

FOCUS ON THE FUTURE

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**Savvy
Investor**

New Mexico Securities Division

FOCUS ON THE FUTURE

Welcome to Focus on the Future and congratulations on almost completing the first important journey of your life, the successful completion of high school. The goal of Focus on the Future is to assist you in finding the right direction for your financial future. There are many levels of potential financial success ahead of you, as well as potential financial traps and pitfalls. No one plans to fail, but many fail to plan. Focus on the Future will provide you with a direction that will lead to the financial success you deserve. Ultimately the choice is yours.

As you contemplate your financial future think about the fact that almost everyone who graduates from high school this year will earn almost \$2 million in their working lifetime. Should you choose to further your education, that amount could grow to \$3 million or even higher. Financial success is not necessarily based on how much money you earn each year, but rather how much of the money you keep for yourself and invest in your future. Will you be just a conduit of money flowing from your pockets to other sources? Or will you save and invest a portion of every dollar you make? If you just plan to save and invest 10 cents of every dollar you earn, your chances at financial success are very strong indeed.

Success in personal financial management requires knowledge, determination and stamina. There are many temptations to spend every cent you earn every year with little or nothing to show for your efforts. One of the keys to future financial success is solid financial advice. The sources for that advice are abundant if you know where to look. Focus on the Future will provide you with that information. It's very important to establish personal financial relationships. This is especially true in banking, investing, credit management, insurance and home buying.

FOCUS ON THE FUTURE

Focus on the Future is presented by the Securities Division and the Financial Institutions Division of the Department of Regulation and Licensing of the State of New Mexico.

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MONEY MANAGEMENT MAXIMS

Every financial decision you make today will potentially affect the financial decisions you will make in the future.

Clearly identify your financial goals.

There are two simple parts to a budget: income and spending.

Pay yourself first.

There is a difference between need and want.

Using credit creates debt.

Getting into debt is much easier than getting out of debt.

You must protect your assets from potential loss.

Understand the time value of money and the dynamics of compounding to create wealth.

Create a financial plan and be consistent and persistent in your approach to that plan.

SAVINGS AND BANKING



Perhaps the first financial relationship you should establish is a banking relationship. In a world with an ATM on almost every street corner there are fewer and fewer reasons to ever have to walk into a bank, credit union or thrift institution. Online banking and direct deposit make it possible to never have to drive to your banking institution or get to know anyone associated with it, save some anonymous voice that can be accessed through a toll-free phone number. What a great way to manage your money! Right? Wrong!

GET TO KNOW A BANKER! Your bank is not just a place to store your money to pay your bills. Your bank can help you build credit, advise you on budget matters, provide credit advice and credit management.

SERVICES OF FINANCIAL INSTITUTIONS

- Checking accounts
- Savings accounts
- Money market savings accounts
- Certificates of deposit (cd's)
- Auto loans
- Home mortgage loans
- Home equity loans
- Online and telephone banking
- Lines of credit
- Overdraft protection
- Debit and credit cards
- Safe deposit boxes
- Investments
- Insurance
- Commercial and business loans
- Trust services
- Student loans

TYPES OF FINANCIAL INSTITUTIONS

Commercial banks:

Commercial banks may be federally or state chartered. They are generally considered as "full service" banks, providing a wide range of services to their customers.

Credit unions: Credit unions perform consumer banking services for their members. They are generally nonprofit institutions that are chartered to serve a specific group. They may be federally or state chartered. They are "owned" by the membership.

Thrift institutions: Thrift institutions may be a savings bank or a mutual savings bank. They may be more limited in the types of products and services they offer customers. They generally provide more personalized service and, in some cases, higher interest rates on savings and money market accounts than the other financial institutions.

CHECKING ACCOUNTS

A checking account is almost an essential. Without a checking account you will find it difficult and expensive to cash checks written to you. Many employers pay their employees through direct deposit to personal checking accounts. Some employers require a checking account as a precondition to employment.

Do your homework! Some financial institutions offer checking accounts that are "free" from monthly charges. Some accounts may require a minimum monthly balance or some other qualifying criteria. Choose the account and the financial institution that best suits your individual needs.

View your checking account as a personal privilege. Don't abuse it. Keep accurate records of your checking account balance. Debit card and check card transactions don't necessarily post to your account immediately. If you're not sure the money is in your account, don't spend it. All financial institutions charge fees for insufficient funds transactions. These fees can quickly add up to a substantial amount if you're not prudent in your use of your account.

SAVINGS ACCOUNTS

A savings account is also an essential element in your financial plan. Although not necessarily thought of as a "good" investment, it provides a cash reserve for financial emergencies that may arise. Most financial planners agree that individuals should strive to keep at least six months of their take-home pay in an individual savings account.

As with checking accounts, it pays to do your homework when deciding where to open your savings account. Having a savings account at the same financial institution where you have your

checking account might be convenient, but not necessarily prudent. Research where you can get the best returns on your money before making a decision as to where your money should be deposited.

CERTIFICATES OF DEPOSIT

This type of banking instrument is the original "CD." You and your financial institution agree that you will deposit a fixed sum of money in the CD for a fixed amount of time, at a fixed rate of interest. CD's pay a higher rate of return than savings accounts, but do not provide instant liquidity without penalties that could severely diminish the return on your money. The rate of return on CD's vary with regard to the amount of time you agree to leave your money on deposit with the financial institution. Again, research the best rates and safety of your deposit before you make a decision to purchase a CD. Not all CD's are covered by FDIC.

PLASTIC MONEY

The cash paying customer is becoming as rare as a pay phone in America. "Plastic money", credit and debit cards are now the norm. There are even TV commercials that demean those who would pay cash for goods and services or, heaven forbid, would write a check. There is no question that debit and credit cards have made our economic lives much more simple and convenient. There are some potential problems as well.

DEBIT CARDS

Using a debit card instead of writing a check is very convenient and easy. All you have to do is swipe the card and the merchant automatically debits your checking account. You can even keep track of your account balance via a toll free phone number or online from your home computer, lap top or even your cell phone. This convenient service has lulled some of us into a

false sense of security with regard to actively managing our checking account. It is still **imperative** to keep track of all debit transactions in a check ledger.

Take for example the construction worker who recently had a banking problem. He called the toll free number on the back of his debit card to find out his checking account balance prior to leaving on a four day trip to another city where he had some work to do. The automated system indicated that his checking account balance was \$34.19. He left on his trip the next day.

The construction company he worked for at the time provided him with lodging during his four day stay. They also provided both breakfast and evening meals. His only expense was lunch during the workday. He made sure he kept track of his expenses so he would not overdraw his

checking account using his debit card. He had lunch all four days at Taco Bell, ordering the same burrito every day along with a Coke. The total tab for the lunches was \$25.78, which should have left him with a balance in his account of \$8.41.

Upon returning home, he found several overdraft notices from his bank in his mail box. His account was overdrawn by \$250.00! Confused, he took the notices to his local bank branch secure in the knowledge that the bank must have made an error. What he found out caused quite an uproar in the bank's teller line that day. "I'm not paying \$250.00 for this burrito!" he screamed at the teller behind the counter. "You people lied to me about my account balance. This is your fault," he said. The teller calmly informed him that he had not subtracted charges he had made prior to calling the bank to ascertain his balance prior to making the charges at Taco Bell. She showed him that his actual balance was \$2.31 before his four charges at Taco Bell. Those charges plus the overdraft fees and interest had caused the negative balance of \$250.00. He was incensed to say the least. He stomped out of the bank vowing to never pay the charges, convinced of his innocence in the matter.

Anyone can make a mistake. If he had kept track of his expenses in a check ledger he would have known that his account balance reported by the bank was not the correct balance. He should have known that debit purchases do not necessarily clear the bank the same day they are made. In some cases the lag time can be a few days. If he had taken the time to establish a banking relationship with someone in the branch of his bank he might have been able to have the overdraft charges reversed, given that he didn't make a habit of overdrawing his account. Instead he chose to make the situation worse by walking away from the charges.

How did he make it worse? The bank certainly won't miss the \$250.00 nor will they worry about his account. They will simply report the event to the credit bureaus, close the account and wait for him to satisfy the debt owed the bank. The institution will also report the overdraft and account closing to an organization that keeps track of people who don't take responsibility for their overdrawn accounts. As a result his credit score will decline and he will be unable to open a new checking account with any bank until this matter is successfully settled. This could certainly make his economic life more difficult and cause future financial problems.

CREDIT MANAGEMENT

If it hasn't happened yet, it soon will. You will receive an invitation (or several) to sign up for a credit card. Some of these offers will appear to be very good deals; zero percent interest on balances for 6 months; no annual fees; travel points or rewards points for purchases, etc. etc. etc. Most of these offers should be shredded or burned. But, most of you will eventually decide you need a credit card. You're right, you do. It's virtually impossible to transact business at rental car companies, hotels, airline internet sites and

other places of business today without a credit card.

CREDIT CARDS ARE NOT DANGEROUS! IT'S THE PEOPLE WHO ABUSE THEM THAT ARE.

Below is an actual credit card offer that was mailed to several million high school graduates. This offer is for a "starter card" with a credit limit of \$300.00. Take a moment to read the terms of the agreement. Would you accept this offer?

ANNUAL PERCENTAGE RATE FOR PURCHASES	9.9%
+OTHER ANNUAL PERCENTAGE RATES	APR for Cash Advances 19.9% and Penalty APR 19.9% for Purchases; see explanation below.
FEES FOR ISSUANCE OR AVAILABILITY OF CREDIT	Account Set Up Fee: \$29.00 (one-time fee); Program Fee: \$95.00 (one-time fee); Annual Fee: \$ 48.00; Monthly Servicing Fee: \$84.00 Annually* Additional Card Fee \$20.00 Annually per card (if applicable).
GRACE PERIOD FOR REPAYMENT OF BALANCES FOR PURCHASES	If you pay your previous balance in full on or before the due date shown on your previous statement, you will have a grace period on purchases of 25 days (from the statement closing date to the payment due date); you can avoid finance charges on current purchases by paying the statement balance in full on or before the due date.
METHOD OF COMPUTING BALANCE FOR PURCHASES	Average Daily Balance (Including New Purchases)
MINIMUM FINANCE CHARGE	\$0.50
TRANSACTION FEE FOR CASH ADVANCES	Greater of \$5.00 or 3% of the amount of the cash advance.
FEES FOR PAYING LATE OR EXCEEDING THE CREDIT LIMIT	Late Payment Fee: \$29 Over Limit Fee: \$29
MONTHLY ACCOUNT MAINTENANCE FEE	\$3.00 per month on closed accounts with an outstanding balance of \$20 or more.
FEE FOR TRANSACTIONS IN FOREIGN CURRENCIES	1.0% of the transaction amount

**The Monthly Servicing Fee of \$84.00 will be billed at \$7.00 per month.*

The key to the effective use of a credit card is managing it very much the same way you manage your checking account. Keep accurate records of all charges and fees on a daily basis. Know how much you've charged on your card and never, never, never exceed your credit limit. (The fees for doing so are exorbitant). Always pay the bill on time. Mail the payment at least one week in advance of the due date on the bill. **Make every effort to pay the entire bill in full each month.** If you don't you'll likely pay very high interest rates on the balance due. Carrying a balance on a credit card can be a very expensive proposition.

Consider: You owe a \$2,000 balance on your credit card. The interest rate charged on your account is 19.8%. If you make payments on the balance and do not make any additional charges how long will it take for you to pay off the balance?

PAYMENT	YEARS TO PAYOFF	TOTAL PAYMENTS
\$75.00	3 years	\$2,625
\$50.00	5 years	\$3,200
\$35.00	14 years	\$5,635
\$25.00	NEVER!!	

Making a minimum payment on your credit card balances can make a total wreck of your personal money management planning. Plan your credit purchases carefully.

TIPS ON MANAGING CREDIT CARD DEBT

- Transfer balances from a card with a high interest rate to one with a lower rate.
- Pay more than the minimum balance each month, even if it's just a little bit more.
- Always pay on time. Late fees add up and can raise your interest rates.
- Don't make assumptions about future income.
- Never pay credit with more credit.
- As soon as you get into trouble, go to a certified credit counselor.

GUARD YOUR CREDIT REPUTATION.

Your credit reputation is almost as important as your personal reputation. In fact many people you will never know will judge your character based on your credit history. If you don't pay your bills on time, if you abuse the privilege of having a credit card or if you borrow money and don't pay it back, others will judge you to be of weak character and not worthy of their trust.

Who are these people?

These are the people who will make a decision on your auto loan, your department store account, your mortgage loan on your new home,

whether or not to rent you an apartment, sell you insurance, or even offer you employment. If you have not established a good credit history you may not be approved for any of these important things.

WARNING: DEBT MAY BE HAZARDOUS TO YOUR (FINANCIAL) HEALTH!!!

Feeling a cash crunch? If you need a few dollars to cover an unexpected financial emergency, pay for a special date, or just to meet expenses until your next paycheck, you may be tempted by one of the many companies offering instant loans.

Many check cashers, finance companies and other storefront businesses lend relatively small amounts of money to working people for a short period of time. These loans can go by different names - cash advance, check advance, post-dated check or deferred deposit loans. All are Payday Loans under New Mexico law.

If you have a job, it's easy to get one of these loans. No credit check is needed, and all you generally need to do is show some proof you have a steady job, a driver's license and a checking account.

But you pay through the nose for the convenience. Calculated on an Annual Percentage Rate (APR) basis as you would if you were making a larger loan from a bank or credit union, payday loans are very expensive.

If you're already short of money, the additional cost of a payday loan puts you deeper in the hole. Instead of solving your money problems, the payday loan only makes things worse.

Consider other options: your bank or credit union may offer you a better deal on a larger consumer loan you can pay back in installments over a longer period of time.

KNOW YOUR CREDIT SCORE

Many of us can tell you what the score was on the SuperBowl or the NBA Finals, but have no idea what our credit score is, how it is derived or even what it is.

Your credit score is known professionally as your FICO score, named after the company that developed the software to help determine it, Fair Isaac Corporation of Minneapolis, MN. Your score, which will range from a low of 300 to a high of 850, will help potential lenders determine whether you qualify for a loan and how much interest you'll have to pay if you are approved. The lower your score the less likely you'll be approved for a loan and the more interest you'll pay if you are.

Your credit score is more than just about obtaining loans and favorable interest rates, it will also affect your ability to purchase insurance, rent an apartment, hook up utilities or even get a job.

Your FICO score is based on five factors. (Income isn't one of them!) First, accounting for 33% of the score, is whether you pay your bills on time. Accounting for 30% of your score is your total debt. You are a higher risk if you continually "max out" your credit cards. If you habitually access more than 50% of your available credit, your score will diminish. The balance of your score is determined by your credit history, (the longer the better), 15%. An additional 10% is determined by the number of times you ask for credit in a short period of time, (the fewer the better). And finally, accounting for 10%, the types of credit you've handled well. A varied mix is best, credit cards, mortgages, department store accounts, bank loans, etc.

You may access a copy of your credit report at www.annualcreditreport.com, or you can call one of the following credit reporting agencies.

Equifax	1-800-685-1111
Experian	1-888-397-3742
TransUnion	1-800-888-4213

BUILDING A NON-TRADITIONAL CREDIT HISTORY

You may prefer to pay cash for everything you buy. You may never have taken out a loan or used a credit card to finance a large purchase over time. You're not in debt and you feel great about that. The downside to this "good news" is that you also don't have any credit history.

No credit history can be a problem when you decide to purchase a home. Since most of us are not able to pay cash for a home, we need to work with a mortgage lender to facilitate the purchase. The mortgage lender will want to see a record of how well you pay your bills and how you manage credit.

If you don't have credit cards or loans, you can still put together a credit history. You can create your own report to show a lender that you pay your rent, phone, car insurance medical and utility bills. Not only a record of payment, but a record of ON TIME payment. This is called a nontraditional credit history.

- **Keep copies of bills you pay, including your rent, phone, electricity, cable or satellite TV, gas and insurance.**
- **Keep copies of any canceled checks used to pay your bills.**
- **Ask your landlord, your phone provider, gas and electric companies to write you a letter. Ask them to include how long you have been a customer and how well you have paid your bills every month.**
- **Show your bills, payments and letters to lenders to prove that you pay your bills on time every month. A record that shows at least two years of regular payments is ideal.**
- **Although overuse of credit cards can get you into debt trouble, using one or two credit cards wisely is a good way to establish credit history. Consider asking your bank if they can issue you a "secured" credit card, backed by your savings account, to help you establish credit. Be sure to get a good explanation of any fees or interest charges that might apply to a "secured" credit card. Use the card for some of your purchases. Then make sure you pay the bill on time to show you can handle credit well. You don't need to carry a balance on your credit cards to establish credit history. Paying the balance in full each month will have the same effect on building your credit history.**
- **If you decide to get married, make sure some credit accounts are in your own name as well as your spouse's name, so you will both build a credit history. Remember that**

you are responsible for paying any loans or credit card debts that are in both names.

- Ask a nonprofit credit-counseling service or housing assistance agency for help in preparing a nontraditional credit history.
- Register with paybillsbuildcredit.com.

IDENTITY THEFT

The FBI recently reported that identity theft is the fastest growing crime in America. More than 10 million Americans were robbed of their identity by someone who stole and misused their confidential financial information.

Once an identity thief is in possession of your social security number, they can obtain credit in your name, take out bank loan, buy a car or some other expensive items, all in your name. They can even get a drivers license or passport in your name. These documents can be used to commit crimes for which later you could be blamed. You could actually spend time in jail for crimes you didn't commit until you can prove you're not the person who the law thinks you are.

There are many ways an identity thief can ruin your credit and make your life very complicated indeed.

- They steal your wallet or purse containing your driver's license, credit or bank cards and other personal information. (Never carry your social security card in your wallet or purse. Store it in a safe place.)
- They trick you into revealing information over the phone by impersonating government agents, law enforcement officers, bankers or mortgage lenders.
- They pilfer your mail, including bank and credit card statements, pre-approved credit card offers, new checks and tax returns.
- They file a bogus "change of address form" with the US Post Office to divert your mail to another location.
- They rummage through your trash looking for personal information
- They pose as a landlord, employer or someone else with a legitimate need for the

information to obtain your confidential credit report.

- They burglarize your home to steal cancelled checks, tax returns, credit card bills and other personal records.
- They scam you over the Internet by using email to lure you to a legitimate looking, but fake, web site that pretends to be a bank, mortgage lender or government agency.
- They steal files out of offices where you're a customer, employee client or patient.
- They secretly plant "spyware" and other hidden software on your home computer to copy files, track your Internet use, or capture PIN numbers, credit card numbers and passwords stored on your computer.

YOU ARE THE TARGET!

If you believe you're a victim of identity theft, take **IMMEDIATE ACTION!**

- Contact the credit bureaus listed above and report that another person is fraudulently obtaining credit in your name. Ask them to flag your file with a fraud alert and provide you with a copy of your current credit report. Review that report carefully and write to the credit bureaus asking them to remove items generated by the fraud.
- Close any bank account and credit accounts that have been tampered with, but do not cancel all your credit cards. Getting new cards may be very difficult while confusion exists about your identity.
- Call the Federal Trade Commission's Identity Theft Hotline at 1-877-438-4338. A counselor will advise you and lead you through the necessary process to put right what the identity thief has done to your credit reputation.
- File a police report. Keep a copy of this report for your records.

GUARD YOUR PRIVACY!

- Clean out your wallet or purse. Don't carry PIN numbers, checking account numbers or other confidential information.
- Secure personal information kept at home. Keep personal records, tax returns, credit card

bills, bank statements in a secure location. Consider a safety deposit box at a local bank for the most sensitive items.

- Shred or burn any personal financial information like bank statements or credit card bills before you discard them. Consider buying a shredder.
- Be suspicious of anyone who asks for your social security number over the phone. No legitimate business will ask for your social

security number, PIN number or bank account number over the phone

- Never store personal financial information on your computer's hard drive. Consider installing anti-virus and anti-spyware software immediately.
- Get a copy of your credit report every year.

ANATOMY OF AN AUTO LOAN

Most likely the first large purchase of your financial future will be an automobile. It is also true that most of us will not pay cash for the vehicle, but rather finance some portion of the purchase price over a period of time. This creates a monthly financial obligation that must be paid until the balance of the loan is satisfied or the vehicle is sold and the debt retired.

The price you pay for your new ride will depend on the age and type of vehicle you decide to purchase. New cars cost more than pre-owned cars, and "loaded" vehicles are more expensive than "stripped down" models. Ultimately, however, your credit score will determine just how much you will pay for your car. Assume you purchase a \$12,500 car, paying \$2,500.00 down and financing the remaining \$10,000.00.

It has been said that the worst way to buy a car is based on the monthly payment. The table

below seems to bear out that advice. The total cost of the vehicle in this example with the lowest monthly payment is still more than \$2,000 more than the cash price negotiated.

Comparing the 'good,' 'average' and 'poor' credit costs also shows why it's so important to maintain a good credit rating. An individual with a good credit score will end up paying nearly \$5,000 less than what a person with a low score would pay financing the same \$10,000.

Keep in mind that any vehicle purchased with a loan will probably result in the buyer being "upside down" with regard to the amount owed on the loan and the value of the vehicle at any given point and time. This is especially true if the buyer chooses a long term loan (72 months) or pays a high interest rate due to a poor credit score.

Loan Period (Months)	36	48	60	72
Good Credit Score				
Interest Rate (APR)	5.5%	5.5%	6.0%	6.5%
Monthly Payment	\$302	\$233	\$193	\$168
Total Cost of Vehicle	\$13,371	\$13,663	\$14,100	\$14,603
Average Credit Score				
Interest Rate (APR)	8.9%	8.9%	9.9%	10.5%
Monthly Payment	\$317	\$248	\$212	\$188
Total Cost	\$13,931	\$14,422	\$15,219	\$16,021
Bad Credit Score				
Interest rate (APR)	16.9%	16.9%	17.9%	18.9%
Monthly Payment	\$356	\$288	\$253	\$233
Total Cost	\$15,317	\$16,326	\$17,703	\$19,290

INVESTING

FINANCIAL PLANNING

When we consider the term investing most of us do not consider ourselves to be an investor. This is especially true if we are just beginning our lives as adults, entering the workforce for the first time or just completing our formal education. The truth of the matter is that we are indeed investors.

We invest in our future by furthering our education. We graduate from high school, then go on to learn even more through different types of post secondary education on the job training, or military service. We begin a government investment program known as Social Security with the first paycheck we earn. We begin accumulating assets with the money we earn. We don't think of CD's and cars as investments but they are.

Investing becomes much more serious and directed as we purchase our first home, invest in our company's 401(k) program and open our first securities investment account.

Wealth is not built by working for a paycheck. It is built by a systematic approach to creating an investment strategy that meets individual financial goals and objectives.

The earlier you start your savings plan, the better your chances of success. Time is on your side. BUT, if you wait just a few years from now to begin, time works against you. As you will see in the following example there is a dynamic that involves time, money and compounding interest that works to your advantage. As in many things, timing is everything in successful investing and financial planning.

Below is an illustration of a systematic investment plan beginning at varying ages and earning a compounded return of 8% per year.

AGE	\$ INVESTED	AGE	\$ INVESTED
22	\$4,000	22	-0-
23	\$4,000	23	-0-
24	\$4,000	24	-0-
25	\$4,000	25	-0-
26	\$4,000	26	-0-
27	\$4,000	27	-0-
28	\$4,000	28	-0-
29	\$4,000	29	-0-
30	\$4,000	30	-0-
31	-0-	31	\$4,000
32	-0-	32	\$4,000
33	-0-	33	\$4,000
34	-0-	34	\$4,000
35	-0-	35	\$4,000
36	-0-	36	\$4,000
37	-0-	37	\$4,000
38	-0-	38	\$4,000
39	-0-	39	\$4,000
40	-0-	40	\$4,000
41	-0-	41	\$4,000
42	-0-	42	\$4,000
43	-0-	43	\$4,000
44	-0-	44	\$4,000
45	-0-	45	\$4,000
46	-0-	46	\$4,000
47	-0-	47	\$4,000
48	-0-	48	\$4,000
49	-0-	49	\$4,000
50	-0-	50	\$4,000
51	-0-	51	\$4,000
52	-0-	52	\$4,000
53	-0-	53	\$4,000
54	-0-	54	\$4,000
55	-0-	55	\$4,000
Age 56-65	-0-	Age 56-65	\$40,000
Total amount Invested	\$36,000	Total amount Invested	\$140,000
VALUE AT AGE 65		VALUE AT AGE 65	
\$797,614		\$744,409	

The above illustrated results are rather dramatic. Can this be done? Definitely Yes!

The keys to success are many faceted but not complicated. First you must get good advice. Work with an investment or financial planning professional. The selection you make as the medium for your investments will be a large factor in your eventual success in achieving your financial goals. (Use the "Pyramid of Investment Risk" to help you determine your "risk profile" before making an investment decision.)



Keep these three factors in mind as you begin your investment plan:

- The more time you have to save, the more money you will have at the end. This is the result of compounding. Over time the rate of return is paid on a higher beginning balance. The rate of return stays constant, but because the balance earning that rate is constantly increasing, the dollar amount of the return is growing each year. That is the power of compound interest.
- The more money you save, the more money you will have at the end of the time period.
- The higher the rate of interest you can earn, the more money you will have at the end of the time period.

Are you curious what the person on the left might have accomplished had they chosen to continue investing at the same amount of \$4,000 per year until they reached age 65?

The total amount invested would be \$176,000.

THE TOTAL RETURN WOULD BE

\$1,542,022!

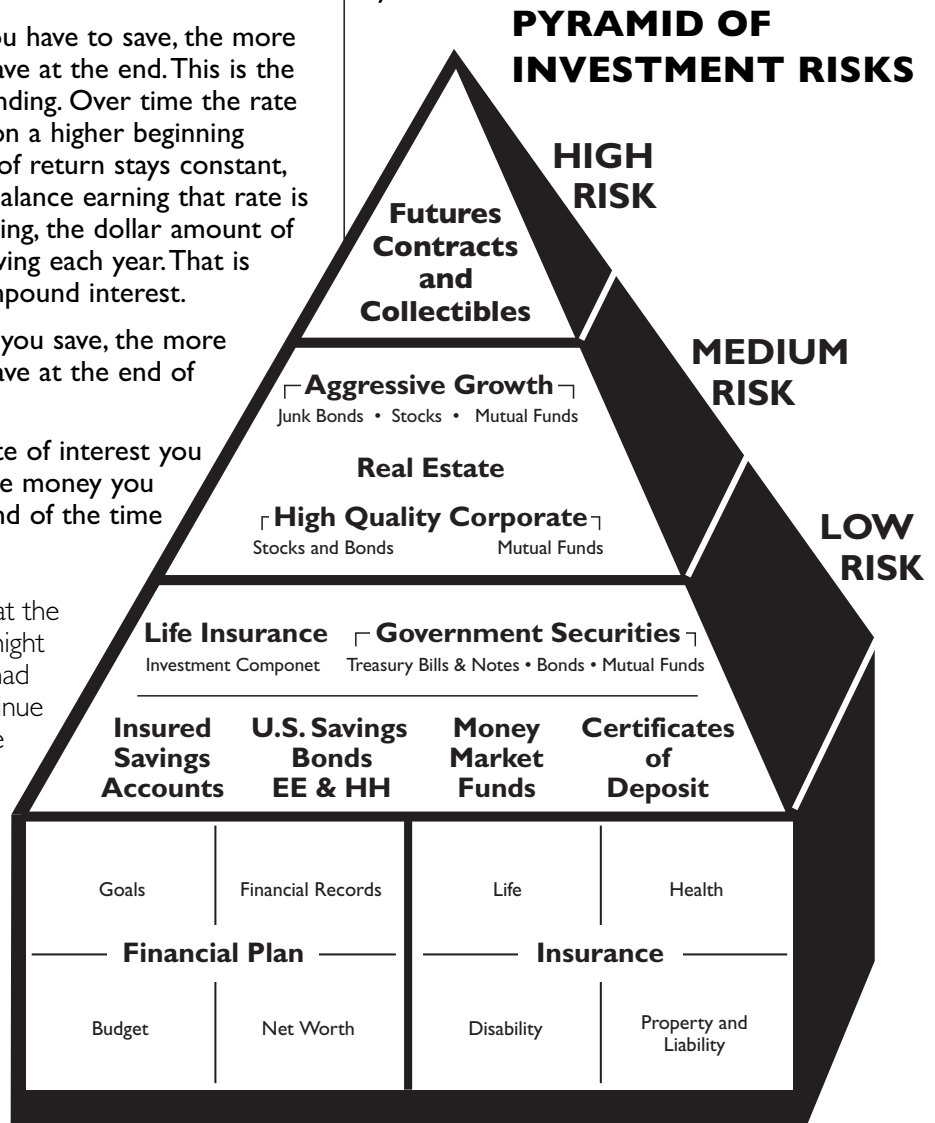
"THE RULE OF 72"

Need to know how long it will take your money to double? There are just a couple of things you need to know. What is the interest rate you will receive on your investments? How many years do you intend to invest?

$$\frac{72}{\text{Interest Rate}} = \text{Years to double your investment.}$$

OR

$$\frac{72}{\text{Years to double your investment}} = \text{Interest rate required.}$$



INSURANCE

Assets are something of value that you own. Liabilities are something you owe or have the potential of owing. Your goal is to have more assets than liabilities. Just as the goal of investing is to create assets, the goal of insurance is to protect those assets against loss and liability.

Most likely the first asset you will own is a car. New Mexico requires that if you choose to own and operate a vehicle in the state it must be insured. You must buy enough insurance to pay any potential liability you might create by running your car into someone or something else. This protects the person you might injure or other's property you might damage as the result of your negligence, but it doesn't necessarily protect you against the loss of your asset.

Your insurance needs will vary depending on your age, your financial status, your credit rating and other variables. You must work with a professional in this field to protect the assets you work hard to accumulate.

WHAT IS INSURANCE?

Insurance deals with property and people. The beneficial impact of insurance on people and businesses in America is so great that it is hard to imagine how our society would function without it. By providing protection against the many risks of financial uncertainty and unexpected losses, insurance makes it possible for people to plan confidently for the future.

As you get older and your responsibilities increase, your needs for insurance will also increase.

- What would you do if your vehicle was damaged or stolen?
- Later when you move into your own apartment or home, what would you do if your furniture, sound system or computers were damaged by fire or someone broke into your home and removed your most prized possessions?

- What would you do if you became sick or injured and couldn't continue to work?
- When you eventually start a family, how will you protect your loved ones if something happened to you?

While insurance does cost money, it is protection against possible financial loss.

BASIC TYPES OF INSURANCE

- **Vehicle Insurance:** covers losses incurred in the operation of motor vehicles. Liability insurance covers damage to other people or their property caused by the operation of your vehicle. Collision and comprehensive insurance covers damages incurred by your vehicle that are deemed to be your fault. Uninsured motorist covers damage to your vehicle caused by an individual who is not insured.
- **Life Insurance:** pays your beneficiary a set dollar amount in the event of your death.
- **Health Insurance:** pays your medical expenses in the event of illness or accidents. Coverage and costs are variable depending on needs.
- **Disability Insurance:** pays a set amount of money each month in the event you are injured or ill and are unable to work for an extended period of time.
- **Renters Insurance:** covers the replacement costs of your personal possessions in the event of loss while you are renting from someone else.
- **Homeowners Insurance:** covers the replacement costs of your home and personal possessions in the event of loss. Also covers injuries to others that may occur on your property. Coverage and costs vary depending on need.

Perhaps your first major expense as an adult will be an automobile. Many of us find that in order to buy a vehicle we need to borrow money from

a financial institution to finance our purchase. Virtually all financial institutions will require that you buy auto insurance coverage that protects the lending institution from loss. This generally means collision and comprehensive insurance, liability insurance and uninsured motorist coverage. This is generally referred to as “full coverage.” (this is an unfortunate misnomer) Your costs for this coverage will vary depending on the insurance company you choose, the type of vehicle you choose to buy and, of course, your credit score.

For just a moment, think about the unthinkable. What will happen if you are involved in an accident? Your insurance company will send you to an insurance adjuster who will determine the extent of damage to your vehicle. If the costs to repair your vehicle do not exceed its current value as determined by NADA sources, the insurance company will pay (less your deductible) for the repairs to your vehicle. If the costs to repair your vehicle exceed its current value, the insurance company will “total” your vehicle and provide you with a check (less your deductible) for the current value of the vehicle. **THIS AMOUNT COULD BE LESS THAN YOU OWE YOUR FINANCIAL INSTITUTION FOR THE VEHICLE!** In fact, it probably will be.

You could actually be paying for a vehicle you no longer possess for several months to come. What can you do about this potential problem?

When you buy your new car, ask your dealer about **GAP INSURANCE**. Gap Insurance will insure you against financial loss that might occur if you owe more on your vehicle loan than the vehicle is worth in the event of total loss of that vehicle. The insurance company issuing this policy will pay the difference between what your vehicle is worth and the amount you owe on your auto loan. This type of insurance is a must for any vehicle financed through an auto loan.

AUTO INSURANCE BASICS

Understanding a few basics about auto insurance can help you understand your rights and responsibilities and to save money.

YOUR FINANCIAL RESPONSIBILITY

New Mexico law requires that all registered vehicles be covered by liability insurance. Every driver has a responsibility not only to drive in a safe manner, but also to pay for injuries or damages he or she might cause to others.

Bodily Injury Liability provides money to pay liability claims against you and the cost of your legal defense if you negligently injure or kill someone.

Property Damage Liability provides money to pay claims and defense costs if you negligently damage the property of others.

Medical Payments Insurance pays medical bills resulting from accidental injuries. It covers you and your family as well as other passengers in your car.

Uninsured Motorist Protection pays for bodily injuries and property damage caused by another driver who is both uninsured and judged to be at fault.

COVERAGE FOR DAMAGE TO YOUR CAR

Collision Insurance pays for damage to your car caused by a collision or from overturning.

Comprehensive Insurance pays for damage caused by fire, flooding, hail, or when your car is stolen.

Rental Reimbursement Insurance pays for the cost to rent another car or transportation expense when your car is damaged by collision or comprehensive accidents.

Mechanical Breakdown Insurance pays for major repairs to your car once the manufacturer's warranty has run out. This coverage is normally only available when you first purchase a new car and it usually not available on used cars. Limits of 100,000 miles are common on this coverage.

All of the above coverage has a deductible or limits. The amount of the deductible you can

handle should be determined by your particular financial needs and based on the advice of an insurance professional.

If you drive an older car you should check the loan and wholesale value of the vehicle prior to buying insurance. It may prove prudent to decline collision and comprehensive insurance based on the cost of the insurance versus the value of the vehicle. Make sure you consult with an insurance professional before you insure your vehicle.

INSURANCE TERMS

Agent: An authorized representative of an insurance company who sells and services insurance contracts. Agents must be licensed by a state.

Beneficiary: The person or persons named in a life insurance policy as the recipient of the insurance money in the event of the insured's death. With health insurance, it is the subscriber or dependent who is eligible for service under a health plan.

Benefits: The amount of money the insurance company agrees to pay a claimant or beneficiary under the specific policy terms.

Cash surrender value: The amount available in cash upon the policy owner's termination of a permanent policy before it matures or becomes payable by death.

Claim: The demand by an individual to recover losses covered under an insurance policy.

Coinsurance: The portion of health care costs for which the covered person is responsible, usually based on a fixed percentage.

Copayment: A cost-sharing arrangement in which a person pays a specific charge for a specific medical service. Example; \$15.00 for a visit to a doctor's office.

Death Benefit: The sum of money paid to a beneficiary of a life insurance policy in the event of the death of the insured.

Deductible: An amount you must first pay before the insurance company begins to pay toward your loss.

Disability: The inability, due to illness or accident, to perform all or some portion of one's occupation, resulting in loss of income. Disability periods are often classified as short-term (from three to six months) or long-term (six months to life).

Grace Period: A period of one month following the premium due date during which a policy remains in effect. If the premium is paid within this period, the protection continues. If the premium is not paid, the policy is cancelled.

Group Insurance: An insurance plan that insures a group of people under one policy. The policy can be issued to an employer, union or association with which they have an affiliation.

Insurance: A contract to reimburse you for personal or financial loss.

Insured: The person covered by an insurance policy.

Insurer: The company or organization that provides insurance.

Policy: The contract or agreement made between the insurer and insured.

Preexisting Condition: A physical or mental condition that existed before an insurance policy was issued. In some cases, insurance companies will exclude preexisting conditions from coverage for a designated period of time.

Premium: The amount you pay over a period of time for the cost of insurance coverage.

Risk: The chance of loss.

Uninsurable Risk: A risk that an insurance company will not cover because it is considered an excessive risk.

BUDGETING

Think of a budget as your personal spending plan. It helps you plan where you will spend your money and how you will save some of it. Another good reason for having a budget is that it helps you get ready to buy a home. When you apply for a mortgage loan, the lender will ask you how much income you have and what your expenses are. A budget will show that information.

FOUR STEPS TO MAKING A BUDGET

1. List your income.
2. List your expenses.
3. Compare income and expenses.
4. Set priorities and make changes so that your income will always be greater than your expenses.

For a budget to work, it must be accurate. For example, don't overestimate your income. There can be a big difference between gross income and net income after all taxes and deductions. Don't forget bills that only come due every few

MONTHLY HOUSEHOLD BUDGET WORKSHEET

Housing Expenses

Rent/Mortgage \$ _____
 Property tax \$ _____
 Insurance \$ _____
 Maintenance \$ _____
 Electricity \$ _____
 Gas \$ _____
 Water \$ _____
 Phone \$ _____
 Other \$ _____

Nonhousing Expenses

\$ _____
 Food \$ _____
 Clothing \$ _____
 Daycare/Tuition \$ _____
 Auto Loans \$ _____
 Auto Insurance \$ _____
 Fuel/Oil \$ _____
 Auto Maintenance \$ _____
 Health Care \$ _____
 Credit Cards \$ _____
 Other loan payments \$ _____
 Alimony/Child Support \$ _____
 Entertainment \$ _____
 Cell Phone \$ _____
 Cable/Satellite \$ _____
 Internet \$ _____
 Insurance (other than auto) \$ _____
 Savings \$ _____
 Other \$ _____

Total Expenses \$ _____

Income

Net pay \$ _____
 Other income \$ _____
 Investment income \$ _____
 Total net income \$ _____

Total net income

Total expenses (\$ _____)

= \$ _____



months or so, such as auto insurance. In these cases list the average cost per month. For example, if you pay \$600 for auto insurance every six months, you must save \$100.00 each month to pay the bill when it becomes due.

If you're not sure how much you spend on things, write down everything you buy for a few months. This will help you see where you are spending your money and where you might be able to adjust expenses so you'll have more money for savings and other bills.

EXPENSE CUTTING HINTS:

- Buy what you need not what you want.
- Make a shopping list before you go to the store and stick to it.
- Eat at home. Take a lunch to work.
- Shop sales and off-season bargains.
- Share driving or use public transportation.
- Buy a used car rather than a new car with high monthly payments.



HOME BUYING

As you complete your education and enter the workplace one of your first concerns will be where and how you will live. Most of us begin our adult lives paying rent to someone else. There are many advantages to renting but keep in mind that the rent you pay is servicing someone else's investments. When you purchase a home you invest in your future.

Assuming that you have built a good credit history and have set aside a fixed percentage of your income each payday, you should be able to purchase a home after a few years of working. Most of us are unable to pay cash for such a large investment and thus utilize the services of a mortgage lender in assisting us in a home loan.

Real estate professionals can guide you and help you avoid some first time buyer pitfalls.

THE BENEFITS OF HOME OWNERSHIP

- *A Place of Your Own.* Home ownership is an opportunity to settle down and gain a sense of belonging in a community. 
- *A Sound Investment.* Home ownership is a way to build equity and create a legacy that can be passed on to future generations.
- *Stable Housing Costs.* The principal and interest payments on a fixed-rate mortgage generally remain the same for the life of the mortgage.
- *Tax Benefits.* Typically, mortgage interest and real estate taxes are tax deductible. 
- *A Financial Stepping Stone.* Even if your first home isn't your "dream home," responsible ownership can help you gain easier

COMMON FRAUDS AND SCAMS

Now that you've begun to earn your own money, you'll find there are a lot of people in the world who would like to take it away from you. And these crooks have evolved some very creative schemes to trick you out of your hard-earned dollars.

PYRAMID SCHEMES

You join by paying a fee, sometimes as little as \$100 or \$200. The money is pooled to pay a big return to an earlier participant, and all you have to do is recruit six or eight new players to earn your big payout. What's the catch? The number of new participants (the bottom of the pyramid) has to grow geometrically to keep the scheme alive. If each new participant has to recruit 8 more people in order to support the pyramid, guess how many people you need by level 7? 262,144. By level 10 you're up to more than 134 million - that's roughly the entire population of the U.S. west of the Mississippi River. That's why pyramids always collapse.

NIGERIAN LETTERS

If you've got an e-mail address, you're likely to get a message from some foreigner who wants to share millions of dollars with you. The details vary, but basically it's a long, sad and confusing story full of international intrigue, revolution, and foreign politics. Bottom line is he's offering to cut you in on millions of dollars he's got trapped in a bank account somewhere, if you'll only help by transferring the money into your bank account in the U.S. All you have to do is send him a small deposit as evidence of your good faith - or better yet give him your bank account number and PIN number, so he can arrange the transfer. The average victim loses \$5,000 in one of these frauds.

FAKE LOTTERIES:

You've won! You never heard of the Canadian lottery, or the Bermudan lottery, or the Venezuelan lottery, and you know you never entered. But, hey, if they say you won a million or two million dollars, are you going to argue? But here's the hook: there's a small processing fee - usually \$10 or less. Once you've paid that first fee, the con-man keeps upping the ante until you finally realize you've been had. No legitimate lottery will ask you to pay anything to claim your winnings.

COUNTERFEIT CHECKS AND MONEY ORDERS

Sometimes these come with a cover story that is a variation on the lottery fraud or Nigerian letter scam. Another version starts with an e-mail response to an eBay ad or other Internet sales offer. Or it may be a local crime. If you're selling a used car or trying to sell something in the local classified ads, the crook will contact you and offer you more than you're asking, if you'll just cash his money order or check and give him the difference. Even though the check may look real and your bank may accept the deposit, that doesn't mean the check is really any good. If it's forged or counterfeit, it may take a week or longer for your bank to take the money back out of your account - and by then the con artist is long gone.

If you think you or someone you know may have been the victim of a con game, don't let embarrassment stop you from filing a police report. People of any age can be taken by a con artist, regardless of their education, their income level or their profession. Call your local police, or contact the N.M. Attorney General's Consumer Protection Division at **800-678-1508**.

A SIMPLE PLAN

The following was submitted by Doug Ottersberg, one of the many volunteers for Focus on the Future. Doug is the owner of Sonrisa, LLC. You may direct your comments to Doug via email, doug@dougottersberg.com

LEARN TO PLAN FOR YOUR FINANCIAL SUCCESS

There is a very simple secret to becoming financially successful, and it's called planning. For example, you wouldn't take a trip without planning it would you? First you have to decide where you are going, and then you must decide how you will get there, and finally you must decide what you will do once you get there.

"If you fail to create a plan for yourself, you will become a part of someone else's plan."

It's important that you create a plan for your life, and especially a plan for your finances. Create an overall plan concerning the use of your finances. When you learn to use it effectively, you will use every dollar that flows through your hands during your lifetime in order to create the life of your dreams, no matter where you are starting from.

My plan consists of four easy to remember numbers: 10-10-10-70. Take a moment and notice that these numbers add up to 100. Each time you trade your time or creations for money, the total of what you receive, no matter the amount, is 100%. Most people never become financially successful because they spend 100% or more of everything they get! Many people spend more than they get (by borrowing and charging), and so they get behind and usually never get caught up. Do you know anyone like that? These people have become a part of someone else's plan!

In order to become financially successful, millions of people have planned ahead of time exactly how they will spend the money they receive in order to achieve their plan!

In order to effectively use this plan, there are two very important financial management tools you must obtain and begin using immediately: a checking account, and a savings account. Do this right away, neglect it and your plan will fail! Whether or not you are currently doing this, whether or not your parents did this, you must do it!

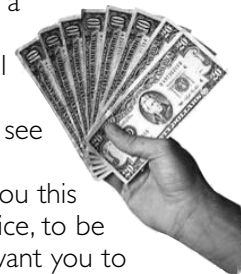
100 % - TOTAL AMOUNT OF MONEY RECEIVED

Every time money comes into your life, the first place it goes is into your checking account. A checking account is the key to making your plan work, because it helps you keep score! Whether it comes in the form of cash, checks or direct deposit, every time you get money, stick it into your checking account and write it down in your checkbook, or better yet, spend a few dollars and buy the program Quicken by Intuit for your computer. Whether you write it down or enter it into a computer, you need to know how much, when and from where the money came. **YOU MUST KEEP GOOD RECORDS!** Money doesn't hang around those that aren't responsible enough to manage it, and good money managers keep accurate records.

10 % - GIVE AWAY

Once you've made a deposit, figure out what 10% is and give it away. As a practical matter, many successful people wait until the end of the month and do it all at once after they see what has come in.

I realize that for many of you this may seem like strange advice, to be giving money away, and I want you to always remember: You get back what you put out. You put out good, good comes back to you. You put out bad, bad comes back to you. You put out money, money comes back to you. An important thing about this concept is this: you are demonstrating your trust in your ability to produce when you give the money away! Not



produce when you give the money away! Not only that, you are planning for it to happen, and you can also plan on where the money goes! It can go to your church, a charity, a school, your parents, a friend, it doesn't matter, just give it away, do it cheerfully, do it gladly, with no strings attached, and with no expectation of getting anything in return.

10 % - SAVE TO INVEST

One of the secrets of financially successful people is this: Financially successful people don't work for money, money works for them! You must work towards buying assets that will produce income for you, so eventually you won't have to work for income. (Unless of course you choose to!) The only way you can do that is to start setting aside a portion of your income and dedicate that money to your future financial freedom! Every month when you set aside 10% of your income to give away, set aside the same amount for investment and deposit it into your savings account. It's important to understand that a savings account, CD's, and other similar bank products are not investments; they are simply places to park your money while you are waiting to invest it. Once you have accumulated enough funds in savings, you will then take that money and put it to work in an investment. What kind of investment? There are many ways you can invest your money, however the only correct answer is this: Invest in something that works for you, and more importantly, invest in something that you understand.



How will you know what that is? The only way to know that is to educate yourself, and that is why the next part of the plan is so vital to your success.

10 % - Education

Financially successful people take responsibility for their own lives, and they take the time to educate themselves about the things they need to know. That's why it is critical that you plan to spend at least 10 % of everything you make on education. Ask any financially successful person and they will tell you: "the more you learn, the more you earn." The key is you just need to be learning the right things. If your Masters Degree in underwater basket weaving isn't bringing you the kind of income you desire, don't make the mistake of thinking that by getting a PH.D in the same subject, your income will increase. What is right for you will depend on your background, your experience, your needs, your desires and your interests. My recommendation is that you look around to see what you like and find what interests you.

70 % - Live On

This has to be one of the biggest reasons most people become financial losers. They live on more than 100% of what they make, which is also called "living beyond their means." Financially successful people have learned to live at a profit, or "within their means." They have learned only to spend money that they have planned to spend, and if an opportunity to spend money on something comes up that's not in their plan, they pass. Just do what ever you want to do, there are no consequences.

Financially successful people create a plan how they will spend their money to live, and some people may call it a budget. Since most people hate to budget, they just won't do it. And they lose.

You are different, you are a PLANNER.