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INTERNET EDITION

GREENSTUFF:



THE MONEY BOOK

By
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ACKNOWLEDGEMENTS

There are already hundreds of books on investing in the market, other books on economics, some on our political/economic system, and many others on personal money management. Over a hundred financial newsletters and a dozen financial magazines are published each month.

Most of those publications are either written for the rich OR they assume prior knowledge that the reader may not have.

Greenstuff: The Money Book explains in everyday language:

(1) How our economy works; (2) Our political/economic system; and (3) Personal money management. Knowledge of the relationship between these three areas is essential to financial survival!

The author submitted the book to over 150 experts for revision. These “expert” editors have 1,800 years cumulative experience in dealing with limited resources, spending money, and (more importantly) putting complicated ideas into plain English. Yet, most of them have not yet had the time or opportunity to develop “poor money habits”.

Twenty editors in each of eight groups worked together on editing this handbook over a period of three years. Each chapter was read aloud by the group. Portions that were not understood were explained by the author. The editors then gave advice on rewording sentences, moving paragraphs, etc. to clarify different concepts. They also assisted in developing the study guide for each chapter. This experience helped the editors to become involved with the material.

However, any errors that remain are mine alone. They were left in the handbook for next year’s group of editors to find and correct when this material is revised and updated. You see, the editors were students in Itasca, Illinois.

AUTHOR'S NOTE

If you have had a course in economics (or have had quite a few “life experiences”) YOU MAY FIND THAT THE FIRST FIVE CHAPTERS ARE TOO ELEMENTARY FOR YOU. If that is the case, simply SKIM THE FIRST FIVE CHAPTERS to get an overview and then go on to “the good stuff”.

All economic terms are printed in **boldface type**, underlined, and followed immediately by two dashes (--) and their definitions. This will aid the reader in understanding the terms.

This book assumes no prior knowledge of economics – the science of the production, distribution, and consumption of wealth. For this reason, the first five chapters deal with BASIC macroeconomics – how our economy works, and microeconomics -- personal money management (or the economy of just one company or industry).

Attitudes and values about money are formed at an early age. It's absolutely essential that we periodically examine these attitudes and values (and adjust them to our personal goals).

From my point of view, the purpose of studying economics is not just to learn how our economy works, but to learn how to apply that knowledge to personal money management and asset accumulation. Hopefully, this book accomplishes that purpose.

CAUTION: The book DOES express the author's opinions and attitudes about money. However, keep in mind that WE ARE NOT TALKING ABOUT “RIGHT” OR “WRONG”. We are talking about scarcity of resources (money), the CHOICES we make, and accepting the CONSEQUENCES of those choices. The choice is yours!

1992 UPDATE

A lot has happened since the original GREENSTUFF: THE MONEY BOOK was first written in 1984. As predicted, Communism fell in the Soviet Union in the early 1990's, the values of saving and investing for the long term once again gained popularity, and "Yuppies" have gone the way of the Model "T". However, I was wrong about inflation. Interest rates have gone down rather than up. Depending on the election, it will probably take another three years for interest rates and inflation to reach the levels of the late 1980's. The economy of the early '90's has been devastating to many households.

"Dollar Cost Averaging" was a little known concept when I first wrote this book. Now, especially after October 19, 1987, just about every mutual fund "touts" this method of long term investing. I've been using "D.C.A." since 1982 and have averaged over 23% per year.

It is never a good time to jump into the market. It is almost always a good time to begin easing into the market, IF you have a three month reserve in the bank and are committed to easing in over 5 or more years and then easing out over 5 or more years. In today's volatile market, the P.E.E.L. Principal (Pennies a day, Ease in, Ease out, Learn all you can) has even more validity. THERE IS NO WAY TO GET RICH QUICK without taking unwarranted risks (and risk losing what you've worked hard to save).

A lot has changed since 1984. Back then the popular philosophy was "live for today", "buy now and pay later", and "shop 'till you drop". GREENSTUFF: THE MONEY BOOK defied the times by talking about "saving for a rainy day", "deferred gratification", and setting up a "depreciation allowance". Perhaps a little personal history of the author would be enlightening.

My father died when I was seven. My mother worked as a church secretary to raise five kids; ages three, seven, eleven, fifteen and sixteen at the time. One brother is now a pilot, another a manager, one sister teaches nursing, and another is an administrator. It certainly wasn't easy, but all of us managed to go to college and three of us have advanced degrees. I know about tough times. I also know about the opportunity that America offers and the fact that even families on very little income can still manage to save for the things that they really value **IF** they are willing to sacrifice.

In 1980 I again went through some tough financial times. I was desperate until I built up a reserve again. I had been conducting speed-reading seminars at different colleges, libraries, and park districts for over ten years (to supplement my teaching income). I figured "What the heck, I'll speed read everything that I can find on budgeting, saving, spending, and investing." One hundred books and several hundred magazines later, it finally "came together" (I'm a slow learner).

When I started to lament how much better off I would be if I had only known some of these things earlier, I began to write **GREENSTUFF: THE MONEY BOOK** for my students and their parents.

Each year (from 1984-1990) my students edited this book and I spent several hundred hours each summer pouring over hundreds of prospectuses (searching for "loads", 12b-1 fees, "back-end loads", minimum investments, investment returns, etc.) and rewriting the book.

In 1990 things changed. We had twins! We managed for my wife to be off for one year but she eventually had to go back to work outside the home (in order to save for the Danny and Christopher's college education, build a reserve, and plan for retirement). (She makes more than I do from teaching, anyway.) (Thank Goodness for investment income.)

Now, as a summertime MR. MOM X TWINS, I've gone from prospectuses to pampers. Rather than inspecting hundreds of prospectuses, I'm changing thousands of pampers! I'm dealing with a different kind of "doo doo".

Fortunately, the laws have changed since 1984. Mutual Funds must now list their "fees" on the second or third page of their prospectus, Money Magazine regularly publishes investment returns, and many funds have lowered their minimum investment (some as low as \$50 per month) if you sign up for their automatic checking account withdrawal.

Mutual funds and other investments **DO** change their phone numbers from time to time. If you find that the phone number or address that is listed for a particular Investment in **GREENSTUFF: THE MONEY BOOK** is no longer current, **please call 555-1212 for the current phone number and address.**

<p>READ THE PROSPECTUS CAREFULLY BEFORE INVESTING. READ the cautions that are listed elsewhere in the book.</p>
--

1999 UPDATE

WELCOME TO THE INTERNET! Now there's almost too much information available and you don't know whom to trust. Diversify! Dollar Cost Average into a fully diversified Mutual Fund and then diversify further into several different fund families. Avoid greed, fear, and day trading on the Internet.

Build up a cash reserve first. Then follow the five-year rule and the P.E.E.L. Principle.

2001-2002 UPDATE

Well, the bubble sure burst on the internet day traders, G.R.Q.'ers, Dot Com enthusiasts, and just about everybody else that wasn't following the Five-year Rule and the P.E.E.L. Principle. That's why a knowledge of HISTORY is so important to your financial future. Learn from the PAST and Shape Your FUTURE! The story about the turtle and the hare is NOT just a Fable.

INTRODUCTION

A short “history/fable” of money.

The first cavepeople supplied all their own needs. They hunted and fished for food to feed just their family. Sooner or later, one family had some extra meat, which it traded to another family that had surplus fish. That’s probably how **barter** -- trading goods for goods -- got started.

One caveman probably found that he wasn’t very good at hunting, he didn’t like to fish, especially in the wintertime, he could, however, make good handaxes -- stones that have been chipped until they have a sharp edge on one side. These handaxes could be used to skin animals and cut up fish, he bartered these handaxes for the food that his family needed.

Since he worked all day doing just one thing, producing handaxes, he became more efficient and was able to make more handaxes than he had ever made before.

Soon other cavepeople also became **specialists** -- people who do only one type of work. **Capital goods** -- tools used to produce other goods -- were used by these specialists. People who consumed (used) the goods these specialists produced were called **consumers** -- users of goods and services.

Before long every family was a **producer** -- maker of goods or services. Every family was also a consumer of the goods which they bartered for or produced.

Civilization began and people were now **interdependent** -- dependent on each other for goods they didn’t produce themselves. Because specialists became better at producing these goods, there were MORE goods available for everyone in the society.

That system probably worked fine until our first caveman tried to

trade some handaxes to a hunter who needed corn not more handaxes. The caveman found he had to barter with a farmer first for corn and then trade the corn to the hunter for meat.

People had to trade more than once to get what they needed. That wasted a lot of time and got to be quite complicated.

Gradually people began to state their prices for their goods in terms of bags of corn. Corn became the **standard of value** -- the value (real worth of something) by which all other goods and services were measured.

(Different societies throughout history have used coffee beans, feathers, tobacco leaves, animal teeth, and other objects as the standard of value.)

As civilization developed, people realized that bags of corn were too hard to carry around to pay for the goods they wanted. They needed a different **medium of exchange** -- something with an established value (money). **Coins** -- small pieces of stamped metal issued by a government -- were used as money.

Eventually gold became the standard of value and the medium or exchange became **money** -- pieces of special paper that had a certain value. Money was accepted by all the people in an organized society for making payment for goods.

When the government made too much money, it resulted in **inflation** -- a rise in the price of goods. When we have inflation, it takes more money to buy the same amount of goods. Another way of saying this is that the same amount of money will buy fewer goods and services than it would before!

The price of goods and services is determined mainly by the **law of supply and demand** -- if there is a large supply of something and few people demand (*want*) it, the price will be low. If, on the other hand, there is a small supply of something and a lot of people want it, they will pay a higher price to try and get it.

Who decides how much of a supply of money there will be in our country? (If too much money is printed, we will have inflation. If not enough money is printed, people will be out of work.) The supply of money is regulated by the **FEDERAL RESERVE** -- a semi-independent agency of the federal government that regulates the amount of money we have in our country.

If they think there is too much money in our economy (inflation), they remove some of it by selling a few of the government bonds (government debt) that they hold. The money people pay for these bonds goes to the Federal Reserve and is no longer in circulation.

If the Federal Reserve thinks our economy is growing too slowly, they buy government bonds. The money they pay for these bonds is put back in circulation.

Banks can borrow money from the Federal Reserve. The Federal Reserve System affects our economy by lowering or raising the amount of interest they charge banks to borrow this money.

The U.S. used to be on the **gold standard** -- gold was our standard of value. You could turn your dollars (the medium of exchange) into a federal bank and get the gold back.

Silver later became our standard of value. Dollars had "Silver Certificate" printed on them. You could take dollars to a federal bank and get silver for them.

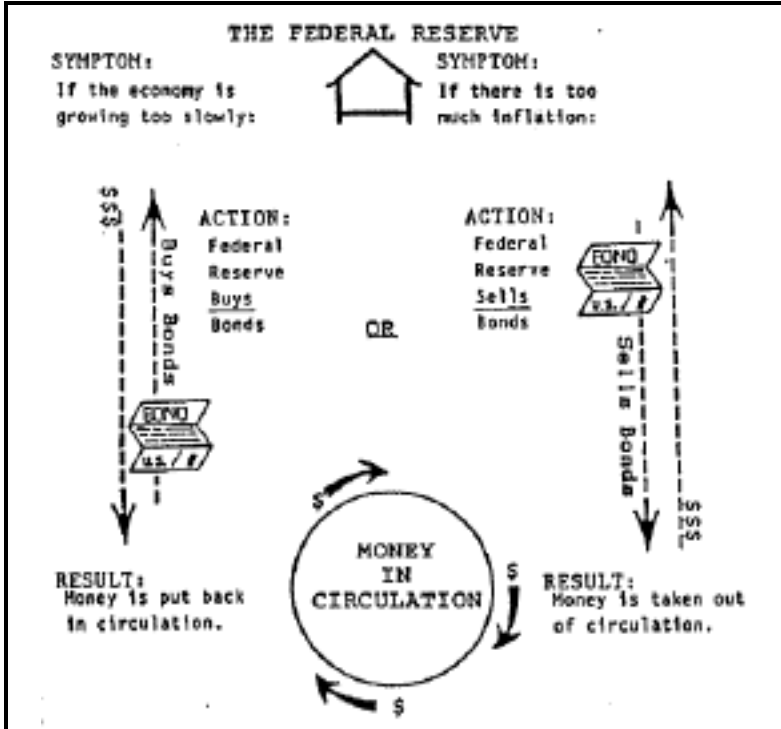
Today our dollars say "FEDERAL RESERVE NOTE": "This Note Is Legal Tender For All Debts, Public And Private." The Federal Reserve "creates" these dollars by simply buying back government bonds.

The Federal Reserve System is rather complicated, but the key point is this: DOLLARS (Federal Reserve Notes) ARE MONEY BECAUSE THE GOVERNMENT SAYS THEY ARE MONEY AND WE ACCEPT THEM AS MONEY! (If you think your dollars are not

“real money” because we are no longer on the gold standard, please send them to me!)

If you exchange your dollars at a Federal Reserve Bank today they will give you back ... other Federal Reserve Notes! These dollars are still our medium of exchange. But their standard of value is the value that we all put on our government, our economy, and our belief in our system.

If everyone stopped accepting dollars as payment for goods and services, dollars would no longer be our medium of exchange and we would have to go back to bartering. But that won't happen because of our strong belief in the value of our American System.



Chapter 1

GREENSTUFF –How To Get It!

Money won't buy everything! It Won't buy love, friendship, or true respect. It will however provide food, clothing, and shelter. We know that we can exchange (trade) money for the material things we need, but what do you exchange to get money in the first place?

Your TIME + KNOWLEDGE + SKILL and/or PHYSICAL LABOR = MONEY. **Productive services** -- services that have value in producing goods -- are exchanged for money. How can you increase the value of your productive services? Get a good education!

There are three periods in everyone's life:

(1) The first 20+ years are spent learning. The result?

The ability to earn a living the next 45 years. REMEMBER, Your TIME + KNOWLEDGE + SKILL = MONEY.

(2) The next 45 years are your working years. Experts predict that today's teenagers will go through five career (not job) changes in their lifetime. Some extra learning will be essential during this time.

(3) The third period is retirement.

The average college graduate in his lifetime will earn \$500,000 more than the average high school graduate. (The difference in earning power between a high school dropout and a college graduate could easily be one million dollars!)

How much you learn will determine whether you make 1/2 million dollars in your lifetime or over ONE MILLION DOLLARS! (Just \$12,000 a year x 45 years = \$520,000, while \$23,000 a year x 45 years = \$1,035,000!).

That's why it is so important for students to learn all they can while they're in school; it affects their whole life! In today's "information age" it's essential that we continue learning all of our lives.

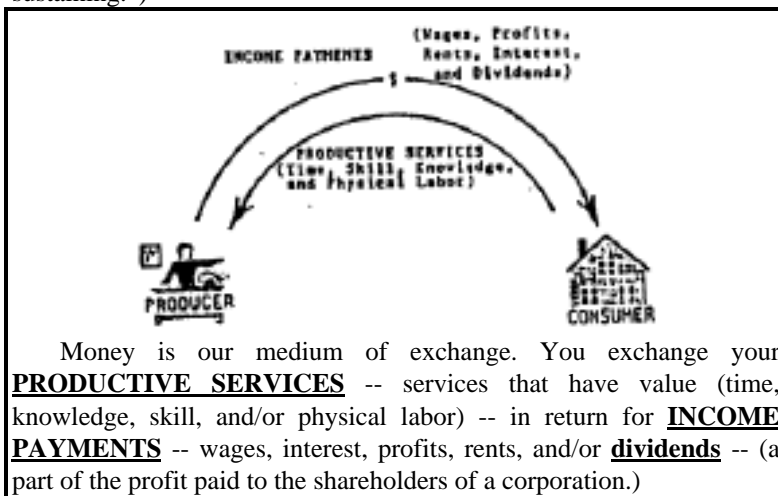
STUDENTS GET PAID FOR GOING TO SCHOOL

Perhaps you know of someone who “goofed off” in grade school and junior high when they should have been learning (building the basic foundation). It will be very difficult for them to catch up in high school, and they’ll have a great deal of difficulty in going on to a technical school, trade school, or college.

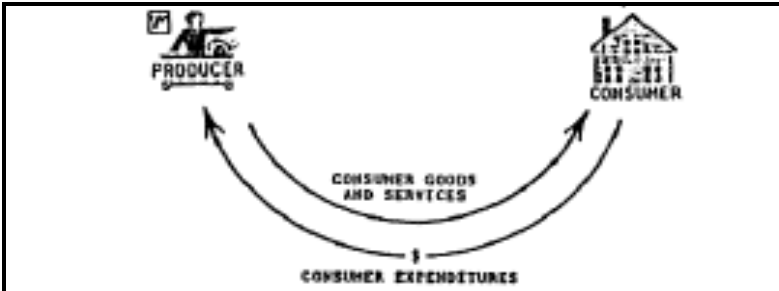
Their time spent working will be much less valuable (less pay) than someone who got the basic foundation (grade school and jr. high), built the walls (high school), and completed the roof of their home (technical school or college). You have to live with yourself, and it’s hard to live in a house with no walls, no roof, and no money!

How well you manage your money during the second period of your life will determine what the third period (retirement) will be like. While much time is spent in school learning the skills you will need to make money, this handbook will teach you **HOW TO MANAGE THE MONEY** you make NOW, so you can enjoy life - and retirement!

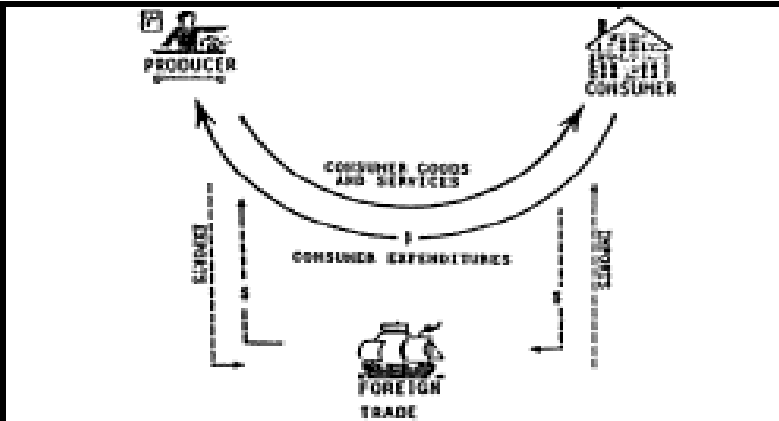
(IT’S HARD TO BELIEVE, but the Social Security Board estimates that “85% of the people reaching age 65 do not have \$500 in the bank.” They also state: “At age 65, 98% of the people are dependent on charity, relatives, or are still working. Only 2% are self-sustaining.”)



Money is our medium of exchange. You exchange your **PRODUCTIVE SERVICES** -- services that have value (time, knowledge, skill, and/or physical labor) -- in return for **INCOME PAYMENTS** -- wages, interest, profits, rents, and/or **dividends** -- (a part of the profit paid to the shareholders of a corporation.)



CONSUMER EXPENDITURES -- money spent by the users of goods and services -- is used to buy **CONSUMER GOODS & SERVICES** -- products and services that consumers use.

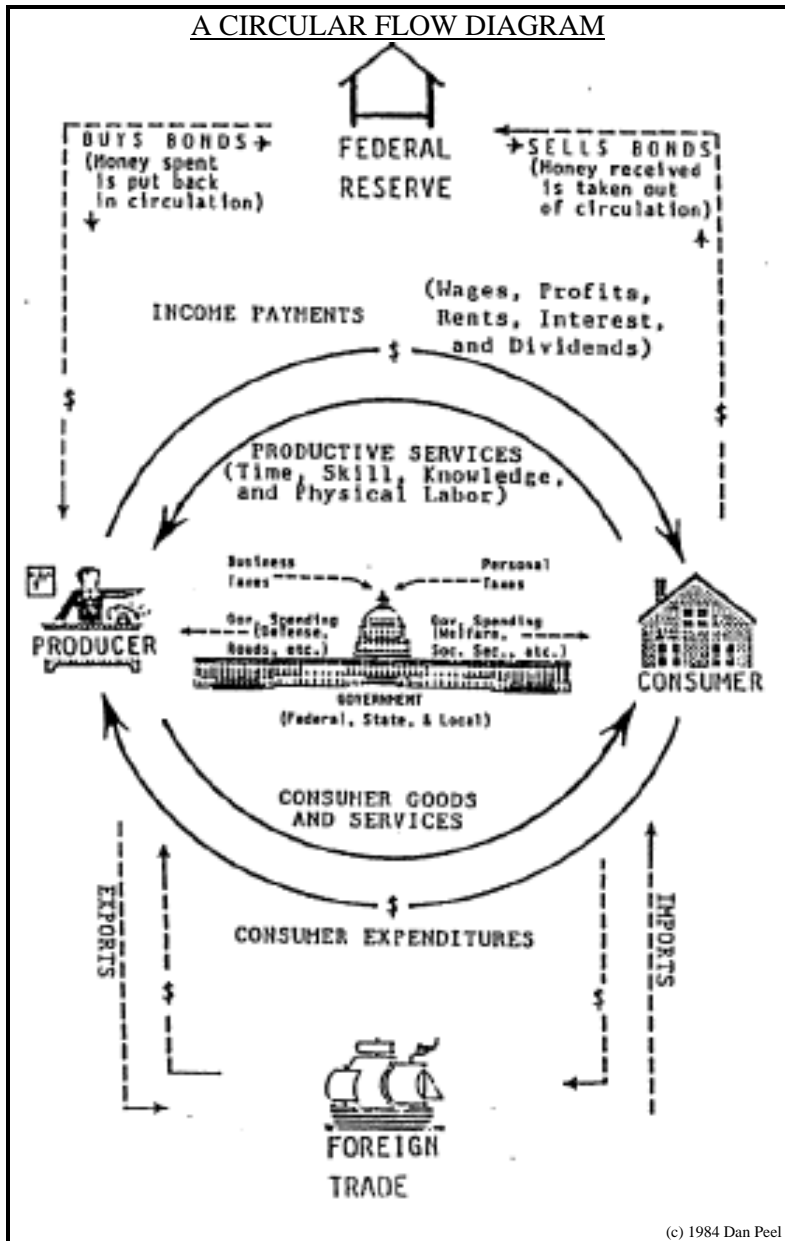


EXPORTS (send goods *out* of our country and) -- put *MONEY* back *INTO* our circular flow. **IMPORTS** (bring goods into our country but) -- take *MONEY OUT* of our circular flow.



The government acts as a **transfer agent** -- one which has the power to collect money from some people and give it to others. Our government can take money out of circulation (taxes) and put money back into circulation (government spending for defense, roads, welfare, etc.).

Money only represents our time, KNOWLEDGE, and skills. Knowledge is power? Perhaps. Knowledge equals Money? Definitely! (If put to use). WHAT YOU DON'T KNOW ABOUT MONEY WILL DEFINITELY HURT YOU.



Chapter 2

A PLAN FOR SPENDING

An economy simply deals with how goods are made, distributed, and used. It answers 4 questions: (1) What to produce? (2) How to produce it? (3) How many to make? (4) Who will get what we make?

Since we are talking about our necessities (food, clothing, and shelter) as well as luxuries, it is important to understand how our economy works!

Economics studies the production, distribution, and consumption of wealth. It looks at how we supply the things that people want and need.

There are 3 basic principles that we all must deal with everyday:

1. **SCARCITY** -- There are a limited number of resources in the world. No individual, city, or country can have everything that it wants. (There's only so much gold, oil, etc...)

2. **CHOICE** -- Because of this scarcity (of resources and time), we all must make choices. We choose which TV programs to watch, which movies to see, and which foods to eat. We also choose where to work and what to spend our money on. Sometimes, even our choices are limited. Education helps us to make informed choices so that we can live with the results of our choices.

3. **INTERDEPENDENCE** -- We all depend on each other. We depend on others to grow some of the food we eat, to make the clothes we wear, and to build the homes we live in.

Let's see how these principles apply to our everyday lives.

Suppose you have just graduated from school and started your first full time job. It pays \$30,600 a year. (We said it was your first full time job! Does it sound like a lot of money?)

If you get paid twice a month, that's \$1,275 each paycheck. (That's where SCARCITY comes into the picture.) But your paycheck won't be for \$1,275.

The Federal Government will get \$192.66 out of each paycheck. That will help to pay for the defense of our nation, the roads you drive on, and the inspection of the meat and milk that you buy. We depend on the Federal Government to do these things for us, and the Government depends on us to pay our taxes. (That's INTERDEPENDENCE).

In Illinois, the state government will get \$38.25 out of each paycheck. That will help to pay for state highways, police protection, etc.

Then \$97.54 will be taken out of your paycheck for social security and Medicare. It will help to buy food, clothing, and shelter for when you are sick, hurt, or too old to work.

So, twice a month you will get a paycheck for \$946.65 (That's \$1,893.30 for the entire month). You have to decide where you will live, how you will get to work, and what you will buy with your money (That's CHOICE).

CHOICE — WHERE WILL YOU LIVE?

Apartments near your job cost \$779 a month for a one-bedroom apartment. However, if you want to give up some of your privacy, you could share a two-bedroom apartment with a friend. Two-bedroom apartments are \$953 a month (That's \$476.50 that you each would pay every month.)

Your friend may be real messy or may not like the way you keep house. If one of you decides to move out, the other could be stuck with \$953 a month rent until another roommate is found.

These are the advantages and disadvantages of one-and two-bedroom apartments. The choice is yours. You decide!

1. Monthly rent = _____ (\$779 or \$476.50)

CHOICE -- HOW WILL YOU GET TO WORK?

The Chevy dealer in town will sell you a brand new Chevy Cavalier for \$14,000. (Obviously, it only has air conditioning and a standard radio, not a lot of extras.)

The Ford dealer in town will sell you a new Escort for \$13,000. (Once again, this price does not include many extras.)

But there's a problem! The bank will only loan you money to buy either of these new cars if you can put 20% down on the car first. IF you had \$2,800 to put down on the Chevy Cavalier, the payments would be \$232.77 a month for five years. The payments on the Ford Escort would be \$216.15 a month for five years with \$2,600 down.

Since you probably don't have \$2,600 - \$2,800 to put down on the car (remember, in this example, you've just graduated), you'll have to look at used cars.

The Chevy dealer will sell you a used Camaro for \$9,000. The Bank will loan you \$7,200 to buy it (they only want \$1,800 down since the car cost less than the Cavalier). But the bank will only loan you the money for three years on this used car. So a used Camaro will cost you \$228.77 a month.

The Ford dealer will sell you a used Mustang for \$9,000. A four-year car loan (with \$1,800 down) will cost \$179.21 a month. (It's one year newer than the Camaro so the bank will finance it for four years.)

Obviously, which car to buy is a matter of your own individual choice and your values. But since you didn't SAVE enough to afford the new cars, your choices are limited to the used cars.

There isn't that much difference between the monthly payments on a New or Used Chevy (\$232.77 vs. \$228.77) because you put less money down on the used car and the bank would only loan you the money for three years. (There is a difference between the payments on a Used Chevy and the Used Ford (\$228.77 vs. \$179.21) because you'll be making the payments an extra year on the used Mustang.)

The choice is yours (even if it is limited). You decide! Used Camaro or used Mustang?

2. Monthly car payment _____ (\$228.77 or \$179.21)

(Obviously, you could also decide to use public transportation IF it were available. Also note: The best selling used Ford at this time is a sub-compact while the best selling used Chevrolet is a larger car. This accounts for the difference in prices.)

So, out of a take-home pay of \$1,893.30, you're already spending \$ _____ rent plus \$ _____ car payment. How much of your monthly take-home pay have you spent so far?

- 1. \$ _____ Rent (\$779 or \$476.50)
- +2. \$ _____ Car payment (\$228.77 or \$179.21)
- =3. \$ _____ Total rent AND car payment

HOW MUCH IS LEFT?

- \$ 1,893.30 Monthly take-home pay
- 3. \$ _____ Total rent AND car payment
- \$ _____ Dollars left (so far)

From this example, you can see the importance of saving some of your income so you can have the things that you REALLY want. You'll also need to have a plan for spending, a plan for saving, and a plan for investing. (If you really wanted a Corvette, they now cost over \$50,000!)

You should also realize we haven't even talked about how much of your paycheck will be spent on electric bills for your apartment, gas to run your car, the insurance on your car (even more for the camaro), phone bills, food, clothing, recreation, and entertainment!

Let's subtract some of these bills from our income and see how much is left over. We'll use the national average for what a person with the same income spends each month in each of these categories. Obviously, these averages vary depending on what region of the country you live in and individual CHOICES. Space has been provided for you to do your own calculations.

\$_____ Savings
\$95 (5% of take-home)

\$_____ Food
\$145 per person

\$_____ Clothing
\$40 per person

\$_____ Personal care
\$24 per person

\$_____ Medical care
\$60 per person

\$_____ Other family consumption
\$61 per person

4. \$_____ TOTAL
\$425 for an individual

(Note: Since the per person expense is taken from government statistics for an average four-person budget, the numbers used may be too low for a one-person family and too high for a five-or-more person family.)

(That's because of **Economy of Scale** -- it is usually cheaper per unit of measure to produce or buy a larger quantity of something than a smaller amount of something. Example: A large box of cereal is usually cheaper per ounce than a small box.)

NOW HOW MUCH IS LEFT?

- 3. Monthly rent & car payments
- 4. \$ _____ TOTAL (\$425 individual)
- 5.= \$ Final ? Spent each month

Monthly take home pay	\$ 1,893.30
5. -Final ? spent each month	\$
6. =Amount left OR over spent	\$

Since you're already spending \$228.77 or \$179.21 on car payments (and the average four-person family spends less than that on ALL transportation costs), you will need to add some dollars to your plan for gas for your car, auto insurance, and auto repairs. How much you add depends on how much you drive and how safely you have driven in the past.

What about recreation (tennis racquets, golf clubs, ski equipment, health clubs, etc.)? What about entertainment (movies, dinners out of your apartment, cable TV, ball games, video rentals, etc.)? How about furnishing your apartment? You don't want to be sitting or sleeping on the floor, do you?

Many of those expenses are included in the "other family consumption" category. However, that figure was based on one-fourth of what the average four-person family spent on those items. Since the average four-person family already has many of its household furnishings and doesn't spend as much per person on recreation and entertainment, you will need to increase that category by quite a bit.

While it's interesting to see what the average person with a certain amount of income spends in each category, EVERYONE IS UNIQUE! The real value in having a plan for spending is in realizing each person has a SCARCITY (limited income). Each must make a CHOICE as to how that income will be spent. If you decide to spend more money in one category, you must cut back your spending in another category. That's the KEY point!

Many people don't know how to create a **Budget** --estimate of the amount of money that can be spent in a given time for various purposes. Other people are afraid of the word "budget". Without realizing it, YOU JUST CREATED A BUDGET! It's really just a plan for spending!

A plan for spending will help you to budget your income so that you can expand your choices later on.

Wise spenders look at their checkbook and other records several times a year to see if they are following their plan for spending and revise their budget and/or spending patterns.

Remember, savings is your first category. It should be the first "bill" that you "pay". By "paying yourself first", you are making sure that you will have money for the things that you REALLY want. You are saving for a GOAL.

The goal may be to buy a house, a nicer car, the security of having extra money (for car repairs, etc.), start your own business, or retire early. But you'll never have those things if you don't save. Don't cheat yourself!

Money is a scarce (limited) resource. Everyone must make choices on how they will spend it. Education and planning helps us to make wise choices. Education and planning will also help us to get more money!

Annual budgets for a four-person family at three levels of living in the urban United States. Remember, no one is “average”! Your budget will vary (depending on your values, your situation, and changes in the tax law).

	A	B	C
Total budget	\$15,323	\$25,407	\$38,060
- Personal			
Income Taxes	\$1,596	\$4,443	\$9,340
- Social Security and Disability	\$1,036	\$1,703	\$1,993
Food	\$4,545	\$5,843	\$7,366
Housing	\$2,817	\$5,546	\$8,423
Transportation	\$1,311	\$2,372	\$3,075
Clothing	\$937	\$1,333	\$1,946
Personal care	\$379	\$508	\$719
Medical care	\$1,436	\$1,443	\$1,505
Other family			
Consumption	\$644	\$1,196	\$1,972
Other Items *	\$621	\$1,021	\$1,718
Total family			
Consumption	\$12,069	\$18,240	\$25,008

*See Appendix A

Chapter 3
7 MENACING
MONEY MYTHS
(Excuses for Not Saving)

1. "Live for today; you may not be alive tomorrow."
2. "I deserve it. I've worked hard, so I owe it to myself to buy_____".
3. "I don't make enough to save. Because I have too many bills, I can't save. (My kids are eating me out of house and home)."
4. "Buy now - the price will only go up tomorrow. The economy is bad; with inflation and taxes I can't save (or why bother?)."
5. "There are always too many emergencies or unexpected expenses. Every time I get ahead, something comes up and I fall behind."
6. "By the time I can afford it, I'll be too old to enjoy it. Why wait? I'm going to live life to the hilt now. I can always borrow and enjoy the good things in life now rather than wait."
7. "I'm too busy making money and paying bills to worry about managing it. I don't have the time."

Chapter 3

7 MENACING MONEY MYTHS

(Excuses for not saving)

Myth #1. “Live for today; you may not be alive tomorrow.” TRUE! But if you really believed that was the probability, maybe you should also quit buying food, clothing, and the other necessities of life. Don’t buy any luxuries; you can’t take them with you. Don’t bother picking up your paycheck; you won’t have time to cash it.

The chances are, however, that you will live to be 70 years old if you’re male and 78 years old if you’re female. By the time that most of us get to that age, the average life expectancy will have increased even more!

The overwhelming probability is that you will be alive tomorrow, next month, and for many years to come. It might just be a good idea to save a little and plan so that your future will be better than the present.

There’s an old saying that has a lot of truth and helps to create a balance between living in the present and planning for the future. It’s this: “Live as if you were to die tomorrow, but plan as if you were to live forever.”

Myth #2. “I deserve it. I’ve worked hard, so I owe it to myself to buy_____.” TRUE -- You also owe it to yourself to have the things you really want. Money is a limited resource. No matter how much you have, it’s still limited. Even the wealthiest man in the world is still limited in what he can buy.

You can have a few little things now or a lot of nice things in a very short time. YOU DECIDE! IT’S YOUR CHOICE!

Myth #3. “I don’t make enough to save....” TRUE -- IF you try to save after paying all your other bills. Many people live up to (or beyond) their income level. Even when they do make more money, they spend more. At the end of the month, there’s still nothing left.

IT'S NOT HOW MUCH YOU MAKE, BUT RATHER HOW YOU MANAGE WHAT YOU DO MAKE THAT REALLY COUNTS! There's a world of difference between making \$60,000 a year and spending \$65,000 or making \$30,000 and only spending \$25,000.

The best and easiest way to save is to PAY YOURSELF FIRST. Before paying any bills, take at least 5% of your take home pay and put it in the bank or a money market fund. This is your payment to yourself.

You owe it to yourself to save for future emergencies and long term goals. It may be hard at first but after a couple of months, it will become easier.

If you find it hard to start saving, you could join a credit union and have 5% taken out before you get your paycheck. What you don't see is hard to spend!

You may even find saving becomes fun as you watch your money grow. You'll eventually want to increase your savings to 10% of your take home pay.

There's a secret that wealthy people learned before building their great wealth. It's so simple that most people dismiss it as "pie in the sky" dreaming. Wealthy people learned this secret principle and then took action on it. The secret is a phrase that they say over and over again: "A part of all I earn is mine to keep. I will pay myself first."

Myth #4. "Buy Now - the price will only go up TRUE -- IF you're buying necessities that you will definitely need. But most people use this reasoning to buy luxuries that they don't really need. INCREDIBLY, SOME EVEN BORROW MONEY AT HIGH INTEREST RATES to buy these unneeded luxuries. There are very few things in this world that we really need (a minimal amount of clothing, food, shelter, and basic transportation to work).

By trying to "have it all now," many people are guaranteeing that they won't have much in the future.

(They're probably the same ones that believe in No. 1 - "Live for today; you may not be alive tomorrow.") If they were consistent, they would give away all they own and drive on the wrong side of the street. (So what if they leave this earth one day early?)

REMEMBER, however, that you will probably be around until you're 70 to 78 years old. It might just be a good idea to plan for the future. It starts right now!

Myth #5. "There are always too many unexpected emergencies . . . TRUE -- This shows the absolute necessity of also having a "depreciation allowance." We know that cars, refrigerators, roofs, hot water heaters, clothes, etc. eventually wear out. By saving just a few dollars each month, we can be prepared for these emergencies.

Our reserve will earn interest and create "peace of mind." We won't have to BORROW to buy these depreciating items -- things that go down in value. We'll have more spendable dollars because of the interest our reserve earned. If we know something will eventually wear out, doesn't it make sense to prepare for the day it must be replaced?

Myth #6. "By the time I can afford it, I'll be too old to enjoy it. Why wait? I can borrow to enjoy it now." TRUE -- IF you really don't want much out of life.

If you want to be a constant worrier and habitually in debt, go ahead and borrow to buy things that go down in value. If you want a few little things now rather than a lot of really nice things in a very short time, go ahead and borrow for luxuries and daily living expenses.

Visa's own study shows that frequent credit card users spend 26% more (impulse buying) than cash customers. Frequent users have what I call the "CAESAR COMPLEX" (I see, I want, I Charge). By borrowing for luxuries or daily living expenses, they are "mortgaging" their future.

Use credit cards infrequently. Never let a balance “ride.” You’ll pay interest (“the average daily balance”) on new purchases before you even get the new bill!

IF you really want to enjoy life, plant a few flowers and a few trees. (Flowers can be enjoyed right away but don’t last long. Trees take some time to grow before they provide shade, but they can be enjoyed for years.) Defer (put off) some little gratifications (pleasures) for big ones later on. Spend some money on yourself now, BUT also SAVE some money for short-term emergencies and INVEST some for medium and long term goals!

Myth #7. “I’m too busy making money to worry about managing it TRUE -- Some people work very hard all their lives making money and yet have nothing to show for it when they reach retirement.

The average High School graduate will have over 1/2 million dollars pass through his hands in his lifetime. How much will he have in the bank at age 65? Remember –the Social Security Board says 85% of those reaching age 65 have only \$500! The facts clearly show that those who don’t learn how to manage their money will have very little!

Money = Your time working + your knowledge. You work hard for your money. Make your money work hard for you! It doesn’t take much time at all (about 1/2 hour per month as we’ll discuss later).

Chapter 4

GREENSTUFF IN OUR POLITICAL/ECONOMIC SYSTEM

Our American society is **Capitalistic** -- private individuals or groups can own property, produce goods, and compete with other owners. We also have a great amount of **Free Enterprise** -- the right of private business to operate for a profit with little or no regulation by the government. This makes it much easier to learn about and use money. Many countries don't allow their citizens the same amount of freedom on both the personal and economic level.

Our democratic society has both GUARANTEED CONSTITUTIONAL FREEDOMS and it ALLOWS PRIVATE OWNERSHIP OF PROPERTY. Communist and Socialist countries deny or strictly limit private ownership of property. They believe that everything belongs to the government.

(**Communism** -- an economic AND social system in which most or all property is owned by the government and is supposedly shared by all. Russia was a communist country where people could not own their own business. China, Cuba, and North Korea are still communist countries.)

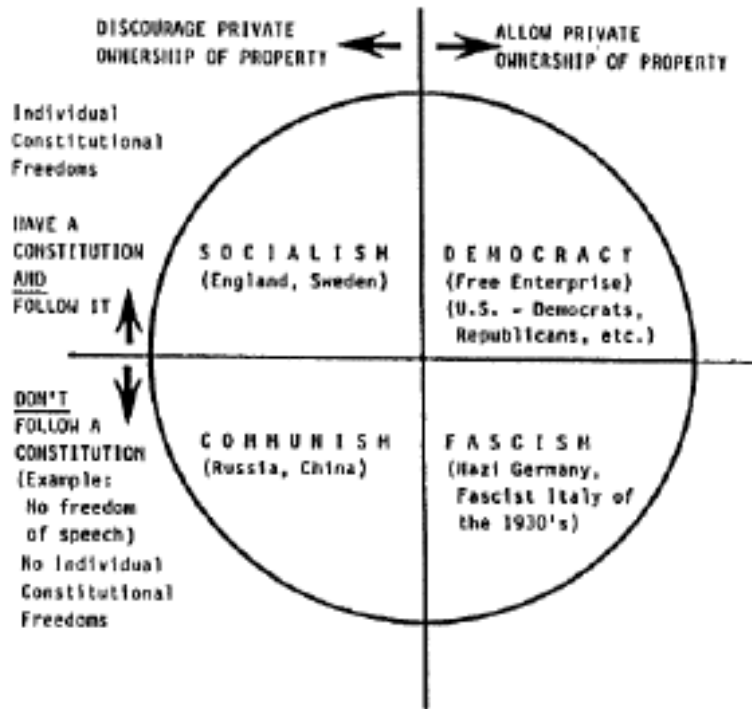
(**Socialism** -- a social system in which the major means of production and distribution are owned or managed by the government or associations of workers. Small privately owned businesses are allowed but large industries such as the railroads and electric companies are usually owned by the government.)

When Karl Marx and Frederick Engels wrote the "Communist Manifesto" in 1848 they used the phrase "From each according to his ability to each according to his need." They thought that in the "ideal society" everyone would work just as hard as he could and each would receive whatever he needed. Who would decide what each person needed? They said the Government should.

They forgot about human nature. Why would one person work just as hard as he could if he got the same amount of goods and services as a lazy person?

POLITICAL SYSTEMS

SIMPLIFIED



- DEMOCRACY:** Above the horizontal line = Individual constitutional freedoms.
 Right of the vertical line = Allows private ownership of property.
 Government of the people, by the people, and for the people.
- SOCIALISM:** Individual constitutional freedoms but discourages private ownership of property.
- COMMUNISM:** NO individual constitutional freedoms and discourages private ownership of property.
 NOTE: Most of the people of the Soviet Union did not belong to the communist party even when it was a communist Country.
- FASCISM:** NO individual constitutional freedoms but allows private ownership of property.

In communist countries, the government is in charge of dividing up the economic pie. We know from past experience that whoever is in charge of dividing up a pie usually cuts a much bigger piece for themselves. It is easy for a communist government to get almost everything and for the people to get almost nothing.

What **incentive** – motivation -- does the average person in that kind of society have to work harder? None! Communism goes against human nature and therefore doesn't encourage growth.

In the U.S. our Capitalistic Free Enterprise System has provided more goods & services for more people than any other economic system in history!

There are 9 Ingredients in our economic pie:

1. **FREE CHOICE** -- The right to live and work where we please and decide how we will use our personal property. Our Constitution guarantees our free choice.
2. **RESPONSIBILITY** -- The ability to be trusted and relied upon. Faith and Trust are the Foundation of our Institutions and our way of life. **YOU** are responsible for your own actions and choices. No one else is. If you don't handle money responsibly by saving, investing, etc., you have no one to blame but yourself!
3. **SOCIAL ORDER** -- The rule of law. In a democracy, laws are made with the consent of the majority for the general good. This rule of law provides a social order that makes progress possible and property secure.

Personal property is not very secure in a society run by a dictator or Politburo -- the Communist Party executive committee. They can do what they want. They can even go against the will of the majority of the people in the country (and take away personal property). This insecurity hinders progress.

4. **PRIVATE OWNERSHIP** -- The legal right to own **private property** -- Land, Houses, stocks, cars, etc. People in the Soviet Union could not own **stocks** -- shares in the ownership of a corporation.
5. **ENTERPRISE** -- Industrious effort and the willingness to take risks with the hope of making a profit or “getting ahead”. “Nothing ventured (no risk taking), nothing gained.”
6. **CAPITAL** -- Wealth in the form of property or money -- is used to build factories, hire workers, and produce goods.
7. **PRODUCTIVITY** -- The creation of goods & services to produce wealth. Our National Standard of Living increases as our productivity increases.

At different times, the productivity of other nations has increased more quickly than our own productivity. (One reason for Japan’s increased productivity in the 1980’s was EDUCATION. Japan graduated over 90% of its students from high school. Incredibly, the U.S. still only has 75% of its students graduate from high school!)

8. **COMPETITION** -- Rivalry between businesses that are trying to get more customers. Businesses usually do this by creating a better product or selling it for less. Competition benefits our society and usually increases our choices.
9. **PROFIT** -- The gain or return after all expenses have been paid. Businesses that don’t show a profit eventually go out of business (like many of the dot.com companies of 2000-2001).

We can create our own personal wealth by understanding and using these 9 economic Ingredients.

(The 9 ingredients were adapted from “How we live and work” by John G. Murphy. Published by the National Schools Committee for Economic Education, Inc.)

CREATING PERSONAL WEALTH

We can create our own personal wealth by understanding and using the nine economic ingredients that were mentioned in the last chapter.

Businesses know how to create wealth. It would help us in our creation of personal wealth to look at the 5 costs that businesses have and apply the idea of these costs to personal money management.

The 5 costs of business are:

1. **THE COST OF RAW MATERIALS** -- Natural resources and other goods & services purchased from others (advertising, utilities, transportation, legal services, etc.).
2. **LABOR** -- The cost of employee's wages, social security, fringe benefits, etc.
3. **TAXES** -- The cost of making payments ordered by the government. The government uses this money to build roads (which helps business), schools (which improve society and provide better workers for business), defense (which protects our freedom and economic system from foreign aggressors), etc.
4. **DEPRECIATION** -- The cost of replacing tools as they wear out (machinery, buildings, computers, etc.).
5. **PROFIT** -- What is left after all expenses have been paid. **Shareholders** -- owners of shares of a corporation -- invested money to provide the tools. They're entitled to a return on their investment for the risk they were willing to take. The business needs to save some money in case it has an unprofitable year. It also needs to save some money so it can expand its business during good years.

PERSONAL MONEY MANAGEMENT

Now that we have some idea of how our economy works and of different business expenses, we can apply these principles to personal money management.

Money does more than just buy the things we need and want. It affects how we feel about ourselves and other people. It affects our level of living, ambitions, and goals for the future.

How we manage our money determines to some degree the amount of satisfaction we gain from life.

We can make comparisons to our own money management by looking more carefully at the five costs that businesses have:

1. **PERSONAL DEPRECIATION** - If businesses set aside money to replace tools as they wear out, it is even more important for the individual with limited resources to set aside (save) money for unexpected car repairs, house repairs, etc.
2. **PERSONAL PROFIT** - Businesses view profits as a cost of doing business. They take some risks in order to have extra money for expansion and a cushion for unprofitable years.

Individuals need to take some risks by **investing** -- using money to buy something that will produce a profit. This money will provide peace of mind as well as serve as a cushion for periods of unemployment and retirement.

SAVING SHOULD BE VIEWED AS A NECESSITY AND NOT AS A LUXURY!

3. **PERSONAL TAXES** - It has been said there are two things that you cannot escape in life - Death and Taxes! While we may not be able to escape taxes, we can certainly **defer** -- put off -- taxes.

We can also reduce our taxes by **converting** -- changing -- some taxable dollars of income to non-taxable income by simply doing some planning.

Many people are now using Individual Retirement Accounts and other legal means to reduce their taxes.

Judge Learned hand of New York State has said, "Anyone may so arrange his affairs that his taxes shall be as low as possible ... nobody owes any public duty to pay more than the law demands."

Former Chairman of the Senate Finance Committee, Senator Harrison of Mississippi, said, "There's nothing that says a man has to take a toll bridge across a river when there's a free bridge nearby."

TAX PLANNING IS ESSENTIAL
TO BUILDING PERSONAL WEALTH!

4. PERSONAL LABOR - If money = time + knowledge, we can cut our own cost of labor by using some of our time to learn how to do a few jobs ourselves (car repairs, etc.). Libraries, park districts, and junior colleges offer inexpensive courses in some of these skills, which will save money in the long run.

5. PERSONAL USE OF "RAW MATERIALS" - Wise comparison-shopping can cut the cost of goods and services purchased from others.

Practice "**Bohemian Buying**"! -- Ask yourself 3 questions before buying anything:

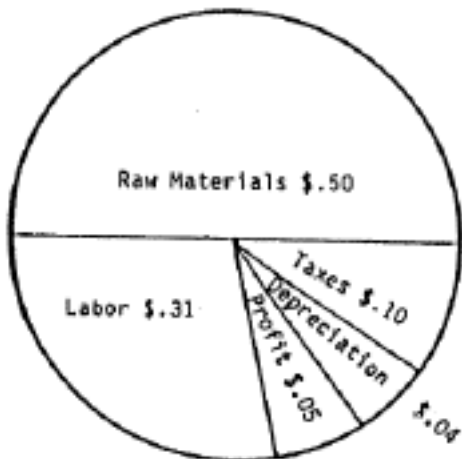
- a. Is it a "need" or a "want"?
- b. Is it a good price? (If you're not sure, "shop around" by reading the sale ads in the Sunday newspaper for several weeks before buying.)
- c. Is it guaranteed, and can I return it to the retailer if it is defective?

Remember:
"WANT"
"SALE"
"DEBT"
-are all "four-letter" words!

Also remember that SAVING is one of the keys to financial wealth!

It's amazing how many excuses men and women have for failing to save and invest. People want to be wealthy, but they don't want to save!

YOU PAY THESE FIVE COSTS
WHENEVER YOU BUY SOMETHING



The graph above shows how much of each dollar (that you spend) is used to pay these five costs. Figures are rounded off to the nearest cent and are for a typical manufacturing firm.

DIFFERENT TYPES OF BUSINESS ORGANIZATIONS

Sole Proprietorship -- Business that is owned by just one person who takes all the risks and gets to keep any profits of the business.

Partnership -- Company or firm with two or more members who share in the risks and profits of the business.

Corporation -- Company or firm that is owned by shareholders who have limited liabilities (risks) and who share in the profits of the corporation.

Chapter 6

CHOICE, The MAGIC OF COMPOUNDING,
and S.L.Y. INVESTING

You can have lots of money by using the **MAGIC OF COMPOUNDING** -- when money is invested and the interest is left to earn even more interest. Your money will grow tremendously. Just \$100 a month at 10% will grow to over \$8,060 in just 5 years!

To find out how long it will take for your money to double, just take the number 72 and divide it by the Interest rate that you are getting. This is called **The Rule of 72** -- a way to figure out how long it will take for your money to double at various rates of interest.

$$\frac{\text{years to double}}{\text{interest })72}$$

For example, if you can get a steady return or interest rate of 10% on your money, it will double in 7.2 years.

$$\frac{7.2}{10) 72}$$

At 12% it will double in 6 years. At 20% interest (or rate of return), your money would double in only 3.6 years! But before you run out and try to get that kind of return on your money, there's another CHOICE that you need to be aware of.

We are making a choice when we "Buy Now and Pay Later." We are choosing to enjoy some things now, but we are also choosing to have fewer things to enjoy in the future. The opposite extreme choice that we can make is to save every penny and hide it under the mattress.

Obviously, we are striving for a balance. (And in our easy "plastic" credit society, that means emphasizing the value of saving and **investing** -- putting off buying some little luxuries now so that we can have more money for necessities and bigger things later on.)

We all make choices in life, and we are responsible for the choices we make. It doesn't do any good to "get bitter" or "mad at the world" for being unfair when we don't like the result of a choice that WE made.

Life doesn't always appear to be fair. (The President of the U.S. makes \$400,000 a year. A few years ago the president of Disney made over \$34,000,000)

What really counts in life is HOW YOU DEAL WITH IT! Many people waste a lot of energy getting mad at what appeared to be unfair in the past, rather than using their energies to live in the present and plan for the future.

Actually, life pretty much evens things out in the long run. The president of Disney would probably rather be President of the U.S. and make only \$400,000! He would probably find it more mentally stimulating and emotionally satisfying.

That's because we all have 6 areas in our life! Physical, social, mental, spiritual, financial, and emotional. Things that appear to be unfair in one area are usually more than fair in one of the other areas. It's important that we DEVELOP ALL SIX AREAS OF OUR LIVES!

There are also "trade offs" in the choices we make about investing. If you want to go for that 20% interest rate or capital gain -- profit from an investment (usually stated in terms of dollars) -- you should realize it is riskier than the investment that pays only 10%. It might also be less liquid.

Liquidity -- how easily or quickly an investment can be turned into cash -- is an important factor to consider when you are looking at different Investments.

(Example: It is easier to get your money out of a money market account at the bank than it is to sell a house. The money market account is more liquid than a house. On the other hand, a house fulfills many needs that the money market account won't fill.)

Sly investors -- look at Safety, Liquidity, and Yield. (Maybe that's why they are called SLY investors). They know that in order to get a high **yield** -- produce more as a profit or interest (usually stated as percent %) -- they must give up a little bit of safety or liquidity.

Money in a savings account that pays 3_% is very safe, but it has a very low yield. On the other hand, it is very liquid. (You can get it back any time you want -- you don't have to wait until you can find a buyer to get your money back like you do with a house.)

Some investments are very liquid and may give a high yield but are not very safe. They may go down in value by the time you decide to sell them (you'll get less money back than what you put into the investment.)

Life is full of choices, and SLY investors choose to **SAVE** -- put aside a part of their income. First they save several months take home pay in a very safe liquid investment (like a Money Market Account so that they have this reserve for emergencies). Then they decide to put their new savings in less liquid investments that yield more but that may not be quite as safe. They are hoping that this money will grow much faster than their regular savings.

SLY investors don't have "all their eggs in one basket." Some of their investments are very safe, some are very liquid, and some give a very high yield. But each of these investments has some drawbacks. (Remember, life is full of choices and "trade offs.")

Even very safe liquid investments (like the 3_% savings account at the bank) have their drawbacks. If inflation is 5% a year, they will get more dollars back in one year BUT those dollars will buy fewer goods and services I

What really counts is the amount of goods and services that your dollars will buy.

You've lost ground If the yield on an investment is lower than the inflation rate. (And that's not even counting the effect of paying a part of your yield to Uncle Sam in the form of taxes!)

That's why SLY investors spread their savings among different investments. They are making sure that they're "covered" no matter what happens.

SO HOW DO YOU DECIDE WHAT TO INVEST IN? That's where the value of education comes in. Knowledge is essential in making an intelligent, informed choice. If you don't understand how our economy and money work, you won't be happy with the results of your uninformed choices.

Since you have read this far, you already have a basic idea of how our economy works! The circular flow diagram, 9 ingredients of our economic pie, our American capitalistic free enterprise system, and the 5 costs of businesses and individuals.

You've also seen that people have many reasons for not saving, but **savings -- is the basic building block (or "cost") for improving your lifestyle.** It's absolutely essential.

In the next chapter we'll look at many excuses that people give for not investing.

We'll also give some specific examples of Swiss Bank Accounts, Money Market Funds, Gold Funds, and Mutual (Stock) Funds you can start with less than \$100! (This disproves the old saying, "It takes money to make money". It takes a lot less than you may think!)

THE MAGIC OF COMPOUNDING

JUST **\$10 A MONTH** at 6% & 12% Interest

Years	Amount Invested	6% Interest	12% Interest
10	\$1,200	\$1,676	\$2,358
20	\$2,400	\$4,679	\$9,683
30	\$3,600	\$10,056	\$32,435
40	\$4,800	\$19,685	\$103,097

The table shows how your money would grow if you deposited just \$120 at the beginning of each year. It would grow to be MUCH MORE if you deposited \$120 at the beginning of the first year and then deposited \$10 EACH month thereafter.

To find out what \$100 a month (\$1,200 a year) would be worth, simply add another "0" to each number. In 40 years at 12% interest it would grow to \$1,030,970 (over ONE MILLION DOLLARS)!

It would grow to be MUCH more if you deposited \$100 each month (instead of waiting until the end of the year to deposit \$1,200).

Chapter 7

SEVEN INVESTING IMPASSES

Impasse #1. "It takes money to make money" . . . Not really, but many people actually believe this cliché.

Twenty years ago, a few people were getting 18%-21% "interest" on their investment in **money market funds** -- investment companies that loan money for short periods of time to major corporations, banks, and the federal government. Most people thought you had to have \$1,000 to \$2,500 to get started in one of these funds.

Actually, there were (and still are) several money market funds that have a low minimum investment. You can get money market interest rates with just \$500!*

One of these funds is:

Janus Money Market Fund
P.O. Box 173375
Denver, CO 80217-3375

Telephone Number 1-800-975-9932 or 1-800-525-3713

Internet Address <http://www.janusfunds.com/>

*Requires Automatic Monthly Investment Program - \$50 monthly

See the end of this book for other money market funds.

Money market funds became so popular that banks now offer **money market accounts** -- bank accounts that loan money for short periods of time to corporations, banks, and the federal government. The money market accounts at most banks have the advantage of being insured by the federal **F.D.I.C.** -- **Federal Deposit Insurance Corporation** -- an insurance company run by the government to insure bank accounts. The disadvantage of these accounts for small investors is that they require a minimum deposit of \$500-\$2,500 and usually pay _% to 1% less than most money market funds.

Because inflation has been much less the past few years, money market funds and money market accounts paid only 3% - 4% "interest" in August 2001. (They paid 8% at the end of 1986.) Money markets will pay even more when inflation increases again. (The interest rate changes daily.)

Most financial experts say that before Investing in individual stocks, a person should have at least \$50,000 - \$250,000 (not counting the value of a home or car). This large amount is necessary in order to **diversify** -- give variety to your investments and spread the risk of investing -- among the stocks of at least ten different companies.

However, you can diversify in the stock market, buy shares of stock in at least 20 companies, and do it for less than \$500! How? By purchasing **Mutual Funds** -- investment companies that buy shares of stock in a lot of different companies for the mutual benefit of the owners of that mutual fund.

A mutual fund has professional managers who use the few dollars of many small Investors in order to buy shares of stock in a lot of different companies. When you buy shares of stock in a mutual fund, you have “purchased” professional management and you’ve automatically diversified your investment.

Some mutual funds have a sales charge of 4 1/2 % to 8_%. But there are over 400 funds with no sales charge at all. Most of these funds have a management fee of only 1/2 of 1%.

*Go to the World Wide Web to obtain a FREE list of ALL the **no-load** -- no sales charge -- mutual funds (and research their returns). Here are just two websites to start your search. Others are listed in the back of this book.

<http://www.quicken.com/>
<http://www.morningstar.com/>

*BEWARE of “12-b” funds. The **Securities and Exchange Commission** -- a government agency that regulates the stockmarket -- has allowed mutual funds to charge a higher “hidden” management fee. There are a FEW funds that use this 12-b ruling of the S.E.C.

7 INVESTING IMPASSES

- 1."It takes money to make money."
- 2."I'm afraid I'll lose money."
- 3."I don't want the hassles of keeping track of investments. I don't have the time."
- 4."I don't know anything about investing. I don't know how to find a broker or who to turn to for advice."
- 5."I don't want to pay the fee it costs to invest. Commissions will eat up my profits."
- 6."I want to get my hands on my money when I want it." (Fear of the loss of liquidity.)
- 7."I think cash in the bank is more valuable than some speculative asset." (Fear of risk.)

That could make those few funds more expensive than funds that have a sales charge up front. Carefully read the **prospectus** -- a printed statement describing the advantages and disadvantages of an investment. MOST No-Load funds DO NOT, however, take advantage of the 12-b ruling.

Many of the no-load mutual funds have a minimum investment of at least \$1000. However, there are several no-load mutual funds that have no minimum investment. You could start investing in one of these funds with less than \$100!

Many of these *no minimum, no-load mutual funds have been consistent winners. The one below has increased 27.46% in the last year and averaged 24% each year for the last five years!

T. Rowe Price Equity Index 500 fund
1-800-225-5132
Internet Address <http://troweprice.com/>

*Requires signing up for the Automatic Investment Plan where a minimum of \$50 is sent from your checking account each month to invest in the fund - Dollar Cost Averaging! The performance records of other mutual funds are listed at the end of this book.

*NOTE: Stocks, mutual funds and other investments can go up or down in value. Before investing in anything you should read the rest of this book including the appendix and student notes.

The purpose of this section is merely to prove to you that it doesn't take a lot of money to make money - it takes knowledge! This book will give you that knowledge. It is not recommending any one money market, mutual fund, or other investment.

If you wanted to invest in a mutual fund (or any of the other investments mentioned in this book), you should call for, write, or download a prospectus. Read over the prospectus carefully (the S.E.C. makes them list everything that could go wrong). Then if you decide to invest, fill out the application and mail it to them with your check.

You've probably heard that the super rich put some of their money in Swiss bank accounts. You may have thought that these accounts were available to only the rich. Actually, there are a number of Swiss banks where you can start an account with less than \$100!

Here's one:

Migros Bank
P.O. Box 2826
CH-8023 Zurich, Switzerland

*Other Swiss banks are listed at the end of this book.

If you write to this bank and ask for an application to open an account, they will write back to you in English! Just fill out the form and mail them a check. They will convert your check into Swiss francs and open an account.

Advantages: Switzerland has historically had a lower rate of inflation than the U.S. When the dollar goes down in value (compared to Swiss francs) the money (Swiss francs) in your account will be worth more. When you withdraw from your account, those Swiss francs will be converted back into more dollars than you deposited.

From the spring of 1985 to December 1985, the dollar went down in value (you would have made over 20% on your money in just nine months). Between 1980-1984 the dollar went up in value, and you would have lost money. Over the past 20 years, however, you would have broken even. Obviously, the main value of a Swiss bank account over a long period of time is as an **inflation hedge** -- taking a small risk to protect against the loss in purchasing power of paper money. The rich have used Swiss bank accounts as an inflation hedge.

Disadvantages: Swiss bank accounts are not insured by the Swiss Government and pay less interest than American bank accounts. The Swiss government takes about 1/3 of that interest in taxes.

Swiss bank accounts are not as private as they were in the past. You must pay U.S. income tax on the interest that you finally do receive (1040 income tax return form, Line B). (If the combined value of your foreign accounts is more than \$5,000, you must also check line 11 of schedule B and file form TD F 90-22 with the Department of the Treasury.)

Gold is another inflation hedge and/or investment of the rich. Gold goes up in value when there is a lot of inflation or world conflict (War in the Middle East, problems in South Africa, etc.). It goes down in value when interest rates are high, inflation is low, and/or there are no new world conflicts.

A few gold coins cost more than the market price of gold because there is a charge for minting the coins. It's expensive to buy a few gold bars because they must be **assayed** -- analyzed to find the quantity of gold contained in the bar.

You can, however, buy gold and avoid much of this expense. You can even start with just \$100!
Call:

Merrill Lynch Blueprint Plan
Merrill Lynch

Toll-Free Telephone Number 800-637-3863
Internet Address <http://www.ml.com/>

*Other gold investments are listed at the end of this book. Other brokerage firms also offer sharebuilder accounts in different metals for a low-minimum investment. Merrill Lynch charges an account maintenance fee.

Advantages: Over the past 100 years, gold has retained its **purchasing power** -- the amount of goods and services that your money will buy. Paper money has lost purchasing power. Gold goes up in value when there is lots of inflation or world conflict.

Anytime you buy gold through a brokerage firm; you are buying it at market price (plus a small sales fee). You can buy a fraction of an ounce; you don't have to buy a whole bar and pay lots of money to get started.

Example: If gold is selling at \$350 an ounce, \$100 in a gold sharebuilders plan will buy you .267 of an ounce of gold. The gold is stored in a vault and credited to your account.

Disadvantages: Gold is a risky short-term investment. It can also go down in value. It doesn't pay interest. Merrill Lynch buys gold in bulk at market price every day but charges 6 1/2 % sales fee on purchases of less than \$300. That is still cheaper than trying to buy a few gold coins on your own at a coin dealer.

Impasse #2. "I'm afraid I'll lose money." You'll lose money if you hide your money in a mattress or even if you put it in a 3% savings account (inflation and taxes will erode the purchasing power of your dollars). Chapter six and chapter eight explain how to reduce this risk substantially.

Impasse #3. "I don't want the hassles of keeping track of investments. I don't have the time." It only takes 1 hour a month and 2 hours at the end of the year. (For details see chapter 12 and "Your Action Plan" at the end of this book.) The little bit of time that is needed to implement this plan will make you thousands of dollars! It's worth it!

Impasse #4. "I don't know anything about investing . . ."

Maybe that was true when you started reading this book but it isn't true anymore. By the time you finish this book, you'll know a lot.

It's your money! Do you really want to trust all your investment decisions to someone else? Not learning about money or doing nothing can be very expensive. See the end of this book for other sources of information.

Impasse #5. “I don’t want to pay the fee it costs to invest.” We’ve already mentioned several different kinds of investments that have no sales charge. There are many other Investments that do have a fee to invest. So what? You’re still money ahead if these investments make you more money than you would have made otherwise. Study other investments carefully.

Impasse #6. “I want to get my hands on my money when I want it. (Fear of the loss of liquidity.)” Some of your investments should be very liquid. But other investments should give you a good yield and others should be very safe. Balance is the key!

Impasse #7. “I think money in the bank is more valuable than some speculative asset.” Your Assets -- things of value -- include everything that you own. There are different degrees of risk involved in owning anything.

Money in the bank is more valuable for a part of your assets. It is a foundation and beginning point. First accumulate 2-3 months living expenses in a money market account because of its’ liquidity -- easy, immediate availability. Then branch out into other investments so that you have covered the risk of loss of purchasing power (due to inflation and taxes).

Remember opportunity costs -- if you spend your time or money on one thing, you won’t have it so spend on something else. Choose wisely!

BULLS, BEARS, and PIGS

(SECRETS OF \$UCCESSFUL INVESTING)

The secret of making money in the stock market is really not a secret at all! The “secret” is this:

Buy Low and Sell High!

Everybody knows this “secret,” but few people know how to apply it. **Bull Markets** -- when prices of stocks are going up and are expected to continue rising -- and **Bear Markets** -- when stock prices are going down and are expected to continue falling -- make it difficult to buy low and sell high!

The “average investor” sees stocks going up in price and finally decides to buy when the market is near its peak. Then as prices fall, this investor gets discouraged and decides to sell. In other words, the average investor usually buys HIGH and sells LOW!

Part of the problem is that people want to “get rich quick”. Everybody remembers the stock they “almost bought” that doubled or tripled in value. Few people remember the stock they “almost bought” that dropped in value.

Some people rely on “hot tips” in order to try and make money in the market. They listen to the advice of their hairdresser, barber, relatives, or friends.

Most “hot tips” are really just cold turkeys” in disguise! If it really is a “hot tip” (and very few are), it’s old news by the time that you or I find out about it. A few big investors may have already purchased the stock at a low price and are now selling it to the “hot tip investors” at a high price!

“Hot tip investors” almost always lose money. Yet, many people

persist in thinking that they can “beat the market” by listening to “hot tips”.

Other investors try to “buy low and sell high” by using **Fundamental Analysis** -- studying the financial reports of a company, its assets vs. liabilities, etc. This is a much better way to judge the stock of a company, but it’s still not foolproof. One unexpected development (a recall of its product, drop in sales, a court judgement against the company, etc.) can cause the stock to go down.

People who try to “get rich quick” by using fundamental analysis usually end up losing money.

Some investors try to “buy low and sell high” by using **Technical Analysis** -- studying and making charts of the movement of an individual stock and the movement of stocks in the same industry. Technical Analysis is also a good way to judge stocks, but again, it’s not foolproof. Unexpected developments (the death of a president, budget cuts, etc.) can cause a stock to go down in value.

A few investors use both Fundamental Analysis and Technical Analysis to try and “get rich quick”. Combining these two methods has merit, but it’s not foolproof either.

Since the average investor usually ends up buying high and selling low, some investors figure that they’ll watch what the average investor does and do just the opposite. These people are called **Contrarians** -- people that do the opposite of what the average investor is doing. Many contrarians think that they will “get rich quick” by using this method.

When the market is going down Contrarians may **Sell Short** -- sell stock that is borrowed from a stockbroker and later replace that stock by trying to buy it back at a lower price. The person who “sells short” gets to keep the difference between the high price that he sold that borrowed stock for and the low price that he paid to buy back stock of the same company.

Selling short is the opposite of just buying stock. A “short seller” can make money when a stock goes down in value. The short seller loses money if the stock goes up in price!

Fundamental Analysis, Technical Analysis, and Contrarian Investing all have merit. THE PROBLEM IS IN TRYING TO “GET RICH QUICK” BY USING ANY OF THESE METHODS!

There is no sure-fire way to “get rich quick” in the stock market. And yet, many people persist in trying to use some “method” to “get rich quick”. Every few years some new “expert” writes a book about his “method” and thousands of people buy it. The author may get rich from the sales of the book, but the readers usually end up losing money!

Every day, week, and month the market may go up or down in value. NOBODY knows for sure which way an individual stock or the market as a whole will move.

What we do know for sure is that over a period of years the market average has moved up. A few companies have ceased to exist (their stock has become worthless), while many other individual stocks have held their value or gone up in price. A few stocks have doubled, tripled, or even increased 1,000% over a period of years.

So how do you decide what one stock to buy? You don’t! There are the “bulls” who think the market is going up in the next few months, there are the “bears” who think the market is going down, and then there are the “Pigs” -- people who try to “get rich quick” buying one stock at its cheapest price ever and selling it at the absolute top of the market.

S.L.Y. investors know that you don’t get rich quick. You get rich slowly! They diversify by owning the stocks of at least ten different companies. They do their homework and don’t listen to “hot tips”.

S.L.Y. investors are not “pigs”. They know that they are not always going to buy a stock at its cheapest price and sell it at the absolute top of the market. They are content to take some profit rather than trying to get all the profit.

“Small investors” (those with less than \$50,000 to invest in the market) diversify by owning mutual funds. And yet, some of these investors become “pigs”. They try to “time” the market perfectly, buying at the lowest point and selling at its highest point.

The problem with “buying low and selling high” is that NO ONE KNOWS WHAT “LOW” AND “HIGH” ARE! Someone may think that they are buying a stock or mutual fund at its lowest price ever, and it could go lower. They may think they are selling at its highest price, and it could go higher!

So how do you make money in the stock market? By Dollar Cost Averaging! You will not “get rich quick” with D.C.A. You won’t be able to brag about how you “made a killing in the stock market,” but you will make money over a period of years!

Dollar Cost Averaging may not be as exciting as some other methods, but IT works!

Here’s how:

DOLLAR COST AVERAGING --

EVERY MONTH (or every three months)
invest the SAME NUMBER OF DOLLARS
with the same stocks or mutual fund.

Your dollars will buy fewer shares of that stock or mutual fund when the price goes up. When the price goes down your dollars will buy more shares. Over a long period of time you’ll get a good AVERAGE price per share.

Study the charts below carefully.

THE MAGIC OF DOLLAR COST AVERAGING

	Amount Invested	Price Per Share	No. of Shares Purchased
Jan.	\$100	\$10.00	10
Feb.	\$100	\$ 5.00	20
March	\$100	\$ 2.00	50
April	Same	\$10.00	10
May	Same	\$10.00	10
			<u>100</u> shares

Average cost per share = \$5.00

WITHOUT DOLLAR COST AVERAGING

	Shares Purchased	Price Per Share	Cost
Jan.	20	\$10.00	\$200
Feb.	20	\$ 5.00	\$100
March	20	\$ 2.00	\$ 40
April	20	\$10.00	\$200
May	<u>20</u>	\$10.00	\$200
	100 shares		

Average cost per share = \$7.40

(With D.C.A. the average cost per share was only \$5.00)

You'll take advantage of the short-term price fluctuations of the market! Historically the long-term trend of the market has been up. If you have properly diversified (purchased at least ten different stocks that are not all in the same industry or purchased mutual funds that have good management) **YOU WILL MAKE MONEY.**

The stock market can move eight different ways over the medium term. The price of a mutual fund may move up and then back down to its original price (a bell curve). It could move down and then back up to its original price (an inverted bell curve). It could also move up, back down to its original price, go still lower, and then move back up to its original price once again (zigzag).

There are five other ways that the market can move but the key point is this: Dollar Cost Averaging will make you money in seven out of eight of these market scenarios (that's 87.5% of the time)! You'll even make money in the eighth market scenario if you keep dollar cost averaging until the market turns up again!

If Dollar Cost Averaging works so well, why don't more people use it?

1. It requires discipline!

It's tough to keep buying when prices are falling. Shares of stock that you've already purchased are now worth less. (When this happens, concentrate on the fact that your new dollars are now buying more shares.)

It can also be tough to keep buying when prices are rising. Your dollars are buying fewer shares of stock. (When this happens, concentrate on the fact that the shares you purchased in the past are now worth more.)

Few people have the discipline to save money in the first place. Most have the "get rich quick syndrome". They try to "beat the market" and end up losing what little money they do save.

2. It's boring!

You won't "make a killing overnight". You can't brag to your friends about "doubling your money in thirty days".

3. It requires planning!

Some people start out trying to put too much money into dollar cost averaging. Then they skip a few months when some unexpected expense comes along. That's why it's essential to have a plan for spending (budget) that includes a depreciation allowance and at least two months reserve in a money market BEFORE investing in the market. Dollar cost averaging in a diversified portfolio only works when it is done REGULARLY. It has produced an average 11%-12% return over any consecutive twenty-year period for the past 100 years!

Use the **P.E.E.L. Principle** –
Pennies a day, **E**ase in, **E**ase out, **L**earn
all you can about the historical market.

There is no way to “get rich quick” without undue risk. Invest just **P**ennies a day. Then, since the historical stock market cycle is five years, you'll want to **E**ase in (Dollar Cost Average) over five or more years, **E**ase out over five or more years, and keep **L**earning!

The **Five-year Rule** –

Money that you will need in less than five years should be kept in the bank or other safe interest bearing account. Money that you won't need to access for five or more years (college, retirement, etc.) needs to outpace inflation and should be invested for growth, but not all at once! Remember to diversify and ease into those investments. Don't try to time the market!

There are no sure-fire get rich quick schemes but there are ways to get rich slowly and safely. Dollar cost averaging is one of them! Using the five-year rule and the P.E.E.L. Principle takes the greed and fear out of investing which significantly reduces the risk.

Chapter 9

BUYER'S BONANZA

(How to save 10% to 50%
on everything you buy)

There are already many well-documented ways to save money on buying groceries. Briefly they are:

1. Save coupons for the things that you would NORMALLY BUY and USE them. The Sunday paper is a good source for these coupons.
2. Never shop on an empty stomach. Eating a meal (or at least a snack) will cut down on impulse buying.
3. Make a grocery list BEFORE you go to the supermarket. This will also cut down on impulse buying.
4. Buy "generic brands" or the "store brand" of different items if the quality meets your standards.
5. Watch for sales and **Loss Leaders** -- items the grocery store prices BELOW its cost in order to get you into their store. Once in the store, most people will pick up a few items that are priced above their normal cost.
6. Plan your shopping! If you follow rule number two and three above you'll save money on these sales and loss leaders. Plan your trips to the store (they should be on your way home from work or FROM somewhere else) so that you don't burn up your savings in extra gasoline.
7. Comparison-shop! Check the cost per ounce for different sizes of the product. Surprisingly, the largest item is not always the cheapest per ounce.
8. Investigate "Warehouse Supermarkets". You may have to bag your own groceries, but the savings may be substantial.

9. Don't buy fresh fruits and vegetables at the beginning of the season or "out of season". Substitute!

10. Substitute chicken and fish for meat. It'll save you money and it's healthier, but you don't have to go overboard on this idea.

These ideas will save you money on food, but what about clothing, shelter, and luxuries? The secret to saving 10% to 50% on these items is TIMING.

Remember the law of supply and demand? Time your purchases so that you are buying when there is a lower demand for that product.

We've already discussed "Bohemian Buying" and the "Caesar Complex" in earlier chapters. (How many times have you bought something that "you had to have", only to see it at a cheaper price a few days later?) Wouldn't it be nice to buy different items at the cheapest price that they will be during the entire year?

If you could "time" your purchases, you would cut down on "impulse buying", save finance charges, AND earn interest on your money while waiting to make the purchase. These things alone would save you quite a bit of money. You'd also have the satisfaction of never seeing that product at a cheaper price during the year than what YOU paid.

There's another satisfaction that comes with timing your purchases. Did you ever play with Lincoln Logs or Legos when you were young? Do you remember what you did with something you had built after it was finished? Did you have a "wish book" (catalogue) as a child? What was the most fun? The planning and building OR the "having"?

The fun Is in the building, budgeting, planning, and saving . . . NOT necessarily in the "having"!

Timing your purchases will save you money, earn you interest, increase your anticipation, AND increase your enjoyment!

HERE'S HOW:

Look at the chart below BEFORE buying. Check out what is the best month in which to buy that item. Then WAIT! That'll make it easier to save for it, save interest charges, and earn interest on your savings! By the time that month comes, you may decide that you didn't really "need" or "want" that item after all (an additional "savings")!

If you want or "need" to buy		Wait until: (These are the best months to buy)
	A	
Air conditioners Appliances		Feb. & Aug. Jan.
	B	
Bathing suits		after July 4th & Aug.
Batteries & Mufflers		Sept.
Bedding		Feb. & Aug.
Bicycles		Jan. & Oct.
Blankets		Jan. & May.
Books		Jan.
Building materials		June
	C	
Camping equipment		Aug.
Carpets		Feb., July, Sept.
Cars (new)		Aug. & Sept.
Cars (used)		Feb., Nov., Dec
Children's clothing		July, Sept., Dec.

China	Jan. & Sept.
Christmas decorations	After Christmas
Christmas gifts	ANYTIME but Christmas !
Clothes dryers	Jan. & April
Clothing (spring)	March
Coats (men's)	Jan. & Aug.
Coats (winter)	March
Coats (Women's & children's)	April. Aug., Dec.
Colognes	July
Computers	Jan. Feb. & July
Curtains	Feb.

D

Dishes	Feb. & Sept.
Drapes	Feb. & Aug.
Dresses	Jan., Aril, June, & Nov.

E

Electronics	Jan., Feb. or July. Generally, the longer you wait the more the price comes down. If you feel that you "have to have" this year's latest gadget, then buy during these months.
Eyeglasses	Jan., Feb. or during new store openings
Fans	August
Fishing Equipment	Oct.
Freezers	Jan. & July
Frozen foods	June
Furniture	Jan. June & Sept.

Furs		Jan. & Aug.
	G	
Garden equipment		Aug. & Sept.
Glassware		Feb. & Oct.
	H	
Handbags		January & July
Hardware		Aug. & Sept.
Hats (Women's)		Feb. & July
Hats (Children's)		July & Dec.
Hats (Men's)		Jan. & July
Home appliances		July
Home furnishings		Feb. & Aug.
hosiery		March & Oct.
Housewares		Feb. & Sept.
	I	
Infant's clothes		Jan. April, July
	L	
Lamps		Feb. & Sept.
Lawn mowers		Aug.
laundry appliances		March
Linens		Jan. & May
Lingerie		Jan. May, July
Luggage		March
Lumber		June
	M	
Men's clothing		Aug. & Dec.
Men's shirts		Jan. & July

	P	
Paints		Sept.
Party things		Dec.
Perfume		July and AFTER Christmas
	Q	
Quilts		Jan. Nov. Dec.
	R	
Radios		Feb. & July
Ranges		April & Nov.
Refrigerators		Jan. & July
Rugs		Feb. July, Sept.
	S	
School clothes & supplies		Aug. & Sept.
Shoes (Men's & Women's)		Jan. July, Dec.
Shoes (Children's)		Jan. March, July
Silverware		Feb. & Oct.
Skates		March
Ski Equipment		March
Snow plows		March
Sports equipment (Summer)		July
Sportswear		Feb. & July
Stereos		Jan. Feb. July
Storm windows		Feb.
Suits (Men's)		April & Dec.

Suits (Boy's)
Summer clothes

April & Dec.
June & July

T

Tablecloths
Televisions
Tires
Toiletries
Towels
Toys

Jan. & May
May & June
May & late Aug.
January & July
Jan. May & Aug.
Jan. & Feb.

V

VCR tape players

Jan. Feb. & July

W

Water heaters

Jan. & Nov.

Chapter 10

CREDIT CARDS -- Float or Bloat?

(Using Credit Wisely.)

What happens when someone uses their credit card to buy \$100 worth of goods at a store? The store sends the receipt to the charge card company and only gets \$96 to \$98 back!

In other words, the credit card company charges small stores 2% to 4% for accepting the credit card! Why would ANY store be willing to accept LESS money than what it charged the customer? Because of “impulse buying”!

Businesses know that the customer might not buy that product IF he or she had time to think about it. They know that credit cards are EASY to use. The customer will “charge” the purchase and worry about paying the bill later.

Credit card companies know this too! They want YOU to keep on using their card so that they can make 2% to 4% (from stores accepting the card) on everything you charge. (This is in addition to the 19.8% interest they charge you IF the entire bill isn't paid on time.)

They will even accept partial payment because they don't want you to worry about paying the whole bill. Most credit card companies charge 19.8% interest on the **Unpaid Balance** -- the amount of money you still owe.

Then the credit card companies charge you interest on NEW purchases (before you even get the new bill) IF you let the old balance “**Ride**” -- don't pay the full amount on the old bill.

They figure the interest charge on the “**Average Daily Balance**” -- the average daily amount of the unpaid balance from the old bill PLUS any NEW charges that were made during the month.

(Keep in mind, however, that the customer pays no interest IF he or she pays the FULL bill each month.)

Many people treat their credit cards as if they were not “real money”. It’s “easier” to pull that card out of a wallet than to write a check or pay cash. It’s much harder to pay the credit card bill when it comes due. So, they let the balance “ride”.

Credit cards ARE money! (Remember, money is ANYTHING that is used as a medium of exchange.)

Here are some clues for using credit wisely:

1. Give yourself a 26% pay increase! [Remember the Visa study? (Frequent credit card users spend 26% more than infrequent users.) (An American Express study says it is 35% more!)] Leave your credit cards at home or lock them in a safety deposit box until you have paid off the “unpaid balance”. Obviously, you will want to take your credit card with you on long trips (in case of an emergency).
2. Never let a balance “ride”. You’ll pay interest on NEW purchases before you even get the next bill.
3. Get the “**float**” -- the amount of money that is earned in the few days it takes for money to be deducted from your account after the bill is paid! Use O.P.M. (Other People’s Money)! Most credit card companies charge NO Interest IF you pay the FULL credit card bill EACH month. But don’t forget about ‘impulse buying”.

Use credit cards infrequently and for “big ticket” items only (things that cost more than \$100).

Then look at the bill from your charge card company and find the **billing date** -- the day that a company adds up what is owed them and sends a bill.

You can use this “billing date” to TIME your purchases and use Other People’s Money for FREE!

Example: If your “billing date” is the 17th of each month, your major charges should be on the 18th, 19th, or 20th of the month. The credit card company will not send you a bill for these NEW charges until the 17th of the NEXT month (30 days).

Most credit card companies give you another twenty-five to thirty days to pay that NEW bill AND charge NO interest IF you paid the entire amount of the old bill. You’ve used their money for almost 60 days for free (no interest charges)!

Send payment for that new bill 5 days before the due date. (Write a check on your Money Market Fund or **N.O.W. Account** -- a checking account that pays interest.)

The money in that fund or account will earn YOU interest while the check is in the mail. It will continue to earn interest for approximately 3-5 more days while the credit card company is waiting for payment from your Money Market Fund or bank! YOU’VE had the use of THEIR money for almost 70 days and paid NO interest!

BEWARE: Credit card companies are aware of this “tactic” but they don’t care. WHY? Because they know that the average person will use this tactic as an excuse for “impulse buying”! You’ll be charging about 26% more and THEY will be making 2% to 4% on everything that you charge. THAT’S WHY YOU SHOULD STILL USE CREDIT CARDS INFREQUENTLY AND FOR “BIG TICKET” ITEMS ONLY.

4. Keep your credit card number secret. Don’t give out your credit card number over the phone. The person taking your order could use that number to order something and have it sent to a post office box number. YOU could be stuck with the bill! When charging something at a store, be sure to tear up the “carbons” (if they’re still used at that store) so that someone cannot go through the trash and find YOUR number.

Credit can be a “blessing” or a “curse”. It enables you to enjoy things NOW that you would otherwise have to wait a while to enjoy. It can also “get you in over your head”.

Ultimately, YOUR VALUE SYSTEM determines how you will use credit. If you would like to have a lot of nice things NOW, you will use your credit to its limit. If, on the other hand, you want a FEW nice things now and a LOT MORE later on, you will use credit wisely!

The bias of the author should be apparent by now. Defer (put off) some little gratifications (pleasures) for BIG ones later on. Use Credit Wisely.

Cash -- ready money; coins and bills.

Check -- a written order directing a bank to pay money to the person named on it.

Credit -- trust in a person's ability and intention to pay. Money is loaned based on a person's credit history.

Currency -- money in actual use (circulation) in a country.

Debt -- liability or obligation to pay money to someone else.
(Borrowing money to buy depreciating items - Peel)

Debtor -- One guilty of neglect or violation of duty. (Webster's Dictionary)

Interest -- money paid for the use of money.

Government -- rule or authority over a country, state, or city. The system of ruling an area. That system affects the economy of the area. (See chapter 4.)

Chapter 11

YOUR PLAN FOR SPENDING

Chapter 2 already dealt with A Plan for Spending. Now it's time to create YOUR plan for spending.

How much you spend in each category depends on YOUR VALUE SYSTEM. It's o.k. to spend more than the average in some areas. Just remember that money is a limited resource. If you spend more in some areas, YOU WILL NEED TO CUT DOWN YOUR SPENDING IN OTHER AREAS.

Look through your check book and credit card bills to see how much you have spent in the past in each of these different categories.

If you paid cash for these items in the past -- carry a pocket notebook for the next three months and write down all expenses.

Or, for the next three months, you could write a check for almost everything and then see how much you spent in each category. THEN DECIDE how much you WANT to spend in each category.

REMEMBER: MONEY IS A LIMITED RESOURCE. How much you decide to spend in each category is up to you! It's your choice. You decide!

IT'S IMPORTANT THAT YOU COMPLETE THIS PLAN FOR SPENDING SO THAT YOU ARE DECIDING HOW MUCH WILL BE SPENT IN EACH CATEGORY. It may take a little time, but it will save you thousands of dollars in just a few years!

You will only need to do this once a year! Then check every three months to see if you are staying with your plan. If not, revise it.

1. **MONTHLY FIXED EXPENSES** --

(Expenses that are harder to change.)

- Church giving or tithe
- Savings and Investment
- Home Mortgage or rent
- Property taxes
- Property insurance
- Life insurance
- Health, Accident, and
- Hospitalization insurance
- Car insurance
- Other Insurance (school children,
- camper, boat, and/or summer home)
- Other taxes (excise, poll, land,
- personal property)
- Union dues, club dues, and
- other dues
- Garbage & trash collection
- Other fixed expenses
- Other fixed expenses

1. TOTAL fixed expenses
(Carry over several pages and place next to Total Monthly Fixed Expenses.)

2. **MONTHLY FLEXIBLE EXPENSES** --

(Expenses that are easier to change.)

- Home maintenance and improvement
- Gas
- Water
- Electricity
- Telephone
- Heating
- Groceries, laundry soap, etc.
- Toiletries, cosmetics
- Restaurants
- Pet foods and Veterinary bills
- Hobbies

Vacations
Entertainment
Auto: Gas & Oil
 Repair & maintenance
 Licenses & registration
Public transportation,
Parking, & tolls
Doctor bills
Dentist bills
Drugs (Prescription)
Eyeglasses
Clothing
Subscriptions: Books, Tapes, etc.
Newspapers
Depreciable items reserve
Lunches & coffee breaks
Smoking (an expensive habit)
School lunches and supplies
Baby sitters
Home furnishings
Allowances
Gifts: Christmas
 Birthdays
 Anniversary
 Weddings
 Showers & Graduations
 Office gifts
Education: Music Lessons
 Dancing lessons
 Tutoring
 Ski, tennis,
 & golf lessons
 Seminars &
 courses of study
Haircuts and/or Hairdressing
Other
Other
Other

2. TOTAL Flexible Expenses
(Carry over to the next page and place next to Total Monthly Flexible Expenses.)

3. **CREDIT OBLIGATIONS** -- monthly loan payments

Creditor	Interest Rate	Monthly Payment	No. of Pay-Ments Due	Balance Due
1.				
2.				
3.				
4.				
5.				
6.				
7.				

3. TOTAL Monthly Credit Payments _____
 (Carry over and place next to Total Monthly Loan Payments below.)

- 1. TOTAL Monthly Fixed Expenses _____
- + 2. TOTAL Monthly Flexible Expenses _____
- + 3. TOTAL Monthly Loan Payments -- (Monthly Credit Obligations) _____
- = 4. TOTAL Monthly Expenditures _____

Net Monthly Spendable Income --
 (Take home pay, see paycheck) _____
 - 4. TOTAL Monthly Expenditures _____
 = Balance or (Amount overspent) _____

Suggestion for staying on budget - Pay most of your bills by check (so that you will have a record of how much was spent in each category).

MEASURING YOUR PROGRESS

The government has a way of measuring the health of the economy. It's called the **Gross Domestic Product** -- the dollar value of all goods and services produced in the country within one year.

The **GDP** (Gross Domestic Product) = **C**onsumer expenditures + Business **I**ntestments + **G**overnment spending + net **F**oreign trade. (GDP = C + I + G + F).

When the government wants to stimulate the economy it increases the GDP by increasing government spending or giving tax breaks to individual consumers and/or businesses. (It can also put tariffs on foreign goods to affect "net foreign trade".)

When there is too much inflation, the government can lower the GDP by taxing individuals or businesses more, spending less, or lowering tariffs and/or trade restrictions.

YOU can measure your financial health by doing a Financial Statement (or net worth statement) once a year. Here's how:

"BALANCE SHEET"

1. **ASSETS** – things of value that you own.
Cash on hand & checking acct.
Savings
Marketable securities
Life insurance cash values
Accounts receivable
Individual Retirement Account
Profit sharing Account
1. TOTAL Current Assets

2. **FIXED ASSETS**
Home (Market value)
Summer home
Land (Market value)
Boat, Camper, Tractor, etc.
Automobile(s) (Market value)
Furniture (estimate)
Value of Business
2. TOTAL Fixed Assets

3. **OTHER ASSETS**
Inventories
Coin or stamp collection
Antiques
Miscellaneous
3. TOTAL Other Assets

4. **FINAL TOTAL ASSETS**
1. Total current assets
+ 2. Total fixed assets
+ 3. Other assets
= 4. FINAL TOTAL ASSETS

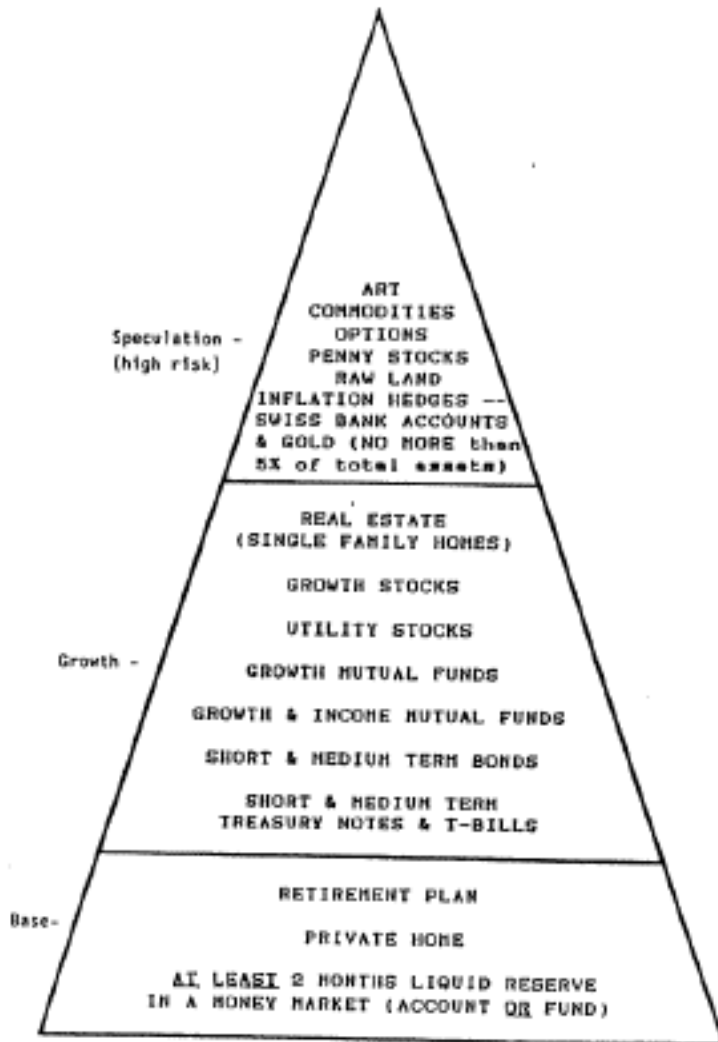
5. **LIABILITIES** – money that you owe.
Current bills
Mortgage Balance
Home
Summer home
Land
Personal debt to relatives
Education loans
Life insurance loans
Installment loan total
Auto loan(s) total
Other debts
5. TOTAL liabilities

4. FINAL TOTAL ASSETS
-5. TOTAL LIABILITIES
= NET WORTH

You can check on your progress by doing a “Net Worth Statement” once a year! Measure YOUR progress from year to year. Raise or lower different areas of spending and/or saving to reach YOUR goals! Good Luck!

Opportunity Cost – if you choose to spend your time or money on one thing, you’ve lost the opportunity to spend it on something else. Choose wisely!

AN INVESTMENT PYRAMID



Chapter 13

YOUR ACTION PLAN

- _____ 1. REMEMBER: It's not how much you make, but rather how you manage what you do make that really counts. Start now!
- _____ 2. Open a N.O.W. checking account if you don't already have one. (Choose a bank or savings & loan that has a LOW minimum and charges no monthly fee.)
- _____ 3. Complete chapter 11, "YOUR plan for spending". Then spend just 1/2 hour each month to check on your progress.
- _____ 4. Use the Magic of Compounding! Open a money market account or a money market fund for your liquid reserve. (Call or write for the prospectus of one of the "no minimum" money market funds in this book IF your bank or savings & loan requires a large minimum in their money market account). (Don't keep any more than an emergency reserve in a regular passbook savings account at low interest, unless it pays more than the money markets!)
- _____ 5. Start saving at least 5% of your take home pay. Easiest way to save? Join a credit union (or get into the habit of making the first check you write each month a check to your money market fund.)
- _____ 6. Save part of any pay raise. (Increase your regular savings whenever you get a pay raise.)
- _____ 7. If you are a frequent credit card user, give yourself a 26% "pay raise"! (Leave your credit card at home or lock it in a safe deposit box until you have paid off the balance.)
- _____ 8. Avoid "impulse buying"! Use credit cards and for "big ticket items" only.
- _____ 9. "Time your purchases" to get the "float". Use O.P.M.!

- _____10. Concentrate on getting 2-6 months “liquid reserve” in your money market fund (for emergencies). Then investigate the FREE list of “no load” mutual funds.
- _____11. Call or write for the prospectus of some of the investments that were mentioned in this book. Read the prospectus of each investment carefully before investing. (See chapter seven.)
- _____12. Start Dollar Cost Averaging in some of these investments (See the chart in this chapter). In general, you should start at the bottom of the investment pyramid and work your way up as your assets increase. CAUTION: Don’t skip over the base of the pyramid. Get 2-6 months “liquid reserve” BEFORE investing in anything else!
- _____13. Use S.L.Y. investing! YOU MAY WISH TO SKIP OVER SOME OF THE INVESTMENTS IN THE MIDDLE OR UPPER PARTS OF THE INVESTMENT PYRAMID (DEPENDING ON **YOUR INVESTMENT TEMPERAMENT** -- tolerance for risk).
- _____14. Spend 2 hours once a year going over chapter 12 “Measuring your progress” to see how much closer you’re getting to your goals!

Chapter 14

GOLDEN RULES OF PERSONAL MONEY MANAGEMENT

1. IT DOESN'T TAKE MONEY TO MAKE MONEY, IT TAKES KNOWLEDGE! For LESS THAN \$100 you can start a Money Market Fund, Mutual Fund, Gold Fund or even a Swiss Bank Account! (For addresses and toll-free telephone numbers, see chapter 7.)

2. MONEY ITSELF IS NEITHER GOOD NOR BAD. "Money is the root of all evil" is used as an excuse for not saving and planning. The actual quote is: "The LOVE of money is the root of all evil." (I Timothy 6:10) Money has been used to build schools, libraries, and churches. If you don't manage your money, it will manage you! (Ch. 3)

3. "A PART OF ALL YOU EARN IS YOURS TO KEEP."

Tithe first, then . . .

Pay yourself AT LEAST 5%. IF you try to save AFTER paying everyone else (phone co., department store, etc.) you'll never save. Easiest way to save?? (See chapter 13).

4. PRACTICE "BOHEMIAN BUYING". There are three ways to have more money -- make more, make your money work for and, SPEND LESS!

Separate Needs from Wants [before buying ask yourself (1) Is it a "need" or a "want"? and (2) Is it a good price? In the process of shopping for a good price, most wants will diminish. You'll have saved money and earned interest!] (For the best months to buy different items, see ch. 9)

5. CREATE A RESERVE FOR UNEXPECTED EXPENSES.

Borrowing for emergencies can be very expensive! Your reserve will save money, EARN MONEY, and bring PEACE OF MIND.

(See ch. 5)

6. AVOID BORROWING TO BUY DEPRECIATING ITEMS ...

unless you can do it for less than you will definitely earn on your investments (or the item will help you make money.) Also avoid borrowing for daily living expenses or luxuries. (See ch. 3)

7. PLANT A FEW FLOWERS AND A FEW TREES. (Flowers can be enjoyed right away but don't last long. Trees take some time to grow before they provide shade, but they can be enjoyed for years.)

Defer SOME little gratifications (pleasures) for BIG ones later on. SPEND some money on yourself now, BUT also SAVE some money for short-term emergencies, and INVEST some for medium and long term goals. (See ch. 3 & 6)

8. DON'T TRY TO "KEEP UP WITH THE JONESES". (They may be on the road to bankruptcy.) Their debt affects the other areas of their lives (Physical, Social, Mental, Spiritual, Financial, and Emotional.) (See ch. 6)

9. AVOID THE "CAESAR COMPLEX".

(I See, I Want, I Charge.) Use credit cards infrequently. Visa's own study shows that frequent users spend 26% more (impulse buying) than cash customers. NEVER let a balance "ride". [You'll pay interest ("average daily balance") on new purchases before you even get the new bill!]

DO use credit cards to "get the float" on "big ticket items". "Time your purchases" to get almost 70 days use (no interest) of FREE MONEY. (O.P.M.) (See ch. 10)

10. USE THE LINCOLN LOGS & LEGOS PRINCIPLE. (Remember what you did AFTER building something out of Lincoln Logs or Lego's? Remember???) The fun is in the Building, Budgeting, Planning, and Saving NOT necessarily in the immediate possession of "things".

BUILD BY USING THE MAGIC OF COMPOUNDING, S.L.Y. Investing, and D.C.A. (See ch. 6, 7, & 8)

Live in the present but also PLAN FOR THE FUTURE!!! Have a Plan For Spending AND a Plan For Saving and Investing. That's the way to really enjoy life! (See ch. 8, 9, & 11)

GREENSTUFF: THE MONEY BOOK

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APPENDIX A

SOURCES

Chapter 2 -- Occupations which paid a beginning salary of \$24,000 to \$33,000 (The beginning salary used in the example in chapter 2 was \$30,600): Beginning accountant, bank officer trainee, state or local construction inspector, job analyst, junior purchasing agent, newly hired architect, landscape architect, actuaries, fed. gov. mathematician, statistician, fed. Gov. chemist, fed. Gov. geographer, fed. Gov. geologist, fed. Gov. oceanographer, fed. Gov. physicist, biological scientist, forester (private), fed. Gov. range manager, soil conservationist, lawyer (small firm), anthropologist, historian, market research analyst, fed. Gov. political scientist, fed. Gov. psychologist, fed. Gov. sociologist, fed. Gov. urban planner, college instructor, chiropractor, dietician, nurse (b.s. r.s.n.) for the veterans administration, radiation therapy technologist, writer or editorial assistant, industrial designer, newspaper photographer, air traffic controller, legal assistant, programmer trainee, technical writer, sales worker, police officer (medium to large city), aircraft mechanic, computer service technician, flight engineer, merchant marine able seaman.

*Source: Occupational Outlook Handbook and American Management Associations.

Construction and trade occupations were not included because the latest available information lists only hourly wages for these occupations and yearly average wages fluctuate with the health of the economy.

Obviously, the amount and type of education required for these different occupations varies, THE IMPORTANT FACT TO REMEMBER ABOUT THESE DIFFERENT OCCUPATIONS IS THAT THESE ARE ENTRY LEVEL, BEGINNING SALARIES. THE AVERAGE SALARY IN SOME OF THESE OCCUPATIONS IS MUCH HIGHER THAN IN SOME OF THE OTHER OCCUPATIONS LISTED.

THERE IS QUITE A BIT OF DIFFERENCE IN THE TOP SALARIES OF SOME OF THESE OCCUPATIONS. While THEY ALL START OUT THE SAME, THEY CERTAINLY DON'T END UP THE SAME. IN ADDITION TO JOB SATISFACTION, INTERESTS, AND SKILLS, THIS IS A KEY POINT TO REMEMBER.

Apartments: The Chicago Tribune Rental Guide Oct. 2001

Autos: Dick Wickstrom Chevrolet and Friendly Ford in Roselle, Ill. Based on the best selling new and used cars in 2001.

Auto loans: The Itasca State Bank, Itasca, Ill. 9.04% loans on 5 year new car loans and 3-4 year used car loans. Car loans require a down payment of 20% of the car price.

Auto loans at this bank had an interest rate that fluctuated each month during the term of the loan.

If interest rates were to average 9.04% during the term of the loan: the TOTAL FINANCE CHARGE on a \$11,200 loan for a Cavalier would be \$2,766.07 (5 years)

A \$10,400 loan for an Escort would have a total finance charge of \$2,568.43 (5 years)

A \$7,200 loan for a Used Camaro would have a total finance charge of \$1,049 (3-year loan).

A \$7,200 loan for a Used Mustang would have a total finance charge of \$1,408 (4-year loan)

Because of government budget cuts, the Bureau of Labor Statistics no longer compiles and releases budget data for the average four-person family! The data on the chart in chapter two is from the Monthly Labor Review and adjusted for inflation. Because of rounding, sums of individual items may not equal totals.

“Other family consumption” on the chart includes costs for recreation, reading material, tobacco, alcoholic beverages, and miscellaneous items. “Other items” include gifts, contributions, life insurance, and savings.

APPENDIX B

NOTES – **HISTORICAL** – See Appendix C for current Information.

Other Low Minimum (Less than \$100) Swiss Bank Accounts

1. Cantonal Bank of Zurich
Briefe Postfach
8022 Zurich, Switzerland
2. Migros Bank
P.O. Box 2826
CH-8023 Zurich, Switzerland
3. Union Bank of Switzerland
Bahnhofstrasse 45
CH-8021 Zurich, Switzerland
4. Swiss Bank Corporation
Paradeplatz 6
Ch-8021 Zurich, Switzerland

Other No-Load, Low Minimum Mutual Funds

Note: If the phone number has changed, call the toll-free information operator (800-555-1212) for the new number.

1. 20th Century Select Investors
605 W. 47th St.
Kansas City, MO. 64112
Phone 1-800-345-2021
Objective: Growth
Minimum: None
Performance Record (assumes the reinvestment of all distributions from investment income and security profits).
1985 total return: 33.8%
5 year total return: 131.2%
10 year total return: 1,001.3%

2. Loomis-Sayles Mutual Fund
P.O. Box 449
Back Bay Annex
Boston, MA 02117
Phone # 617-578-4200
Objective: Income
Minimum: \$250
1985 total return: 34.4%
5 year total return: 119.8%
10 year total return: 234.3%

3. Northeast Investors Growth Fund, Inc.
50 Congress Street
Boston, MA 02109
Phone # 800-225-6704
Objective: Growth
Minimum: \$100
1985 total return: 36.7%
5 year total return: 72.3%
10 year total return: (organized 1980)

4. Partners Fund, Inc.
342 Madison Avenue
New York, NY 10173
Phone # 800-367-0770
Objective: Maximum Capital Gains
Minimum: \$500
1985 total return: 29.9%
5 year total return: 123.1%
10 year total return: 591.6%

Other Low Minimum Gold Investments

1. United Services Gold Shares Fund
15748 Interstate Highway
P.O. Box 29467
San Antonio, TX 78229
Phone # 800-531-5777 Minimum: \$500

2. United Services Prospector Fund
P.O. Box 29467
San Antonio, TX 78229
Phone # 800-824-4653 Minimum: \$500

Other Low Minimum Money Market Funds (With assets of over \$100,000,000)

1. Fund for U.S. Government Securities
421 Seventh Avenue
Pittsburgh, PA 15219
Phone # 800-245-4770 Minimum: \$500
2. Liberty U.S. Government Money Market Trust
421 Seventh Avenue
Pittsburgh, PA 15219
Phone # 800-245-4770 Minimum: \$500
3. Transamerica Cash Reserves
P.O. Box 2438
Los Angeles, CA 90051
Phone # 800-343-6840 Minimum: \$500
4. Twentieth Century Cash Reserve
P.O. Box 200
Kansas City, MO 64141
Phone # 816-531-5575 Minimum: none

Other Low Minimum Money Market Funds
(With Assets under \$100,000,000)

5. First Trust Money Market Fund-General Purpose Portfolio
(or Government Portfolio)
110 N. Franklin Street
Chicago, IL 60606
Phone # 312-781-9490 Minimum: none
6. FBL Money Market Fund, Inc.
5400 University Avenue
West Des Moines, IA 50265
Phone # 800-247-4170 Minimum: none
7. CAM Fund (Consolidated Asset Management Fund, Inc.)
Route 23 & Davis Road
P.O. Box 1985
Valley Forge, PA 19481
Phone # 800-423-2345 Minimum: none

(Some of these funds have merged and/or changed names.)

APPENDIX C – 2001-2002 INTERNET EDITION

MAJOR FUND FAMILIES (LOAD & NO-LOAD)

That have **AUTOMATIC INVESTMENT PLANS**

(minimum \$100 or less monthly investment)

Visit their website or call for details

<u>Fund Family</u>	<u>Internet Address</u>	<u>Telephone</u>
AIM	http://www.aimfunds.com/	800-347-4286
Alliance	http://www.alliancecapital.com/	800-221-5672
American	http://www.americanfunds.com/	800-421-0180
* <u>American Century</u>	http://www.americancentury.com/	800-345-2021
American Express	http://www.americanexpress.com/express	800-328-8300
Dreyfus	http://www.dreyfus.com/	800-373-9387
Fidelity	http://www.fidelity.com/	800-544-8888
Franklin Templeton	http://www.franklin-templeton.com/	800-342-5236
<u>Janus</u>	http://www.janus.com/	800-525-3713
Merrill Lynch	http://www.ml.com/	800-637-3863
MFS	http://www.mfs.com/	800-225-2606
Oppenheimer	http://www.oppenheimerfunds.com/	800-525-7048
Pimco	http://www.pimcofunds.com/	800-628-1237
Putnam	http://www.putnaminv.com/	800-225-1581
Smith Barney	http://www.smithbarney.com/	800-451-2010
<u>T. Rowe Price</u>	http://www.troweprice.com/	800-638-5660
Van Kampen	http://www.vkac.com/	800-341-2911
<u>Vanguard</u>	http://www.vanguard.com/	800-523-1154

* American Century has a higher minimum starting balance but it is, along with the other underlined funds, a true no-load fund.