index Values (USD)


- S&P 500 TR
- U.S. Small Stk TR
- U.S. IT Gvt TR
- U.S. 30 Day TBill TR
- U.S. Inflation

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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

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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

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TAXES
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

- 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)

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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!

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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!

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INSURANCE
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)

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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

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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

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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

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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

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QUESTIONS?

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- successfulstart@bc.edu
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