BASICS OF STOCKS & BONDS

Spending money on today's purchases will make you feel good at the moment, but if you invest those same dollars and let them compound, they could make you feel good for the rest of your life.

The highest return most people can earn safely without much thought is about 5% per year. Once you get close to retirement, it is advisable to move your money into safer investments. (That is why we use 5% for your post-retirement returns.)

The following chart outlines annual income and recommended spending once you retire. In order to continue the same lifestyle and have the same purchasing power throughout retirement, you will need to combat inflation. To combat inflation, it's recommended you spend less than the interest earned so you don't reduce your principal, and thus the annual interest earned.

Principal Required	**Earn 5%**	**Spend 4%**
$ 250,000	$12,500	$10,000
$ 500,000	$25,000	$20,000
$ 750,000	$37,500	$30,000
$1,000,000	$50,000	$40,000
$1,250,000	$62,500	$50,000

To accumulate that much principal you need to get as many dollars working for you as early in your life as you can. Put them into assets that will appreciate or compound. As you approach your retirement age, move them into safer investments that generate income such as bonds, CDs, and Mutual Funds.

Start saving early, because it is easier to save a few dollars over a long period of time versus a lot of dollars in a short period of time. When you start saving early, you can choose investments that will grow faster. Most investors take less risk as they near their retirement years. To find a solid investment that will pay you 7% (the rate used in the next example) you'll need to know where to look, how to judge risk, and how to stay diversified.

Growth on $100/month invested at 7%

Age	Term	$ Invested	Value at 67
57	10 yrs	$12,000	$17,300
47	20 yrs	$24,000	$52,000
37	30 yrs	$36,000	$122,000
27	40 yrs	$48,000	$262,000
17	50 yrs	$60,000	$545,000

If $100 per month will grow to $17,300 in 10 years and you want $500,000 invested for your retirement, you divide $500,000 by $17,300 and you get 28.9. You will need to save 28.90 times $100 per month, or $28,900 per year for 10 years to end up with $500,000.

Historically, you could earn 7% if you were good at judging risk reasonably well. You can buy stock (a certificate of ownership) in individual companies; or funds that own stocks in multiple companies. Owning shares in many investments is called diversification. Having less than 4% of your investable funds in any one company is advisable. Index funds hold all (or a representative number of) stocks in one particular stock exchange. Index funds have historically earned more money than fixed income investments when the market was up, but lost more when it was down.

How much money will you need to retire? _____________
How long will it take you to accumulate it? ____________
How much can you invest this week? _________________

CAUTION – In 2010 the government was driving down the interest rates to help the economy and make the national debt seem smaller than it really was. That policy killed interest rates. Some economists predict that the borrowing of the government will eventually drive interest rates even higher so it's becoming harder to get a 7% return without taking excessive risk, unless you know where to find good investments and are knowledgeable about assessing risk.

To do well financially, it is crucial that you learn and develop your judgment. Good judgment requires knowledge over time. Historically, the market has always recovered, but start learning now so you will have the knowledge you need by the time you have the funds to invest.