

# Money 2000 News



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A variety of financial experts shared investment insights with over 100 participants at Rutgers Cooperative Extension's fourth MONEY 2000 state conference. Below are some highlights:

- Keynote speaker, William Sterling, author of the book *Boomernomics*, spoke about implications of the aging baby boom generation and technological advances on investors. He noted that, between now and 2010, boomers will enter their peak years of income, productivity, and saving. There will be market downturns over the next 15 to 20 years, but the general market trend will be upward. Sterling predicted that the Dow Jones Industrial Average stock index could rise to 25,000 by 2010.
- Sterling also noted that a "big chill" period will follow, starting around 2011, when boomers start turning 65 and liquidate financial assets and real estate. Whenever a large number of people (e.g., 76 million boomers) do something at once, the laws of supply and demand prevail. The "baby bust" generation is 45% smaller than boomers. While home prices probably won't collapse, they won't keep pace with inflation.
- Other trends that will affect investment performance in the new millennium are the rapid speed of improvements in computer chips and Internet use, reduction of telecommunications costs, and advances in research pertaining to human genes. The Internet will revolutionize the services industry,

which will hurt "middlemen" like stock brokers and travel agents.

- According to Sterling, the cardinal rule of "boomernomics" is "get there before the boomers." Attractive market sectors currently include financial services, health care (e.g., hearing aids), consumer products such as cruises and herbal supplements, and second homes in desirable locations.
- In response to a question about where people should put their money in 10 to 15 years, Sterling noted that "there aren't that many places to hide." Basically, the choices are stocks, bonds, cash, or real estate. While some economists are predicting a prolonged market downturn affecting all assets, Sterling believes that "there will always be some great companies" and that stock prices will depend more on company earnings than the flow of money into stocks. Investors might also see a prolonged period of low returns on stocks (like 1968-82) instead of the 20% + growth we've enjoyed lately.
- Luncheon speaker, Laurie Goodman, of the NJ Bureau of Securities, warned participants about investment fraud and cited examples of New Jersey cases. Her office can be contacted (973-504-3600) to check if people are registered to sell securities or if investments are approved for sale. Goodman also warned about online "pump and dump" schemes, where an investment is touted and sold at a profit after duping others. Claims

of "guaranteed returns" or "inside information" are other "red flags" of investment fraud.

Goodman also warned about pyramid schemes, where people put money into deals and recruit others to join. Using a hands-on activity with the audience, she showed that such deals quickly run out of new recruits and collapse. Most pyramid schemes only need about ten layers to exceed the entire U.S. population.

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## Topics Covered

- Conference Speakers Offer Investment Insights
- Registering Your Investments: Street Name vs. Your Name
- Teach Your Kids Early About Money
- Y2K: Prudent Coping Strategies
- The Benefits of Diversification
- Equity Investing: Benefits to Investors
- Retirement Savings: Key Planning Factors
- Savings Tips to Free Up Money to Invest

# Registering Your Investments: Street Name v.s. Your Name

When you purchase stocks, you have a choice of how to register them. What you decide can really make a difference, depending on your particular circumstances. What are the options? Your shares can be held in "street," name which means they are held by a brokerage firm in **its** name for you, not in **your** name (many brokerage firms are located on **Wall Street**, hence the name). You can also hold shares in your own name and keep them in your possession, usually at a bank in a safe deposit box. In order to have shares put in your name and sent to you, you need to ask your broker to "register and ship" the stock certificates.

Generally, it is a better idea to keep stock certificates in "street" name if you are an active investor. You won't have to get your stocks out of the safe deposit box every time you trade. However, you prob-

ably would be better off having the certificates in your name if you are a long term investor and don't buy or sell many secu-



rities during the year. It is not unusual to find firms charging an "inactivity" fee of \$35 to \$100 a year. Call and ask the brokerage firm what it costs for inactivity and

what constitutes an inactive account. Inquire whether they charge a fee to register and ship certificates in your name if you purchase securities through them.

Fees are not the only costs you need to examine. There is also the cost one faces for services ordinarily obtained for free from a broker. When you leave securities in "street" name, you have access to analysts' research reports and a daily or weekly "dividend sweep" into a money market account.

If you decide to keep your investments at a brokerage firm, make sure it is a strong one. The safer the institution, the better. To check out a firm's financial health, call a rating service such as Weiss Research (800-289-9222) to make sure it rates a B

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## Money 2000 News

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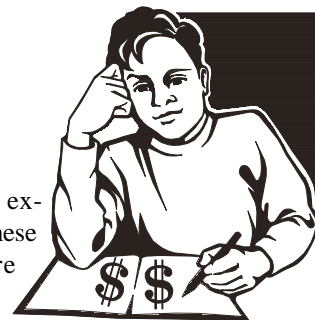
## Teach Your Kids Early About Money

You can begin a child's financial education at a very tender age. The steps you take now can go a long way toward making your offspring become responsible teens and young adults. Here are some ideas suggested by Adriane Berg, financial author and broadcaster, for different age groups:

**Four-Five Year Olds** — Use a traditional piggy bank to teach savings. Be sure to add interest in the form of a few pennies for every quarter children save. Begin this around the time they are able to distinguish among coins or when they start to count. Also select toys that help teach savings. To get some ideas, check the Web site [www.redrocket.com/shop/toptoy/finance](http://www.redrocket.com/shop/toptoy/finance).

**Five-Eight Year Olds**—A Prudential Insurance Company survey found that even pre-schoolers can pick out corporate logos almost as well as a control group of adults. Starting at about kindergarten age, when you buy children a hamburger and fries or

a new toy, explain that these items are made by



companies that sell pieces of itself to anyone who wants to buy a share. These buyers are called shareholders. Around age 7, kids should find the concept of stocks easy to understand when they are explained in terms of ownership of a part of a business. Tell them that when you own stock, you own a share in that company that is called a "corporation". One way to make it "real" to a child is to ask him/her to pick a favorite soda or toy. Then participate in the dividend reinvestment program (DRIP) at the company that makes the soft drink or plaything.

**Nine-Twelve Year Olds**—When a child turns ten, you can go another step further and explain just how the stock market works. This is also a good time to put together a make-believe stock portfolio,

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# Y2K: Prudent Coping Strategies

Recently, Rutgers Cooperative Extension has received calls from people interested in the "Year 2000 Problem," more commonly called "Y2K." They want to know whether or not to roll over CDs, pull money out of stocks, or stockpile food and cash in case there are computer-related problems and shortages.

Recently, there was a series of articles about Y2K in *Dow Jones Investment Advisor*, a magazine for financial planners. Some of the country's leading financial planners were interviewed about how they were preparing for Y2K and what they were advising their clients:

- ❑ Some advisors are recommending that people hold extra cash, preferably small bills, by the end of the year in case ATMs or other bank computer systems crash. At least several weeks' worth of expenses might be set aside. While most banks will be Y2K compliant, "you just never know" and the cost of doing this (loss of a little interest) is relatively minimal.
- ❑ Several financial planners also suggested spreading cash assets among several banks. That way, if one bank has Y2K-related problems, funds may still be accessible elsewhere.
- ❑ Money for short-term goals should be placed in cash assets (this is recommended anyway, even without Y2K). Investors with long-term goals (e.g., retirement in 20 years) should probably stick with their current asset allocation strategy.



❑ Some advisors are suggesting a small (temporary) increase in the percentage of portfolios in cash or fixed-income assets in 2000. This is because the impact of Y2K on corporate earnings, not to mention people pulling money out of the stock market because of Y2K fears, is unknown.

❑ Several planners also noted that it couldn't hurt to have some extra water and canned goods on hand at year-end. Again, "just in case." Also, keep copies of bank and mutual fund statements, a current Social Security earnings estimate and credit reports, and medical records.

❑ Small business owners might want to establish lines of credit to guard against cash flow problems related to Y2K. For example, if Medicare and insurance payments are late, doctor's offices could be impacted. Anyone that depends on clients paying bills by check might want to get a loan just in case.

Finally, there are some helpful Web sites related to Y2K, including [www.zdnet.com/zdy2k](http://www.zdnet.com/zdy2k) and [www.year2000.com](http://www.year2000.com). Another helpful site for investors is run by the Securities and Exchange Commission (SEC). At [www.sec.gov/rules/other/adv2000htm](http://www.sec.gov/rules/other/adv2000htm), consumers can see if their financial advisor has filed a required Y2K compliance report.

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## The Benefits of Diversification

About 70% of the total risk of investing can be eliminated through diversification. This means "not putting all your eggs in one basket." In other words, selecting investments, like growth mutual funds or unit investment trusts, that automatically hold a variety of securities or assembling a diversified portfolio yourself.

If you choose the second approach, it is important to include companies that represent many different industry sectors. Select both companies that do well in all types of market cycles because they produce products and services that people buy continuously (e.g., food, toothpaste, prescription drugs) and companies that are more "cyclical" in nature (e.g., entertainment, autos, airlines) that rise and fall with the economy.

According to the National Association of Investors Corporation (NAIC), twelve industry sectors are suggested for adequate stock portfolio diversification. Below is a list of these sectors and some examples of the types of industries that are included in each:

1. **Credit Cyclical**—construction, forest products
2. **Financial Services**—banks, brokers, insurance companies

3. **Consumer Growth**—health care, entertainment
4. **Consumer Staples**—food, alcoholic beverages, tobacco
5. **Consumer Cyclical**—autos, appliances, merchandising
6. **Technology**—computers, electronics, aerospace,
7. **Capital Goods Industrials**—machinery and equipment
8. **Energy**—coal, oil, natural gas
9. **Materials**—chemicals, paper, containers, metals
10. **Transportation**—airlines, air freight, railroads
11. **Utilities**—electric, gas pipelines, telephone
12. **Conglomerates**—large companies that produce products services in two or more industry sectors

Another important concept related to equity investing is asset allocation. An analogy for asset allocation is "selecting different baskets (asset classes) for your eggs." In other words, placing the

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# Equity Investing: Benefits to Investors

Equity investing is very much in the news these days with recent increases in stock market indices. "Equity" means "ownership interest." When an investor purchases an equity or "ownership" investment, such as common stock, a growth mutual fund, or a real estate investment trust (REIT), they receive an ownership interest in companies or property. This means that, instead of earning a guaranteed rate of return like bank certificates of deposit (CDs), equity investment yields are dependent upon the profitability (or lack thereof) of the issuing company and other factors (e.g., interest rates, economic indicators, etc.) that affect market prices in general.

More than four of every ten U.S. households today own stock. This includes money invested in individual stocks, stock mutual funds, and employee-directed retirement plans such as 401(k)s. By contrast, in 1984 stocks comprised only 8% of household assets. Thus, when most

people talk about being "in the market" today, they are not referring to a grocery store.

There is one very important pre-requisite for equity investing: an "investor's mindset." This means being able to accept the volatility (ups and downs in market prices) and possibility of loss of principal associated with equities. If you absolutely can't stand to see any loss of principal or fluctuation in return, you are probably better off keeping your money in cash or fixed-income assets. You can't be a successful equity investor with a "CD mentality." If you buy a CD, you can expect no loss of principal and a fixed rate of return.

Equity investors, on the other hand, must expect the possibility of loss of principal and unpredictable returns. In exchange for accepting this risk, however, history tells us that equity investors are rewarded with higher returns, especially in

time periods of ten years or more. According to the Chicago investment research firm Ibbotson Associates, the average annual return on U.S. large company stocks from 1926 through 1998 was 11.2% versus 5.3% for long-term government bonds, and 3.8% for U.S. Treasury bills.

Equities, particularly stocks and growth mutual funds, provide two ways for an investor to make money: dividends (which can often be automatically reinvested in additional shares) and capital gains (or losses) due to changes in a stock's price. Three specific reasons to consider investing in equities are:

- ◆ To add diversification to existing cash or bond investments,
- ◆ To earn higher returns over time than other asset classes, and
- ◆ To "grow your money" for long-term goals like retirement.

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## Registering Your Investments: Street Name v.s. Your Name

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or better. There is usually a small fee for the report.

One problem you can run into with bond certificates held at a bank is the possibility that you won't be alerted that your bond has been called, perhaps months earlier. When this happens, you have lost the earning power on that money for all those months. If you leave bonds in "street" name, the firm must alert you to any bond

call. If not, they would have to pay you the lost interest.

By leaving stocks and bonds at a brokerage firm, it makes it easier to switch brokers should you choose. On the other hand, with investments in your name, you could use a deep discount broker to sell securities you bought at a full-service brokerage firm and save a substantial amount of money on commissions.

In any event, the choice boils down to what kind of investor you are, and what conveniences are most important to you. Keep investments in "street" name if you are an active investor, or if you are an income investor and don't want to watch the markets constantly. Keep them in your name if you buy securities for growth and are going to hold on for the long term.

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## Teach Your Kids Early About Money

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pretending it is real. Together with junior, select some stocks he or she can relate to. Then follow them in your daily newspaper. A little later, you may want to make this portfolio real. Be sure to call the broker with your child listening in. If you trade online, have him/her near you when you make the transaction on a computer. It's a good idea to call the stocks they own, whether imaginary or real, a "portfolio." Using the right terminology makes a youngster feel grown-up and in control. A

terrific teachable moment occurs when you make a profit. Actually show your child the money in cash. It doesn't make any difference whether it is \$5 or \$500 and it's your choice whether to give your child the money to spend or reinvest. However, show them that cash credited to their account represents real money.

**Teens** — By the time children reach the teenage years, the growth in value of their account will sink in as "real" money.

Your teenager will finally see that investing increases wealth. At this point, you can explore further. All stock exchanges can be accessed at their own Web sites. Over one-hundred can be visited through [www.savoystocks.com/exches.htm](http://www.savoystocks.com/exches.htm). Other Web sites worth visiting are: Cash University ([www.cashuniversity.com](http://www.cashuniversity.com)) and Edustock which is created by teenagers (<http://tgd.advanced.org/3088>).

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# Retirement Savings: Key Planning Factors

With 77 million baby boomers inching toward retirement, at perhaps no other time in American history has retirement planning been of such great concern to so many people. Suddenly, there is a realization that there are fewer years of work remaining than time previously spent in the labor force. Hence, many people today are asking questions such as “how much do I need to save?” and “if I haven’t been saving enough, are there ways to make up for lost time?”

Fortunately, there are worksheets and computer software programs that can provide estimates of savings required to fund a specific amount of income over an individual’s assumed life expectancy. Like all projections, however, they are only as good as the assumptions upon which they are based. This article will discuss some key planning factors that affect the amount of money needed to save.

A very important planning factor is retirees’ financial goals (e.g., travel) and anticipated lifestyle. Some people can live happily on half of their pre-retirement income while others require 100% (or more) to maintain their lifestyle. There are also a lot of people for whom the commonly-quoted range of 60% to 80% of pre-retirement income is adequate.

Another planning factor is the generosity (or lack thereof) of former employ-

ers. Some lucky retirees have generous pensions and free or low-cost employer-paid health coverage. Others have no employer retirement benefits and must pay thousands of dollars annually for supplemental Medigap health coverage.



A third planning factor is the selection of retirement housing. An April 1998 article in *Worth* magazine states that “changes in geography and shelter are great surrogates for a lifetime of investing.” In other words, trading down to a smaller home and/or moving to a cheaper area of the country can have as much impact on retirees’ well-being in retirement as the amount of money they are able to invest. Not only does someone get to invest the profit from the sale of their home, but their future living costs will likely be lower.

Receipt of an inheritance is another issue to consider. While inheritances

should never be used as an excuse to save, they are a potential source of income. They are also difficult to count on due to uncertainties about a benefactor’s health and longevity. Some adult children are “hedging their bets” by purchasing, and paying premiums for, long-term care insurance for their parents. This lessens the possibility that long-term care costs, like nursing home bills, will dissipate their legacy.

Another planning issue is consideration of post-retirement employment income and Social Security benefits when calculating retirement savings. Some financial planners routinely discount or eliminate Social Security because they expect future benefits to be greatly reduced or “means tested” away for all but the very poor. Obviously, when Social Security is eliminated from consideration as an income source, individuals must save more on their own.

Retirement planning is not an exact science. Instead, it involves making the best assumptions possible and planning and saving accordingly. This article has reviewed key planning factors. To determine what you need to save, check the “Ballpark Estimate” at [www.asec.org](http://www.asec.org), or contact Rutgers Cooperative Extension for fact sheet #431: “How Much Do I Need To Save For Retirement?”

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## Use Caution With 10-10 Calling Plans

For the past two years or so, it seems like we’ve been bombarded with advertisements for “10-10-XXX” (a.k.a., dial-around) calling plans. Recently, the results of a study of “10-10” calling plans conducted by Consumer Action, a San Francisco consumer advocacy group, were announced.

After examining 11 widely-advertised “10-10” calling plans, Consumer Action concluded that you might save money using these plans. Then again, you might also pay more. The benefits (if any) of “10-10” plans depend upon which long



distance carrier and calling plan a person currently uses and his/her typical calling patterns (e.g., length of calls, time of day, U.S. vs international, etc).

According to Consumer Action, the terms “10-10” and “dial-around” originated with long distance company access codes that you can use to bypass your primary long distance carrier. Capitalizing

on consumers’ ability to bypass their subscribed carrier, dial-around companies came on the scene about two years ago and now earn about \$2 billion annually.

Just like many store label foods are made by nationally-advertised manufacturers, many “10-10” companies are owned by major long-distance carriers. For example, AT&T owns the “Lucky Dog” dial-around that promises consumers a chance to win prizes when you use 10-10-345 to place a call. MCI WorldCom owns 10-10-321 and 10-10-220.

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# Savings Tips to Free Up Money to Invest

Looking to save money on household expenses and invest for future goals like retirement? Consider the following tips from the national MONEY 2000 Web site <[www.money2000.org](http://www.money2000.org)>:

◆ **Use e-mail**—Reduce postage and phone bills by contacting people electronically if you have a computer. It is fast, convenient, and accounts can be set up for free with services such as Hotmail ([www.hotmail.com](http://www.hotmail.com)) and Juno ([www.juno.com](http://www.juno.com)).

◆ **Request free samples**—Some Web sites link users to company free sample offers. One is [www.ftwayne.com/free\\_stuff.html](http://www.ftwayne.com/free_stuff.html). Remember, however, to think carefully before divulging lots of personal information in exchange for free items. Also check out samples and money-saving coupons in Val-Pack mailers.

◆ **Fly for less**—To search for the lowest fare on a given date on all major airlines, try a service like Travelocity, which also lists travel specials ([www.travelocity.com](http://www.travelocity.com)).

◆ **Drive for less**—Some Web sites help

consumers find the lowest available price in their area on a specific car. For example, Auto-By-Tel connects consumers with dealerships that sell the type of car they want to buy ([www.autobytel.com](http://www.autobytel.com)).

◆ **Pay cash**—If possible, pay cash for a car, or make a hefty downpayment. When you pay off a car loan, keep on making that car payment every month, but to yourself! For example, suppose you borrowed \$14,000 for the purchase of a car and paid it off in 4 years. Your monthly payment at 7.75% interest was \$340.14. You would have actually paid back \$16,326.72 in principal and interest. Suppose you now drive your car for 6 more years, continually making that monthly car payment of \$340 to yourself in an investment earning an 8% interest rate. At the end of the 6 years, your savings will grow to \$31,837.20, which is more than enough to purchase a new or reconditioned car of your choice.

◆ **Consider higher deductibles**—Deductibles are the amount of money you

pay or accept as a loss before making a claim. By requesting higher deductibles, you can lower your costs. For example, increasing the loss you are willing to stand from \$200 to \$500 could reduce your insurance premium by 15-30%. Another savings strategy is to drop collision and/or comprehensive on older cars. It may not be worth the money to have this coverage on cars worth less than \$1,000.

◆ **Lower fees**—Examine fees paid for credit cards, bank accounts, mutual funds, etc. Then shop around for less costly alternatives (e.g., low-expense index funds and low-fee credit cards).

◆ **Use community resources**—Save money by using the public library to borrow tapes and books instead of renting or buying them. Other free or inexpensive public services include: health fairs and screening clinics, free rabies vaccinations for dogs and cats, and municipal parks and summer recreation programs.

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## The Benefits of Diversification

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money you have to invest in different types of assets, typically stocks, bonds, real estate, and cash. Then, within each asset class (e.g., stock) investment selections (i.e., specific companies like Ford or General Motors) are made.

Investment researchers have also discovered that having money in only one overall asset class (e.g., stock) will not produce the highest return with the least amount of risk. The best portfolios combine assets so that when one zigs (falls in value), another often zags (increases). Since no one knows exactly how asset classes will perform in the future, the next best thing to a “crystal ball” is to invest in several asset classes, as well as different investments within each asset class. This way, you are shielded from being completely exposed at any one time to low-performing investments

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## Use Caution With 10-10 Calling Plans

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Consumer Action advises consumers not to use dial-arounds for interstate calls, unless you are sure they charge no monthly fees or per-call minimums. Instead, find a long distance calling plan with a traditional carrier. One reason is pure convenience. Dial-around plans require consumers to dial seven digits before a phone number, for a total of 18 digits.

If someone in your household forgets to dial the proper number sequence, and you haven't signed up for a discount calling plan with your primary carrier, you could end up paying basic long distance rates- the highest rates of all.

In addition, “10-10” plans with flat rates can be costly. For example, the 10-10-220 plan, owned by MCI-WorldCom, charges a flat rate of 99 cents for 20 minutes. This means that, whether the call lasts one minute or 20, you pay 99 cents. This is true even if an answering

machine picks up the call and you never get to speak with anyone directly.

According to Consumer Action, only two major “10-10” plans do not charge flat rates. They also found that interstate long distance rates ranged from 7 cents per minute anytime to 28 cents per minute for daytime calls of less than 10 minutes' duration. Several “10-10” plans had complex pricing structures based on the time of day and/or length of a phone call. Where they seemed to excel, however, was in rates for overseas calls. Consumer Action advises a comparison between dial-arounds and your primary carrier's international discount plan, however.

Like all consumer purchases, the watchword for “10-10” calling plans is “buyer beware.” You are not guaranteed to save money with “10-10” calling plans and, in fact, you could pay more. Before signing up, get the facts.

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