Get More Money Now

How to Have Better Credit and More Money for Things That Matter

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Your money choices

Every day, you make choices about how to use your money. At any time, you can make decisions that help you keep more of your pay, and bring in more dollars.

If you would like to improve your money situation, there is good news: no matter who you are, there are steps you can take to put more money in your pocket.

The two keys to more money now: spend less and invest more.

What would you like to do?

Who needs more money now? Most of us do. How often do you think: if only I had a little more cash, I could do something really great with it?

What would you do with more money? Your dreams are powerful. The best motivator is finding a purpose that matters to you. And only you know what that is.

Common goals – what's yours?

- Retirement
- Start my own business
- Own my own home
- Plan to handle medical expenses
- Do something special for family
- Travel
- Buy a car
- Home improvement
- Education
- Emergency money

Choose at least one thing that you want to work to achieve – big or small. You may have a goal in mind already, something that makes you feel excited.

Even if you don't have a specific goal in mind yet, you can still get ready – so when your dream comes looking for you, you will be able to grab hold of it.

Taking care of credit & debt basics

Did you have enough money last month to pay all your basic bills – in full? If you are not sure, look at your paychecks and bank statements for a typical month and compare them to your bills, payments, and withdrawals. It's hard to use money to make money if you are already sinking into debt.

Even families with good salaries can allow expenses or debt levels to get too high. Examples include not paying off your full credit card balance every month, or spending more than you take in. Habits like these can cost you a lot of money in the end.

Get yourself into a position to cover all your main living expenses. Ideas can range from finding a cheaper place to live to brown bagging lunch more often. Debt is very expensive, especially if you are paying high interest rates, which could be the case with some credit cards, payday loans, and tax refund anticipation loans. It can take just a few months to run up enough debt that could take years to pay off, especially if you only pay the minimum balance on your credit cards each month. Who wants to cope with debts for years and years?

True marks of success: debt free, with money set aside

It's fun to wear designer clothes and to drive a fancy car. However, the real signs of success are tougher to spot. The success habits of the rich have been studied – and they are all things you can do yourself:

- Pay all bills on time.
- Keep track of expenses.
- Pay credit card balances in full every month.
- Put aside enough for emergencies – at least 3 to 6 months of pay.
- Put money into money-earning investments out of every paycheck.

Bankruptcy laws changed in 2005, making it harder for debtors to avoid paying off at least some of the money they owe. Don't count on bankruptcy laws to shield you from creditors.

Major financial problems can happen. Have an emergency fund set aside to protect against job loss or an expensive medical problem.

If you are counting on your family to rescue you, maybe you should think again. Can you be sure that relatives will be able to pay off your debts? Would you feel good about having to ask for support?

Protect yourself and your family. Keep spending modest, lower your debt, and pay yourself something each month. Investments can help your money grow.

Basic money choices: a checklist

If you take care of the basics they will take care of you – and you will keep more of your money. Your financial health and credit rating can improve over time by following these steps.

1. ***Lighten up expenses.*** Pay basic household expenses first, in full. Check your expenses each month by balancing your checkbook. If you find you are spending more than you can pay down in a couple of pay periods, cut back.
2. ***Take care of bills right away.*** Paying every bill when it comes in will help you avoid expensive fees or penalties, plus improve your credit. Missing a credit card bill deadline, even by a day, can increase your interest rate.
3. ***Get rid of high-cost debts.*** If you charge expenses on high interest rate credit cards, pay them down as fast as you can. Don't just pay the minimum balance – pay as much as you can and avoid extra purchases, until the debt is gone.
4. ***Don't max out your credit cards.*** A generous spending limit on your credit card doesn't mean you should keep charging! It may feel like it is your money – but it isn't, you're borrowing from the credit card company. Maxing out your cards hurts your credit rating, and increases interest rates on that debt.
5. ***Pay the monthly bill for your goal.*** Decide how much you can afford to spend on your goal. Then put the money aside every month, just as you would to pay any other important debt, such as the rent or the electric bill.
6. ***Remember your goal before you spend.*** Before you make a purchase, ask yourself: "Do I need it or is it just nice to have? Will it get me closer to my goal?" After handling basic expenses, try to spend on things that will help you achieve your goal.

When the dream finds you: Serena's story

Do you have to pick a goal before you start using your money to make money? No, as Serena discovered. If you get ready to find your dream, it just might find you.

Serena liked to keep her living expenses low, so she had some money left over from every paycheck. She did not have any particular goal in mind at the time.

"I started putting extra money into a savings account, thinking I would use it later for something fun," Serena said. "Time went by, and I didn't spend the money, so I looked into ways to make more of a profit on it." She found some low-cost investments and kept putting money aside.

"It was just amazing how fast it built up," she said. "Pretty soon I had $50,000."

Eventually, Serena met someone special: "I felt really good about being able to bring some money of my own to the relationship," she said. Serena and her spouse combined their reserve money, and made a big down payment on a nice house by the shore. They even had enough left over for a sailboat. The couple fell in love with sailing, and a new dream was born. Now Serena says: "Someday we'd like to retire and live on the boat."

Quick & easy ways to lose money

You can keep more of your money by paying attention to the real costs of services. Watch out for these common money losers:

1. ***Bounced check fees.*** Monitor your bank account balance to avoid bounced checks! Some banks charge as much as $30 for each bounced check – money that really adds up if it happens often.
2. ***Payday loans.*** People from all walks of life use payday or title loans (small, short-term loans to cover expenses before the next paycheck) because they're usually fast and easy to get. Many payday lenders operate through websites. Despite laws in some states that limit these practices, consumers can still get into debt trouble using them. Although fees might seem low, actual interest rates for payday loans can be very high. If the borrower can't pay the loan back on time, it can

be continued or "rolled over" – for another fee. Rolling over payday loans many times can quickly build up a mountain of debt. Consumers who have not repaid payday loans sometimes report being harassed by debt collectors threatening them with jail or a lawsuit. Some payday lenders even try to get the borrower's employer to repay the debt out of the person's salary. Don't let this happen to you.

3. ***Check cashing and wire transfer services.*** Banks and credit unions often have low-cost or free checking accounts and wire transfer services. Having a bank account helps you avoid expensive check cashing and wire service fees. Shop around and compare prices – you may save quite a bit.
4. ***Tax refund anticipation loans.*** Your tax refund may be the largest chunk of money that comes into your hands all year. Before making plans for your refund, think about using some of it to start an emergency fund or to begin investing toward your personal goal. Be wary of services pitching tax refund loans, designed to give people cash advances, with the expectation that they will pay back the money plus interest when the refund is received. Tax refund loans can be very expensive – waiting a few weeks for your refund is often well worth it.

The high price of convenience

You usually have to pay more for convenience when choosing financial services. Don't just look at the service fee; ask the company to tell you the annual interest rate (APR) and to explain any other fees. Credit card rates can be as high as 29%. Payday loans can have annual interest rates as high as 700% or more. If the company refuses to provide clear, detailed information about interest rates and fees, don't do business with it.

Finding money: do you qualify for the Earned Income Tax Credit?

The Earned Income Tax Credit (EIC or EITC) is designed to help reduce the tax burden for low to moderate income families. Many qualified people fail to take this credit on their tax returns, missing out on a lump sum tax reimbursement that could be used to start a savings plan or pay down bills. It may not be too late to make your claim, since you can file amended returns for up to three years. To find out if you are eligible, check the IRS website at www.irs.gov and use its "EITC Assistant." If you don't have a computer, you can probably get access through your local library. Also, free tax return preparation assistance is often available through a local nonprofit or community group. See the Resources section for information about finding tax preparation help.

Managing your credit

You can improve your credit. This is important because your credit rating can affect your ability to rent an apartment, buy a house, or get a job. If you are following the steps listed above in "Basic money choices" you are already doing many of the things that will help your credit get better. Here are some additional things you can do:

Check your credit score

If you have a credit card, if you pay bills, or if you have ever taken a loan, you have a credit score. There are several companies that gather this information, which they use to calculate a score that evaluates whether you are likely to repay your debts. If you have a lower score, you are considered a bigger risk for loans, which means you will have to pay higher rates on car loans, mortgages and credit cards. Scores generally range from 300 to 990. If your score falls below 700, work on improving it. See the Resources section for details on the main providers of information in this area.

- ***Check your credit score at least once a year.*** You can order your score from any of the legitimate services, for a modest fee. The main providers are Equifax, Experian, TransUnion, or FICO (Fair Isaac Corporation).
- ***Check your credit report at least once a year.*** Credit reports may contain errors that negatively affect you. If you see anything inaccurate in your credit report, write to the company to request a correction. A new federal law now guarantees all Americans a free credit report once a year. Also, you can request a free credit report from any of the three providers if you have been denied a job, insurance, or credit, or if you have been a victim of identity theft. See the Resources section for information about obtaining free reports from legitimate providers.

- ***Beware of scams.*** Look out for companies offering "free credit reports" that are not really free services or that could be scams. Don't give personal information to unfamiliar companies that contact you. Don't enter into purchase agreements with companies offering to finance expensive products, where the cost can depend on your credit score.

Watch out for credit repair scams

Beware of services claiming they can fix your credit in a short period of time or magically remove negative items from your credit report. There are no quick fixes for bad credit.

Talk to your creditors and make a deal

If you have debt problems, it sometimes helps to call your creditors and explain your situation. Talk to supervisors at credit card companies, utilities, phone companies, etc., to work out a repayment plan. The company might accept less than the amount you owe, but that could hurt your credit rating. Always try to pay back your entire debt.

What if you have paid down most of your debt, and you have a history of paying your bills on time every month, but your credit card interest rate is still high? Call the company that has your credit card account and ask to have it lowered. Some companies will honor such requests for those who have recently improved their credit record.

Credit counseling

A credit counselor can often help you resolve your bills. Most specialize in "unsecured" debts like credit cards and personal loans, rather than "secured" debts – those backed by an asset like a mortgage or car loan.

The law may require credit counseling for someone declaring personal bankruptcy. Some counseling services are better than others. It is important to avoid problem credit counselors. Ask questions, and choose a firm that tells you exactly what to expect.

1. ***What are the services offered?*** Don't settle for a credit counselor that offers only a "debt management plan" (a way of combining all your debts and paying them off under one loan). Look for a program that offers classes in budgeting and saving, and ask whether

the counselor can work with all of your creditors. Choose a firm that will sign a written agreement with you, including details about services to be provided, guarantees, the time frame, cost, and payment terms.

2. ***How do they make their money?*** If the employees get a sales commission by signing you up for a debt management plan, be careful. If a counseling firm salesperson seems to be recommending a plan without knowing anything about your situation, or pressures you to sign up before giving you enough information, look for another counselor.
3. ***How much will it cost?*** The setup fee for a debt management or debt consolidation plan may be about $50 to $75, with a monthly fee of no more than $25 to $40. If you cannot afford this, ask whether the counselor will provide service for a lower fee or without charge. Beware of firms that want to take your entire first month's payment to pay themselves instead of your creditors. Be sure you know how much of your monthly payment will go toward your debts and how much will go to the credit counseling firm.
4. ***What will happen to my credit score?*** Be sure you understand exactly what the counselor will do to help you pay down your debts. Ask how the counselor handles timely payment of bills – remember that missing deadlines brings down your credit score.
5. ***What will happen to my private financial information?*** Get a written copy of the firm's privacy policy. Ask them to explain how they will use and protect your personal financial information. Look for a company that will not give your financial information to others unless you authorize it or the law requires it.
6. ***What are the firm's credentials and track record?*** Ask if it is part of a national association of credit counselors that abides by industry standards (see the Resources section for a list). Make sure the credit counseling firm is licensed or registered if you live in a state that requires it. Ask for information about your counselor's professional qualifications. Even if a firm appears to be a nonprofit agency, check with your state Attorney General or Better Business Bureau for any consumer complaints against the company.

Invest in your dream

It can be hard to take money out of your wallet and put it aside to finance your goal. However, putting some of your pay into money-earning investments is a great way to hang onto your money while using it to make more.

Younger investors have the advantage of time. Invested money grows in part through your own contributions and in part through the effect of “compounding” – as interest earnings are put back into the account to earn even more interest.

But even if you are older, it is not too late to begin working on a retirement goal. Those over 50 are allowed larger tax-deductible contributions into Individual Retirement Accounts (IRAs) and other retirement plans.

You don’t have to be a Wall Street wizard to make money by investing money. There are simple ways to start investing that are easy for anybody to do, such as opening a mutual fund.

Your time is valuable

Give yourself as much time as possible to make your money grow. Take a few minutes to make your investment plan right now. You’ll be glad you did.

Making success happen

First, set yourself up to succeed. These basic steps can help you with investing plans:

1. ***Talk with people who are close to you about your investment goals.*** It is important for loved ones to support your efforts to invest and grow your money. Talking with family members about money issues can be difficult, but it can help avoid problems. Let your family know that you have a goal that is important to you. It is much easier to reach your goal if the people you love are cheering for you. Who knows – you may find that they will want to start funds of their own, too!

   If you know someone who is interested in putting money aside and making it grow, and you feel comfortable talking about your plans, call or meet with that person on a regular basis to share tips. This will help you stay firm in your decision to make more money through investing, and you can also exchange information and ideas.

2. ***Decide how much risk you can handle.*** All investment decisions carry risk. How much risk should you take? The answer can depend on your personality, family situation, and age. You can choose a mix of invest-

ments that provide a comfortable risk level, then change that risk level as your situation changes (for example, becoming more conservative as you near retirement). In general, riskier investments, like small growth stocks, often result in a big gain or a big loss. Safer investments, like a money market or Treasury bond, tend to offer a steady return with little chance of either high growth or a loss. Other investments, like stocks of big blue chip companies, fall somewhere in between.

3. ***Decide how much money to put aside for your goal.*** How much you invest depends on when you begin and what your specific goal is. Put aside a portion of your income that's comfortable for you. If you track your spending for one month, you will be surprised where some of it goes, and where you find room to free up money for your goal. Try to put aside the maximum amounts allowed by law under your employer-sponsored retirement plan, or your personal Individual Retirement Account (IRA).
4. ***Automate your investment.*** Arranging for part of your paycheck to be directed into an investment account means not having to worry about making this decision each month. This is a simple, "automatic" way to ensure that you will build up a solid fund over time. You can also arrange with a bank or insurance company to have a certain amount taken from your checking account to fund an investment.
5. ***Set smaller goals along the way and celebrate when you reach them.*** When you are trying to build up a large sum of money, it helps to track your progress along the way. Give yourself a low-cost treat to celebrate each victory. For example, if you want to save $1,000 you could buy yourself a favorite food for each $100 you set aside.
6. ***Let the money grow.*** Resist temptations to take money out of your investment account. Withdraw money only for a true emergency.

Are you ready for an emergency?

Experts recommend that you create a separate emergency fund, to cover your living expenses for three to six months or more, in addition to putting aside money for investment. Your emergency fund should be easily accessible. For example, a savings or money market account might be a good choice for this. Keep a current list of your financial resources and evidence of your ownership in a container that is waterproof and fireproof, and put it in a safe place.

Choosing basic investments: time-tested rules of the game

Keep these time-tested rules in mind when choosing your first investments:

1. ***Diversify.*** To control risks, have a wide range of investments. The easiest way for the smaller investor to do this is to invest in a mutual fund, which contains a mix of stocks, bonds, or other types of investments (see the Mutual Funds section, below).
2. ***Simplify.*** It is difficult to track a lot of investments. Choose a limited number and check their performance regularly.
3. ***Stay steady.*** Trying to "time" the market with frequent buying and selling is usually a losing game. Even experienced investment professionals cannot predict when the market will rise or fall. Pick a plan with a risk and reward level that meets your needs, and stick with it. Contributing a consistent amount each month averages out the cost and minimizes risk.
4. ***Control your expectations.*** Don't expect to double your money overnight. If someone promises you regular double- or triple-digit earnings, watch out! It could be a scam or a risky investment. Even legitimate investments paying high returns probably won't keep up that pace forever. If your investments earn a regular average in the range of 5% to 10% a year, you can feel pretty good about your choices.

5. ***Avoiding any kind of risk is risky.*** Buying only the safest investments will not earn much money. This is because the safest kinds of investment products often have lower returns. As time goes by, the purchasing power of your money will go down, as the cost of living goes up – and as earning power goes down in older years. You can manage this problem by choosing a mix of investment products with different levels of risk. This kind of balanced approach will help you generate better returns, and keep risk factors moderate, so that you can get the most for your investment dollar.
6. ***Who should inherit and control the money?*** With some investments, the provider may ask you to name a "beneficiary" who will inherit the money upon your death. Be sure the named beneficiary doesn't conflict with your will. If you change your mind about who you want as beneficiary, notify your investment company in writing. Anyone sharing an investment account with you as a "joint tenant" – such as a spouse – may have legal rights to the money. Be careful, and make sure you set up new investment accounts to carry out your wishes. If you have more than one or two beneficiaries, or if your heirs live in another country, you may want to consult an attorney with expertise in this area, to ensure that you make the best possible arrangements for your investments. Local "bar" associations for professional attorneys often have free or low-cost referral services that can help you find qualified legal help.
7. ***Check out the tax effect of your investment.*** Your true profit on any investment is the amount you earn, less the taxes you have to pay. Different kinds of financial products may be taxable in different ways. Some financial investments may impose a higher or more frequent tax burden than others. Taxes may be due near the time of initial investment, be payable on earnings during the investment period, or be due at the time you withdraw funds. Before you invest in a financial product, ask the provider to give you complete details about how much – and when – the profits will be taxed.

You are in control

Don't be afraid that you will get locked into an investment plan. You are in control of your money. Choose an investment program that will allow you to stop investing – or withdraw money – in case of an emergency. Be sure to ask the provider for details about this before you invest. An easy way to increase your contribution: arrange for your next raise to go right into your investment account.

Government-insured investments

These are typically savings accounts or certificates of deposit offered by banks, credit unions, and stockbrokers. You can find up-to-date interest rate information at www.bankrate.com. Bank accounts are insured up to $100,000 per person (not per account) at a single institution by the Federal Deposit Insurance Corporation (FDIC) for a basic account, and up to $250,000 per depositor at a single institution for certain accounts such as Individual Retirement Accounts (IRAs). Credit union accounts may or may not be insured by the National Credit Union Administration up to $250,000 – be sure to ask. Because they carry minimal risk, these investments typically pay lower rates of return. They include:

Interest-earning checking accounts. These may have minimum deposit requirements. Check to see if there are penalties for falling below the minimum.

Savings accounts. Find out whether a minimum deposit is required. Some institutions allow a small sum to start.

Certificates of deposit (CD). CDs are available through a bank or stockbroker for a specific time period, usually one to five years. Generally, larger sums and longer investment periods earn higher interest rates. There may be penalties for withdrawing the money before the end of the agreed-upon time period. Look for an interest rate that is compounded rather than simple – it will grow faster. Ask these questions: What is the annual yield? How long does the rate remain in effect? When does the CD "come due" – meaning, when does your investment period end – and will you be notified? Is the money automatically "rolled over" if you forget to claim it at the right time – and could it then wind up in a lower rate CD? Also, make sure that your CD is FDIC insured.

Money market accounts. These typically earn a higher interest rate than an ordinary checking or savings account, but you must usually maintain a minimum balance. There could be penalties for certain withdrawals; and you may only be able to write a maximum of three checks per month against the account. Check all terms with the provider before investing, and be sure you understand all the details. Not all money market funds are FDIC guaranteed.

Hot investing tip: limit the number of choices

There are many ways to invest money to make more money. In fact, there are so many choices that it's hard to keep track of all of them. To make the process easier, pick just a few investment ideas to explore.

Lower risk investments

Money market mutual funds. Many investors join together to purchase a pool of money-related investments, purchasing shares in a common fund rather than owning the investments directly. Returns tend to be better than savings accounts or CDs, because the funds are not government insured. Like most mutual funds, money market funds carry management fees that can lower your rate of return, so consider fees along with performance track record. See the Mutual Funds section below for details.

Series EE Savings Bonds. By purchasing a U.S. Savings Bond, you loan the government money for a specific period of time at a particular interest rate. Savings Bonds are sold in amounts ranging from $50 to $10,000, and are available from banks and credit unions without a fee. The purchase price is half of the bond's face value, so a $50 bond would cost $25, for example. To get the full face value, you must hold the bond for a significant period of time – check this requirement at the time of purchase. Savings bonds and treasury bills may be purchased by individuals directly from the government through www.treasurydirect.gov.

Treasury bills (T-bills), notes and bonds. These bonds can be purchased from the government directly at no charge, or from a broker for a fee, typically about $50. The minimum investment is $100, and it's guaranteed by the government. T-bills are purchased at a discount, in short investment periods (4, 13 and 26 weeks), and pay off their face value at maturity. Other treasury bonds can be bought below or above face value ("par"), and pay regular interest ("coupon rate"), usually twice a year. A $1,000 bond with an interest rate of 8% would pay $40 every six months until it matures, when it can be redeemed for its face value. You can always sell your bond as you would sell a stock. However, be aware that a bond's price fluctuates before reaching maturity. So if you sell prior to maturity, you risk getting less than you paid for the bond.

Municipal bonds ("Munis"). These are issued by city, state, or county governments. If you live within the geographic area covered by the government agency issuing the bond, you will probably collect the interest tax-free. If you live outside the tax exempt area, you might owe tax on your interest earnings. Any gain you realize by selling the bond (which is separate from interest earnings) is taxable. Muni bonds come in many investment grades, a code used by ratings agencies like Standard & Poors to assess their credit risk. The top "AAA" grade muni bonds are safest. Muni bonds with lower ratings or no rating can be riskier. The minimum investment may be $5,000 or more.

Investments with more risk and bigger returns

Purchasing individual stocks and bonds directly is possible for any investor. Some investors have significant financial resources, and can afford to purchase a wide variety of stocks and bonds. For those who do not have the resources to buy diverse holdings, it is risky for individuals to purchase single stocks and bonds. This is like "putting all your eggs in one basket." Individuals with moderate incomes can reduce risks by joining forces with others to make joint investments, typically through investment vehicles called "mutual funds." Mutual funds hold many types of stocks, bonds, and other investments, are designed to reflect many different kinds of investment strategies, and are run by professional money managers. (See the Mutual Funds section, below.)

Stocks (also called Equities). You purchase a part ownership in a company when you buy a "share" of stock. Stock prices may rise or fall quite a lot from year to year, but have historically delivered better long-term results than bonds or savings accounts. Some stocks, usually those of large, established companies, pay out profits in the form of *dividends*, usually four times a year. Those that pay very small or no dividends are called *growth stocks*, generally issued by small companies that are much riskier but that have higher potential returns. You make money by selling your shares when their value increases. All profits are taxable, while losses can be written off within limits. Full service stockbrokers that provide investment advice typically charge higher commissions than "do-it yourself" discount brokerages that charge a small commission for each stock trade you make.

Corporate bonds. Buying a corporate bond from a broker means you are, in effect, loaning money to a corporation, which in turn pays you interest income twice a year at an agreed-upon rate for the term of the bond. It's usually safest to buy highly-rated bonds (i.e., AAA) issued by prominent corporations with little risk of default. Bonds are classified as "investment grade" (AAA to BBB) and "non-investment grade" (BB or lower), which includes "junk" bonds, offering higher returns in exchange for more risk. You can sell a corporate bond, but price typically varies widely depending on market conditions. The minimum purchase is generally five bonds at $1,000 apiece.

Mutual funds

Through mutual funds, large numbers of smaller investors pool their money to purchase a mixed selection of investment products such as stocks, bonds, cash, and even some types of real estate investments. By sharing a diversified portfolio, mutual fund investors lower their risks and gain access to professional money managers who operate the funds on their behalf. Reputable mutual funds can be excellent investments for the beginner.

Even the best mutual funds have bad years, when shares drop in value. Look at a fund's performance over time (say three years or five years) to get a sense of its track record. Also check how long the current manager has been running the fund. But remember, past earnings are no guarantee of future results. Here are some things to keep in mind when shopping for a mutual fund.

Fund Prospectus. This is a detailed description of a mutual fund's investment strategy and the specific securities it holds. Read it before buying into the fund.

Fund Type and Strategy. Mutual funds come in many "flavors" reflecting many different investment philosophies. Some are conservative, taking on little risk, while others are more aggressive. Some funds purchase only bonds, others purchase almost all stocks of a particular kind, such as large, blue chip companies, and still others have a variety of investments. Common fund strategies include: "value" investing, which involves buying undervalued investments at low prices; "growth" funds, which purchase stocks of companies expected to grow their revenues or earnings over time; or "income" funds, which focus on generating current income through stock dividends or bond yields. The fund's prospectus should provide detailed information on its strategy.

Index Funds. You can buy mutual funds that mimic "market indexes" like the Standard & Poors 500 (commonly called the S&P 500) or other market indexes. The S&P 500 is a list of stocks considered to reflect the overall stock market - so S&P 500 Index fund values usually move up and down as the market does. That usually means a good amount of year-to-year risk, but steady returns over the long term. Because these funds are not actively managed, they usually have very low management fees.

Balanced Funds. Balanced mutual funds buy and manage a diverse mix of investments. These typically have medium levels of returns and risk.

Life Cycle or Target Date Funds. Some mutual funds are managed to adjust risk levels automatically, over time, for investors who expect to retire by a certain date. This could be a good option for some, but check fund fees carefully.

Load and No-Load Funds. Some mutual funds charge an upfront fee for purchasing shares or a back-end fee for selling. These are called "loads." Load funds are generally offered through financial professionals who can help you with investment advice. You can purchase no-load funds (funds that do not charge such fees) directly from the fund companies, if you are ready to invest without getting professional assistance. Since it takes time for a fund to earn back the money it charged you for a load, it generally pays to choose a load fund if you plan to be in it for a long period of time, and if the fund has a strong performance track record. Other fees can include "redemption fees" to discourage frequent selling, or "12b-1" fees that charge the investor for the cost of marketing the mutual fund.

Expense Ratio. You and your fellow mutual fund investors share the cost of hiring a fund manager. The fund's total annual expense cost is reported as a percentage, representing the fund's cost compared to the fund's net assets (the value of fund shares at the time when costs are measured). This is the "expense ratio." For example, expense ratios are frequently in the range of 1% to 1.5%, for common types of funds. Even small differences in expense ratios can make a big difference in the amount you can earn on your investment over time. The lower the expense ratio, the more you will keep of your fund's profits.

Arranging for part of your paycheck to be directed into an investment account means not having to worry about making this decision each month. Automate your investment.

Tax Effects. When your mutual fund sells investments to buy others, the fund has to pay taxes on the profits (unless it is part of an IRA or other tax-qualified retirement program). In general, funds that are more heavily managed – meaning the managers are selling and buying more often – tend to be more highly taxed. Check the fund's after-tax return history along with its overall return history. If possible, buy at the beginning of a fund's tax year, so you won't get stuck paying taxes on the fund's profits from the prior year.

Minimum Investments. Mutual funds have minimum initial investments that usually range from $1,000 to $3,000. Some funds permit initial investments that are as low as $200 to $500 if you are opening an IRA account. Most have minimums for additional investments – commonly $100.

Other types of funds and investment activities

Common fund types and investments

Exchange Traded Funds (ETFs). This type of fund is traded on an exchange throughout the day, can resemble index funds, and may have tax advantages for some. Often you will pay brokerage commissions when you buy or sell. At the time of purchase, check to see whether preferred ETFs are available for purchase at low or no commission cost from providers. A typical ETF that is sold through a broker may be best if you are investing a large lump sum or adding money rarely, but could be a more expensive choice if you are investing smaller sums regularly, over a long period of time.

Fund of Funds. This is a mutual fund that owns other mutual funds. You get the benefit of diversity, which lowers risk, but check to see whether extra management fees make this an expensive fund to own.

Mutual Funds and Financial Services That Meet Religious Requirements. In some faiths, paying or earning interest is a forbidden practice. Some banks and investment companies offer investment products designed to meet religious requirements. Ask your local bank or investment firm whether they can assist you in this way.

Real Estate Investment Trusts (REITs). These are similar to mutual funds, but they own real estate properties or real estate related investments such as mortgages. They vary widely in risk, so check the REIT's performance history and tax effects carefully before you buy.

Check these investment plans carefully

The following plans could be valuable for some, but are not suitable for everyone. Check the terms carefully and ask questions before you buy.

Variable Annuities. Annuities can be purchased from an insurance company or other financial provider. You can choose between a lump sum payment and multiple payments (premiums). At a later fixed date, the company may start making regular payments to you. Many people who buy variable annuities do not get the main benefit of this financial product – the annuitization (payments) – because they withdraw the principal instead. Check the plan terms carefully, especially the details about when annuity payments will begin. For an older individual, it may not be worthwhile to buy a policy that will not make payments any time soon. Ask about fees, penalties for withdrawals, and whether this investment could lose value.

Common tax-advantaged investment programs

There are ways to put money aside that have tax advantages. Check with a plan provider to understand the eligibility rules and requirements. (See Resources for ideas about where this information can be found.) Some common programs:

Deductible Traditional IRA. You must have earned income and meet age, income or other requirements to contribute to this plan. Single persons or married couples who do not have any retirement plan at work are usually eligible. Check with the investment company to see if you qualify. Amounts contributed under the plan are tax-deductible and can grow free of tax until the money is withdrawn. People over 50 are generally allowed to make bigger contributions. Early withdrawals may be permitted without penalty for certain purposes such as a first-time home purchase, large medical expenses, or higher education payment.

Non-Deductible IRA. Almost anyone with earned income can contribute to this type of IRA, and the earnings grow tax-free. However, contributions are not tax-deductible, and there are often other restrictions. This plan can be an effective way to supplement an employee-sponsored retirement plan.

Roth IRA. This plan basically reverses the tax treatment of a traditional IRA – current contributions are not tax-deductible but withdrawals upon retirement are tax-free – both to you and to your beneficiaries after you die. This is a good plan for those who expect to be in about the same tax bracket during retirement years as during working years. It's an effective way to pass tax-free money along to heirs. Also, you may be eligible even if you have a pension plan, and contributions may be withdrawn at any time without penalty. There are some restrictions on the withdrawals of earnings (separate from contributions).

529 Savings Plan. This is an education savings plan, where contributions can be as little as $50 per month. Interest accumulates free of taxes, until the money is used for qualified college expenses. There are penalties for withdrawals used for non-education purposes. Changes to your 529 plan can be made only once a year. Check requirements carefully with the provider.

Plans for employees, employers, and self-employed people

401(k), 403(b) or 457 plans. These are pre-tax investment plans offered to employees of for-profit (401(k)), nonprofit (403(b)), or public agency (457) organizations. If such a plan is offered through your workplace, be sure to take advantage of it, especially if your employer matches your contribution (that's like free money!). You can usually take money from these plans with you when you change jobs, though some of the employer contributions may not be yours to take until you have worked there for a certain number of years ("vesting"). If you are an employer interested in setting up a program, consult a professional adviser to learn more.

Roth 401(k). This new type of investment plan became effective January 1, 2006 and includes features that resemble both the traditional 401(k) plan and the Roth IRA. Roth 401(k)s may appeal to younger individuals or those with higher incomes who prefer to pay taxes on invested money now rather than paying taxes on withdrawals later, when they believe their tax rate will be greater. Choosing this option might cut the size of your take-home pay; if this is so, be sure that you can afford the income reduction. The decision to make Roth type plan contributions is not reversible later. Make sure that your plan has been "properly amended" under IRS rules to accept Roth 401(k) contributions. Before you choose this option, ask about the tax consequences, effect on employer matches of your contributions, effect on your paycheck, and impact on your other tax-advantaged investments; be sure you understand contribution limits, withdrawal restrictions, and other limitations.

Keogh. This is a specialized plan for self-employed individuals with high, stable income. There are several different types. Check with your professional financial adviser on setting up such a plan, including contributions you are required to make for employees. Your contributions on behalf of employees can be vested over time.

Simplified Employee Pension Plan (SEP). This is an option for self-employed people and small businesses with 25 or fewer employees. Contributions you make for employees become the employee's property immediately. Check with a professional adviser about legal requirements. The paperwork for this kind of program is simpler than that for the Keogh, but the contribution limits are generally smaller.

Savings Incentive Match Plan for Employees (SIMPLE). This plan is available for firms with 100 or fewer employees, where employees can make pre-tax contributions. Employers must match dollar-for-dollar of employee contributions up to 3% of their annual salary, or make a flat contribution of 2% of salary for every qualified employee, regardless of whether the employee makes a contribution. The employer contributions are tax -deductible. Employees are vested immediately but cannot borrow from the plan, and withdrawal penalties are fairly high.

We would all like to think that we could spot a scam easily. Unfortunately, most of us cannot! Con artists are friendly people. They look professional and appear successful, and they are not always strangers.

Your privacy and your personal information

When purchasing stocks, bonds, mutual funds, or other investments for the first time, American financial laws may require you to give the investment company personal details about yourself, including your birth date and social security number, or other identity information. Check the investment firm's reputation carefully before you give it money or personal information.

You can make investments in American financial products that may benefit you, whether or not you happen to be a U.S. citizen. If you have concerns about how any particular investment company will treat your private personal information, find out what identity information the company will need to see, request a written copy of the firm's privacy policy, and ask questions about anything you don't understand.

Avoiding investment scams

We would all like to think that we could spot a scam easily. Unfortunately, most of us cannot! Con artists are friendly people. They look professional and appear successful, and they are not always strangers. Some contact us through church groups or ethnic associations. Some are people we know as friends and neighbors. You can lose a lot of money if you fall for an investment scam. How do you avoid having this happen?

There are some principles to follow:

1. ***Buy only from licensed or credentialed financial professionals.*** Stockbrokers and investment advisers must be licensed to sell you stocks, bonds, and mutual funds, for example. Avoid buying investments from persons who are not licensed to sell those products. See the Resources section, below, regarding checking out financial professionals.

All investments carry some level of risk. Don't buy into any product if the salesperson says there is no risk to it, even if you like and trust that person.

2. ***Review your account statements.*** Check all statements when you get them and notice the details, including all changes to your investments. Make sure your correspondence is sent to the investment firm's official address. Ask questions right away about anything that seems incorrect, unauthorized, or unclear. If your investment company's broker or adviser refuses to comply promptly when you ask to withdraw money from your account, does not provide proper statements, or does not give satisfactory answers to your questions, complain in writing to authorities. See the Resources section below for information on how to do this.
3. ***Buy investment products that you have chosen and checked carefully.*** Stick to buying investment products that you have sought out yourself and investigated carefully. Buy products you can understand, after you have reviewed written details.
4. ***Make sure you are buying registered investment products.*** Most legitimate products have to be registered with the SEC and in the state of sale (see the Resources section below). Check them before you buy.
5. ***Ignore spam email and "hot tips."*** These types of messages are sometimes meant to trap unwary investors. Hot tips can come from people you know, or be left as "accidental" messages on your answering machine. Fake websites and blogs are sometimes set up to provide false information about investments.
6. ***Be careful if you are invited to invest by phone, at a meeting, or at a social event.*** Get details about any investment in writing, and be sure to check them out. Never make a snap decision when you are first approached with an investment idea. If someone pressures you to buy quickly, offers to send a messenger to pick up your money, or claims that the offer is only good "right now" – just say no.

7. ***If the promoter says it's practically a "sure thing" – don't buy it.*** All investments carry some level of risk. Don't buy into any product if the salesperson says there is no risk to it, even if you like and trust that person. A salesperson can be the victim of a scam, too.
8. ***Never make an investment payable to the salesperson.*** Always make your payment to the investment company.

Common investment scams

Seniors are often targeted by scammers, especially with telephone calls. Warn the senior person in your family to avoid high pressure or frequent callers who are trying to sell investments that could be risky or fraudulent.

Ponzi or Pyramid Schemes. The promoter promises huge profits and uses money provided by later investors to pay off earlier investors. Eventually the scheme collapses and many investors lose their money. Watch out for promises of unrealistic returns.

Boiler Rooms. Scammers call from telephone banks ("boiler rooms") to promote investments like penny stocks (low-priced or "micro-cap" stocks) that may be worthless or that may be offered at inflated prices. To avoid such scams, check out the broker, get a written prospectus, and ask questions. Some of these callers are brokers with disciplinary records – or have even had ties to organized crime.

Pump and Dump Penny Stocks. The con artist buys up a quantity of penny stocks and then falsely promotes the stock to investors through phony hot tips in websites, emails, voice messages, and other communications. After the stock price has been driven up (the "pump"), the promoter then sells his or her shares (the "dump"). The stock price crashes and investors lose their money.

Exotic or Off-Shore Foreign Investments. People have lost big sums buying shares in ostrich farms, oil and gas ventures, precious metals, mines, or unregistered foreign investments. Some of these investments are promoted as a way to avoid income tax. Buy only legitimate investments and stick with mainstream investment channels: for example, real international stocks can be purchased through mutual funds. Avoid "adventures" when investing your money. Go ahead, be boring.

Promissory Notes. Promissory notes are investments that offer above-market, fixed returns. While some are legitimate, some are fraudulent and worthless. Watch out for promises of unrealistically high returns.

Fraudulent Bank or Currency Investments. Scammers promise very high returns for investing in fraudulent bank or currency related investments. In the past, a con artist would call this a "prime bank" investment and mention foreign banks that may not exist. More recently, this fraud has been called a "risk-free guaranteed high yield investment" or some similar name, and banks are not mentioned as often.

Advance Fee Stock Purchase Scams. Con artists contact investors and offer an unrealistically high price for a stock or other investment that the investor owns. To ensure the sale, the investor is asked to pay a large advance sum of money as a deposit or transaction fee. It's a scam – the purchase does not happen, and the investor loses the advance fee.

Fake Promises of Initial Public Offerings (IPOs). Sometimes investors want to take advantage of an early chance to buy a stock when it is first being offered to the public. Scam artists may try to obtain advance fees in return for the supposed right to buy stock as an early insider. Avoid such offers.

"IRA or IRS Approved" Investments. The promoters claim you can roll over your IRA investment into a supposedly more profitable investment, often in a fancy sounding industry. They may claim the plan has the approval of the IRS or another government agency. This is a clear sign of fraud – avoid all such offers.

Investments in Fraudulent Businesses. These offers often involve work at home businesses, or the sale of vending machines, pay phones, or ATMs. Be very cautious – many such offers are frauds.

If it seems too good to be true – it could be a scam!

Remember this Better Business Bureau motto any time you get ready to invest your money. The con artist is counting on you to be greedy. If the investment promoter says you can make a profit that seems unusually big, especially if it is promised in a small amount of time, it's probably a scam.

Contact the Better Business Bureau to check on a firm, or check credentials with financial authorities. See details in the Resources section.

Resources

Resources

INVESTING

FINRA
www.FINRA.org

(301) 590-6500
The Financial Industry Regulatory Authority or FINRA, a private organization, is the largest non-governmental regulator for all securities firms doing business in the United States. It creates investor education programs and materials for the public. The website contains helpful investor alerts about scams that affect investors, along with the FINRA BrokerCheck and Investor Complaint Center services.

FINRA BrokerCheck
www.finrabrokercheck.org

(800) 289-9999
FINRA BrokerCheck provides a way to check the professional background, registration or license status and conduct history of FINRA registered brokerage firms and brokers.

FINRA Investor Complaint Center
www.finra.org/complaint

The FINRA Complaint Center provides online information on when and how to file investor complaints about a firm or a broker.

FINRA Foundation Resources for Special Audiences
www.saveandinvest.org

SaveAndInvest.org, a free service of the FINRA Investor Education Foundation, contains money management information unique to specific audiences, including the military and older investors. Military families will find objective answers and tools for managing their money with confidence. Older investors will find unbiased information and helpful strategies for identifying, avoiding and reporting investment fraud.

The Securities and Exchange Commission (SEC)
www.sec.gov

EDGAR database: www.sec.gov/edgar.shtml
SEC Tips for Checking Out Brokers and Advisers: www.sec.gov/investor/brokers.htm
Filing complaints: www.sec.gov/complaint.shtml or oiea@sec.gov
Office of Investor Education and Assistance: (202) 942-7040 • Email: help@sec.gov
The Securities and Exchange Commission is a government agency and the primary regulator of the U.S. securities markets. The SEC website provides helpful information on investing, making it easy to check required registrations and filings of domestic and foreign companies that offer financial products regulated by the SEC. To get this information for free, search the EDGAR database through the SEC website.

Federal Financial Literacy and Education Commission
www.mymoney.gov

This Federal government website is dedicated to helping Americans understand more about their money – how to save it, invest it, and manage it to meet personal goals.

Alliance for Investor Education
www.helpforinvestors.org
www.investoreducation.org

The Alliance for Investor Education is a nonprofit group dedicated to facilitating greater understanding of investing. The Help for Investors website is a "one-stop" way to find different resources for checking brokers and advisers, reporting fraud, and filing complaints. The Alliance's investor education site contains more tips.

National Endowment for Financial Education (NEFE)
www.smartaboutmoney.org
www.nefe.org

NEFE is a nonprofit foundation dedicated to promoting financial literacy. Its Smart About Money educational website is a one-stop resource for important information about financial planning, credit, debt, saving, investing, and retirement. Through its www.nefe.org website, NEFE also provides a national clearinghouse for information about financial literacy efforts that may be useful for teachers and community educators.

Resources

BUSINESS SOURCES OF FINANCIAL INFORMATION

Most of the primary news websites and web search portals have extensive online resources devoted to money management issues. Many feature information for beginner investors. There are also many printed publications that report on the investment industry, such as magazines and newspapers, with useful related websites. Take advantage of free or low-cost commercial sources of information about investment choices – understanding that these firms are in business to sell you their services. Examples include these well-known websites:

Morningstar
www.morningstar.com

This website provides information on choosing financial products like mutual funds and exchange-traded funds. Many of the site's personal finance articles are free and publicly available, and its fund selector tool is helpful. Be sure to check out the details of a fund's performance history, not just its rating. Some parts of the site are for subscribers only.

Bankrate
www.bankrate.com

Bankrate's website is a source for free comparative information on interest rates paid on CDs and savings accounts at banks across the nation, plus rates charged on personal loans and credit cards by providers.

SAVING

Choose to Save Campaign / EBRI Education and Research Fund
www.choosetosave.org

This program is a project of the Employee Benefit Research Institute (EBRI) Education and Research Fund, and its American Savings Education Council (ASEC) coalition. In addition to savings tips, the website contains useful online savings calculators that can assist you with number crunching for retirement savings, budgeting, home or auto purchases, credit cards and more.

College Savings Plans Network
www.collegesavings.org

This website provides information about 529 college savings plans. The site is a project of the College Savings Plans Network, an organization that is an affiliate of the National Association of State Treasurers.

YOUNG ADULTS

JumpStart
www.jumpstart.org

JumpStart is a coalition of groups that fosters the financial literacy of young adults by evaluating and promoting the teaching of personal finance in grades K-12. The website contains links to a wide variety of educational materials on personal finance intended for younger people and their teachers.

MANAGING CREDIT AND DEBT

U.S. Department of Housing and Urban Development (HUD)
www.hud.gov

To find HUD-approved housing counselors:
www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm
(800) 569-4287 or TTY (800) 877-8339
U.S. Department of Housing and Urban Development (HUD) approved housing counselors can help you with legal issues, answer financial questions, and help you talk with your lender about money problems, if needed.

The National Foundation for Credit Counseling
www.nfcc.org
www.debtadvice.org

Locate NFCC Member Agency: (800) 388-2227 (English) and (800) 682-9832 (Spanish)
The National Foundation for Credit Counseling is a nonprofit credit counseling organization with over 100 member agencies that provide free and affordable money management and debt counseling services to individuals. Members can be identified by the NFCC member seal. Many are known as ClearPoint Financial Solutions, formerly called Consumer Credit Counseling Service® (CCCS). DebtAdvice.org is an informational NFCC site that provides information on managing credit or locating a credit counselor.

Resources

Association of Independent Consumer Credit Counseling Agencies (AICCCA)
www.aiccca.org

The AICCCA is a member organization that aims to provide help to individuals with debt or financial troubles. The association provides standards and best practices on its website that members are required to follow. It also provides a searchable database listing all members nationwide.

Choosing a Counselor
www.ftc.gov/bcp/conline/pubs/credit/fiscal.shtm

FTC tips on choosing a credit counselor and avoiding fraud.

ORDERING CREDIT REPORTS AND SCORES

Free Annual Credit Reports
www.annualcreditreport.com

(877) 322-8228
Hearing impaired TDD # (877) 730-4104
Write: Annual Credit Report Request Service, P.O. Box 105283, Atlanta, GA 30348-5283.

Equifax
www.equifax.com

Order report: (800) 685-1111
Report fraud: (888) 766-0008

Experian
www.experian.com

Order report or report fraud: (888) 397-3742

TransUnion
www.transunion.com

Order report: (800) 888-4213
Report fraud: (800) 680-7289

Fair Isaac Corporation
www.myfico.com

(800) 319-4433
Information and reports about credit scores.

Local Help with Legal Issues

www.LawHelp.org

Find information about locating and qualifying for free or low-cost legal services, in your state.

www.FindLegalHelp.org

This American Bar Association (ABA) website features links to sources of qualified legal help in your state.

LOCATING FINANCIAL ADVISERS

You may wish to seek a professional financial adviser to help you invest a large sum. It is a good idea to choose an adviser who has passed professional exams, showing that he or she has achieved serious financial competency. There are many different kinds of financial certification programs. If you are unsure about what a particular certification means, be sure to check out the certifying organization and learn about its requirements and procedures. Ask your local business librarian to help you.

Financial advisers can be paid on a flat fee or a commission basis. Look for an adviser who will reveal in advance any special incentives or circumstances that could influence the adviser's judgment about financial products. Seek out a professional who will give clear answers to all your questions about suggested investments. Check to make sure that the products recommended for purchase suit your personal financial goals. Sellers of investments should be registered and licensed as required by your state and by the federal government. Examples of well-known professional organizations include:

Certified Financial Planner Board of Standards, Inc.

www.cfp.net

The Certified Financial Planner Board of Standards is a nonprofit organization that encourages professional standards in personal financial planning. Certified planners must pass a significant exam and abide by industry standards. The website allows you to search for a Certified Financial Planner.

Resources

Chartered Financial Analyst Institute
www.cfainstitute.org

This nonprofit membership organization awards the Chartered Financial Analyst (CFA) designation, considered a significant credential for financial professionals. Chartered Financial Analysts must pass a significant exam. You can search the website for a local member society of CFAs.

Financial Planning Association
www.fpanet.org

This website provides information on financial planning and a Certified Financial Planner search engine.

LOCATING TAX HELP

Internal Revenue Service
www.IRS.gov

Free Tax Counseling: www.irs.gov/individuals/article/0,,id=107626,00.html
Locate VITA and TCE sites: (800) 829-1040
Taxpayer Advocate Service: (877) 777-4778
Under the Volunteer Income Tax Assistance (VITA) program, the IRS provides free IRA tax preparation help for low to moderate income ($40,000 and below) people who cannot prepare their own tax returns. The IRS Tax Counseling for the Elderly (TCE) program provides free tax help to people age 60 and older. The IRS website warns of common tax scams, and also contains an online educational tool on the Earned Income Tax Credit, known as the EITC Assistant.

American Association of Retired Persons (AARP)
www.aarp.org/money/taxaide

(888) 227-7669
The AARP works with the IRS on its Tax Counseling for the Elderly program and offers Tax-Aide counseling nationwide for low to middle income people, focusing on those 60 and older.

Tax Credit Resources
www.TaxCreditResources.org

This website is run by the nonprofit organization Community Resources Information, Inc. and provides information about both federal and state level sources of the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), as well as other tax-related issues.

Military

Military personnel and their families may be entitled to free tax help. Consult your commanding officer or the VITA program of the IRS to locate a source of help near you.

AVOIDING SCAMS

The Federal Trade Commission (FTC)

www.ftc.gov or www.ftc.gov/espanol (in Spanish)

General Information: (202) 326-2222
Toll-free help line: (877) 382-4357
The Federal Trade Commission is the government's primary consumer protection agency. It provides helpful information on investing, credit, debt, and other personal finance issues.

The National Consumer League (NCL)

www.nclnet.org and www.fraud.org

Phone: (202) 835-3323
Email info@nclnet.org
The National Consumer League is a private, nonprofit consumer advocacy group. The organization provides information on money issues and it operates the National Fraud Information Center at www.fraud.org.

The Better Business Bureau®

www.bbb.org

The Better Business Bureau (BBB) helps millions of consumers and business people each year to Start With Trust® by providing information on business and charity reliability, and guidelines about ethical business practices. The BBB also provides expert help in resolving many types of disputes with businesses, along with educational programs that help consumers, charities, and businesses succeed and prosper. There are 113 local Better Business Bureaus directly serving communities in the United States, and 14 BBBs in Canada. You may inquire about a business or file a complaint online through the www.bbb.org website at any time.

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Prepared as a service to the public through the Better Business Bureau® system (BBB).

Visit the BBB through www.bbb.org.