Making the Most of Your Money

Jonathan Pond
Key to Financial Success

Never take financial responsibility for anything that eats.
The Three Major Drags on Your Money

# 3. Pets

# 2. Spouses, partners, girlfriends & boyfriends

# 1. CHILDREN
My hair stands on end at the cost and charges of these boys.

Why was I ever a father! Why was my father ever a father!

-Charles Dickens
Four (Legal) Ways to Create Wealth

Marry it
“Marriage may be grand, but divorce is about a hundred grand”
Four (Legal) Ways to Create Wealth

Marry it

Inherit it

Win the lottery

Live beneath your means
On Budgeting:

Nobody was ever meant
To remember or invent
What he did with every cent."

- Robert Frost
Oh money, money, money !!
I often stop to wonder
How thou canst go out so fast
When thou comest in so slowly.

Ogden Nash
It’s All About Retirement
Planning for a Financially Comfortable Retirement

- The challenges
- Prepare a projection
Retirement:

That's when you return from work one day and say,

"Hi, honey, I'm home -- forever."

-Gene Perret
I’ve got all the money I’ll ever need if I die by four o’clock.

-Henny Youngman
# Expense Reductions When You Retire

<table>
<thead>
<tr>
<th>Expense Item</th>
<th>Spending Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>5 to 20%</td>
</tr>
<tr>
<td>Work expenses</td>
<td>3 to 5%</td>
</tr>
<tr>
<td>Social Security taxes</td>
<td>6 to 8%</td>
</tr>
</tbody>
</table>

**Expense reduction @ retirement**  
14 to 33%

**Reduced income taxes**  
10%

**Expense and income tax reductions @ retirement**  
24 to 43%
Finding Out Where You Stand
Important Assumptions

- Life Expectancy  95
- Inflation Rate    3%
- Annual Investment Returns  6%
The Late Starter Checklist

- Find out where you stand now
- Put yourself on a budget to increase savings
- Consider ways to increase income
- Consider delaying retirement or relocating
- Don’t become discouraged
Best Places to Put Money Away for Retirement
Which Retirement Plans are Best?

- **BEST:**
  - Any plan with an employer match

- **NEXT BEST:**
  - Any pre-tax or tax deductible plan

- **STILL WORTHWHILE:**
  - A nondeductible plan, especially a Roth IRA
Becoming a Successful Investor
The Well-Diversified Investment Portfolio

<table>
<thead>
<tr>
<th></th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>15 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Large Cap Stocks</strong></td>
<td>21%</td>
<td>+12%</td>
<td>+11%</td>
<td>+7%</td>
<td>+11%</td>
</tr>
<tr>
<td><em>(S&amp;P 500)</em></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Mid Cap Stocks**   | +18    | +15     | +14     | +13      | +15      |
| *(S&P 400)*          |        |         |         |          |          |

| **Small Cap Stocks** | +16    | +14     | +14     | +11      | --       |
| *(S&P 600)*          |        |         |         |          |          |

Annualized Return for Periods Ending June 30, 2007
Quiz

Stocks lost value in 2000, 2001, and 2002. In how many years over the past 50 years have stocks suffered losses?

Answer: Stocks lost value in 10 out of the 50 years
Don’t gamble!

Take all your savings and buy some good stock and hold it ‘til it goes up, then sell it. If it don’t go up, don’t buy it.

- Will Rogers
Now for the three steps for successful investing …

- **Step 1:** How Much to Invest in Stocks vs. Interest-Earning Securities

- **Step 2:** Divvying Up Your Stock and Interest-Earning Money

- **Step 3:** Periodically Rebalancing Your Investments
Step 1: Divvying up your money between stocks & interest-earning securities

- It all depends
- How your age influences the way you invest
- The 60% / 40% solution
Step 1

Stocks 60%

Bonds 40%

100%
Step 1

Where does a pension plan fit in?
Step 2: Divvying Up Your Money

- Various Categories of Stocks
- and Interest-Earning Securities
Step 2 - Stocks

- Large companies
- Small- and mid-sized companies
- International companies
Step 2 - Bonds

- U.S. Government
- Municipal
- Corporate
Step 2 - Diversifying Within Investment Categories

Examples
Step 2 - Stock Allocation Example

- Large companies: 20%
- Small & mid-sized companies: 15
- Real Estate: 10
- International companies: 15 (60%)
Step 2 - Bond Allocation Example

U.S. government 15%
Municipal 10
Corporate 15
40%
Step 2 - Real Estate

- Real estate stocks
- Real estate mutual funds
- Own-it-yourself
Step 2 - Temporary Investments

- Shop for the highest interest
Step 3 - Periodically Rebalancing Your Investments

How to do it?
Step 3 - Rebalancing

Target

Stocks 60%

Bonds 40%

100%
Step 3 - Rebalancing

**Target**

- Stocks  60%
- Bonds  40%
- 100%

**Current Allocation**

- Stocks  64%
- Bonds  36%
- 100%
## Step 3 - Rebalancing

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Allocation</th>
<th>Rebalance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td>60%</td>
<td>64%</td>
<td>→ 60%</td>
</tr>
<tr>
<td>Bonds</td>
<td>40%</td>
<td>36</td>
<td>→ 40</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Step 3 - Rebalancing

Rebalancing forces you to:

- Buy stocks after they’ve declined
Step 3 - Rebalancing

Rebalancing forces you to:

- Sell stocks after they’ve risen
Step 3 - Rebalancing

Rebalancing forces you to:

- Buy bonds after interest rates have risen (and bond prices have declined)
Step 3 - Rebalancing

Rebalancing forces you to:

Sell bonds after interest rates have declined (and bond prices have risen)
Step 3 - Periodically Rebalancing Your Investments

How often?
Most investors earn about 4% annual return on their investments.

If an investor averages an 8% return and holds onto the money for 20 years before withdrawing it for retirement, how much more income will the investor be able to enjoy from this money?

A. 25%
B. 50%
C. 75%
Answer:

This is a trick question.

None of the given answers are correct.

The answer is 110%
Advice for the Lazy Investor
Autopilot Investments

- Lifestyle funds
- Target date funds
Investing in Your Career
Your Home is Your Best Investment –

But it Isn’t an Investment
House, n.

A hollow edifice erected for the habitation of man, rat, mouse, beetle, cockroach, fly, mosquito, flea, bacillus, and microbe.

-Ambrose Bierce
It takes a heap of other things besides
A heap o’livin’ to make a home out of a house.
To begin with, it takes a heap o’ payin’
If medical science continues to prolong life, some of us may eventually pay off the mortgage.
A man's home is his hassle.
I hate housework! You make the bed, you do the dishes – and six months later you have to start all over again.

-Joan Rivers
Buying and Maintaining a Home

- Growth in home prices creates false sense of wealth
- Easy ways to pay off the mortgage
### Doubling Up Your Principal Payments

<table>
<thead>
<tr>
<th>Payment #</th>
<th>Principal</th>
<th>Interest</th>
<th>Total Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>121</td>
<td>$344</td>
<td>$920</td>
<td>$1,264</td>
</tr>
<tr>
<td>122</td>
<td>346</td>
<td>918</td>
<td>1,264</td>
</tr>
</tbody>
</table>

Total payment: $1,264 + $346 = $1,610

Cuts the remaining time to pay off the mortgage in HALF.
Paying for Big Ticket Items
Income Taxes

- “Found money”
- Maximize contributions to retirement plans
- Look for other ways to cut your tax bill
Did you ever notice? When you put the 2 words "The" and "IRS" together it spells: "THEIRS."
Saving for college

- Caveats
- 529 plans
Knowledge accumulates in universities, because the freshmen bring a little in and the seniors take none away.
Old Rule of Thumb: 
*Don’t pay more than one month’s salary for a car.*

New Rule of Thumb: 
*How much car can I buy so that my payments are less than $400 a month?*
The only way to solve the traffic problems of the country is to pass a law that only paid-for cars are allowed to use the highways.

-Will Rogers
Top five reasons you know it’s time to trade in your car

- **# 5** Instead of an air bag, there is a whoopee cushion taped to your steering wheel.

- **# 4** For a 15-minute job, Jiffy Lube needs to keep your car 3 days.

- **# 3** Thieves repeatedly break in your car just to steal the “Club.”

- **# 2** Traffic reporters start referring to you by name when discussing morning tie-ups.

- **# 1** While sitting at a stoplight, people keep running up to you and asking if anyone was hurt.
Using Debt to Your Advantage
It saves a lot of trouble if, instead of having to earn money and save it, you can just go and borrow it.

- Winston Churchill
If you think nobody cares if you’re alive, try missing a couple of car payments.
Nowadays people can be divided into 3 classes:

- the Haves
- the Have-Nots
- the Have-Not-Paid-For-What-They-Haves

- Earl Wilson
Managing Your Credit
Before it Manages You

- Good debt / bad debt
- Devising a plan to be debt free
Preparing for the Unexpected
Getting the Right Kind of Insurance... at the Right Price

- Eliminating gaps
- Lowering premium costs
Ways to Save on Insurance

- Shop for lower premiums
- Eliminate unneeded coverage
- Increase deductibles
Preparing for the Inevitable
Planning Your Estate for the Here and Now... as well as the Hereafter

- Basic estate planning documents
  - Will
  - Durable power of attorney
  - Health care power of attorney
I owe much; I have nothing;
the rest I leave to the poor.

- Francois Rabelais
Where there’s a will, I want to be in it.
Family matters – the older generation
Money Matters of Importance for Parents

- Health care
- Insurance
- Housing
- Day-to-day money concerns
Family matters – the younger generation
Help your kids learn about money in order to reduce the chance that you’ll be supporting them in your dotage.
Where I was brought up we never talked about money because there was never enough to furnish a topic of conversation.

Mark Twain
If you want a kitten, start out by asking for a horse.

-Naomi, age 15
Blessed are the young, for they shall inherit the national debt.

-Herbert Hoover
Family matters – your spouse or partner
An Intractable Problem?

Spenders are attracted to savers - and vice versa.
Professor Pond’s Money Quiz

- Retail price of coat: $120
- Sales price: $100

Question: How much have you saved?

Answer: You saved nothing!
You spent $100.
If your loved one is a spender ...
To spend is human,
but to save is divine.
Not everyone wants to be a millionaire. Many are content just to live like one.
Words of Solace

If your loved one is a saver ...
Misers may be tough to live with, but they make great ancestors.
Pick three things to do next week

You will achieve financial security
The “Get Even With Those Ingrates” Creed

I [state your name]...
You’re only young once,

but you can always be immature.
“Get Even With Those Ingrates” Creed

I [state your name]…
Do hereby pledge…
To retire rich…
And after I’m retired…
I will arrange my spending…
So that I may…

DIE DESTITUTE  !!!