



Your Fair Lending Advocate in Delaware!

Save and Invest because, squirrels end up with millions because they put the nuts away, not because they make a lot of nuts.

**Know these Five Concepts**

**Rule of 72 is a formula.** 72 divided by (÷) the interest rate. Tells you how many years it takes to double your money at the given interest rate.

**Example:** If you invest \$1,000 at age 30 earning 18% interest you will have \$2,000 at age 34.

- How?  $72 \div 18 = 4$  years to double your investment.

**Cost of waiting is very high.** If you begin your investment plan too late, you will need your money sooner. Your money will not have time to grow.

**Example:** If you had a financial goal of \$100,000 by the time you reach 65 and you were 55 years old, you will probably not have the time to take risk at 15% and you are more likely to have to save \$647/month than \$384/month.

Age	Years to Invest	At 5%	At 10%	At 15%
25	40	\$67.45	\$18.02	\$4.39
55	10	\$647.82	\$500.34	\$384.66

**Magic of compounding is how wealth is built.** Your investment earns interest. If you allow your interest to earn for you, your original investment grows. The longer you save, the more your money grows.

**Example:** If you have \$100 in an account that pays 6% interest compounded annually, this is how your money is growing:

- $\$100 * 0.06 = \$6$  Year 1
  - $\$100 + \$6 = \$106$
- $\$106 * 0.06 = \$6.36$  Year 2
  - $\$106 + \$6.36 = \$112.36$

**Time value of money.** Three factors impact your ability to make your money work for you.

- **Interest Rates**
  - The higher the rate, the more money you make.
- **Time**
  - The longer you invest, the more money you make.
- **Consistency**
  - The more consistent you are, the more you make.

**Dollar cost averaging is about consistency of investing** through any economic time—even when the market is down.

**Risk is inherent in Investments!**

**These Five Rules will come in handy**

**Diversify.** Do not put your eggs in one basket.

- Even if you lose on one investment, High returns on other investments may make up this loss.

**Prioritize Goals and Objectives.**

- Make the right investment choices.
- Get informed before investing.

**Build Your Assets.**

- Own; Don't rent.
- Invest; Don't spend.

**Reduce Your Liabilities.**

- Minimize your debt.
- Get out of debt.
- Do not lose equity in your home.  
It took you a long time to build it.

**Never Lose Your Principal.** Learn the risks.

- Be able to spot scam artists.
- Recognize shady investments.
- Make good investments choices.
- Do not be too conservative.
- Do not be too aggressive.

**Remember**

- If it is too good to be true, it is.
- Consult. Two heads are better than one.
- Trust no one with your money.
- All investments involve risks.
- No one can predict the future.

- **It does not take much to build wealth.**
- **Save small amounts.**
- **Save every month.**
- **Start early.**
- **Give your money time to grow.**
- **Give your money time to take some risks.**

**“Investing should be more like watching paint dry or watching grass grow.  
If you want excitement, take \$800 and go to Las Vegas.”**

**Paul Samuelson, American Economics, Nobel Prize in Economics 1970.**

Investment Tool and Description	Advantage	Disadvantage
<b>BONDS (You are a loaner)</b> <ul style="list-style-type: none"> <li>An “IOU”—you loan money to a government or corporation for a fixed period of time.</li> <li>When the time is up, the bond has matured. You redeem the bond for the full face value.</li> </ul>	<ul style="list-style-type: none"> <li>The safest RISK you can take</li> </ul>	<ul style="list-style-type: none"> <li>If the entity you loaned to refinances you stand to lose because you may not see your full return</li> </ul>
<b>STOCKS (You are an owner)</b> <ul style="list-style-type: none"> <li>You own a share in the corporation.</li> <li>Stockholders are entitled to a share of the profits AND vote on how the company is run.</li> <li>Company profits may be divided among shareholders in the form of dividends.</li> </ul>	<ul style="list-style-type: none"> <li>If the market value goes up, you earned a good return on your investment.</li> </ul>	<ul style="list-style-type: none"> <li>If the market value goes down, the loss can be considerable.</li> <li>Selecting and managing stock often requires study and the help of a good brokerage firm.</li> </ul>
<b>MUTUAL FUNDS (Pool your risk)</b> <ul style="list-style-type: none"> <li>Professionally managed portfolios.</li> <li>Include stocks, bonds, and other investments.</li> <li>Individuals buy shares.</li> <li>The fund purchases stocks, bonds, and other investments.</li> </ul>	<ul style="list-style-type: none"> <li>Allows small investors to take advantage of professional account management.</li> <li>Diversification.</li> </ul>	<ul style="list-style-type: none"> <li>You pay capital gains tax even if you lose money.</li> </ul>

<b>Social Security Benefits</b> <b>1-800-772-1213</b>	<b>Pension Plans</b> <b>1-800-998-7542</b>	<b>Ask your employer to start a plan</b> <b>1-800-829-3676 ask for Pub 590</b>
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<p><b>401(k)--Defined contribution plan</b></p> <ul style="list-style-type: none"> <li>Allows pre-tax contributions to a saving plan.</li> <li>You decide how much to contribute each pay period.</li> <li>Employer may match up to a certain level.</li> <li>Plan is administered by professionals.</li> </ul> <p><b>Keogh Plan (H.R. 10 or Qualified Plans)</b></p> <ul style="list-style-type: none"> <li>Tax deferred retirement saving plan for self-employed individuals.</li> <li>Keoghs can be either a defined contribution or a defined benefit plan and the maximum amount of contribution depends upon which plan you have.</li> </ul> <p><b>Individual Retirement Accounts (IRA)</b></p> <ul style="list-style-type: none"> <li>Help individuals save for retirement.</li> <li>There is a penalty for withdrawing before retirement age, some exceptions apply.</li> <li>Also remember, the amount you withdraw increases your income by that amount for tax purposes.</li> </ul>	<p><b>Traditional IRA</b></p> <ul style="list-style-type: none"> <li>Post retirement income is usually lower.</li> <li>Post-retirement tax bracket is usually lower.</li> <li>Your savings are not taxed when you save.</li> <li>Your savings are not taxed as they grow.</li> <li>Taxes are paid when money is withdrawn.</li> <li>Annual contributions can be made in installments or in a lump sum.</li> <li>Generally, there is a penalty for withdrawing before the age of 59 1/2 and not withdrawing at 70 1/2.</li> </ul> <p><b>Roth IRA</b></p> <ul style="list-style-type: none"> <li>The annual contribution is <b>not</b> tax-deductible.</li> <li>Roth IRA is for higher income earner.</li> <li>There is no mandatory distribution age</li> <li>You must maintain the IRA for five years.</li> <li>Eligible tax free distributions include those taken for death or disability, after age 59 1/2, or for a first time home purchase.</li> </ul>
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You don't make money or lose money in your investments until you cash in your investment!  
 You need about 70% of pre-retirement income annually when you retire.  
 Retirement Rules change routinely—make [www.irs.gov](http://www.irs.gov) your favorite web link.