A Financial Primer:
12 Tips to Help Secure Your Financial Future

What will you do with your earning power and what will you have to show for it in the future?

Prepared for:

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MRW FINANCIAL BROKERAGE

Life Insurance, Annuities and Long-Term Care

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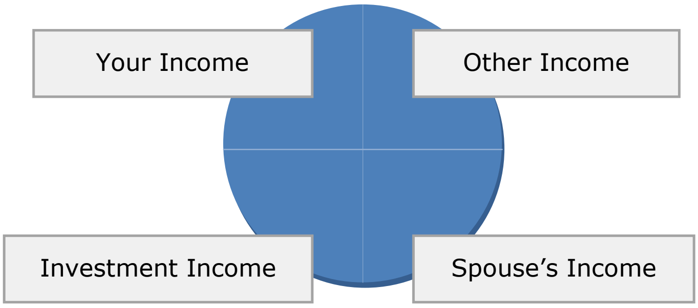
Your Earning Power

Your earning power – *your ability to earn an income* – is your most valuable asset.

Few people realize that a 30-year-old couple will earn 3.5 million dollars by age 65 if their total family income averages $100,000 for their entire careers, without any raises.

Earning Power:



How Much Will You Earn in a Lifetime?

Years to Age 65	Your Future Earning Power If Your Family Income Averages:			
	$50,000	**$100,000**	**$250,000**	**$500,000**
40	$2,000,000	$4,000,000	$10,000,000	$20,000,000
35	1,750,000	3,500,000	8,750,000	17,500,000
30	1,500,000	3,000,000	7,500,000	15,000,000
25	1,250,000	2,500,000	6,250,000	12,500,000
20	1,000,000	2,000,000	5,000,000	10,000,000
15	750,000	1,500,000	3,750,000	7,500,000
10	500,000	1,000,000	2,500,000	5,000,000
5	250,000	500,000	1,250,000	2,500,000

The question is, what will you do with your earning power and what will you have to show for it in the future?

Choices

The fact of the matter is that you're the only one who can decide what to do with your earning power and, by extension, with your life. The two are inextricably linked. Decisions on what you want to do with your earning power come from answering questions such as:

- Where do I want to live? Do I want to own my own home? Where? What kind of home?
- What kind of lifestyle do I want to have? Vacations? Entertainment and leisure activities? Automobile choices?
- Do I want to pay the bill for my kids to attend college? Public or private?
- Do I want to start my own business some day?
- Do I want to reach an age by which I can afford to stop working if I want?
- Do I want to live strictly for today…strictly for tomorrow…or enjoy today while still providing for tomorrow?

If you think of life as a journey, answers to questions such as these become your destinations on the journey of life.

Remember...people don't plan to fail... they fail to plan. Taking control of your finances and your financial future can help you reach your desired destinations in life!

With that in mind, what follows are some hints you may find helpful as you plan for a secure financial future…a future that enables you to live the way you choose to live.

1. Pay Yourself First

Put another way, spend less than you earn!

This is the most basic financial rule…you'll never get ahead financially if you spend more than you earn. Turn saving and investing into a regular fixed monthly expense, just like your rent or mortgage payment or a car payment. Consider having a fixed amount automatically deducted from your paycheck or checking account each month and placed into a savings or investment plan. As your salary increases, consider increasing the amount you automatically save and invest each month.

Do you know the potential value of saving just $100 each month?

Nominal Annual Interest Rate:	Results of Saving $100 per Month* in:			
	5 Years	10 Years	15 Years	20 Years
5%	$6,801	$15,528	$26,729	$41,103
8%	$7,348	$18,295	$34,604	$58,902
10%	$7,744	$20,484	$41,447	$75,937

** This is a hypothetical illustration only and is not indicative of the actual performance of any particular investment. It does not reflect the fees and expenses associated with any particular investment, which would reduce the performance shown in this hypothetical illustration if they were included.*

2. Develop and Stick to a Budget

A sound financial plan doesn't just invest money effectively…it helps you get the money to save and invest in the first place!

A budget is your spending plan, a way of tracking your cash flow, keeping track of what is coming in and what is going out. There are a wide variety of budgeting systems available, some of which are quite simple and others quite complex. Any budget, however, begins with tracking your income and expenses over several months.

Tracking income is generally quite easy…keep a record of your paychecks and any other types of income received.

Tracking expenses can be more challenging…generally you can use bill and credit card statements, your checkbook register/statement and cash receipts to track the majority of your expenses. Don't forget, however, to keep track of smaller expenditures, such as lunches, movies and money for kids' activities. Over the course of a month, those smaller expenditures can add up to a tidy sum. Expenses tend to fall into one of two categories:

- **Non-discretionary expenses**, such as rent or mortgage payments, food, utilities, insurance premiums and car payments. These are expenses that you have to pay every month, expenses over which you have little control. Following tip #1 - paying yourself first - a fixed amount for saving or investing should also be categorized as a non-discretionary expense.
- **Discretionary expenses** include items such as clothing, entertainment, travel, hobbies and other leisure activities. These are expenses over which you exercise more control. Once you understand your discretionary spending, you'll be better able to make lifestyle choices that can help you reduce your discretionary spending and pay yourself more by increasing the amount you put into savings and investments.

A basic way of budgeting is to establish and stick with a formula, such as 20% of income for saving/investing, 20% of income for discretionary expenses and 60% of income for non-discretionary living expenses.

3. Become Financially Literate

Knowledge is power!

While you don't have to become a financial expert, you should develop an understanding of financial concepts such as these:

- **The difference between saving and investing:** Some people think these are one and the same, but they're not. The focus in saving is on preserving money that you accumulate over time. Money that is saved is typically "stored" in low-risk vehicles, such as bank savings accounts, CDs and money market accounts, which offer a relatively low return, but guarantee the principal and interest. A savings approach is appropriate for shorter-term needs that generally require a higher degree of liquidity, but is generally not the best approach for accomplishing your longer-term financial objectives. Investing, on the other hand, emphasizes accumulation through growth. Investment vehicles, such as stocks, bonds and mutual funds, involve a greater risk to principal than do savings vehicles, but also offer a higher return potential and may better guard against inflation. Most financial plans reflect a combination of savings and investments.
- **The "magic" of compound growth:** Compound growth is simply earnings paid on previous earnings. The "magic" appears over time. To illustrate, let's say we have one person who invests $100 per month for 20 years, from age 25 to age 45, and then invests nothing more for the next 20 years. Assuming an 8% annual return, this person's initial $24,000 investment would grow to almost $275,000 by age 65. Another person, however, waits to begin investing until age 35 and then also invests $100 per month but for 30 years, from age 35 to age 65. Assuming this person realizes the same 8% annual return, the amount available at this person's age 65 would be about $149,000. The second person invests more ($36,000 over 30 years vs. $24,000 over 20 years), but ends up with a good bit less at age 65 ($149,000 vs. $275,000). **The morale here is to start saving and investing early, because the person who waits can never catch up to the person who starts saving at a younger age!**

- **Risk and reward:** First off, let's understand that there is risk in saving and investing…it can't be avoided. You could keep your savings in a mattress and the mattress could catch on fire! The key is to understand the different types of risk and the relationship of risk and reward. For example, savings vehicles typically have no risk of loss of principal (**market risk**) or lack of a ready market when you need the money (**liquidity risk**). Without these risks, however, they produce a relatively low return, which means that they may not grow at a rate to keep pace with inflation (**purchasing power risk**). Investment vehicles, however, do come with both market risk and liquidity risk, including the risk of losing your principal investment. With these risks, however, investment vehicles offer the potential to produce a higher return and greater accumulation over time. The objective is not to eliminate risk. Rather, the objective is to balance risk and return in a way that is consistent with your temperament and financial goals.
- **Diversification:** Diversification is an investment technique designed to minimize losses from the inevitable market downturns that will occur. When you diversify, you mix a variety of saving and investment vehicles in your portfolio, thus minimizing the impact of a single investment on the overall performance of your portfolio. The objective of diversification is to ensure that gains offset losses and the portfolio continues to grow in value.
- **Dollar cost averaging:** Regardless of what the markets are doing, a constant amount is invested each month, buying more shares when prices are lower and fewer shares when prices are up, resulting in a lower average per share cost over time. Dollar cost averaging enables you to invest through market cycles, flattening out the see-saw effect and taking advantage of a long-term upward trend.

  NOTE: Diversification and dollar cost averaging strategies do not guarantee positive investment performance, or eliminate the investment risk, including the potential loss of principal, associated with investing.

- **Understand saving and investment vehicles:** Take the time to understand what you're saving and investing in…the potential risks and rewards, the fees and expenses, the advantages and disadvantages.
- **Investment resources:** Know where you can turn for advice. Decide whether you want to actively manage your investment portfolio or whether you'd prefer to pay an advisor to recommend specific investments, as well as make market timing and asset reallocation decisions.

4. Establish and Monitor Financial Goals

It's not how much money you make…
It's what you do with the money you make!

It's a fallacy to equate income with wealth. Someone can literally make millions of dollars in a lifetime, but consume it all through spending, putting nothing aside for wealth accumulation, and end up impoverished.

Financial goals are your short, intermediate and long-term destinations in life:

- **Short-term goals** are those things you want to accomplish over the next year or so. Examples include paying off credit card debt, building an emergency fund, saving for a special vacation or new furniture. Because of the short-term nature of these goals, fixed interest savings vehicles are generally your best bet for money set aside to meet short-term goals.
- **Intermediate-term goals** generally encompass financial needs that you want to meet over the next three to 10 years. Examples can include buying a home, starting your own business and, depending on the age of your children, providing for a college education. Since more time is available to meet intermediate-term goals, a combination of saving and investment vehicles may be appropriate.
- **Long-term goals** include retirement planning and, again depending on the age of your children, paying for a college education…events that are 10 years or more in the future. With more time to recoup losses from market downturns, money for long-term goals can be invested more aggressively, such as in stocks and equity mutual funds.

Once you decide on your financial goals, a financial plan then becomes your roadmap for reaching those destinations. A financial plan provides the specifics of when and how much you will set aside, as well as how those funds will be invested.

Finally, monitor your financial plan over time. Be prepared to make adjustments as your needs and circumstances change in the future.

5. Build an Emergency Fund

Plan for the unexpected!

Be prepared for life's "bumps in the road" by creating an emergency fund. Ideally your emergency fund will consist of six to 12 months' worth of living expenses. At a minimum, make at least a three-month emergency fund your first short-term goal.

Since your emergency fund needs to be quickly available to meet unexpected expenses, such as a major car repair or replacing a major appliance, it's generally best to place these funds in a safe, liquid savings vehicle, such as a money market account.

Without a safe, liquid emergency fund, you can end up cashing in investments or, worse yet, racking up credit card debt to pay for life's sudden, unexpected financial emergencies.

6. Distinguish Between Needs and Wants

Learn to make trade-offs!

Needs are the essentials of life, like food, clothing, transportation and housing.

Wants, on the other hand, are not necessities, but they do enhance the quality of life. Saving and investing isn't an "all or nothing" proposition between needs and wants, but rather requires a balancing act.

For example, we need food to survive, but we don't have to eat out five nights a week. In order to keep your financial roadmap on course, you may opt to purchase a used car instead of a new one. It goes without saying that clothing and housing options vary widely in their cost. It's not a question of denying yourself all the luxuries of life. Instead, indulge yourself occasionally, but only after paying yourself first each month!

7. Manage Debt

Beware of credit card debt!

The amount of credit you have is how much money others are willing to lend you, based on your ability and willingness to repay. Credit is an important part of our financial picture and can be an asset if used correctly, such as to purchase a home or a car.

On the other hand, credit card debt is the number one obstacle to getting ahead financially. There are people who spend hours shopping for the best deal on a purchase only to turn around, charge it and end up paying 50% or more of the purchase price in credit card interest. In general, credit cards are the most expensive way to borrow money. Unless it can't be avoided in the event of an emergency, pay off credit card debt each month. Alternatively, avoid credit cards altogether and use a debit card.

8. Don’t Walk Away from Free Money

Take full advantage of employee benefits!

Employers offer a variety of employee benefits, such as 401(k) plan matching contributions, flexible spending accounts and medical and dental insurance. Learn what benefits are available to you and take full advantage of them…they can be worth big bucks to you by accumulating funds for your retirement and/or reducing your out-of-pocket expenses and income taxes.

9. Set-Up an IRA

A tax-advantaged way to save for retirement!

If your employer doesn't have a retirement plan or you're contributing the maximum to your employer's plan, consider an IRA. There are a couple of different types of IRAs available and each has different requirements and tax advantages. A traditional IRA offers tax-deductible contributions and tax-deferred growth of earnings, but withdrawals are taxed as received. While contributions to a Roth IRA are not deductible, the growth is tax deferred and distributions are received tax free at retirement. Check them out, see if you qualify and determine which type of IRA provides the best tax advantages for you!

10. Build a Diversified Investment Portfolio

Don't put all your eggs in one basket!

Whether it's in a 401(k) plan, an IRA or a personal investment portfolio, spread your money among different types of assets, such as equity and fixed-income investments, in order to balance risk and return potential in a manner consistent with your risk/return tolerance and financial goals.

11. Purchase Appropriate Insurance Coverage

Turn uncertainty into certainty!

We purchase insurance to protect our dependents, our income and our assets from financial loss. With insurance, we're able to transfer the risk of a substantial financial loss to an insurance company in return for payment of an affordable premium. The types of insurance available include:

- **Property and casualty insurance**, which indemnifies for losses to homes and cars, as well as provides liability protection.
- **Life insurance**, which protects dependents from loss of income in the event of a breadwinner's death and helps to pay cash needs that arise at death.
- **Disability insurance**, which replaces income lost in the event of accident or illness.
- **Health insurance**, which helps to cover the costs of medical care.
- **Critical illness insurance**, which provides a source of funds to help cover the indirect costs that arise when a serious illness strikes.
- **Long-term care insurance**, which helps to pay the costs of extended nursing home or assisted living care.

The type and amount of insurance you need is best determined by an analysis of your personal and financial situation, as well as your financial goals and objectives. Don't buy more insurance than you need, but have enough insurance to protect your income, your dependents and your assets.

12. Have a Will

You need a will!

If you have dependents, regardless of how much you own, you need a will in order to distribute your estate according to your wishes and name a guardian for minor children. Without a will, the laws of the state where you live will determine who gets what at your death and the court will name a guardian for your minor children.

Even if you don't have minor children, do your loved ones a favor…draft a will and make your wishes known!

You Can Manage Your Finances…

It's by managing your finances that you write the story of your life.
You are both the author and the story's principal character.
Resolve to perform what you ought.

-- Benjamin Franklin

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