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TEENS AND MONEY: PREPARING FOR FINANCIAL INDEPENDENCE

Money. You have a whole lifetime to earn, save, invest, and spend it. Yet, in order to avoid costly mistakes and wasted time, you probably do not want to wait a lifetime before learning how to do any of these things well. This is your opportunity to learn how to make the most of every penny so you can achieve the financial independence you want – when you need it.

Money Management

Whether the money you have comes from a job, support from your parents, or somewhere else, it all should be managed the same way. But just what is money management? It is nothing more than the process of knowing where your money is going now and having a plan in place for where you want it to go in the future.

Wants versus needs

It may seem important to have the best of everything, such as the most expensive, designer, clothes, and the latest gadgets, but do you really need them? There is a big difference between wants and needs, and knowing which is which will save you big bucks now and in the future.

A want is a desire – something that, if you had to, you could live without. A need is essential – living without it would cause extreme hardship. Simple? Not always. Some wants can feel very much like needs. For example, let's say you have an expensive car payment and struggle every month to pay it. Sure, you require a vehicle to get you to and from work or school, but does it really have to be brand new and top of the line, when an economy or used one will do the trick?

You make powerful choices everyday. From food to clothes to car payments, you have the power to spend – and the power to save. Get into the habit of questioning each potential purchase to know if it is a want or need. If it is a "want" and you have the money, great. If you don't, either walk away or save for it.

Setting goals

Goal setting is exciting. It is your chance to figure out what you really want to do with your money and to get what you want without having to borrow for it. Just as there is a big difference between wants and needs, there is also a big difference between goals and dreams. Goals are specific, while dreams are vague. For example: you may dream of being rich someday, but your goal is to have a million dollars by your 50th birthday.

There are three basic types of goals: short-term (achievable in under a year), mid-term (achievable in one to five years), and long-term (achievable in five-plus years). If you have multiple goals, you can either work toward them all at once or concentrate on one and then move to the next.

Once you know what you want to save for, decide the date you want it by. After that the calculation is simple: the price divided by the months you have to save equals how much you need to put aside each month.

Example: You want a new laptop. After researching the best price, you find what you are looking for, and it will cost $800. You'd like it in six months. To reach that goal, you will need to set aside $133 per month ($800/6 = $133). Can't do it? Explore your options. Consider a less expensive computer, extending your timeframe, earning more, or decreasing some other expense. The choice is yours.

Once you know how much you need to set aside each month, make saving for your goals easy and painless. Have the sum automatically deducted from your paycheck or checking account and deposited into a separate savings account. Most financial institutions will be happy to arrange this for you. You'll never miss what you don't see.

When saving for goals, be flexible. If you simply can't put the $133 into your laptop fund this month because your truck needs tires, don't give up! Consider it a temporary setback. With a little extra effort, you may be able to make it up over the next couple of months.

Financial Goals Chart

Type of Goal	Target Date	Total Needed	Current Savings	Savings Needed Per Month
Short-term Goals				
Mid-term Goals				
Long-term Goals				

Budgeting
While the idea of budgeting may sound overwhelming, it's just knowing what you have coming in and having a plan for what goes out. A well-designed budget allows you to make the most of your money – you'll get rid of wasteful spending while keeping expenses that are really important to you. Anyone can do it.

Though everyone's budget is different, since we all have unique needs, wants, incomes, and goals, there is one consistent rule: your expenses should never be more than your income.

To design a budget, you can use the old-fashioned system (pen and paper), a computer spreadsheet, or budgeting software. The method matters less than the result.

Monthly Income Chart

Source	Gross (Pre-tax Dollars)	Net (Post-tax Dollars)
Job		
Student Loans		
Support		
Other		
Total Income		

Begin with your income, as it will determine what you can afford to spend and save each month. Total up every net (already taxed) dollar you make in a month. It is best to be as accurate as possible when creating a budget, but avoid overestimating your income. It's better to have money left over than to be caught not being able to pay your bills.

Now for your expenses. When developing this section, you should have two columns to work with – a "current" column for what you have been spending your money on and a "proposed" column for the changes you want to make.

In the current column list everything you spend your money on in a month. Do not forget those expenses that come up once in a while (called periodic expenses), such as birthday gifts, weekend trips, or concert tickets. Just total what you think you spend in a year, then divide the number by 12 to get an estimation. Of course, there are truly unexpected expenses that you simply cannot plan for. That is why starting and building an emergency savings account is so important, and regular deposits into it should be part of everyone's budget.

Bottom Line Chart

Total Income	Total Expenses	Balance
−	=	

Total your expenses and subtract the sum from your current income. Are you over or under? If you find there is more going out than is coming in, it's time to make changes. You can increase your income, decrease your expenses, or do both.

You may find that decreasing unnecessary expenses is the easiest way to come out ahead. For example, do you buy coffee drinks on a regular basis? If so, look at how much that costs. A $3 latte, four days a week, will run you $52 a month. Or maybe you eat a lot of fast food. A $6 meal may seem cheap, but if you bought it five times a week, you'd be spending $130 a month.

Using the current side as a guide, consider each expense carefully. Which are wants? Which are needs? In the proposed column decide where you want your dollars to go each month and what you can cut.

Remember your goals. Again in the proposed column, enter the amount you have earmarked for the things you want to save for. They are now expenses, and you will "pay yourself" as you would any other important bill.

A budget is born. Not so hard, is it?

Preparing for Future Bills

You may not have too many expenses to budget for at the moment, but eventually you will have quite a few more.

Moving out
There are many costs to prepare for just to walk in the door of your first home. You may need to save for at least a few of these big ticket items:

- Moving costs
- Rent for the first and last month
- Cleaning deposit
- Security deposit
- Utilities deposit
- Furniture and appliances

Of course, if you have roommates, you'll be splitting at least some of these costs. Still, even with a quick estimation you can see that you may need to save quite a lot to make the big move.

Monthly Spending Chart

Expense	Current	Proposed
Rent		
Gas/electric (average)		
Water/garbage		
Telephone 1 (landline)		
Telephone 2 (cell phone)		
Groceries		
Household items		
Health insurance		
Prescriptions/doctor visits		
Car payment		
Gasoline		
Maintenance/repairs		
Auto insurance		
Auto registration		
Tolls/parking/mass transit		
Tuition/lessons		
Beauty/barber		
Movies/video rentals		
Internet access		
Cable/satellite		
Dining out		
Sports/hobbies/clubs		
Gym		
Vacations/travel		
Books/music/DVDs		
Clothing purchases		
Laundry/dry cleaning		
Gifts/cards		
Pet care		
Banking fees/postage		
Religious/charity		
Savings 1 (Emergency Account)		
Savings 2 (Goals)		
Credit card payment 1		
Credit card payment 2		
Credit card payment 3		
Other		
Other		
Total Expenses		

Household bills
Once you are in your home and living independently you will have other household costs besides your rent - you will probably have to pay some utilities as well. Utilities can include cable, internet, phone, garbage, gas, electric, and water. It is extremely important to pay these (and all) bills on time. If you don't, you'll probably be charged late payment fees, and, if left unpaid, they will go into a collection agency. Dealing with collectors is not only highly unpleasant, but the negative effect on your credit report is severe. If you default, you may not be able to turn your utilities on again until they're paid, and even then it can be difficult.

Other
Many people get in trouble once they start paying for their own cell phones. Why? Most cell phone companies require you to sign a contract, so if you get an expensive plan, you are stuck. If you agreed to pay $75 a month for three years, then that is pretty much it. Stop paying after a year, and you will be held liable for the remaining 24 months (in this case $1800). Before signing a contract, make sure that the plan is affordable. Also, be especially careful with cell phone minutes. Once you have exceeded your plan's limit, the cost per minute can be outrageous. Bills of several hundred dollars are common.

Like with cell phones, many people get in trouble with gym memberships because they often require you to sign a contract. Before signing up, think about how often you will really go. Will you be spending hundreds of dollars on something you will only use once a month? If you still want to sign up, check out several gyms in your area to see who has the lowest fees and does not require you to sign a contract.

Buying a vehicle
A vehicle is the first major purchase many young adults make. However, before you buy, make sure you know how much you can really afford. It is easy to get carried away and end up with a car or truck that is out of your price range. To know the amount you can afford to spend, revisit your budget. Consider not just the monthly payment, but also the costs of insurance, maintenance and repairs, gas, and parking.

If you are not going to buy a car or truck outright, you will be borrowing for it. The more you borrow (finance), the more the vehicle will cost, so try to make as large a down payment as possible. Compare the dealer's financing with the loan you can get through your financial institution and other lenders. When shopping for the best deal:

- **Don't be fooled by an advertised low monthly payment.** If the length of the loan is long and the interest rate high, you may be paying more than you have to.
- **Look for incentives.** Dealers may offer reduced finance rates or cash back on specific models. However, avoid buying an expensive car just to get incentives. You may wind up spending more money on a fancy car with a low, promotional interest rate than an economical car with a higher interest rate.
- **Negotiate.** It is common to haggle over the price of the car, but if there is no special financing offer available, you may also be able to negotiate the interest rate and other repayment terms with the dealer.

Before signing any documents read the contract carefully. Make sure you understand and agree to the:

- Price you're paying for the vehicle.
- Amount you're financing.
- Annual percentage rate (APR – the rate of interest you are charged annually).
- Additional finance charges.
- Number and amount of payments.
- Total sales price.

Checking and Savings Accounts

One of the first steps toward financial independence is having your own checking and savings accounts.

A good place to open an account is a credit union. Since they are non-profits they tend to offer better rates and lower fees than banks, and many offer accounts specifically for teenagers. However, if the financial institution you are interested in does not provide individual accounts for those under 18, chances are they do offer custodial or joint accounts if a parent co-signs.

You can use the savings account to set aside cash for goals and emergencies. Consider signing up for a regular automatic transfer when you open the account. Once done, saving will be a breeze. All you have to do is choose the amount you want deducted regularly from your checking account and deposited into your savings account.

The checking account, however, requires a bit more attention. Because you will use it to write checks and pay for purchases and bills, you will need to actively manage it. You are responsible for handling and monitoring your checking account. This means knowing how much is in your account at all times, reading your statements for accuracy, and never writing checks for more money than you have in your account.

Don't "bounce" checks
Bouncing checks is a serious and expensive habit. If there aren't enough funds to cover a check, it will be rejected when it comes in for payment. The check will be sent back to the person who deposited it, and you will be charged for "bouncing" it. How much? A lot. The merchant you wrote it to can not only charge a returned check fee, but you may be charged up to three times the amount of the check. One bad $12 check could cost you $150! You may even be subject to court proceedings and required to take special classes on money management.

To prevent bounced checks many financial institutions offer overdraft protection. With it, if you write a check for more than is in your account, the overdraft protection will kick in and the check will be covered. Typically linked to a savings account or line of credit, there is a fee for this service, though it is much cheaper than bouncing a check. Does this mean that you should write checks without a second thought? No. Remember, even if the fees are lower with overdraft protection, you still have to pay back the amount you overdraw – you do not get free money.

You can avoid accidentally writing bad checks by always knowing how much you have in your account. Keep track of the deposits you make, checks you write, ATM withdrawals, and fees you are charged in your check register. Before writing a check verify your account balance – you can usually do it on the phone or online. Never write a check before you make a deposit, counting on the "float" time. A check can clear the financial institution the same day you write it.

Balance your checkbook
Always read your account statements and compare your balance with what the financial institution says you have. If there is an item on your statement that is not listed in your check register, first determine if your check register is accurate. You may have forgotten to record something. If the item is correct, write it in your check register, but if you believe the item is wrong, contact your financial institution to have it investigated immediately.

Using your ATM/debit card
When you open an account, you may be issued either an ATM (automated teller machine) card or a debit card. There are important differences between the two:

- **ATM card.** You can use an ATM card to withdraw cash, make deposits, transfer money between accounts, obtain your balance, etc., without having to go into a branch and speak with a teller.
- **Debit card.** You can use a debit card in a store or restaurant, as well as at the ATM. It may look like a credit card, but it is not – money is automatically deducted from your checking account when you use it. Some financial institutions will allow you to exceed your balance as long as you have overdraft protection in place.

Whichever card type you have, be very careful with where you keep it and how you use it. Memorize your personal identification number (PIN), never share your card, and contact your financial institution immediately if it is lost or stolen.

Credit Cards

These days, credit cards are not just for adults – a substantial portion of teenagers are credit card holders too. However, many get cards without knowing how to use them. You wouldn't drive a car without lessons first, would you? Credit cards are no different. Use them correctly, and you win. Use them incorrectly, and you lose - a lot of money.

What is a credit card?
Though what a credit card is and isn't may seem obvious, many adults have trouble with the concept – and end up neck-deep in debt because of it. So, let's start with the basics. When you use a credit card to pay for something you are borrowing money from the credit card issuer, and you are obligated to pay back at least some of what you borrowed the next month. You can choose to pay off the balance in full or pay less than the full balance. However, you must make at least the minimum payment in order to avoid being delinquent on your card. If you are delinquent, your interest rate may be raised, and your credit report can be dinged.

If you choose to pay less than the full balance, the remaining sum will "carry over" – move onto the next month's bill. This is where the annual percentage rate (APR) comes in. Interest will be added to whatever sum is still owed, and will continue to be added until the debt is paid in full.

Example: You charged $500 for school books and materials but can only afford to pay $25 a month. If the APR on your credit card is 10 percent, it will take you one year and ten months to repay – plus $49 in interest. However, if the APR is 22 percent, it will take you two years and two months to repay, plus $129 in interest (almost one third of the original debt).

Credit history, credit reports, and credit scores
No doubt about it, credit cards are convenient. There is no need to carry around a lot of cash, and yes, you do have some time before it needs to be repaid.

But the real benefit goes beyond that. When you use it correctly you are establishing a positive credit history.

Your credit history will show up on credit reports generated by the three major credit-reporting bureaus: TransUnion, Experian, and Equifax. These companies collect credit-related data, compile it into reports, and then provide it to businesses that need to assess lending risk and make other business decisions. Your credit and debt information will be on these reports in detail. How long you have had the loan or credit card, whether or not you've paid on time, if accounts have gone into collections, how much you currently owe, credit limits, and if you have been sued for a debt are all included on a report.

A credit score is a mathematical assessment of risk (the risk that you will not repay your debts), based on the information available in your credit report. A common scoring model is one developed by Fair Isaac Corporation. They issue a FICO score, which is based on many factors, including payment history (35%), amounts owed (30%), length of credit history (15%), pursuit of new credit (10%), and types of credit in use (10%).

You will need a glowing credit history and score for a few things you will probably want in the near and distant future:

- **Buying a vehicle.** Getting a good financing deal requires a good credit history.
- **Getting a cell phone.** If your credit history is poor, you may be denied a cell phone contract.
- **Renting an apartment.** Many landlords use credit reports to determine responsibility and to find out if you have too much debt to afford the rent.
- **Getting a job.** As with renting an apartment, an employer will look at your credit report to see how responsible you are.
- **Qualifying for low insurance rates.** You won't be offered the lowest car insurance premiums if you have a low credit score.
- **Buying a home.** Yes, one day you may want to buy your own home, and in order to get the best interest rate on a mortgage, or even be able to get one at all, you'll need a great credit history.

Check your credit reports for accuracy at least annually. You have the right to see them free once a year (more if you suspect fraud or were denied credit). To access your annual free reports you can contact:

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348
www.annualcreditreport.com
(877) 322-8228

Reports accessed through the Annual Credit Report Request Service do not come with credit scores. You may also order your report, with scores, through the bureaus directly, for a fee:

Experian
Consumer Assistance
P.O. Box 2104
Allen, TX 75013
www.experian.com
(888) 397-3742

TransUnion
Consumer Relations
P.O. Box 2000
Chester, PA 19022
www.transunion.com
(800) 916-8800

Equifax
Consumer Relations
P.O. Box 740241
Atlanta, GA 30374
www.equifax.com
(800) 685-1111

The right card for you

Plastic comes in many varieties, and not all types are right for all people.

- **Unsecured credit card.** These are basically regular credit cards. A line of credit is given based on your credit history and financial stability. Unsecured credit cards may be hard to get if you have not yet established a good credit history.
- **Secured credit card.** These cards require a deposit, which the creditor can keep if you do not make payments. They also may carry a higher interest rate than unsecured cards. Secured cards can be an excellent option for first-time credit applicants.
- **Charge card.** These are not credit cards, because the balance may not carry over. You must repay the entire balance by the due date. They typically have very high credit limits, but the annual fee is also comparatively high.
- **Store/gas card.** These cards may only be used at a specific store or service station. The interest rate on these types of cards is often higher than on other forms of credit.
- **Debit card.** It looks and acts much like a credit card, except the money is withdrawn from your checking account. You won't be generating a credit history with it, but you also won't be receiving a bill.
- **"Teen" card/prepaid card.** These are debit cards set up specifically for minors. You (or someone else) deposit money into an account, and each time you use the card, the amount of the purchase is deducted.

What to look for in a credit card

Not all credit cards are created equal. Just as you wouldn't purchase the first car you saw on the lot without comparing it to other cars, neither should you accept a random credit offer that comes to you in the mail. When shopping for a credit card, look for the following:

- **Low interest rate (APR).** The lower the APR, the less money you'll be charged to hold onto the balance. However, if you never carry a balance (the most financially savvy thing to do), the APR won't matter.
- **Grace period.** A grace period is how long you have to pay off the balance before you are charged interest on new purchases. It is best to go with a card that gives you a grace period (although be aware that it only applies if you paid off your balance in full the previous month).
- **Low cash advance fees.** As the name implies, with a cash advance you are given cash. Even if the fees are low, it is still usually best to avoid cash advances. In addition to having to pay a service fee, there typically is no grace period for cash advances, and the APR for cash advance is usually higher than the APR for purchases too.
- **No annual fee.** Why pay for the privilege of holding a card if you don't have to? If you are new to credit you may have to pay an annual fee, but after a year or so of responsible use, ask for it to be reduced or eliminated.
- **Low penalty fees.** You may be charged a fee if you pay after the due date or go over your credit limit (if you opted in to allowing over-the-limit transactions). Though you should manage your account so that neither occurs, look for low penalty fees anyway. Just in case.

Are you responsible for payments?

Whether or not you are responsible for payments depends on what type of user you are:

- **Authorized user.** Authorized users have spending privileges, but the primary cardholder is responsible for the bill.
- **Co-signer/joint account.** Both signers are equally responsible for payments, and the payment history will be evident on both signers' credit reports.
- **Individual.** The account holder is solely responsible for the bills, and the activity will be reported on that person's credit report.

If you are under 18, you are not allowed to have a credit card unless you are emancipated. (However, you can be an authorized user on an adult's card). If you are under 21, you must have verifiable income or a co-signer to get a credit card. Be especially conscious of making good on your debts if you are an authorized user or a co-signer. Someone trusted you enough to give you access to credit – don't ruin it by running away from or forgetting about your obligations. Repairing trust can take longer than repairing credit damage.

Stay out of debt

If you have ever owed someone money, you know that being in debt isn't pleasant. Future money is promised to past purchases, so you have less to work with in the present. Even so, if your past experience with borrowing money came from friends and family, get ready for a major change.

Credit cards allow you to run up huge balances. Starter cards may begin with low limits, but very often after a year of use the limit is increased to several thousand dollars – or more. That kind of capacity makes it very easy to "go crazy" and spend what you can't pay back. It does not take long for a few purchases to add up to hundreds of dollars, then thousands. Remember, credit cards should be used to build your credit score, not to supplement your income. Never charge more than you can afford to repay by the time the bill rolls in. To avoid overspending, keep a record of all credit card purchases you make during the month, with a running total of what you've spent. When you reach the amount you can afford to pay off, stop using the card until the next month rolls around.

Pay more than minimum payment due

If you absolutely can't pay the entire balance, at least pay more than the required minimum payment. Because the minimum payment is often very low, usually between two to four percent of the balance, you are really just dragging the debt out for years, even decades, if that is all you pay.

Pay on time

Paying your credit card and other loan obligations on time will be reflected positively on your credit report – and will boost your credit score. However, miss a payment cycle and your score will take a quick and nasty hit. Also, if you fail to pay by the due date, you will be assessed a late payment fee – typically between $25-$40.

Limit the number of cards you have

How many credit cards should you have? There is no magic number, but if you are just starting out, one should do you just fine. Beware intensive marketing and promotions at:

- **College.** If you are heading off to college, chances are there will be numerous credit card company representatives there to greet you. The competition for your business will be fierce. Many will have tables set up with free enticements – a cup warmer here, a backpack there.

- **The mall.** Frequently, when you enter a store you'll be asked if you want to save a percentage of the day's purchases if you apply for a card that day. However, weigh the few dollars you'll save against having yet another card to manage.

In short, only apply for the plastic that you absolutely need. The more lines of credit you have open, the more tempting it will be to spend beyond your means. Also, too many applications can hurt a credit score.

Keep your cards private and safe

What happens if someone uses your credit card? If you call the company before the card is used, you are not responsible for unauthorized charges. However, if you wait too long, you may be responsible for some or all of the loss.

Be very careful about how and when you use your credit cards. Prevent theft by:

- Never lending your cards to anyone.
- Never leaving your cards or receipts lying around.
- Always knowing where your cards are and keeping them in a safe place.
- Not giving your account number over the phone unless you know the company and you made the call.
- Only shopping from secure websites. Look for either a "lock" icon or for the URL to begin with "https" rather than just "http."
- Never emailing account information – it is not a secure way to send data.
- Drawing a line through the blank space above the total on charge slips to prevent changes.
- Destroying old receipts safely, such as by putting them through a shredder.
- Never signing blank charge slips.
- Always checking receipts against your monthly statements.
- Carrying only the cards you need when shopping or traveling.

Investing

Now that you've saved all that money and have become an expert money manager, you can do what some adults never achieve: having your money work hard for you, instead of just the other way around. By knowing the basics, you'll be able to hold your own in the world of stocks, bonds, and cash equivalents.

Your investment portfolio

A portfolio is a collection of investments, which can include stocks, bonds, cash equivalents, and mutual funds. So what should you have? That depends on many factors, including your risk tolerance, goals, and age. Since you are young, and have many, many years to make a lot of money through smart investments, time is on your side. You can afford to take more risk with your investments than someone who is older and doesn't have decades to recoup a loss.

How to invest

If you are a minor, you will probably have to open a custodial account with the help of a parent, guardian, or other adult. Another option is to ask your parents to buy into various stocks or mutual funds for you. Once you turn 18, you can open an account at a brokerage firm. With their help, you can buy and sell securities (stocks, bonds, etc.). Some brokerage firms are full service (higher commissions, but more guidance) and others are discount service (lower commissions, with less guidance). The least expensive option is an online brokerage firm, where the fees for transactions are rock bottom, but you are pretty much on your own.

Stocks

A share of stock represents a percentage of ownership in a corporation. In other words, if a company is divided into a million shares, and you buy one share, you would own one millionth of that company. They are an important part of a portfolio because, long-term, they have the greatest potential to make the most amount of money. However, stocks are naturally volatile – one day your stock may be worth more than what you paid for it, the next, less.

Bonds

A bond is a loan to a company or government, with you, the bondholder, as the lender. Organizations issue bonds when they want to raise funds. Generally you receive the principal, called the par value, at maturity of the bond, and the interest, called the coupon interest rate, periodically (usually twice a year) while you are holding the bond. There are investment grade bonds (low risk, low coupon) and junk bonds (high risk, high coupon). Bonds tend to be more stable than stocks, so having both in your portfolio is a good way to spread risk. However, the return (profit) on bonds is usually lower than the return on stocks.

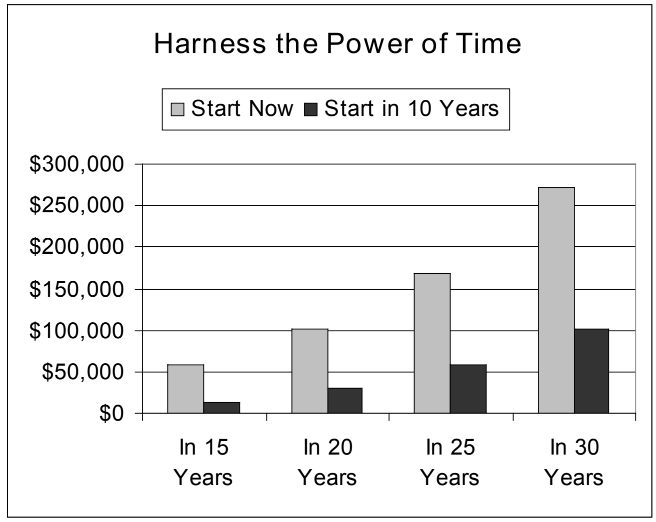
Cash equivalents

Cash equivalents are assets that can be readily converted into cash. They tend to be low-risk, so it is unlikely that you will lose the money you deposit. Because they are safe, cash equivalents provide a low return, which may not even keep up with inflation. (Inflation is the gradual increase in cost of goods and services, meaning a dollar doesn't buy as much over time.) Still, having a portion of your savings in cash equivalents provides a safety net – you know you will be able to access some money if you need it. There are many types of cash equivalents:

- **Savings and checking accounts.** With savings and checking accounts you deposit money with a financial institution and receive interest or dividends in return. You can withdraw your money at any time. The interest rate is usually low, or may even be non-existent for some checking accounts. Savings and checking accounts are insured, meaning you will still be able to access your money if the financial institution goes out of business.
- **Certificate of deposits (CDs).** With CDs you also deposit your money with a financial institution, but you are required to leave it there for the term of the CD, or, in most cases, you will have to pay an early withdrawal penalty. CD terms (how long your money must stay deposited) can range from a few days to several years – generally the longer the term, the higher the interest rate. CDs are also insured and generally have higher interest rates than savings and checking accounts.
- **Money market deposit accounts.** Money market deposit accounts are similar to savings accounts, but the interest rate is variable, not fixed, and usually higher as well. They are insured and may come with limited check writing privileges.
- **Money market mutual funds.** Not to be confused with money market deposit accounts, money market mutual funds are mutual funds that invest in debt obligations, such as Treasury bills and CDs, with an average maturity of less than 90 days. While generally safe, money market mutual funds are not insured and provide no guarantee against loss.
- **U.S. Treasury bills.** Treasury bills are short-term debt obligations of the U.S. government.

Mutual funds
A mutual fund pools together money from many investors and purchases different stocks, bonds, and/or cash equivalents. Because each fund is made up of a wide variety of investments, they are already diversified, which is important for spreading risk. After all, if all of your money is invested in one company, and it does poorly, you could lose everything. With a mutual fund, you don't have to research hundreds of companies to know which stocks and bonds should be in your portfolio because the fund manager does this for you. However, professional management comes at a price – management fees are built into the cost of funds.

Start now
When should you begin to invest your savings? As soon as possible! When the power of compound interest (interest that is earned on interest) is put to work for the longest amount of time, you can make an astounding amount of money with even modest deposits. All you have to do is start early, make regular contributions, and don't take out anything until you've reached your final goal.



This chart demonstrates a $2000 a year investment, with an average annual return of nine percent. If you start now, you'd have $272,615 saved in 30 years. However, if you wait ten years to begin investing, you would have a little over $100,000 – a huge difference!

Learn before you invest
Investing is not gambling! Nor is it simple, so take the time to research a company before making any major decisions. There are countless books and websites dedicated to the subject of investing. Read at least a few of them. All investing should be done with realistic expectations. There is no such thing as a sure thing, and if it sounds too good to be true, it probably is.

Money is not always easy to come by nor easy to keep. You will make mistakes. When they happen, don't worry or panic, just learn from each slip-up. The road to financial independence is not always a straight one – but with knowledge and enthusiasm, you'll get there. This is one destination that is definitely worth the journey.