Name: _____
Class Hour: _____

MISSOURI PERSONAL FINANCE COMPETENCIES

These are the things that the Missouri Department of Elementary and Secondary Education states should be covered in a school's Personal Finance curriculum. Over the summer, Rockwood teachers from across the district came up with a packet to see what you should actually know for the exam. This is what you should know.

INCOME

1. Identify components and sources of income.
2. Analyze how career choice, education, skills, and economic conditions affect income and goal attainment.
3. Relate taxes, government transfer payments, and employee benefits to disposable income.

MONEY MANAGEMENT

1. Explain how limited personal financial resources affect the choices people make.
2. Interpret the opportunity costs of financial decisions.
3. Evaluate the consequences of personal financial decisions.
4. Apply a decision-making process to personal financial choices.
5. Summarize how inflation affects spending and saving decisions.
6. Evaluate how insurance (e.g., auto, home, life, medical and long-term health) and other risk management strategies protect against financial loss.
7. Design a financial plan (budget) for earning, spending, saving, and investing.
8. Demonstrate how to use the services available from financial institutions.
9. Analyze the role of the Federal Reserve in controlling the money supply.

SPENDING AND CREDIT

1. Compare the benefits and costs of alternatives in spending decisions.
2. Evaluate information about products and services.
3. Compare the advantages and disadvantages of different payment methods.
4. Analyze the benefits and cost of consumer credit.
5. Compare sources of consumer credit (e.g., credit cards, consumer loans, auto loans, student loans).
6. Evaluate the terms and conditions of credit cards and consumer loans.
7. Evaluate factors that affect creditworthiness.
8. Explain the purpose and components of credit records.
9. Demonstrate awareness of consumer protection and information (e.g., identity theft, phishing, scams).
10. Propose ways to avoid or correct credit problems.
11. Describe the rights and responsibilities of buyers and sellers under consumer protection laws.

SAVING AND INVESTING

1. Compare consumer choices for saving and investing.
2. Explain the relationship between saving and investing.
3. Examine reasons for saving and investing, e.g., time value of money.
4. Compare the risk, return, liquidity, manageability, and tax aspects of investment alternatives.
5. Demonstrate how to buy and sell investments.
6. Analyze factors affecting the rate of return on investments (e.g., Rule of 72, simple interest, compound interest).
7. Evaluate sources of investment information.
8. Examine how agencies that regulate financial markets protect investors.
9. Demonstrate how to evaluate advisors' credentials and how to select professional advisors and their services.

Study Guide for Spring 2009
Test Date: May 2009

(Info to taken from MCEE Personal Finance Curriculum found on web site listed below:
http://www.missouricareereducation.org/curr/cmd/persfin/Curriculum/index.html)

1. INCOME

- **Income**-earnings received as wages, rent, profit, or interest
- **Wages**-payment for work, usually calculated in periods of an hour
- **Salary**-payment for work usually calculated in periods of a week or longer—usually tied to the completion of specific duties
- **Discretionary Income**-amount of an individual's income available for spending after the essentials (such as food, clothing, and shelter) have been taken care of
- **Direct Deposit**-banking term used to refer to the Automated Clearing House System used to transfer money typically from your employer's payroll account directly into your checking or savings account
- **Employee Benefits**-Something of value that an employee receives in addition to hourly wages/salary (examples include health insurance, life insurance, dental insurance, vision insurance, retirement plan (401k)etc.)
- **Pension Plan**-gives a steady income to a person (usually after retirement) from an employer, labor union, or government entity
- **Payroll Deductions**-amounts subtracted from a paycheck as the government requires or the employee requests (required deductions are Social Security (6.2%), Medicare (1.45%), income taxes, etc.--optional deductions are loan payments, savings deposits, etc.)
- **Income Tax**-tax on the total income of an individual (with some deductions permitted)
- **Social Security Tax**-a tax deducted from employee paychecks (6.2%) and paid by employers (another 6.2%) that pays for a federal program that provides retirement and disability for U.S. Citizens who have paid into the system
- **FICA (Federal Insurance Contributions Act**-every year a person works, the person and employer each contribute 6.2% of income (up to an earnings cap-currently $102,000 (2008)) for Social Security and each contribute 1.45% of all income for Medicare
- **Budget**-plan for managing income and expenses
- **Net Pay (Take-Home Pay)**- the remaining pay after deductions have been subtracted that is actually paid to you on pay day
- **Gross Pay**-the amount you are paid per period before deductions are subtracted
- **Expense**-money going out to another person or group to pay for an item or service
- **Fixed Expense**-a cost that does not change from period to period that is usually paid on a regular basis, such as weekly, monthly, quarterly, or yearly (examples--mortgage or rent payments, car payments, real estate taxes, and insurance premiums)
- **Variable Expense**-a cost that changes from period to period (examples--clothing, groceries, fuel, and utilities (like electricity and natural gas))
- **Periodic Expense**-a cost that does not occur on a regular basis (typically these are unexpected things such as healthcare costs when you get sick, car repairs that are unexpected, etc.)
- **Savings**-setting aside income for future use
- **Asset-**anything you own (typically cash, car, house, etc.)
- **Liability**-anything you owe (typically home loan, car loan, etc.)
- **Net Worth**-subtract the dollar value of your liabilities (debts) from the dollar value of your assets (things you own) and the difference is your net worth—this is one of the best measures of personal wealth

- **Form W-4**-federal government form you fill out when you start a new job where you list your filing status (single, married, etc.) and the number of allowances you will be taking (0, 1, 2, etc.)—the information you put on this form affects how much federal income tax your employer takes out of your paycheck each pay period
- **Exemption**-federal, state and/or local taxes that would normally be collected from an individual are instead not required to be paid (example—charitable contributions you make can be written off as an exemption on your tax return)
- **Form I-9**-a federal government form you fill out when you start a job that is used by an employer to verify an employee's identity and to establish that the worker is eligible to accept employment in the United States—typically you have to provide a valid driver's license and a copy of your Social Security card along with this form
- **Form W-2**-used by employers to report wages paid to employees and the taxes withheld from them--employers must complete a Form W-2 for each employee to whom they pay a salary, wage, or other compensation during a calendar year (January 1 through December 31)—employers must send a W-2 to employees by January 31 following the previous calendar year
- **Opportunity Costs**-what you give up when making a decision—spending all of your money at the casino means you give up saving and investing that money for the future
- **Goals**-something one wants to achieve—it is critical that people plan ahead how they will achieve major financial goals like saving for retirement, college, etc.
- **Relationship Between Education and Career Opportunities**-The more education you have, the more money on average you will earn in your career—in 2005 the average high school graduate earned $25,000 and the average college graduate earned $45,000
- **Considering Employee Benefits When Choosing a Career**-Salary is not the only thing to consider when looking at a job offer—health insurance, 401k, life insurance, vision insurance, dental insurance, tuition reimbursement, and other benefits need to be considered along with salary
- **Employment Outlook**-Good economic times lead to expansion of businesses including hiring more employees and investing in equipment—the opposite is true in bad economic times
- **How Taxes Affect Your Income**-Taxes decrease the amount of take home pay—things you can do to reduce taxes owed include having pre-tax deductions taken out of your paycheck (health insurance premiums, 401k contributions, daycare deductions, medical care deductions, etc.)
- **How to Read a Paycheck Stub**-Gross Pay (Total Earnings before deductions are subtracted away)—Deductions include Social Security (Fed. Govt. Retirement Fund), Medicare, Fed, State, and Local Income Tax and other optional deductions
- **Calculate Take Home (Net) Pay**-Gross Pay minus all deductions equals Net Pay
- **Read and Analyze W-2 and W-4**-W-2 is the statement that gives a summary of income and deductions provided to employees by employers by Jan. 31 of each year—W-4 is the form you fill out when you start working that tells your employer how much fed income tax to deduct from your paycheck
- **Required Versus Optional Paycheck Deductions**-Required deductions are Social Security, Medicare, Federal, State, and Local Income Taxes—Optional deductions are health insurance premiums, 401k, life insurance, automatic savings deduction, prepaid legal protection, identify theft protection, etc.
- **Parts of a Budget**-Income (money coming in), Expenses (money going out), and net income or net loss are the components

MONEY MANAGEMENT

- **Scarcity**-there are limits to how much you have (time, money, energy, etc.)
- **Opportunity Cost**-because resources are **scarce** people to give up one thing to get another
- **Decision Making Process**-define problem, analyze problem, generate solutions (brainstorm), evaluate solutions, select best solution, evaluate results
- **Using Credit Card**-when you purchase using a credit card and that bill comes due the next month, your opportunity to purchase next month is reduced because part of your pay will have to go toward your credit card bill

- **Paying Yourself First**-making a habit of paying yourself first by putting away savings as soon as you get paid creates financial opportunity in the future (10% of your paycheck should go into savings)
- **Reasons for Savings**-emergencies (so you don't have to go in debt when you have unexpected expenses), college, retirement, cars, life events—weddings, vacations, etc.
- **Reason for Spending**-insurance (reduces risk), car payment, housing, utilities, medical, food, etc.
- **How Inflation Impacts Saving/Spending**-If products cost more to buy, less money is available to save—also if inflation is 6% and you can only earn 3% on your savings account—you are losing ground financially
- **Why Buy Insurance**-to protect yourself from financial loss by transferring risk to an insurance company
- **Life Insurance**-insurance company agrees to pay money to a beneficiary named by the insured person (rule of thumb is to have seven-ten times your gross salary to provide for your family should you die) (7 x $50,000 Salary = $350,000)
- **Life Insurance Rates**-calculated based on your life expectancy, health, and family history
- **Who Needs Life Insurance**-anyone who has others who depend on him/her (spouse, children, elderly parents, etc.)
- **Deductible**-the amount you pay out of your pocket for a loss (you may have to pay the first $250 out of your pocket for medical expenses at the beginning of the plan year)
- **Copayment**-a specific amount you pay for services (doctor visit-($15, prescription-$20) regardless of the cost
- **Auto Insurance Types**-**Comprehensive** (covers losses resulting from a stolen car or for repairs if the car is hit by a falling object or damaged by fire, flood, or vandals), **Collision** (covers damage to your vehicle when an accident takes place), **Medical Payments** (covers you and your passengers' medical expenses after an accident), **Bodily Injury Liability** (covers medical bills and lost wages for others involved in accident), and **Property Damage Liability** (covers the repair or replacement of things you wrecked other than your own car)
  **In Missouri, you must have as a MINIMUM bodily injury and property damage liability.
- **Medical Insurance**-group medical insurance involves people sharing risk and therefore cost is less
- **Health Maintenance Organization (HMO)**-"managed care" plan that charges a set amount for each member each year—you must choose a doctor from the HMO staff
- **Preferred Provider Organization (PPO)**-"managed care" plan where doctors and hospitals contract with PPO to provide care at a reduced cost—by choosing doctors/hospitals in the PPO network, the plan pays a higher percent of the cost of care
- **COBRA**-federal law that allows people who leave employment to continue on the employer's health insurance plan for up to 18 months—typically the former employee has to pay the full amount of the health insurance premium because they are no longer employees
- **Flexible Spending Account (FSA)**-You can deduct money (pretax) from your paycheck to set it aside for daycare and medical expenses (This lowers your taxable income and therefore the amount of taxes you pay)
- **Homeowner's Insurance-**covers property owner from risks to their home and people who are on their property (fire, water, wind, smoke, crime (theft), other people's losses or injuries)
- **Insuring Your Home and Its Contents-**rule of thumb is to cover the contents inside your home for at least half the value of your house (insure contents for $100,000 if your home is worth $200,000)—buy extra insurance to pay for high value possessions (wedding rings, etc.)
- **Renter's Insurance-**inexpensive policy that covers your property and if other's have losses or get hurt when they are at your rented apartment
- **Long Term Care**-covers at least part of the cost of nursing home/retirement home care (the more you pay and the younger age you buy this coverage the more charges will be covered by the policy)
- **Creating a Budget**-identify your goals, assess your current finances, analyze spending habits, plan how you will meet financial goals
- **Financial Institutions-commercial banks** (what you think of when you hear the word bank-Commerce, Bank of America, US Bank, etc.), **savings and loans** (specialize in home and car loans and savings accounts), **credit unions** (not for profit-pay fee to join), **brokerage firms** (sell stocks, bonds, mutual funds, and other investments)
- **Different Types of Accounts**-may require a minimum balance, charge monthly fees, limit the number of transactions you can have, pay you interest, and provide overdraft protection

- **Reconciling a Bank Statement**-to bring what the bank says you have in your account in balance with what you show in your checkbook or savings account register
- **The Federal Reserve**-main job is to control how much money is available (money supply) by raising and lowering interest rates (by managing the money supply properly, The Fed keeps unemployment and inflation low)

SPENDING AND CREDIT

- **Credit**-all money borrowed
- **Credit Card**-card that may be used repeatedly to borrow money or buy goods and services
- **Debit Card**-card that directly accesses funds from a bank account (usually savings or checking)
- **Smart Card**-card containing a computer chip used for identification, to store information (including financial amounts)—requires prepayment of a specified amount of money for future purchases—used without debiting a checking account or adding balances to a charge card (banks, hotels, recreational facilities, and other businesses provide smart card privileges to their customers and guests)
- **Five C's of Credit**
  (WHAT LENDERS LOOK AT WHEN DECIDING IF THEY SHOULD LOAN YOU MONEY)-**Character** (lenders look at past credit use, length of time at current residence, and length of time at current job), **Capacity** (lenders look at income and debts), **Capital** (lenders look at the value of the assets you have), **Collateral** (lender will take assets away from you if you do not pay--car repossession), and **Credit History** (lenders see if you pay your bills on time and if you ever filed bankruptcy (on your CREDIT REPORT))
- **Interest**-price of using credit
- **Principal**-original amount of money invested (not including interest or dividends)
- **APR**-(Annual Percentage Rate)-the total charge for credit including interest, fees, and any other charges for a loan (use this figure when comparing cost of different loans)
- **Annual Fee**-money paid once a year for use of credit (usually charged for having a credit card)
- **Finance Charge**-any fee or charge representing the cost of credit, or the cost of borrowing (includes not only interest but other charges as well, such as transaction fees—for example if you transfer the money you owe from one account to another OR if you take a cash advance on your credit card)
- **Origination Fee**-a payment associated with the establishment of a new loan paid to the bank (or perhaps the broker) that provides the loan or services associated with taking out a loan (varies from 0.5% (half a point) to 2% (two points) of a given loan amount, depending whether the loan was originated in the prime or the subprime market (an origination fee of 2% on a $200,000 loan is $4,000)
- **Grace Period**- the period during which no interest is charged on a credit card
- **Minimum Payment**-the smallest amount you can pay on your credit bill to remain in good standing with the bank (usually 2% of balance owed)
- **Credit Limit**-the maximum that a credit card company will allow a card holder to borrow at any given point on a specific card (based on a variety of factors ranging from an individual's ability to make interest payments, an individual's cashflow and/or ability to repay the principal)
- **Installment Loan**-loan on which a borrower makes regular payments, usually monthly (examples—car loan, home loan, etc.)
- **Mortgage**-a loan used to purchase property (most are either **fixed rate**-interest rate stays same OR **adjustable rate**-interest rates go up and down on an annual (yearly) basis depending on what interest are doing in the overall economy)
- **Bankruptcy**-legally declared inability of an individual to pay creditors (two basic types are **liquidation** (Ch. 7-where most of a person's assets are sold to pay debts) and **reorganization** (Ch. 11 or 13-where people who are owed money give the person owing money more time to pay/smaller payment amounts)
- **Credit Bureaus**-companies that provides consumer credit information on individual borrowers (major ones are Experian, Equifax, and TransUnion)
- **Credit Report (Credit History)**- a record of an individual's past borrowing and repaying, including information about late payments and bankruptcy

- **Credit Score**-a number score--based on a statistical analysis of a person's credit files--that represents the creditworthiness (likelihood that the person will pay debts in a timely manner) of that person. (Lenders, such as banks and credit card companies, use credit scores to evaluate the potential risk posed by lending money to consumers)
- **FICO Score**-the most commonly used credit score—the numbers range from 300 to 850 and are calculated using the following weighted percentages (*35% based on punctuality of payment, *30% based on the ratio of current debt to total available credit, *15% based on length of credit history, *10% based on types of credit used (installment, revolving, consumer finance), *10% based on recent search for credit and/or amount of credit obtained recently)
- **Identity Theft**-crime involving illegal usage of another individual's identity--most common form of identity theft is credit card fraud (Ways to avoid this are to protect personal financial information by shredding documents that have social security numbers, credit card numbers, bank account numbers, etc.)
- **Fair Credit Reporting Act**-federal law that regulates the collection, dissemination, and use of consumer credit information--Consumer reporting agencies hold the databases that are the origins of a consumer's credit report and they have the following responsibilities: (1) Provide a consumer with information in the agency's files and to take steps to verify the accuracy of information disputed by a consumer (free credit reports can be requested through the government-authorized website, annualcreditreport.com.) and (2) If negative information is removed as a result of a consumer's dispute, it may not be reinserted without notifying the consumer within five days, in writing

- **Truth in Lending Act**-The **Truth in Lending Act** (TILA) of 1968 is a United States federal law designed to protect consumers in credit transactions by requiring clear disclosure of key terms of the lending arrangement and all costs—the most important parts of this are found in "Regulation Z"—its main goal is to promote the informed use of consumer credit by requiring disclosures about its terms, cost to standardize the manner in which costs associated with borrowing are calculated and disclosed
- **Consumer Credit Protection Act**-Consumer Credit Protection Act of 1968--which launched Truth in Lending disclosures--was landmark legislation. For the first time, creditors had to state the cost of borrowing in a common language so that you--the consumer--could figure out what the charges are, compare costs, and shop for the best credit deal
- **Schumer Box**-This box will appear on the back of the letter offering you credit, or on another sheet of paper enclosed in the same envelope—and in it the credit card issuer must tell you the APR, finance charges, including the minimum finance charge, the minimum payment required, the method used for computing your outstanding balance, the actual company offering you credit (sometimes not the company marketing the card), the credit limit, the grace period, the annual fee, if any and the fees for credit insurance, if any--In disclosing the APR, the card issuer must make it clear whether there is an introductory or promotional rate and, if so, how long it will last—plus it must disclose the regular APR for purchases, cash advances and balance transfers—as well as any penalty rate and what actions on your part will trigger the penalty rate.

SAVING AND INVESTING

- **Choices for Saving/Investing**-Savings Account, Certificate of Deposit (CD), Money Market Account, Bonds, Common Stock, Preferred Stock, Mutual Fund, Real Estate, Annuity, Retirement Savings Tools (Traditional IRA, Roth IRA, 401k, 403b), and College Savings Tools (529-MOST, Prepaid Tuition Plans)

- **Risk of Investment Choices**-Low Risk-(Savings Accounts, CDs, Cash, Money Market, U.S. Government Bonds), Medium-Low Risk-(Corporate Bonds, Municipal Bonds, Income and Utility Stocks—AmerenUE), Medium-High Risk-(Income and Growth Stocks, Mutual Funds, Real Estate), High Risk-(Options, Commodities (Oil, Steel, Copper), Precious Metals, Speculative Stocks, Junk Bonds (High Risk Corporate Bonds), Collectibles (Player Cards, Antiques)
- **THERE IS A DIRECT CORRELATION BETWEEN RISK AND RETURN** (The greater the risk—the greater the potential return you may be able to earn!)

- **Questions to Ask When Creating Financial Goals**-How do I want to spend money, how much do I need, how will I get the money, how long will it take to save the money, how much risk can I tolerate, how will the economy and my personal circumstances affect my goals, what sacrifices can I make to save, what happens if I don't meet my goals
- **Benefits of Savings Alternatives**-**Savings Account** (low or no minimum balance, ease to withdrawal, insured), **Certificate of Deposit** (guaranteed rate of return, insured), **Money Market Accounts** (better rate of return, limited check writing, insured), **U.S. Savings Bonds** (low minimum deposit, guaranteed by the government-backed by full faith and credit, free from state and local taxes)
- **Drawbacks of Savings Alternatives**-**Savings Account** (low interest rate), **Certificate of Deposit** (penalty for early withdrawal-usually 3 months worth of interest, minimum deposit-usually $1000), **Money Market Accounts**-(minimum balance, if you go below minimum balance you stop earning interest and you may have to pay a monthly fee), **U.S. Savings Bonds** (lower rate of return if you cash in early-before maturity date)
- **Sources of Money to Invest** (Pay Yourself First, Employer Sponsored Retirement Plan—(401k), Elective Savings Plans, Special Savings Effort, Unexpected Windfalls—(Gifts, Inheritance)
- **Capital Gains**-profit that results from the sale or exchange of a capital asset over its purchase price--Capital gains occur in both real assets, such as property, as well as financial assets, such as stocks or bonds--assets sold by an individual after being held more than one year (long-term capital gain) will be taxed at a maximum rate of 15%
- Commission-fees paid to stock brokers (investment representative) and mutual fund companies—some mutual funds are "load" (you pay a fee when you buy) and others are "no-load" (you pay no fee when you buy)—load fees are typically 5-6 %
- Compound Interest-earnings that you get from investing when the original amount (principal) earns interest and then you earn interest on the principal plus the interest earned—it is better to have interest compounding on a monthly basis RATHER than a quarterly or yearly basis ($100 at 4% interest compounding monthly gives you $104.07 at end of the year--$100 at 4% interest compounding annually gives you $104 at the end of the year)

- **Diversification**-investing in a wide variety of things reduces the potential losses you face—this is one of the main reasons people buy mutual funds instead of one or two individual stocks
- **Dividends**-money paid to you on a quarterly basis (every three months) just for owning a company's stock—not every company pays dividends
- **Maturity Date**-The date upon which investments reach their full value (for example—U.S. Savings Bonds are purchased at half their value and over a period of 7-10 years, they reach maturity—they become worth their full face value--$25 paid for a savings bond and it becomes worth $50 at maturity)
- **Pyramid of Investment**-a way of showing the types of investments you should have in your portfolio (all of the investments you own)—at the lowest level, the least risky investments are found (Savings, CDs, Money Market Account), at the mid lower, investments are a bit more risky (U.S. Savings Bonds, Corporate Bonds, Income Stocks), at the mid upper moderately risky investments are found (mutual funds, real estate), and at the top level the most risky investments are found (options, commodities, junk bonds, collectibles)
- **Emergency Fund**-the experts say you should have 3 to 6 months worth of income set aside for unexpected financial events (job loss, major illness, major auto or home repairs)
- **Types of Investment Risk**-Inflation, Interest Rate, Income, Personal, and Liquidity risk all can have a great impact on your investments.
- **Wash Rule**-prevents you from claiming a loss on a sale of stock if you buy replacement stock within the 30 days before or after the sale--you have a wash sale if you sell stock at a loss, and buy substantially identical securities within 30 days before or after the sale
- **Stock Split**-increases the number of shares in a public company--a company with 100 shares of stock priced at $50 per share--market capitalization 100 × $50, or $5000--company splits its stock 2-for-1—now there are 200 shares of stock--each shareholder holds twice as many shares--price of each share is adjusted to $25--market capitalization is 200 × $25 = $5000, the same as before the split

- **Exchanges**-New York Stock Exchange (NYSE), AMEX, OTC Markets, and National Association of Securities Dealers Automated Quotations (NASDAQ)
- **Bull Market**- tends to be associated with increasing investor confidence, motivating investors to buy (stocks and mutual funds) in anticipation of further capital gains
- **Bear Market**- described as being accompanied by widespread pessimism--investors anticipating further losses are motivated to sell (stocks and mutual funds), with negative sentiment feeding on itself in a vicious circle-- one generally accepted measure is a price decline of 20% or more over at least a two-month period
- **Factors Affecting Stock Price**-performance of the company (income, sales, etc.), interest rates (inverse relationship—when interest rates rise—stock prices drop), market trends (bull vs. bear), earnings per share (income divided number of shares), price/earnings ratio (stock price divided by earnings per share), and return on investment (roi = stock profit/purchase price + commission)
- **Dollar Cost Averaging**-investing strategy that involves spending a fixed dollar amount at regular intervals (e.g., monthly) on a particular investment, regardless of the share price—this allows more shares to be purchased when prices are low and fewer shares to be bought when prices are high—the idea behind dollar cost averaging is that the investor wants to guard against the market losing value shortly after making his investment
- **Direct Reinvestment Program**-**dividend reinvestment program** (DRIP) is an equity investment option offered directly from a company-- The investor does not receive quarterly dividends directly as cash--instead, the investor's dividends are directly reinvested in the company stock
- **Buy and Hold**-investing strategy where you buy quality stocks and mutual funds and you hold on to them for long periods of time
- **Rule of 72**-method of calculating how long it takes your money to double—take 72 and divide it by the interest you earn (at 6% interest take 72 divided by 6 and you find out it takes 12 years for your money to double in value)
- **Simple Interest**-multiply principal (amount of money) times interest rate times amount of time)—the formula is P x R x T = dollar amount of interest
- **Compounding**-money grows by calculating the interest on money and then calculating interest on the original money plus the interest earned (**the more frequently your money is compounded the larger the amount of money you will have**—monthly compounding allows your money to grow larger than compounding annually (on a yearly basis))
- **Future Value**-how much a certain amount of money you have now will be worth at a certain time in the future based on a certain interest rate (How much is $100 at 5% interest worth in 5 years?)
- **Present Value**-how much an amount of money you will have in the future is worth right now based on a certain interest rate (How much is $100 I will have in 5 years worth right now assuming 5% interest?)
- **Sources of Investment Information**-good sources include web sites (www.marketwatch.com, www.money.cnn.com, etc.), newspapers (*Wall Street Journal*), publications (*Forbes*, *Money*, etc.), government (Securities and Exchange Commission), companies' annual reports, and investor services (Standard and Poor's, Moody's Investor Services, Motley Fool)
- **Agencies That Regulate Financial Markets**-these include the Securities and Exchange Commission (SEC), the Federal Reserve Bank, and State's Attorney General
- **Evaluating Financial Advisers**-some are known as full service brokers (provide more help you but charge more money), some are discount brokers (provide limited help but charge lower fees), online brokers (usually are discount brokers)—another good thing to check is if the person you are considering using is a CFP (Certified Financial Planner)—this person has taken courses and passed an exam certifying a level of expertise in finances and investing
- **What a Financial Planner Should do for You**-assess your current financial situation, prepare an investment plan, discuss plan and answer any questions, help track your progress in following plan, and guide you to other professionals (accountant, lawyer, etc.) as needed
- **Questions to Ask When Evaluating a Financial Planner**-what are the planner's areas of expertise, is the planner an employee of a financial company or independent, is the planner licensed/certified (CFP-Certified Financial Planner), how are fees determined (% of money invested, hourly rate, annual fee, etc).