

Path to Investing From Your Perspective:

FINDING MONEY TO INVEST

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Finding money to invest

Just coming up with money for investing may seem like a daunting task — not to mention figuring out how and where to invest. But finding money for investments is probably simpler than you think, mainly because you don't need very much to get started.

It takes a little planning and discipline to set aside money that you probably would rather spend, but the potential payoff makes it well worth the effort. And taking small steps now is the best way to develop financial skills that you'll be glad you have for years to come.

A word to the wise



People are spending less and saving more of their salary in recent years, a trend that many experts feel is a response to an uncertain economy and job market. But no matter how rosy the economic outlook or how secure you feel at your job, it's important to make saving and investing a lifetime habit.

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Personal financial plan

A financial plan is an essential tool for making smart investing decisions. A good way to start is to write down your financial goals for the next year, 5 years from now, and 20 or 30 years in the future. Don't be overwhelmed if the list of things you want seems unattainable, or if you're not sure what your goals are in 5 years — let alone 20 years down the road. But putting them down in writing can help you make sense of your priorities and anticipate what steps you'll need to take to meet your goals. After all, investing is about making the most of the money you have now to produce more money in the future.

The amount of money you can afford to invest depends on your income and your lifestyle, but many experts recommend that you try to invest 15% of your salary. If you can't swing that much yet, don't worry that you are not going to be a successful investor. See if you can get started by dedicating at least 5% of each paycheck for investing.

Getting started



1. Make a personal budget, if you haven't already, and think about some categories in which you could cut expenses. Take a hard look at your savings, income, and any other assets you might have.
2. You might want to make some big changes to free up money for investing, such as moving to a less expensive apartment, getting a roommate, or selling your car and taking public transportation.
3. Smaller adjustments to your budget can also be a big help. Try cutting back on the number of meals you eat out, renting videos instead of going to the movies, or skipping your daily \$3 latte.

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Matching contributions

There's really only one way to get free money for investing: through your 401(k) or other employer-sponsored retirement plan, such as 403(b), SIMPLE, or Thrift plan. Depending on where you work, you might be eligible to receive a matching contribution. That means your employer adds money to your retirement account in proportion to the amount you contributed — in the case of a 401(k), often up to 6% of your salary.

At some point in your career, you may be awarded extra money at work in the form of a seasonal cash bonus, or a gift of stock or stock options. If you're trying to come up with more money to invest, make it a policy to put any bonus you're awarded in an investment account.



A word to the wise

One thing to keep in mind when you're creating a financial plan is that you should include an emergency fund on your list of financial goals. Most experts recommend that you save three to six months' worth of income in an easily accessible savings account. Having the cash on hand will protect you if you lose your job suddenly, have urgent medical expenses to cover, or your car just quits. Cushioning yourself with an emergency fund should be a priority.

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Sticking to the plan

Unless you win the lottery or inherit a fortune from a long lost relative, you're probably going to have to reduce what you're spending in order to free up money to invest. What's required more than anything is discipline: You'll need to find small ways to trim your living expenses.

Go with a slow and steady approach: Start with \$50 a month, and see if you notice a difference in your budget. That means saving \$1.66 every day. The impact on your quality of life will probably be small, but those little amounts can really build in an investment account.

If cutting your current budget is hard, you can always try to supplement your income with freelancing jobs or part-time work. You can earmark any additional money you make to an investment account.

Next steps



1. Open separate savings accounts instead of keeping all of your money in a checking account. By keeping your savings separate, you'll be less tempted to spend it.
2. See if you can set up automatic deductions from your paycheck or checking account into an investment account. If you never see the money, you're less likely to miss it.

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The question of debt

If you don't owe anything to a credit card company or a student loan provider, you're in a great position to start investing. If you're like most people, however, you probably have some debt attached to your name. But some types of debt are riskier than others.

If you buy a stereo and put it on your credit card, is there a good chance you'll still be paying it off a year from now? By then, the technology will be practically obsolete. And the longer it takes to pay off, the more the stereo will cost you, since you will be paying interest — and probably lots of it — on your credit card balance. That's the reason credit card debt is considered a financial liability. If you have outstanding balances on one or more cards, it's a good idea to pay them off as quickly as possible, especially if the interest rates on your cards are high.

Warning signs

Credit cards make it easy for people to get into real debt trouble, since they let you spend money you don't actually have. If you feel overwhelmed by your debt, you can turn to a non-profit credit counseling service such as The National Foundation for Consumer Credit at www.nfcc.org. You also have the option of arranging a consolidation loan, so you'd pay only one monthly bill. Be aware, however, that these loans often carry exorbitant interest rates.

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Debt to hold on to

On the other hand, certain types of loans and credit lines carry such low interest rates that it sometimes makes sense to take your time paying them back. And often these debts give you certain tax benefits that make them an even better deal.

Student loans are an example of low-interest debt that many young investors are familiar with. If you took a loan to pay for college, it may feel like a big burden hanging over your head in your first few jobs. And you're not alone — more than 70% of students borrow to finance their educations. What may make repaying college loans a little more bearable is that, depending on your income, some or all of your interest payments may be tax deductible, which means your income taxes are reduced.

In addition, if you make your payments on time each month or arrange to have your payments automatically deducted from your checking account, you might qualify to have your interest rate reduced below the already low rates. Plus, you'll build a good credit rating, which means that future lenders will see you as someone worthy of a loan.

Helpful hints



The federal government forgives all or part of loans for some college graduates, including those who serve in the military, participate in a service program such as the Peace Corps, or teach at underprivileged schools. If you think you might qualify to have your loans forgiven, check with the Federal Student Aid Web Site at <http://studentaid.ed.gov> for more information.

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Bargain investing

A good way to stretch every investment dollar is to lower the cost associated with investing. Any transaction where you buy or sell an asset is going to cost you money. Certain firms, known as full-service brokers, offer research and advising services to their clients, who in turn pay more for their investing transactions. You can often find lower costs at a discount broker or an online broker, but be aware that you won't get the benefit of their analysis and advice, so you'll be making investment choices on your own.



Next steps

1. Look for online discount brokerage firms, which generally charge you less for transactions.
2. If you're investing in a mutual fund, look for one with no load, which means there's no sales charge.
3. Compare the management fees and minimum investments of any mutual fund, to find one that fits your budget.

A word to the wise

Most mutual funds let you opt for automatic reinvestment, so that any distributions you earn on your investment are used to increase your stake in the fund. You'll never miss the money, and you'll be gradually building up your investment capital. Remember, though, unless you own the investment in a tax-deferred or tax-free plan, you'll still owe income tax on those reinvested dividends. You might also want to investigate Dividend Reinvestment Plans, or DRIPs, that let you invest your dividends to buy more shares.

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Long-term strategy

Don't avoid investing because you think you don't have enough money. Financial experts like to say that you probably don't have enough money not to invest. What they mean is that investing can be a powerful way to increase your long-term wealth, even if your account stalls or loses money in some periods. Even small additions to your account can make a difference.

If you're not making a lot of money, it might be hard to get into the habit of socking away investment funds. But by starting out small, you'll gain valuable investing experience without risking large amounts of capital. And as your account and your confidence build over the years, you'll be glad you started early.

Helpful hints



As you embark on a plan of saving and investing, the best strategy is to have a specific goal in mind. For example, instead of deciding that you'll save "as much as you can," set concrete milestones, such as cutting out four restaurant meals a month, or saving \$100 every pay period. That way, you can measure your progress and enjoy a sense of accomplishment when you meet your goals.