RUTGERS COOPERATIVE EXTENSION
NEW JERSEY AGRICULTURAL EXPERIMENT STATION

Money 2000 News

Volume 4, Number 1 Winter 1999

Dear Friend of Money 2000™:

I hope this newsletter finds 1999 off to a good start for you. In this newsletter, you'll find dozens of tips to improve your finances. I'd like to share just a few "housekeeping details" and MONEY 2000™ success stories.

First, just a reminder that Karen Sharpe is still making phone calls to persons who do not return their semi-annual MONEY 2000™ progress reports. All she will ask is the dollar amount of your savings and debt reduction, not your income, assets, or debts. Please be courteous to Karen and comply with her request. The success of the MONEY 2000™ program depends upon every participant's prompt reporting.

You'll also note that MONEY 2000™ has been trademarked. With over 40 state Cooperative Extension offices conducting this program, we thought it was prudent to trademark the program title. I'm also pleased to announce that we recently conducted a cost-benefit analysis of MONEY 2000™. With over $3 million of documented impact as of December 1998, participants have reported $25 of impact (i.e., increased savings and/or reduced debt) for every dollar

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Conference Speaker Provides Keys to Financial Success

Rutgers Cooperative Extension recently held its third statewide MONEY 2000™ conference, featuring financial author and NBC news commentator Jordan Goodman as keynote speaker. Below are some highlights from his presentation:

- Investors need to be self-reliant today. You can no longer count on your employer or the government to provide for your future. Workers must plan and save themselves.
- It is preferable to save now in tax-deferred plans and pay tax later. Goodman called salary reduction plans "savings that happens," as opposed to "wishful savings" like the lottery.
- Dollar-cost averaging (investing a regular amount at regular intervals) was also recommended. Instead of market timing, you lower the average cost of investments over time.

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Tips For Saving on Utilities and Housing

Looking to save money on utilities and housing expenses? Consider the following ideas:

- When making home improvements, select from among well-established, licensed contractors who have submitted written, fixed-price bids for the work. Do not sign any contract that requires full payment before satisfactory completion of a job.
- To save as much as hundreds of dollars a year on electricity, purchase energy-efficient appli-

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Topics Covered

Beware of "Get-Rich-Quick" Scams

You work hard for your money. The last thing you want is to lose your money to fraud. Unfortunately, thousands of people fall victim every year to swindlers promising a variety of money-making opportunities in get-rich-quick scams. The truth is generally learned too late and millions of dollars are lost.

Swindlers prey upon those needing supplemental income through work-at-home scams, pyramid schemes, and a variety of other phony business opportunities and franchises. State securities regulators and the Federal Trade Commission (FTC) are constantly warning people about offers that promise a quick and certain road to financial security.

Con artists actively operate through trade shows, telephone solicitations, television, radio, print advertisements, and the Internet. Victims are lured by promises that the window of opportunity will soon close, a quick decision is necessary, and a payment is urgently needed.

Pledges of exclusive territories and money-back guarantees are often attached to "get-rich-quick" self-employment scams. The con artist promises the victim marketing assistance and an income guaranteed to exceed the purchase price of the franchise, merchandise, equipment, or software. According to the North American Securities Administrators Association, the eager victim learns the truth after investing in the sure-fire deal. The investor learns that any training they've received is useless, the equipment or software necessary to conduct their new business does not work, secure leads produce no business, no 24 hour hot-line exists to answer their questions, and guarantees are worthless.

"Downsized" workers with large severance packages are prime targets. A franchise or business opportunity may sound appealing but significant amounts of money could be lost. Before investing in any business venture or security, take the following steps:

1. Check out the company with the state securities agency or attorney general's office not only in the state where you live, but also in the state where the company is headquartered. These organizations can tell you if the company is registered and if consumer complaints are on file.
2. Ask current owners or employees about their experiences with the company. Don't accept a list of references selected by the company as a substitute for a complete list of franchise or business opportunity owners.
3. Get all promises in writing. Any promises should be written into the signed contract.
4. Investigate all earnings claims. Talk to others who have purchased the opportunity to see if their experience verifies the claims. Demand to see the company's basis for its claims in writing. Be skeptical in judging whether the claims are backed up.
5. Listen carefully to sales presentations. Be cautious of any opportunity that sounds too easy.
6. Be wary of buying if company representatives either try to evade your questions or ignore them altogether.
7. Ask for the disclosure document for a franchise. This document, required by law, should provide detailed information to compare one business to another. If the company has no disclosure document—beware!
8. Ask a lawyer, accountant, or business advisor to read any disclosure documents and proposed contracts. Entering into any business opportunity generally requires a substantial investment.
9. Resist high-pressure sales tactics. Buying a business opportunity is a big, expensive decision. Take time to think it over.

For more information, call the New

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Money 2000 News

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The information in this newsletter is for educational purposes only. References to investment products do not imply endorsement. For specific advice, see your financial or legal advisor.

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Organize Your Financial Records in 1999

Do you want to significantly improve the way you handle your financial affairs in 1999—especially your taxes? Well, you can and it isn't difficult.

In keeping with the spirit of "out with the old, in with the new," plan to set aside a couple of hours early in the new year to organize your financial house. It is as important to know which financial records to throw out as well as which to keep. Unfortunately, most people don't know what they can throw away, so they keep everything—adding to household clutter.

Here are some guidelines on what is crucial and what can be tossed.

- **Investments:**

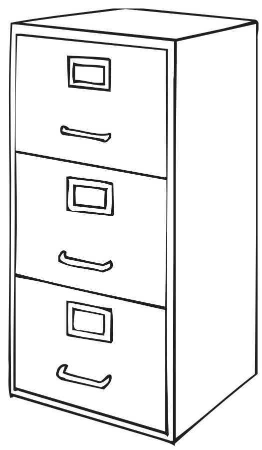
  KEEP all annual statements and dividend-reinvestment statements.

  TOSS monthly mutual fund or brokerage statements.

- **Bank:**

  KEEP canceled checks and bank and credit card statements for three years.

  TOSS canceled checks and bank and credit card statements after three years.



- **Home:**

  KEEP the title to your home, deed of purchase, mortgage contract, and sales contract. Store in a safe deposit box at the bank.

  TOSS receipts for capital improvements and repairs if you don't foresee having capital gains on your home exceeding $500,000 and receipts for big-ticket purchases after warranties have expired.

The new year is also a good time to adopt an easy-to-use bookkeeping system that can cut time and money spent on preparing your taxes next year. One method (and there is more than one) is to purchase an accordion file and an inexpensive ledger book. Then go through your last tax return (1997) and label each compartment of the file and every page of the ledger by income and deduction category (e.g., charitable contributions).

When you receive a bill, turn to that category's page in your ledger. Then enter the date you paid it, the check number, the amount and the total you have paid to date in that category. File the bill in the appropriate section in the accordion file along with the canceled check when you get it back.

At tax time, take the bills and canceled checks and put them in an envelope labeled with the category, as well as the total amount spent. Use this to prepare your return or give it to a professional tax preparer. By organizing your records this way, you'll have less stress and perhaps save money. **$**

PQB

Zero-Coupon Bonds...a Timely Financial Tool

Do you need to save money toward a particular goal or life event in the future, such as college tuition for your child? Is there an investment that lets you know exactly how much money you will have on a specific future date and, if handled properly, becomes tax-deferred or even tax-exempt? The answer is yes—the zero-coupon bond. It is a unique financial tool that has become an increasingly popular vehicle for long-term investments.

Consumers are often confused about how "zeros" work. A zero-coupon bond is exactly what the name implies—a bond with no annual coupon rate, meaning that it does not pay annual interest to shareholders. Unlike most other bonds, which are issued at par (usually $1,000), zero-coupon bonds are sold at deep discounts to par and pay par at maturity.

To illustrate, a 10-year zero-coupon bond with a face value of $1,000 (at 7%) may sell for just $502 (the price depends on the current interest rate and how credit-worthy the issuer is). You pay $502 now and, at the time of maturity (10 years), you can redeem the bond for the full $1,000. The additional $498 you collect at maturity is the accumulated 10 years' worth of interest on the $502 you originally invested.

Using the example of funding college tuition beginning in 10 years and continuing for four years, you might buy zero-coupon bonds today that mature in 10, 11, 12, and 13 years from now to meet your tuition bills.

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Savings Begin at Home

Would you want a robbery, fire, or other disaster to deplete your savings? Many feel their homeowners insurance will protect them in such emergencies, but they may find themselves dipping into savings to replace their possessions.

Insurance policies providing replacement value for items may request a household inventory to validate your claim. Some policies have a coverage limit on certain items with options to purchase special "riders" to cover items beyond the limit or have a high deductible before claims are considered. When a disaster occurs, it's difficult to remember what is missing because you are so upset. A household inventory of your possessions will provide proof and help you remember.

There are different ways to produce a household inventory. You can create a written inventory by recording information on all your items, noting the model number, price and date of purchase. Check out your local computer shop for software designed for household inventories. Use their inventory forms to record all your possessions. The inventory categories should insure that you include everything that is important to you.

A video camera can also help you make a room-by-room visual accounting of your possessions. Create a narrative to accompany your video that includes price paid, where and when you purchased the item, and the brand and model of the item. A standard camera can be used to photograph items in detail with receipts for expensive items.

Don't limit your inventory to jewelry,

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Improve Your Finances: Follow This Financial "To-Do" List

Looking for ways to enhance your bottom line during the new year? Consider the following "to-do" list, which contains ten financial improvement strategies:

- **Build an Emergency Fund**—Set aside at least three months expenses as a reserve for the unexpected (e.g., car repairs, unemployment, medical bills). Place this money in a CD or money market fund to earn a market-based rate of return.
- **Check Your Credit Report**—By law, credit reporting agencies must provide one free credit report per year to New Jersey residents. Companies to contact include Experian (800-682-7654), Equifax (800-685-1111), and Trans Union Corporation (800-916-8800).
- **Set Measurable Financial Goals**—Set specific targets of what you want to achieve and when. An example of a specific goal statement is saving $6,000 for the downpayment on a new car in January 2002.
- **Invest Tax-Deferred for Retirement**—Start with an employer savings plan, especially if there is a match. Then fund an Individual Retirement Account (IRA): Roth and/or traditional. Other tax-deferred options include a SEP or Keogh plan for self-employed persons and fixed or variable annuities.
- **Chip Away at Debt**—Set a goal to pay off a loan or credit card balance by a certain date. Contact Rutgers Cooperative Extension for a PowerPay analysis to accelerate debt repayment.
- **Bank a Windfall**—Save a holiday bonus or tax refund instead of spending it. A $1,200 tax refund, invested at ten percent, would be worth $20,939 in 30 years and $240,165 if invested annually.
- **Shop Around for Goods and Services**—This includes the purchase or use of home contractors, insurance policies, credit cards, and banking services. Use the "Rule of Three" and compare at least three providers with criteria such as cost and experience.
- **Become an Investor**—Despite their recent volatility (big price swings), stocks have outperformed other asset classes (e.g., bonds, cash) over the long term. Stocks can be purchased directly through brokers, companies with DRIP plans, and online brokers.
- **Keep Good Records**—Save annual stock or mutual fund statements to determine future capital gains and receipts related to tax deductions. Purchase an inexpensive home filing system with labels and file folders at an office supply store.
- **Re-evaluate Your Finances Periodically**—Financial planning is a dynamic process that is affected by changes in personal circumstances (e.g., marriage), economic conditions, and tax laws. It is important to review and revise progress toward financial goals and make needed changes as warranted. **$**

BMO

Conference Speaker

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- Goodman advised participants never to refuse "free money" (employer matching). He recently spoke at a company that provided a 125% 401(k) plan match and only 50% of workers participated. The other half passed up the free cash.
- 401(k) plan loans should be used only for serious purposes, said Goodman. He also advised investing to earn the highest return your risk tolerance level will allow. An extra one percent (e.g., 9% versus 8%) can make a big difference.
- Investors should set their "level of pain" (how much they can stand to lose) up front and sell when they fall below this figure. In addition, investors should never confuse brilliance with a bull market.
- Stock profits come from discounting the obvious and betting on the unexpected. Many people simply don't have the time or skill to do this, which is why mutual funds are recommended.
- Repayment of debt should be a priority and provides a higher guaranteed rate of return than most investments. Goodman classified spenders into three categories: "haves," "have nots," and "have not paid for what they haves" and recommended reducing debt and investing simultaneously.
- People shouldn't think that they'll be "saved" by a "white knight" (e.g., lottery, inheritance).
- Principal prepayment may or may not be advisable. If you can reinvest the money at a higher interest rate than your mortgage (e.g., stocks, growth funds), do that instead.
- Goodman closed his presentation with the following "12 Commandments of Personal Finance":
  1. Never refuse free money (maximum employer 401(k) match).
  2. Buy things that appreciate and lease things that depreciate.
  3. Become a credit card "surfer" (switch to low-rate cards).
  4. Use time when it is on your side (compound interest).
  5. Set up automatic savings plans (e.g., 401(k)s).
  6. Know where you spend your money.
  7. Don't count on a "white knight" to save you.
  8. Earn the highest possible yields on your cash.
  9. Buy insurance mainly to replace lost income, not as an investment.
  10. Don't automatically make extra principal payments on your mortgage (compare with alternative investments).
  11. Remember that you live in the "sandwich generation."
  12. Use the "Investment Pyramid of Risk" (i.e., invest less money at high levels of risk). **$**

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Dear Friend

Continued from front page

Rutgers Cooperative Extension has spent to implement the program. This amount will continue to grow as program impact results increase. MONEY 2000™ has also received two national awards as a "model program" during the past six months and has been nominated for two more.

Finally, hold the date of Saturday, May 22. We'll be holding our fourth statewide MONEY 2000™ conference on that date in the Morristown area. More details to follow. Again, best wishes for a healthy, wealthy, and happy new year. **$**

Barbara O'Neill, Ph.D.
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Editor

Savings Begin at Home

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electronic equipment, china, and other valuables. Be sure that you include your kitchen, garage, and any outside storage areas, because they can contain expensive equipment and items that are costly to replace. Open closet doors and take pictures or make lists to record these items. It's important to remember that the household inventory should cover everything you have in your home.

After completing your inventory, be sure to store it in a safe deposit box or with a trusted friend or relative living out of town. A little advance planning will make life less hectic when an emergency or disaster strikes. No one wants to spend valuable dollars on insurance and then experience difficulty in validating claims or handling financial affairs. **$**

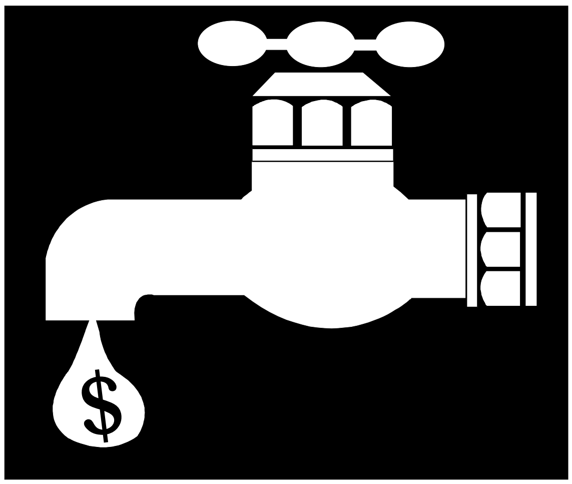
SPB

Tips for Saving

Continued from front page

ances, especially air conditioners and furnaces. Energy efficiency information is found on Energy Guide labels required by federal law. Many utility companies also offer rebates for the purchase of energy-efficient products.

- Contact your utility company for discounts for running major appliances (e.g., a clothes washer) during “off-peak” hours (generally nights and weekends). To save even more, purchase a programmable water heater timer and set it to kick on at off-peak hours.
- Close off unused rooms to conserve heat. Caulk or weatherstrip windows and doors and install storm windows. Install sweeps at the bottom of doors and use insulated window treatments.



- Fixing a leaky faucet could save up to $300 a year. Other saving strategies include: fixing running toilets, using low-flow showerheads and lawn sprinklers, and decreasing water heater temperature from 140 degrees to 120 or 125 degrees.
- Contact your local utility to arrange installation of energy conservation measures. Some companies will send a contractor to your home and charge you only for materials (e.g., insulation).
- Perform the following no- or low-cost energy-saving activities: an annual tune-up and cleaning of your furnace, insulation wrap on a water heater, and vacuuming outside coils on a refrigerator.
- Lower your thermostat and wear a sweater to keep warm. For each degree that a thermostat is lowered, heating bills will decrease by about two percent. Purchase a clock thermostat and set it to automatically reduce night time temperatures.
- Check your phone bill to see if you are paying for optional services (e.g., call forwarding) that you rarely use. Each option you drop could save $30 or more a year. If you make a lot of long-distance calls, subscribe to a calling plan. Call several long-distance companies to see which one has the least expensive plan for the number and type of calls you make. You can also search for this information on-line. One helpful Web site to screen for the best phone plan is <www.teleworth.com>.
- Use e-mail or write letters rather than making long-distance calls. When you do pick up the phone, use a timer to monitor the length of calls. **$**

BMO

Zero-Coupon Bonds

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Potential investors in zero-coupon bonds need to understand two critical points:

1. Holders of zero-coupon bonds will be taxed annually on the “phantom” interest that accrues, even though they receive no interest payment. Because of this, consider holding “zeros” in a tax-deferred account such as an IRA (which now can be tapped penalty-free prior to age 59½ if used for education). You could also consider investing in a tax-exempt zero-coupon municipal bond.
2. A zero-coupon bond is greatly influenced by interest rate changes. Its value can fluctuate wildly, depending on interest rate movement, but this does not affect a bond’s value at maturity. If you should need to cash in a zero-coupon bond before maturity, you could face a loss if interest rates have risen.

The bottom line is that “zeros” should be timed to financial goals. Knowing exactly how much money you’ll be receiving for your zero-coupon bonds, and exactly when the payout will happen, allows you to make long-range plans on the basis of your investment in this instrument. **$**

PQB

Beware

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Jersey State Attorney General’s office (609-292-4925) or the North American Securities Administrators Association at 1-888-84NASAA. NASAA is the national voice of 50 state securities agencies responsible for investor protection. **$**

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