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Good Information for Good Decisions.®

INVESTING

GET INVESTMENTWISE

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OUR MISSION

The mission of The USAA Educational Foundation is to help consumers make informed decisions by providing information on financial management, safety concerns and significant life events.

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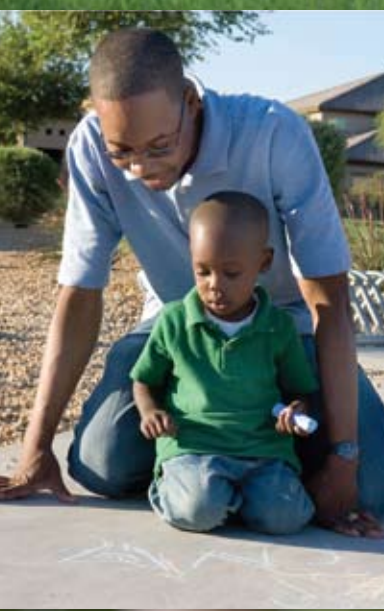

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2 INVESTING MATTERS

The most important thing you need to know about investing is to start early. Why? Because time is your money multiplier and the most critical factor when it comes to growing your money.

Time Is On Your Side

To give you an incentive to start investing early and consistently, look at the hypothetical examples which assume an 8 percent average rate of return and do not consider tax rates and tax treatment of earnings.

INVESTOR 1	INVESTOR 2
• Began investing $100 monthly at age 25; continued to invest until age 67.	• Began investing $100 monthly at age 18; continued to invest until age 67.
• Invested $100 each month	• Invested $100 each month
• Total invested $50,400	• Total invested $58,800
• 8% average rate of return	• 8% average rate of return
• At age 67, investor had **$412,049**	• At age 67, investor had **$731,236**

Generally, the following applies when you invest early and often:

- You can invest more money over time.
- Your investments have longer to grow.
- You may be able to achieve your financial goals earlier in life.

Before You Invest

- Practice good financial habits.
- Establish long-term financial goals.
- Learn principles of good investing.
- Understand types of investments and how they work.
- Know how to protect your assets.

Even if you are starting your first job, getting ready for college or just beginning a career, you can put your money to work by investing wisely.

You generally should begin investing only after you have developed the following financial habits.

IF YOU ARE A MINOR

If you are under the age of 18, you need the help of a parent, guardian or other adult to open a financial account. If you live in the United States, you can invest in your own name once you are of legal age, also called the age of majority, at age 18.

Follow A Budget

A budget is essential for knowing where your money comes from (income) — and planning where it goes (saving, investing and spending). If you do not already have one, use the "Monthly Budget Work Sheet" to create your own personal budget.

- At the first of the month, write the amount you plan to spend in the appropriate column.
- During the month, record what you actually spend.
- Track your spending over a 3-month period. Adjust your budget as appropriate.

Once you create a budget, stick to it. Avoid spending on things not included in your plan unless you are willing to substitute another item for it.

If you spend more than you make, you may be headed for financial trouble that could negatively affect your credit reputation, as well as your financial future.

Before you begin saving and investing, make sure you create and follow a budget.

BUDGET WORK SHEET

Income For The Month Of:	**AMOUNT**
Monthly gross income (total income before deductions)	$
Other income (interest, etc.)	
Total Monthly Gross Income	**=$**
Deductions	
FITW — Federal Income Tax Withholding (if applicable)	$
SITW — State Income Tax Withholding (if applicable)	
FICA — Social Security	
FICA — Medicare	
Other deductions (for example, Flexible Spending Account)	
Total Deductions	=$
Total Monthly Net Income (total monthly gross income minus total deductions)	**=$**

EXPENSES	AMOUNT PLANNED	ACTUAL EXPENSES
Charitable Giving		
Place of worship	$	$
Other		
Savings/Investments (target at least 10%–15% of monthly net income)		
Emergency fund	$	$
Retirement accounts (IRA, 401(k), etc.)		
Other		
Home/Utilities		
Food	$	$
Rent/Mortgage payment		
Property taxes (1/12 of total annual expense)		
Utilities		
Home maintenance		
Furniture		
Phone/Cell phone		
Internet service		
Debt		
Credit card(s) payment	$	$
Loan(s) payment		

EXPENSES *(CONTINUED)*	AMOUNT PLANNED	ACTUAL EXPENSES
Insurance		
Auto insurance	$	$
Property insurance (renters, homeowners)		
Health insurance		
Life insurance		
Long-term care insurance		
Disability insurance		
Education		
Tuition	$	$
Room/Board/Travel		
Books/School supplies/Uniforms		
Transportation		
Vehicle payment	$	$
Gasoline/Parking/Tolls/Public transportation		
Vehicle maintenance		
Registration/License fees (1/12 of total annual expense)		
Personal		
Clothing	$	$
Laundry/Dry cleaning		
Grooming (hair care, toiletries, etc.)		
Child care expenses (baby sitters, child care center)		
Recreation/Entertainment		
Vacation(s) (1/12 of total annual expense)	$	$
Entertainment/Dining out		
Hobbies (for example, golf or tennis equipment and fees)		
Club fees/Organization dues		
Cable/Satellite television		
Total Monthly Expenses	**=$**	**=$**
CALCULATE MONTHLY CASH FLOW		
Total Monthly Net Income	**$**	**$**
Less Total Monthly Expenses	**–$**	**–$**
Net Cash Flow (Deficit)*	**=$**	**=$**

**If your net cash flow is positive, you can save more for emergencies or other financial goals. If negative, you will have to cut expenses or increase income (by taking a second job, for example) to reduce or eliminate debt.*

Stay Out Of Debt

You cannot build wealth by spending more than you earn. If you and a parent or guardian decide you should apply for a credit card or loan, proceed with caution.

- Decide exactly how you will use credit.
- Limit the number of credit cards you own. You probably do not need more than one.
- Pay bills on time and in full. Avoid skipping a payment.

If you have already accumulated debt from credit card spending, college loans or other sources, you can use the following steps to pay it in full:

- Pay credit card balances as soon as possible. Start with the card having the highest interest rate and pay as much as you can until the balance is zero. Continue until all balances are zero.
- Pay personal loans and financed items such as a vehicle or furniture.
- Make extra payments on student loans as soon as other debt is eliminated.

Do not let credit card balances accumulate. If you spend $3,000 using a credit card and pay only the monthly minimum due, it will take almost 10 years to eliminate the debt. If the interest rate is 18 percent it will cost $1,697 in interest. The following example shows how expensive credit card debt can become when you do not pay the account in full within the 30 days.

CREDIT CARD DEBT MULTIPLIER

$3,000 BALANCE	INTEREST RATE	TIME TO PAY IN FULL	TOTAL INTEREST	TOTAL COST
Pay Minimum (4.0% of Balance)	18%	9 yrs. 8 mos.	$1,697	$4,697
	11%	8 yrs. 1 mo.	$ 844	$3,844
Pay more than the minimum (Example, pay $200/mo.)	18%	1 yr. 6 mos.	$ 424	$3,424
	11%	1 yr. 5 mos.	$ 242	$3,242

Save, Save, Save

Whenever you receive money, pay yourself first. Before spending any money, deposit at least 10 percent to 15 percent of the money into a savings account. If you cannot afford this much, start with a smaller amount and increase it as your income grows. The important thing is to make saving a habit. To make saving easier, ask your bank or credit union to automatically transfer a specific amount from your checking account to a savings account each month. When you receive extra money — a gift, pay increase or bonus — deposit it directly into your savings account.

Create An Emergency Fund

Your emergency fund should equal 3 to 6 months of basic living expenses to get you through a major vehicle repair, job loss or other crisis without having to borrow money. Keep your emergency fund in an interest-bearing savings account or money market account, so that it is always available if you need it.

Earn Matching Dollars

If your employer offers matching dollars for participating in a retirement plan such as a 401(k) or 403(b), take advantage of it now. Contribute at least up to the amount your employer matches. You will be giving yourself a raise.

SAVING	INVESTING
Saving commonly refers to accumulating money safely — in a bank savings account, certificate of deposit (CD) or a money market account — for upcoming expenses or emergencies. You earn a lower, fixed rate of return. Your money is protected, and in most cases you can access and use it whenever needed. An accepted principle is to save for short-term goals.	Investing usually refers to buying investments — such as stocks, bonds or mutual funds — that promise higher long-term returns but can decline in value. Your money is at risk. In return for taking that risk, you can receive a greater potential return on your investment. An accepted principle is to invest for long-term goals.

8 GET INVESTMENTWISE

Once you practice good money management skills, have an emergency fund in place and enough savings to pay for short-term needs, you are ready to invest. Make sure you understand the following basic principles of good investing.

Know Your Goals

List your financial goals. Your goals might include putting a down payment on a vehicle, planning for education expenses, saving for retirement or providing care for aging parents. Whatever they are, the more specific you can be, the better. Next, estimate how much your goals will cost and how long it will take to achieve them. The following work sheet can help:

GOAL	2 YEARS OR LESS		3–6 YEARS		7 YEARS OR MORE	
	TIME	$ NEEDED	TIME	$ NEEDED	TIME	$ NEEDED
EXAMPLE: Down payment on a vehicle.	2 yrs.	$5,000				
1.						
2.						
3.						
4.						
5.						

Invest Regularly

Invest a set amount of money on a regular basis whether investment markets are moving up or down. This strategy is known as dollar cost averaging. When prices are high, your regular contributions buy fewer shares (units of ownership in a company or mutual fund); when they are low, your contributions buy more. This approach may tend to spread investment risk over time.

Think Long Term

Give investments plenty of time to grow and compound. Do not attempt to "time" decisions to buy and sell based on market fluctuations.

Act Intellectually, Not Emotionally

Do your homework — then stay on course. Do not let emotions, peer pressure or the latest news influence your investment decisions. If you choose investments by leaping into whatever is currently popular, you may be headed for recurring losses over time.

Know Your Risk Tolerance

If you are a conservative, low-risk investor, you want to protect the money you have now. If you are an aggressive, higher-risk investor, you are willing to accept the risk of losing some of your money if there is the potential for earning higher returns. A moderate investor is somewhere between the two.

Your level of risk tolerance may change according to several factors:

- Age.
- Current and expected income.
- Financial responsibilities, or how possible losses would affect your situation.

Diversify Your Investments

Avoid keeping all your money in one place. It is generally better to diversify by putting money into several investments. This way, if one investment loses money, the others may offset those losses. Diversification does not eliminate risk, but it can help minimize risk.

Increase Your Knowledge

Learn all you can about investing and about specific investments. The United States Financial Literacy and Education Commission provides more information. Visit www.mymoney.gov for links to more information on saving and investing.

Review Your Plan

Evaluate your investment plan at least once each year and when you experience a major life event, such as college graduation or marriage. If necessary, make changes to your investments to ensure they support your goals, risk tolerance and timeframe.

Make Investing A Priority

If saving money to invest seems difficult, consider these suggestions:

- Make small adjustments to your budget. Dine out less or rent videos instead of going to the movies.
- Invest monetary gifts from family or bonuses you receive from work.
- Work an extra job, or ask for overtime hours, and invest your extra pay.
- Consider investing a portion of your federal income tax refund.

Whatever you do, do not invest money from your emergency fund because the money may not be available when you need it.

Seek Help

Investment decisions can be complex. You may want to consult a Certified Financial Planner™ (CFP®) practitioner for in-depth guidance.

THE USAA EDUCATIONAL FOUNDATION PUBLICATIONS, *GET MONEY-WISE, GET CREDITWISE* AND *MAKING MONEY WORK FOR YOU,* OFFER MORE INFORMATION. SEE "RESOURCES" ON THE INSIDE BACK COVER OF THIS PUBLICATION TO ORDER FREE COPIES.

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Risks And Rewards

Investing is generally riskier than saving, so take time to understand various investment options and how they work. Do not invest more than you can afford to lose. No investment is guaranteed.

You should only consider higher-risk investments after you have built a strong financial foundation. Remember, there is no guarantee that higher-risk investments will provide higher returns.

Short-Term, Low-Risk Investments

Savings Accounts	• Let you save money while earning guaranteed interest. • Highly liquid — you can withdraw funds whenever needed. • Your money is usually federally insured up to $250,000* for each account. • Rates of return are low.
Money Market Accounts	• Let you save money while generally earning a higher rate of return than regular savings accounts. • Highly liquid — you can withdraw funds whenever needed and may be able to write checks against the balance. • May require a minimum balance to earn interest. • May charge service or transaction fees.
Certificates Of Deposit (CDs)	• Let you save money while generally earning a higher rate of return than regular savings accounts and money market accounts. • Money has to remain invested for a specified period — anywhere from 90 days to 10 years. Substantial penalties are charged for early withdrawals. • Considered a low-risk investment, but not all CDs are federally insured.
U.S. Savings Bonds	• One of the safest investments you can make. • Pay a fixed amount of interest. • Interest can be paid from 1 to 30 years. It is generally best to hold savings bonds until they mature. Selling them earlier usually results in a reduced return or penalty. • Earnings are exempt from state and local income taxes, but not federal income taxes.
U.S. Treasury Bills (T-bills)	• One of the safest investments you can make. • Earnings are exempt from state and local income taxes, but not federal income taxes. • Loans to the federal government. • Maturity dates vary and are 1 year or less. Generally, the longer the maturity, the higher the rate of return.

**As of July 21, 2010 the standard FDIC insurance limit was permanently raised to $250,000; per depositor, per insured depository institution for each account ownership category. Beginning December 31, 2010 through December 31, 2012 all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. The unlimited insurance coverage is available to all depositors, including consumers, businesses and government entities.*

Long-Term, Higher-Risk Investments

The following investments offer higher potential rewards, but at higher-risk levels. Remember, there is no guarantee that higher-risk investments will provide higher returns.

Stocks	• Represent partial ownership in a company and are bought and sold in units called shares. • Generally offer potentially higher returns with higher risk over the long term. • A registered brokerage firm can help you buy and sell individual stocks. You generally are charged a commission or sales fee for each transaction. • Make sure the individual you are working with has a securities license and works as a registered representative of a brokerage or mutual fund company.
Corporate And Municipal Bonds	• When you purchase a bond, you are lending money to the institution that sold it (the issuer). • In return, you receive a certain rate of interest over a specified period — usually from 1 to 30 years. • When the bond matures, the issuer promises to pay the principal amount. • Corporate bonds are only as reliable as the company that issues them and you may lose money if you sell prior to maturity. • Municipal bonds are issued by state and local governments to help pay for schools, streets, airports and other public works. • Risk and liquidity vary greatly among these bonds, so exercise caution when considering them.
Real Estate	• Should be considered a long-term investment. • While you own real estate, you are subject to property taxes. • Federal income tax deductions may be available (for example, for property tax payments and mortgage interest charges).
Mutual Funds	• Pool the money of many investors into portfolios of a variety of stocks, bonds or other investments. • Different funds are designed to achieve specific investment goals and carry different levels of risk. • Allow you to invest in a variety of industries and categories of securities including stocks, bonds and money market investments, which may be difficult to do individually without having large amounts of money to invest. • Generally considered a better option for inexperienced investors as compared to purchasing individual securities.

Retirement Plans

The following investment options are designed for long-term retirement planning. You may be subject to federal income tax and a withdrawal penalty for withdrawing funds before you reach a certain age.

401(k) Plans	• Employer-sponsored retirement plans which may be offered to employees of for-profit businesses. • Allow you to invest pretax dollars up to certain limits. You lower your current income for federal income tax purposes and are subject to taxes on withdrawals. • Your employer may pay you for participating in this plan by matching a percentage of your contribution up to a set percentage of your salary. • If your employer has a match option, you should generally attempt to contribute at least enough to your 401(k) plan to obtain the entire match.
403(b) Plans	• Employer-sponsored retirement plans which may be offered to employees of nonprofit organizations and public education institutions. • Allow you to invest pretax dollars up to certain limits. You lower your current income for federal income tax purposes and are subject to taxes on withdrawals. • Your employer may pay you for participating in this plan by matching a percentage of your contribution up to a set percentage of your salary. • If your employer has a match option, you should make every effort to contribute at least enough to your 403(b) plan to obtain the entire match.
Traditional Individual Retirement Accounts (IRAs)	• You may be able to deduct your contribution from your taxable income, thus reducing current federal income tax. • You are subject to taxes on certain withdrawals.
Roth IRAs	• Let you save after-tax dollars for retirement. • Qualified withdrawals are federal income tax free and penalty free.

Choosing Your Investments

Once you have an idea of what investments are available, you can consider specific alternatives. Take your time. Carefully research each option. Make sure the investments you choose match your goals and risk tolerance.

14 PROTECT YOUR MONEY

As you learn about spending, saving and investing wisely, you should also make sure you understand how to protect your money.

Guard Your Identity

Identity theft is when someone steals another individual's personal information — such as a bank account number, credit card number or Social Security number (SSN) — to buy goods and services. These steps can help you protect your identity and your money:

- Keep your birth certificate and Social Security card in a safe place.
- Keep your cell phone, driver's license, checkbook and credit card in a safe place. Do not let friends borrow them.
- Protect your computer system by using encryption, antivirus and antispyware programs, and a firewall.
- Do not share personal information over e-mail or the Internet unless it is a Web site you know and trust.
- Register with the National Do Not Call Registry to stop unwanted telemarketing calls. Call (888) 382-1222 from the phone you wish to register.
- Check your credit report at least once each year.

Review Your Credit Report

When you begin saving and investing, you begin building a credit reputation. Your credit reputation is summarized in a credit report — a month-by-month record of your interactions with banks, credit card issuers and other financial institutions.

You can request a free credit report annually from any of the three consumer reporting agencies. Review your credit report annually to ensure it is accurate and that no one has opened unauthorized accounts in your name. Visit www.annualcreditreport.com to request your free annual credit report or call one of the following agencies directly:

- **Equifax**
  (800) 685-1111
- **Experian**
  (888) 397-3742
- **TransUnion**
  (800) 888-4213

THE USAA EDUCATIONAL FOUNDATION PUBLICATION, *PROTECTING YOUR IDENTITY AND PERSONAL INFORMATION,* OFFERS MORE INFORMATION. SEE "RESOURCES" ON THE INSIDE BACK COVER OF THIS PUBLICATION TO ORDER A FREE COPY.

Manage Risk

Another important method of protecting your assets is with insurance. You should be familiar with the following basic forms of insurance and how they work.

TYPES OF INSURANCE	
Auto	Premiums vary by state and driver. Auto insurance in most cases will cover stolen personal property permanently attached to the vehicle. However, unattached personal property generally is not covered. For that, you need property insurance, either a renters or homeowners policy. However, some property, such as CD players and digital audio players may be limited.
Property	When you have your own apartment or home, you need renters or homeowners insurance to protect your personal possessions if they are stolen or damaged. These policies may also pay damages if you are held legally liable for injury to another individual or for damage to their property.
Health	This coverage helps protect your finances from health costs associated with an unexpected accident or major illness. Take advantage of employer-sponsored/group employment benefits if they are available to you. Consider purchasing an individual insurance plan if you are between jobs, self-employed or work for an employer who does not provide health insurance.
Life	You probably need life insurance as soon as a spouse, family member or other individual depends on your income. Even if you are single with no dependents, you should consider purchasing enough life insurance to pay your debts and final expenses. Because premiums generally increase with age and declining health, you may want to consider purchasing life insurance while you are young and in good health.
Long-Term Care	This insurance can help minimize the financial effects of a long-term health problem — such as Alzheimer's disease, dementia or stroke, and accidents — by paying for benefits if you become physically or mentally unable to provide for your own safety or well-being. It covers a variety of services to help you maintain your standard of living in your own home or in a nursing home.
Disability	This form of insurance provides you with income if you are unable to work for a period of time due to injury or illness. Many employers provide disability coverage, often at little or no cost to employees. Coverage may be limited and benefits may be taxable. You may want to consider supplemental disability insurance, especially if you are the sole income earner for your family.

Note: Insurance descriptions are general in nature. For precise information on coverages, limitations and conditions, contact your insurance company.

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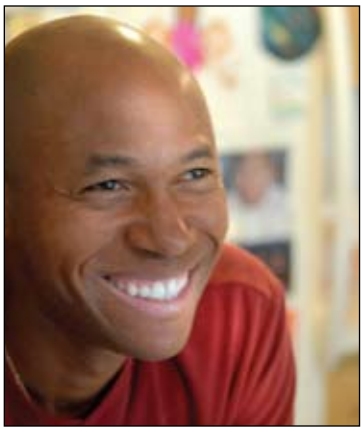
Ready To Invest

To build wealth, you should put your money to work for you by investing wisely. As you begin investing, remember these important principles:

- Focus on your goals.
- Think long term.
- Diversify your investments.
- Be prudent in using and managing debt.
- Review your plan.
  - At least once each year.
  - When you experience a life event.

Investing wisely as part of a comprehensive financial plan can help you enjoy a secure and rewarding financial future.

RESOURCES



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