

IT'S YOUR FINANCIAL LIFE

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How Credit Works

You've got to go in circles if you want to go places with credit.

Using credit is a snap. You buy a jacket or pay for dinner by simply handing over a credit card and signing a receipt. And then you don't have to pay the bill for several weeks, and you may choose to spread your payment over months—or even years.

But you want to be sure the way you're using credit is better for you than it is for the credit provider.

WHAT'S WHAT?

When you get a credit card, you're arranging to use what's known as **revolving credit**. That means you have repeated access to a limited supply of money, known as your **credit limit**. As you charge purchases, you use up part of that credit limit. But as soon as you repay any part of what you've used, you're free to use the amount again without having to reapply.

For example, if your credit limit on your credit card is \$1,000, and you charge \$400, you've still got \$600 to use. And if you repay the \$400 at the end of the month without charging additional purchases, your credit limit is back up to \$1,000 again.

WHO'S WHO?

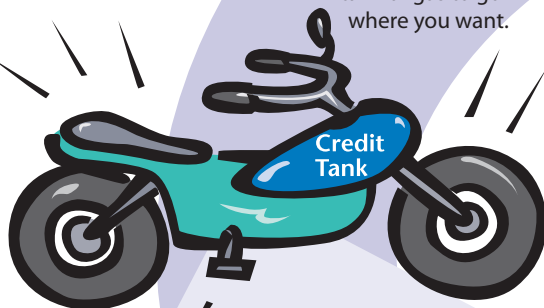
Buying on credit involves three parties: you, the seller you're buying goods or services from, and your **creditor**, the bank or other institution that puts up the money to make your purchase

BORROWER BEWARE

If your credit card bill invites you to skip a month's payment without penalty, the lender isn't doing you a favor. If you take the offer, you probably won't owe a late fee, but you will owe finance charges on your unpaid balance. And any purchases you make after the due date you skipped will probably accumulate interest from the day you make them.



1 Credit is the fuel that propels you through transactions and purchases. When you start a credit relationship, it's like having a full tank of gas to go where you want.



4 But if you refill your credit line by paying back what you've used, you'll be back at the beginning of the credit cycle and ready to get rolling again.

possible. When you sign a **credit agreement** you agree that the creditor will pay the bill for your purchase, and you'll pay back the money.

The merchant you buy from pays a fee, usually a percentage of the purchase price. Part of the cost of doing business is making it easy for people to buy—and that's what credit does.

THE PRINCIPAL IDEAS

In return for using borrowed money, called the **principal**, from the time you spend the money until payment is due—you agree to pay the creditor a finance charge. For credit cards, this really means the interest that accumulates on any unpaid balance, calculated as a percentage of the amount you owe. Other charges, like annual fees for the use of the card, or fees for paying late or exceeding your limit, are extra.

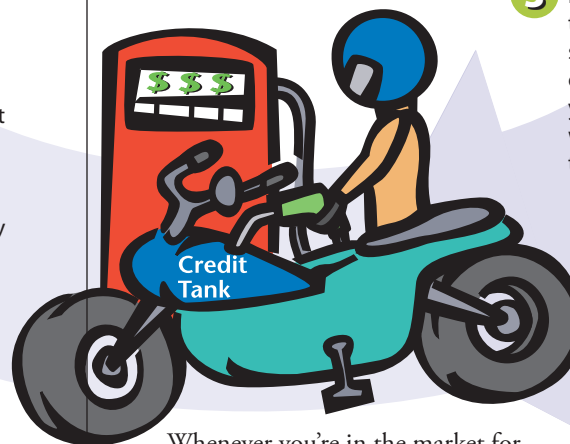
In most cases when you're considering a credit agreement, you won't be able to negotiate better terms with a creditor than whatever the standard offer is at the time. But that doesn't mean you can't find a good deal.

THE CREDIT CYCLE

2 Once you're off and running, you can use credit to go places and do things. But as you use the credit your tank gradually gets emptier.



3 If you put too much strain on your credit, you'll have to watch yourself. If you run out, you won't be able to get around the way you did before.



Whenever you're in the market for credit, doing some serious comparison shopping may help you find a lower interest rate, smaller fees, or some other way to save money.

VARIATIONS ON THE THEME

A **line of credit** is another type of revolving credit. Banks and other credit providers sometimes offer customers a line of credit to make it convenient for them to borrow larger amounts than they might be able to put on a credit card.

Often, when you have a line of credit, you get a pack of special checks that look just like regular checks. In fact, you use them the same way as conventional checks, and can write them for amounts up to the credit limit your lender sets. The difference is that you'll get a bill, including finance charges, for spending the money. But when you repay, you can use the amount again.

You might also have a line of credit that gives you **overdraft privileges** on your checking account. If you do, your bank will cover amounts you transfer online or by check, up to your credit limit, if you don't have enough money in your account to cover the transaction. You pay interest on amounts transferred from your line of credit, but you avoid the costs and embarrassment of insufficient funds.

CASH ADVANCES

As useful as credit cards can be, there are times when you need cash. If you don't have the money you need in your bank account, most credit cards allow you to get **cash advances** at ATMs. The only thing you have to do ahead of time is arrange for a personal identification number (PIN), just as you do with a debit card.

With most cash advance arrangements, you start owing interest from the moment you get the cash. And that interest will be charged at a higher rate than you pay on your regular card purchases. So they're almost never a good idea.

The Basics of Investing

Taking the plunge into investing can seem scary, but it doesn't have to be.

Investing is about putting your money to work. If you do it wisely, you have the potential to increase your **principal**, or the amount you've invested, over time. The money your investments produce can mean the difference between meeting your financial goals and settling for what you can afford.

Investing isn't the same as saving. When you save, you're putting money in a safe place to earn interest—a bank account, for example. That's fine for building an emergency fund or accumulating money for short-term goals. But your principal won't grow much faster than the rate of **inflation**, or the gradual increase in the prices of goods and services. That can leave you short on buying power.

While there are always risks with investing, there is the expectation that over time you'll beat inflation by a wide enough margin to achieve your financial goals.



HELPFUL HINTS

There's no hard and fast rule about how much you should be investing, but it's smart to try aiming for 10% to 15% of your gross income. If you're contributing to a retirement savings plan at work, you can count the percentage you're putting in there as part of your total. And whenever you get a bonus, a gift, or other unexpected cash infusion, it's a good idea to put some or all of it into your investment account as well. That extra boost can make a big difference in what you'll have later on.

CHARTING A COURSE

At its most basic, investing means buying financial products for **growth**, **income**, or **safety**. You can choose:

- **Stocks, mutual funds, and ETFs** that invest in stocks
- **Bonds, mutual funds, and ETFs** that invest in bonds
- **Cash and cash equivalent investments**, including certificates of deposit (CDs) and US Treasury bills

To invest, you need an investment account. There are three major types, defined by the tax treatment of the account earnings: **taxable**, **tax-deferred**, and **tax-exempt**. You can use just one or all three, based on your goals and eligibility.

You can open a taxable account with a brokerage firm or mutual fund company. If your employer offers a retirement savings plan, you may be able to choose either a tax-deferred or tax-exempt account. And you are eligible for individual retirement and education savings accounts, and perhaps healthcare accounts.

When you're ready to get serious, it might be a good idea to look for a financial mentor who can help you select specific investments—perhaps a friend or relative who is an experienced investor, or an investment professional. It can be a great way to get the encour-

INVESTING FOR BEGINNERS

If investing seems like an alien experience, try an experiment. Buy an index fund that tracks a broad segment of the stock market or a highly rated stock mutual fund that's investing for growth. Promise yourself that whatever happens for the next year or two, you won't sell the fund and you won't stop investing in it regularly.

Watch the fund over a period of time so you get used to some ups and downs. Check out what happened to your fund the last time the market tumbled. If you're not prepared, you might panic when the

price drops. If you sell, you may have to watch the price go back up again without you.

Each year, evaluate how well your investment has done compared with similar investments. Also consider what you had expected as a return, and what you would have earned if your money were in a savings account.

If the investment is meeting your objectives, hold onto it. If not, sell. By then, you'll be ready to consider your next move—and experienced enough to make it a confident one.

agement you need to make important decisions. And as you expand your investment horizons, your mentor can help you create a strategy for putting together a more diversified portfolio.

START IT UP

You don't need a lot of money to be an investor. But you will need enough cash to buy your first shares of stock or open your first mutual fund. It's smart to set up an investment account so that you can contribute easily and keep track of your progress. A money market account with a brokerage firm or a mutual fund company is one way to go. If you've got the account earmarked for investing, you may be less tempted to spend the money on everyday expenses.

Once you have the account set up, decide on an amount you'll contribute every week or month,

and stick to it. One idea is to have the money deposited directly from your paycheck or transferred from your checking account. It's even easier than paying a bill—except in this case you're paying yourself.

IMPACT INVESTING

As you invest to meet your financial goals, you may also want to choose investments that reflect your values or are designed to stimulate environmental, social or economic change at a local, national, or international level. There are a number of ways to combine doing what you believe is right or responsible and realizing a positive return. **Return**, in investment terms, is what you get back in relation to the amount you invest.

You can look for companies that manage their business in ways that you respect. For example, B Corporations are established to create a social, environmental, or community-based benefit through their business operations. Another approach is to screen out companies whose products or services are unacceptable to you or conflict with your values.

Or, you might investigate mutual funds and ETFs that establish the criteria that an investment must meet to be eligible for inclusion in the fund. There are also managed accounts with an environmental, social, or corporate governance (ESG) focus.

