

Money 2000 News



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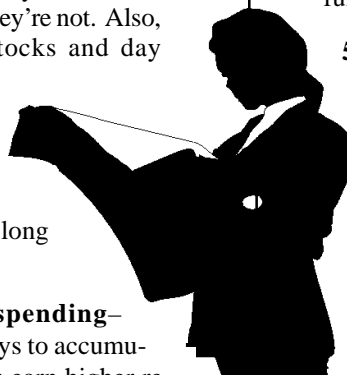
Dear Friend of Money 2000™:

Jonathan Clements, columnist for *The Wall Street Journal* and author of *25 Myths You've Got To Avoid If You Want To Manage Your Money Right*, was the keynote speaker at Rutgers Cooperative Extension's sixth MONEY 2000™ personal finance conference. The title of his presentation was "Seizing Control of Your Financial Life in Seven Easy Steps," which are described below:

1. **Accept what you can't control** (e.g., stock market volatility) **and control what you can** (e.g., amount of money contributed to an IRA or 401(k) plan).
2. **Control your emotions** (e.g., panic selling of stock when market indices plummet).

3. **Control your greed** – Due to generous market gains during the 1990s, many investors think "they're smarter than average." They're not. Also, buying penny stocks and day trading amounts to gambling. Smart investors don't gamble. They pick quality stocks for the long term.

4. **Control your spending**– There are two ways to accumulate more money: earn higher returns or decrease spending and save the difference. Many people spend on impulse and "forget" about tomorrow.



Clements advised signing up for an employer 401(k) or 403(b) plan and stock or mutual fund automatic investment plans and investing windfalls such as tax refunds and insurance reimbursement checks. Business owners should fund a SEP or Keogh retirement plan.

5. **Control your investment costs**– High expenses reduce investment returns. Not surprisingly, many investors never "beat the market" and, in fact, lag it by 2% to 3% per year. Clements advised buying stock the cheapest way possible through index funds. For broad exposure to the market, buy a "total stock market" index fund that tracks the Wilshire 5000 (an index of U.S. companies of various sizes: small, medium, and large). To get

Continued on page 6.

Just Do a Few Things Right

Kathleen Lynn, financial writer for *The Record of Hackensack*, gave this speech at the sixth semi-annual Money 2000 conference:

I am so honored to be here today. The first story I did when I started covering personal finance in 1998 was about Money 2000™, and I have interviewed Barbara O'Neill, Patricia Brennan, and Maria Young (RCE Family and Consumer Science Educators) many times since. I am a big fan of their common-sense message. They believe, as I do, that you don't need a degree in finance to get control of your money.

In fact, when I do my job, I sometimes think of my friend who used to edit a Health and Fitness section in *The Record*. After a couple of months, she said to me, "I'm really getting tired of this. Every week, it's the same

thing: Don't smoke. Get some exercise. And eat your fruits and vegetables."

I sympathized with her, but let's face it, the part of your health that you can control — the part that is NOT controlled by luck and DNA — basically comes down to those very simple rules.

It's the same with personal finance. There are a lot of people who want to make personal finance seem very complicated and mysterious — like something no amateur should ever attempt. Most of those people are called salesmen, and they want you to pay THEM to worry about your money.

Now, there are some jobs for which you should absolutely pay a professional. I hired a lawyer to write my will, and I hired

Continued on page 4.

Topics Covered

- Dear Friend of Money 2000™
- Just Do a Few Things Right
- "You've Won!! What to do With a Windfall"
- Investors Can Determine Portfolio Return
- Prepare For "R" Day
- Planning Needed to Transfer Personal Possessions

"You've Won!! What to do With a Windfall"

Receiving a windfall is surely not something to complain about. But the reality is, handling and investing a large chunk of money at one time is mind boggling and scary. Some windfall recipients may be comfortable picking mu-



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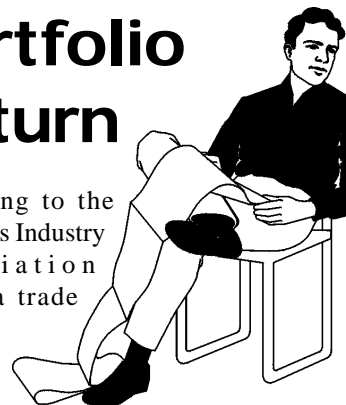
tual funds from the list their employer provides in their 401(k) plan, but it's a whole different story if they're handed an amount so large that it threatens their comfort zone.

Windfall recipients generally fall into two categories: 1) those that are so overwhelmed by receiving the money that they do nothing because they are paralyzed either with fear of investing it badly and losing it, or guilt because they didn't earn it, and 2) those who are blinded by the sudden wealth and start spending it like there's no tomorrow on expensive "toys" like a Porsche, boat, or upscale home.

What Should You Do If You Find Yourself Newly Rich?

- ❖ If you feel compelled to go on a shopping spree, then make it a mini spree – allow yourself no more than 5% of the windfall to get it out of your system.
- ❖ Pay off any high interest credit card or other consumer debt that offers no tax benefits.
- ❖ Put the money in a short-term CD or Treasury Bill to get it out of your reach – and the reach of others who will come out of the woodwork to either borrow, ask for outright gifts, or offer their "help" to deploy your money. Let them know the money is tied up.
- ❖ Start interviewing and hire a Certified Financial Planner or other trusted advisor. Consider a fee-only planner (one who is not compensated by commissions on products but is paid for advice). Interview at least three planners before settling on one. This person will in all likelihood consult with and link you to a competent estate planner and accountant. (All of a sudden, estate planning will become very important, particularly to preserve the \$675,000 federal estate tax exemption that can be accomplished by establishing a credit shelter trust.)
- ❖ Set aside federal and state taxes that will be due, both on the windfall itself and investment earnings.

Investors Can Determine Portfolio Return



According to the Securities Industry Association (SIA), a trade group for brokerage firms,

nearly half (48.2%) of all U.S. households own individual stocks or growth mutual funds. This percentage is up sharply from just 28% of households with equity assets at the beginning of the 1990s. Thus, thousands of "newbie" investors have put money they might have previously invested in bonds or certificates of deposit (CDs) into often volatile and unpredictable stocks or stock funds.

This trend in investing behavior is not surprising since 1999 was another record-breaking year for major stock indices. According to the SIA, there has been a real sea change in how people invest their money. Today, households have three-fourths of their liquid financial assets invested in securities products. Whether it's in a company 401(k) plan or a taxable mutual fund "on the side," more and more people are starting to invest, either because they want to or because they are forced to make retirement plan decisions on their own.

Do investors know what they're doing and how their investments are faring? Maybe not. According to an article, "Did You Beat the Market?," in the January 2000 issue of *Money*, many investors (as many as 80% of those studied) don't have a clue how their investments have performed relative to "benchmark" indicators such as the Standard and Poor's 500 stock index. Several studies were cited showing that investors tend to exaggerate their returns. For example, more than a third of

Continued on page 6.

Continued on page 3.

Investors Can Determine Portfolio Return

Continued from page 2.

investors who claimed to beat the market lagged it by 5% or more.

The remainder of this article describes a “ballpark” formula to calculate the performance of your individual investment portfolio. Using the result, you can then determine whether or not you actually “beat the market.” Surprisingly, the math needed to do this calculation is very simple. All you need to know is your portfolio balance at the beginning and end of a particular year (e.g., 2000) and the amount invested throughout that year. The amount held in all types of assets can be combined into one calculation or you can calculate the performance of each investment separately.

For example, in the illustration below, let’s assume that an investor started the year out on January 1 with a \$15,000 balance in three investment accounts (e.g., a stock index mutual fund, a 401(k) invested primarily in equities, and a bank CD). By De-

ember 31 of that same year, these assets had grown to \$20,000. In addition, the investor added \$100 a month to both the 401(k) and the mutual fund (\$200 total) for a total investment deposit of \$2,400 (12 months x \$200).

To calculate your portfolio return, take the beginning balance (\$15,000) and add to it half of the total annual deposits (\$1,200) for a total of \$16,200. Then take the ending balance (\$20,000) and subtract half of the total annual deposits (\$1,200) for a total of \$18,800.

Finally, divide the adjusted ending balance (\$18,800) by the adjusted beginning balance (\$16,200), which equals 1.16. Then, to turn the number into a percentage, subtract 1 and multiply by 100 ($1.16 - 1 \times 100 = 16$). In this example, the investor’s return on the entire portfolio, consisting of the three different assets, was 16%.

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Prepare For “R” Day

On Friday, you get up in the morning and go to work, just as you have everyday for the last 30 years. On the following Monday and every day after, you don’t. Welcome to retirement and living the good life—you hope.

Unless you’ve won a million dollars in a lottery or game show, it’s going to be more complicated. It certainly takes more time if you want to retire successfully.

Think of retirement as a mountain to climb and that, in all likelihood, it’s going to take you three years to get to sunshine on the other side. Specifically, those 3 years are the year before you retire, the year that you retire, and your first full year of retirement.

Much of a person’s retirement planning the year before retirement should be spent tying up loose ends. Your employer should be informed of your plans to retire. You will also need to tell the retirement plan administrator that you will be withdrawing money from the plan instead of adding. Next, there is life and disability insurance to review. You won’t need disability insurance to replace your salary if you aren’t earning one. The year prior to retirement is also the time to visit the Social Security office. You should get the paper work going at least 90 days ahead of your “R” date.

There is also a less tangible but real matter of preparing for retirement psychologically. For many people, we are what we do. We identify ourselves with our work. That final Friday, you were Professor Smith or the manager of a department store. On the next Monday, you are just plain John or Jane. That can take a lot adjusting to.



The second year of the 3-year window is when you are actually quitting. It is a year of planning your retirement cash flow. You don’t want to wake up on day one asking, what have I done? I don’t have enough money. I retired too early. Retirees won’t have that anxiety if they have done their homework. First, they must evaluate their Social Security, pensions, profit sharing, personal investments and whatever other assets they have. Then, they must determine how much of this they can spend. All of their lives, they have been saving for a rainy day; now it’s raining. From here, they must examine how much money is actually needed to live on. Many don’t feel they need much money, but there are new activities to be discovered.

In all of this, retirees should look realistically at how long they are likely to need to provide income for. Chances are it could be a very long time depending on their age at retirement.

The third year — your first full year of retirement, is a time to re-evaluate. By this time you will have found out exactly what your monthly expenses are. You may have added some new ones like travel. You may sell your home and downsize. But on the other hand, you may “upsized” to something south of New Jersey.

Now you have made it over the mountain.

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Planning Needed to Transfer Personal Possessions



- Grandma had two daughters and three sons. She knew she should make some arrangements for how her personal belongings and household property would be transferred. But she died before she determined a distribution plan for the transfer of family belongings. Now her adult children aren't sure what to do.
- In another family, grandma's wedding ring was passed on to her son, then to his son. When that young man's fiancée walked into a room full of his relatives, his aunt stared at her ring finger and exclaimed, "How did YOU get mom's ring?"
- Three granddaughters couldn't decide who should get an ancestor's cedar chest. Eventually it was decided that it would be shared; each woman would have it for a year, then pass it along to another. But there was so much fudging on when the year was over and carping about who should get it next that their husbands became disgusted. "We're not carting this thing around any more," the men said firmly. "You decide who gets it." Eventually, a drawing was held to determine permanent ownership.

As the scenarios above indicate, personal property transfer can be a "touchy" subject. Yet, it is a topic that is frequently ignored until a crisis occurs or immediate decisions need to be made. The issue of transferring non-titled property is often assumed to be unimportant or an issue that "just takes care of itself." The term "non-titled property" refers to personal property without a legal document (such as a title) to indicate who officially owns the item.

The transfer of non-titled property is an issue that impacts individuals and families regardless of their net worth, heritage, or cultural background. Yet, few people plan ahead regarding who should get what personal belongings such as Grandma's yellow pie plate, the oak table, Dad's cuff links, or the family photo album. Without proper planning, family conflicts sometimes occur. In some cases, close family relationships are permanently severed as a result of personal property squabbles or misunderstandings.

How much thought have you given to the distribution of your personal property after you're gone? Many families struggle through the double-edged grief of the loss

of a loved one and the heartbreak of dividing personal items. Issues to consider when making decisions include the "meaning" of possessions with sentimental or historical value, how to initiate sensitive discussions, determining "fairness" in dividing property, and managing potential conflicts.

To help individuals and families make property distribution decisions, Rutgers Cooperative Extension offers a class statewide called "Who Gets Grandma's Yellow Pie Plate?" Publications about transferring non-titled personal property are also available. For information about this topic and other Rutgers Cooperative Extension programs and services, call your county Cooperative Extension office or check the Web site www.rce.rutgers.edu.

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Just Do a Few Things Right

Continued from page 1.

a contractor to renovate my bathroom, because estate law and plumbing are too complicated for me.

But when it comes to your money, I'm convinced that most of us can handle most of it ourselves, with a little education and a few simple rules.

Let me give you some examples.

Last year I interviewed a 35-year-old woman named Maria from Bergen County. She had money deducted from every paycheck and put in her 401(k) retirement plan. When her company moved out of state, she decided that rather than get another full time job, she would open a business at home so she could have more time with her sons. Because she had tucked

away that retirement money, she felt comfortable enough about her future that she could take the time to spend with her children. She even coached their soccer teams. Those of us who are parents understand how valuable that is.

Then there's Peggy. Her marriage broke up when she was 50 years old. She had no savings, and said, "I didn't know diddly about anything." She was worried that she'd have to work to age 85.

But she signed up for Money 2000, took some classes with Pat Brennan, and started comparison-shopping for everything she bought. She brown-bagged her lunch. She paid off her credit cards. Now she is putting 16 percent of her income into retirement savings and investing in stock mu-

tual funds. She says: "I'm just a different person, more confident in myself."

Or there's Sean. Before he graduated from college a couple of years ago, I invited him and some other graduating seniors to meet with Pat Brennan for some lessons about money as they set out into the work world.

Pat told the students that as soon as they started working, they should sign up for their retirement savings plans at work. Now, this was a room full of 22-year-olds. They had not even started their first real jobs, and this lady is telling them to save for retirement??

Continued on page 5.

Money 2000 News

Just Do a Few Things Right

Continued from page 5.

But Pat gave them this quiz: Two twin sisters graduate from college and get jobs. One puts \$2,000 a year into retirement savings from age 21 to age 30, then stops. She has put in \$18,000. The other twin, instead of saving, buys lots of new clothes and eats out every night throughout her twenties. Then at age 30, she wakes up and starts putting away that same \$2,000 a year — from age 30 all the way to age 65. She puts in a total of \$70,000.

Here's the question: Who has the most money at retirement?

You guessed it. The sister who started earlier and put in a total of only \$18,000 actually ends up with more than the sister who waited and put in a total of \$70,000. That's the power of time and compounding.

When Pat told this story to the college students, they were inspired to start saving for retirement right away. Sean told me: "You think it's too far in the future, but Pat was able to get across to us the fact that it's important now."

So here's a young man who's going to sign up for his retirement plan and have money taken out of every paycheck — money he'll never miss but that will be working for him. It's something very simple that will make a huge difference in his life and his security.

If there's any theme that runs through my stories, it's this: don't be intimidated. Just do a few things right, as these people did, and your life will be greatly improved because you'll have more freedom and security.

Now I'll tell you about the stories that don't have such happy endings: investment rip-offs. Unfortunately, we write about them all the time. In fact, we had two stories on Page One just this past week about investors being ripped off.

A couple of months ago, I interviewed a woman whose elderly mother had been victimized by a crooked investment advisor. The old lady trusted this man for 15 years, and he repaid her trust by stealing several million dollars from her. In fact, he didn't even stop when she died — he stole from her estate. Her daughter said to me, "My father worked his whole life for that money, and this man just took it in a matter of years." Instead of financial security for herself and her own family, the daughter was looking at years of fighting to get some of this money back.

I'm generally an optimist about human nature, but when it comes to your money, unfortunately you can't afford to be too trusting. You should NEVER buy any investment from someone who cold-calls you on the phone. Before you invest in anything, check out your broker's credentials. It's easy to do through the state Bureau of Securities, which is listed in the blue pages in the phone book.

And it's not just con artists. I hate to see investors pay more than they should to commissioned salespeople. Any teachers in the audience?

I recently wrote a story about the sale of annuities within teachers' retirement savings plans. Most teachers who are saving for retirement are paying more than they have to because they've signed up for a plan from a "representative" who is really an insurance company salesperson selling them an annuity inside their retirement plans. That's costing teachers an extra 1.25 percent a year for some-

thing they don't need. You buy annuities for a tax break, but retirement plans already offer the tax break. Over a 30-year career, that extra fee can cut a teacher's nest egg by \$100,000 or more.

Speaking of investment missteps, I recently read a great conversation on an investors' web site. Someone threw out a fascinating question: What was the worst investing mistake you've ever made?

There were a couple of responses that came up over and over:

Number one: Waiting too long to invest or even learn about investing. One person wrote: "If I had my working life to begin over again, I would start investing from my first paycheck, no matter how small the amount." He's right — even small amounts add up. Invest \$10 a week in a stock index fund, and in 10 years, you'll have \$9,000. In 20 years, you'll have \$33,000. All from \$10 a week, and I don't know anyone who can't afford to save \$10 a week.

The second big error was being sold a mediocre, high-cost investment by a broker or insurance company salesman who was more interested in a commission than doing the right thing for the customer. One person said: "Following a broker's advice cost me \$10,000 — 7 years of savings into someone else's pocket." You can easily avoid this with a no-load, low-cost mutual fund.

And this mistake came up only once but I thought it was pretty interesting: "Never lend money to a relative without having them sign a promissory note. Even if it's your poor little old grandmother, make her sign a promissory note."

Now, I'm pretty careful with a buck, and I'd probably make some of my relatives sign a promissory note — but not my 93-year-old grandmother.

Which brings me to another point: I've been talking about the importance of saving and investing for your future, because you're the only person you can rely on to take care of yourself. But if ALL you do is take care of yourself, that's a pretty empty life. There are many people who have less than we do, and I think it's our obligation to help them. If you haven't done so already, I would encourage you to find a favorite charity, research it to make sure they're not con artists, and then give what you can.

In closing, I'd like to share with you some simple steps to financial freedom.

1. Spend less than you earn. Shop around for bargains, and ask yourself whether you really need something before you buy it.
2. Save at least 10 percent of your income. Do it automatically. I have money taken out of every paycheck for retirement, and money taken out of my checking account every month and invested in mutual funds. I never miss the money, and I'm a lot more secure about my future because of it.
3. Invest for the long term. Don't trade too much — you'll just outsmart yourself. Earlier today, Steve Sanborn taught a class on how to research individual stocks. If you don't have the time or energy to do that, just keep it simple — invest through

Continued on page 6.

Dear Friend of Money 2000™

Continued from page 1.

even broader stock exposure, Clements advised putting 75% of assets in a U.S. stock index fund and 25% in an international index fund.

6. Control your taxes (e.g., cut out day trading, which produces short-term capital gains, and make full use of tax-deferred retirement plans). Clements noted that employer tax-deferred plans, such as 401(k)s, provide a “triple play”: a federal (not NJ) tax deduction for the amount of the contribution, tax deferral of investment earnings, and, in many cases, employer matching.

7. Control your portfolio’s risk level. Clements advised having three types of accounts: a “safe money account” in low-risk investments for emergencies and short-term goals, a “growth account” for

long-term goals such as college and retirement, and a “fun money account” (if people want one) of no more than 3% to 5% of one’s portfolio. “Fun money” can be used to day trade or place in speculative securities to provide the “thrill” that many investors seek.

Investors must consider their risk tolerance, of course, but should keep at least half of their portfolio in stock, according to Clements. Even if a person is 65, they will probably live to 85 or 90, which is plenty of time to ride out market volatility. He also advised buying shares of quality stocks and mutual funds when prices decline and likened this to “a big sale at Macy’s” (department store).

Senior citizens were advised to set aside up to 5 years of expenses in “safe money”

accounts (e.g., money market funds) and invest the balance of their portfolio in stocks. When the market does well, use some of the stock gains to replenish the safe money account. When an investor is within 5 years of their goal, funds should be withdrawn from stocks and moved to less volatile assets.

In response to a question about how much money to put in companies of various sizes, Clements advised following their market weighting. He advised putting 10%, 15%, and 75% in small-, mid-, and large-cap stocks, respectively. “Cap” is an abbreviation for “capitalization,” which is the price of a company’s stock multiplied by the number of outstanding shares.

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Windfall

Continued from page 2.

- ❖ If the windfall becomes a reality as a result of stock options, check out the tax ramifications before exercising them.
- ❖ Before investing the money, review and/or set your financial goals, e.g., retirement, children’s college education.

What Not To Do If You Receive A Windfall

- ❖ Don’t quit your job ... yet. Think it through carefully and over time. If you are receiving a major sum, perhaps, work part-time until you have

figured out what you want to do with the rest of your life.

- ❖ Don’t blow it on luxury items.
- ❖ Don’t invest in anything you don’t understand.

PQB

Just Do a Few Things Right

Continued from page 5.

no-load mutual funds. NEVER invest with people who cold-call you. Be very skeptical of any investment that sounds like a guaranteed winner. Stick with reputable companies.

4. Don’t run up your credit cards. Going deep into debt to buy nice clothes or restaurant meals will not impress your friends. Instead, impress them with your kindness, sense of humor, and good looks.
5. Set your goals. What are you saving for? A nice house? A comfortable

retirement? College education for your children? Keep your eye on the goal, and it’s easier to make some sacrifices to get there.

6. Don’t buy more insurance than you need — such as extended warranties on washing machines or low deductibles on car insurance. And don’t buy investments from insurance companies. They tend to have very high fees. But be sure you have enough disability insurance and term life insurance to protect your family if you can’t bring home a paycheck.

7. Congratulate yourself for what you’re doing right. If you hear that you need, say, \$500,000 to retire in comfort, you might just feel too depressed to even try. Instead, celebrate paying off your credit card debt, or saving even \$1,000. You have a lot to be proud of as long as you’re headed in the right direction. And just by being here today, you are.