

Understanding financial terms and concepts

Learning to develop sound financial skills takes time. It's not going to happen overnight. Remember when you were in school and took a foreign language class? Did you learn to be proficient and literate in one lesson? No, you probably took classes for at least three years. It takes time, studying and practice to learn, whether it's a foreign language or financial fitness. Here are some terms and concepts you've probably heard:

- **Dollar Cost Averaging** – you invest a fixed amount of money on a regular schedule. The amount can be \$10, \$25, \$50, \$100 or more. You don't need a large sum of money. The most important thing is that you invest the same amount regularly and don't wait to start. Time is not your friend when it comes to investing. Don't pay attention to the price of the investments at the time. Your monthly investment will purchase more shares when the prices are low. Many people are in a panic because of large stock market drive on Tuesday, February 27. Instead of being upset -- think of it as a sale, you get more for your money when the prices are low. Dollar cost averaging doesn't automatically make a profit. However, if you invest on a regular schedule and stick to it you will probably do better than the investor who tries to time the market to purchase low and sell high.
- **Rule of 72** – helps you to determine how long it will take to double your investment at a certain interest rate. For example, if you wanted to double your money in 10 years, divide 72 by 10 years = 7.2% interest rate. In order to double your money in 10 years you must earn 7.2% annually. Another way to use this method is by dividing 72 by the interest rate. For example, 72 divided by 3% = 24 years. It will take 24 years to double your investment.
- **Asset Allocation** – dividing your money between stocks, bonds, cash and other investments. In other words, don't put all your eggs in one basket. For example, don't invest all your money in stocks. Diversify your assets by allocating them in different investment vehicles. Your age and risk tolerance should be considered when you are determining how to allocate your assets. If you're under age 35 you might want to invest a higher percentage of your assets in stocks. However, if you are 58 years old and planning to retire in 7 years, you might be better off with a higher percentage of your assets in bonds. Stocks should be invested for the long term, preferably 10 years or longer. Money that you will need in the next couple of years should be invested in money markets, savings accounts or certificate of deposits. One guideline for diversification is:

Stocks	40% - 80%
Bonds	20% - 50%
Cash	10% - 25%

If you use this guideline, tailor it according to your age and risk tolerance.

- **CD Laddering** -- is strategy that allows you to earn the highest possible interest on your certificate of deposits and still have access to your money. Let's say you have \$5,000 to save. Put \$1,000 each into a one-, two-, three-, four- and five-year CD. Usually the CD with longer maturity date earns a higher interest rate. When your one-year CD matures, it will pay \$1,000 plus interest. If you don't need the money, reinvest it in a five-year CD. Repeat this process each year as the next CD matures. This process provides a CD, which matures every year yet always has you investing in a new 5-year CD with your \$1,000 plus interest. If you need to withdraw the money before the next CD matures, you will just be required to pay an interest

penalty. You may decide to ladder your CDs for a shorter period of time, depending on the interest rates at the time.

Fortunately, there are lots of resources available to enhance your financial skills. In Seattle there's a new television show on KCTS – *About the Money*. Each show contains a Money 101 segment, which covers basic information like what's the difference between a Traditional and Roth IRA. Check it out online at www.ktcs.org . The Women's Bureau's Wi\$e Up program offers online learning and a monthly teleseminar. The Women's Institute for Financial Education (WIFE) has a great website, newsletter and teaches women how to start Money Clubs. Visit the Money Wise Women website for more resources.

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