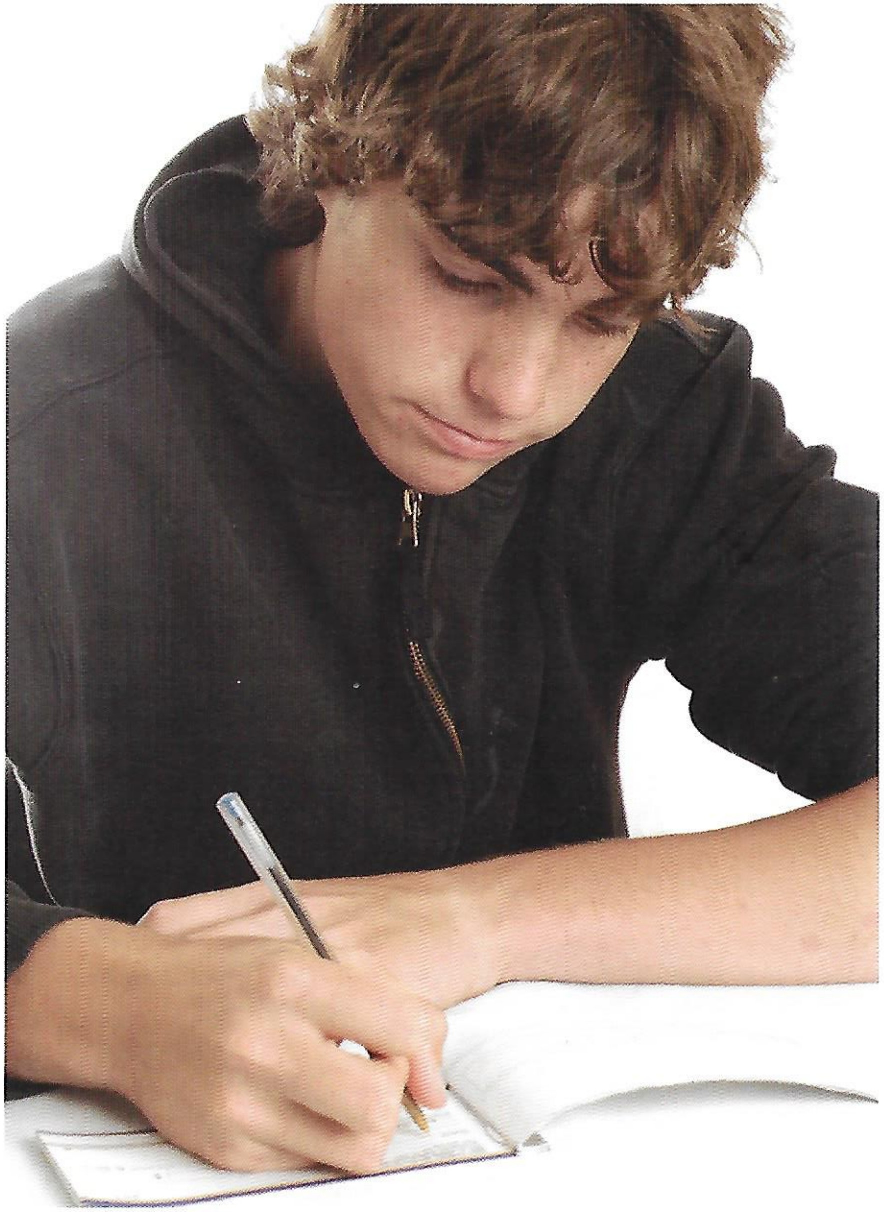


When you are ready to open a savings or checking account, go with your parents to a local bank, where a representative will help you get started.

Using Bank Accounts

Bank accounts keep money safe while also giving people easy access to their money. While banks offer different kinds of accounts, such as checking, savings, and loan accounts, most people first open a savings account in which to store money for financial goals or an emergency.

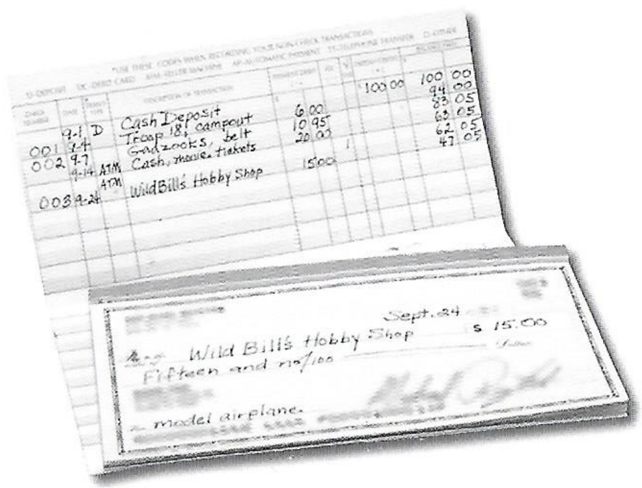
Keeping money in a savings account is wiser than keeping cash in a dresser drawer at home. First, the federal government insures the money kept in bank accounts against loss or theft. A fire, or other natural disaster, could destroy your money if it is kept at home. Second, savings accounts earn interest. The bank pays interest on the money in your savings account because, in actuality, when you put money into a savings account you are loaning the money to the bank so it can give loans to other customers. Though the interest rate usually is low, it is more than your money will earn at home.

Online banking is a practical option for learning about money management. Some Internet banks may offer higher rates than conventional banks do, and an account is easy to set up. Online banking makes it easy to keep up with spending, too.

As you begin earning money and paying bills or dues, you probably will want to open a checking account, too. With a checking account, you can write checks or use a debit card to make purchases using the money in the account. Checks and debit cards are convenient ways to pay bills and make purchases. They also can be safer than carrying around a large amount of cash, which could be lost or stolen.

After opening a checking account, you must keep good records so that you always know how much money is in your account (your balance) and can avoid writing a check to pay for something when you do not have enough money in your account to cover the cost. If you *overdraw* your account, the bank and the company to which you wrote the check can charge penalties to your account (overdraft charges). Remember, just because you have checks remaining does not mean you have money in your account. Keep track of what's in your account by checking the balance, either online or directly with the bank, and know what checks you wrote that have not yet been cashed.

Banks typically offer different types of checking accounts. Some banks pay interest on checking accounts, much like a savings account. Generally, though, banks charge a fee for the checking service to cover the costs of processing the checks. Fees can be based on how much money you keep in your account and how many checks you write. Shop around because checking account features and fees vary widely.



A debit card for your checking or savings account looks just like a credit card and can be used like one, too. The difference is that your debit card draws on the actual money in your bank account and not on a line of credit as your credit card does. Debit cards also allow you to withdraw or deposit money at automatic teller machines (ATM) or through an app on your mobile phone. However, depending on the bank and the ATM, you might be charged a fee for using this service.

Electronic banking involves accessing your bank accounts by debit card, phone, and computer. Because no paper or people are involved in transferring the money, electronic banking is convenient. Of course, this convenience also makes it more tempting to impulsively spend money. You will need to devise a way to track your deposits and withdrawals in order to monitor your account balance and stick to your budget.

Saving Versus Investing

In your budget, one of your expenses is a payment to yourself for savings or investment. To help you make an informed decision about whether to save or invest that payment, information about the differences between saving and investing follows.

To save money means to put it aside, in a bank account, for buying something in the future or to have on hand in case of an emergency. That money is available for you to withdraw whenever you need it. Although the bank may pay interest on the balance in your savings account, that interest often does not keep up with *inflation,* which is the rise in the cost of goods over time. Therefore, savings accounts are only one portion of a balanced financial plan.

When you invest money, you have an entirely different objective: to make more money. A financial investment is something you put money into with the purpose of getting more money back. An investment also can be one of time and labor. For example, you might invest in a lawn mower with the goal of making enough money mowing lawns over the summer to earn a profit.

A *return on investment (ROI)* is the profit from, or increase in value, of the investment; *total return* is the combination of an investment's income and its increase or decrease in value.

You also are an investment. You can invest in yourself through education, for example, or by learning new skills or trades. Education and self-improvement can help you earn more income. In fact, of all the types of investments available, investing in yourself is the best investment you can make. It can pay big dividends.

Unlike saving, investing involves some risk—that is, you are not guaranteed to earn more than the amount you invest. (The amount you invest is called *principal.*) In fact, there is a chance you could lose part or even all of the principal.

Investing is used to achieve certain types of goals. People typically *save* for short-term goals such as a new car or a family vacation by putting their money in a savings account where they can retrieve all of the money plus a little interest. But people *invest* for long-term goals like college or retirement. They put their money in stocks, bonds, real estate, or other alternatives, which do not guarantee the principal invested or any earnings on the principal. However, because of the greater risk, investors have a chance to earn higher *returns* (income or an increase in value) than they would from a savings account, especially over a long time. In general, higher potential returns often require accepting greater risk of loss, while a lower risk of loss often means lower potential returns.

In 2008, stock prices fell in what is called a bear market. For several years before the bear market, stock prices rose to unprecedented heights during what is called a bull market. History has shown that the stock market has had many bear and bull markets. Overall, stock prices have risen over long periods of time. However, the economy has taken a hit in recent years worldwide, and past performance does not guarantee future results.

Types of Investments

Financial investments take two basic forms: owned investments or loaned investments. That is, you are either a lender or an owner.

A *loaned investment* means you loan money to a company or government in return for its promise to repay the principal (the amount you loaned) plus interest. Such an investment is similar to how you "loan" money to a bank through a savings account except that there is only a promise to repay the money, not a guarantee. The issuer makes regular payments of income, usually monthly or quarterly, for a set length of time.

Common loaned investments include money market funds; certificates of deposit; U.S. government bonds; corporate, municipal (city), and foreign bonds.

Annuities are another type of investment vehicle offered by insurance companies. People normally purchase an annuity to receive income at some point in the future. Annuities may offer several investment options, including loaned investments and owned investments. As is also true of some other investments, the owner may need to keep an annuity for a certain period of time or there may be additional fees to pay.

You might already own one form of loaned investment if you have a savings bond. These make popular gifts for families and others to buy for children because savings bonds can be bought in small amounts (as little as $25). Savings bonds are a loan to the federal government. Bond issuers agree to repay the bondholder the amount invested plus interest over a set period of time. Governments or companies issue bonds to raise money to pay for certain projects, such as building roads and factories.

Also popular are certificates of deposit (CDs), which are issued by banks. The investor lends the bank a specific amount of money for a specific period of time at a specific interest rate. This low-risk investment pays low but steady returns.

An *owned investment* means you own part or all of a company, real estate, or other asset. An *asset* is an item of value. If you buy stock in a large fast-food restaurant chain, for example, you actually own part of the company. Other people who bought stock in the company also own part of it. Because you own part of the company, you share in any profits or losses.

As a stockholder, you might receive *dividends* (profits that the company pays to its stockholders). Dividends usually are

Yield is what an investment pays directly in income. Yield might be in the form of interest, dividends, or rental income from property.

Individual retirement accounts (IRA) offer tax breaks to people saving for retirement. Several types are available, and some, such as the Roth IRA, might be a good investment option for younger investors.

issued quarterly (every three months). However, unlike interest payments from loaned investments, dividends are not guaranteed because a company cannot guarantee how much profit, if any, it will make.

You also can make money from an owned investment by selling the investment for more than you paid for it. For example, investors hope to sell stock at higher prices than they paid. You might have done the same thing with one of your possessions, such as a baseball card. Perhaps you paid $5 for the card and later sold it for $7. The $2 you made on the sale is a profit, sometimes called a *capital gain.*

Common types of owned investments include the following:

- Stocks in U.S. and foreign companies
- Mutual fund shares
- Real estate (land, homes, apartments, office buildings)
- Personal business, such as a retail store
- Commodities, such as gold, silver, and wheat
- Collectibles, such as paintings, rare stamps, rare coins, and baseball cards

Naturally, you would want to put your money into a low-risk investment that yields a high return. However, such investments are unlikely. Low-risk investments, such as government savings bonds, usually have a low rate of return. Conversely, investments having the potential for a high rate of return usually are high-risk.

People investing over a shorter period of time should choose safer investments with lower rates of return. However, investors seeking larger growth of their money over an extended period of time may choose riskier investments. In general, buying stocks is considered more risky than investing in something that pays a guaranteed rate of interest.

When you decide to invest, you will have to determine your needs and goals. To balance the risk of your investments, it is best to *diversify.* In other words, put some money in safer investments and some into high-risk investments.

Government Savings Bonds. U.S. savings bonds are considered safe investments because they are backed by the full faith and credit of the federal government. Two common savings bonds are the Series EE and Series I. Series EE bonds are purchased electronically at face value, and can be bought for any amount from $25 up to $10,000 per year. EE bonds issued since

U.S. savings bonds are now issued only online.

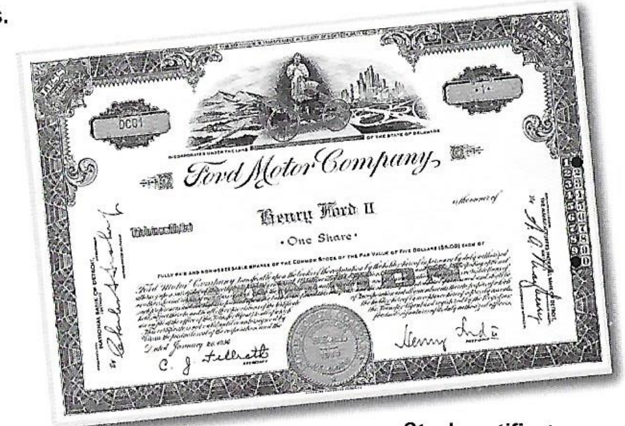
May 2005 earn a fixed rate of interest. You know the interest the bond will earn when you buy it. You may cash in the bond at any point from 12 months through 30 years, but if you cash them in before five years you will forfeit the previous three months' interest.

I bonds (the "I" stands for inflation) are purchased for face value, so you would pay $50 for a $50 bond. I bonds pay two types of interest—a fixed rate of interest plus an inflation amount that is announced every six months. When you cash in your I bond, you will receive the amount you invested plus both types of interest. While you can cash in your I bonds after 12 months, they are meant to be a long-term investment. Therefore, you will be charged a penalty fee equal to three months of interest if you cash these bonds in within five years of purchase.

Insured Certificates of Deposit (CD). CDs are insured deposits that pay a fixed or variable interest rate over a specific period of time. Financial institutions offer CDs that mature in as few as three months or after many years. Your money must stay invested for a fixed period, so CDs generally pay more interest than savings accounts. Usually, the interest rate is higher the longer you hold the CD. However, as with other low-risk investments, the return usually is low.

Mutual funds and quality growth stocks are normally considered to have a higher potential return, along with a greater possibility of loss than insured CDs.

Quality Growth Stocks. These are shares in companies that are considered leaders in their particular industry and that have had consistent earnings and revenues greater than the overall growth of the national economy. Many of these pay small dividends, but the increase in stock prices can produce total returns well above inflation.



Stock certificate

Mutual Funds. Many people think it is too risky to put money into individual stocks. Instead, they might invest in mutual funds. A mutual fund includes stocks from dozens or even hundreds of companies. A company that manages mutual funds pools (combines) investors' money to buy shares of stock in many companies. If one or more stocks lose value, successful stocks in the fund could offset the losses and the fund overall might not lose money. However, many mutual funds have excellent track records for earning money over a long period.

Relatively high-risk investments include small and medium capitalization stocks and collectibles.

Small and Medium Capitalization Stocks. These are shares in smaller companies worth up to $5 billion or so, that may have the potential for higher growth rates than larger, more established companies. These companies usually have a shorter history and thus are often considered to have higher risk than investments in larger, more stable companies. However, they also have the potential to generate higher rates of return.

Collectibles. You might already invest in collectibles such as baseball cards, rare coins, or postage stamps. Some people collect items such as these with the hope that the value of these items will increase over time. Collectors must study the market for the items they collect. Collectibles are generally considered to have higher levels of risk than many other investments.

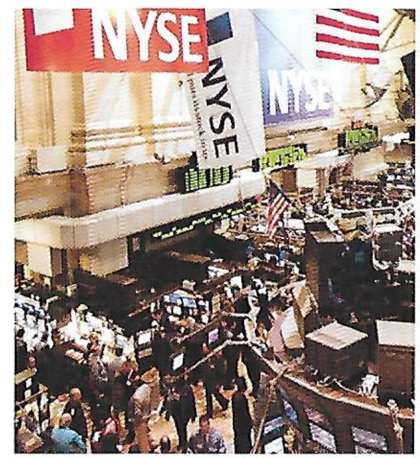
Examples of very high-risk investments include *futures.* These are contracts to buy and sell *commodities,* such as soy beans, gold, silver, oranges, cattle, and crude oil, at some time in the future. By buying a future contract, investors are speculating on the future value of that commodity's prices. Buying commodity futures directly usually requires a large investment, but futures also may be purchased in mutual funds or exchange-traded funds for smaller amounts of money. However you purchase futures contracts, the potential risk is normally quite high, even for experienced investors.

You must be at least age 18 to trade on the stock market, but you can own stock if you are younger through a special custodial account opened by your parents or guardian.

Investors usually buy at least 100 shares of stock at a time (called a round lot), but it is also usually possible to purchase fewer shares. Stockbrokers will often charge a higher fee for smaller stock purchases than for round lots.

Tracking Stocks

If you are interested in investing in stocks, you can follow the progress of the stocks in which you are interested by checking the business section of your local newspaper, the Wall Street Journal, or financial sites on the Internet.



First, find out whether your stock is listed on the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), or the National Association of Security Dealers Automated Quotation (NASDAQ). After finding the symbol that represents your stock, look under each heading for information about the stock.

You will see several more symbols and numbers next to the stock symbol. The following are common symbols and their meanings.

DIV OR DIVIDEND:
Refers to the current dollar amount of the dividend per share. The dividend is the annual income paid to shareholders.

YLD%:
Shows the value of the stock's dividend as a percentage of the stock's price, which is calculated by dividing the dividend by the day's closing price.

PE, OR PRICE-TO-EARNINGS RATIO:
The price-to-earnings ratio shows the stock's price in relation to the company's earnings. Investors use this figure to get an idea of the stock's value and whether it may be a good investment. To determine the price-to-earnings ratio, divide the company's current stock price per share by its earnings per share (EPS) for the past four quarters.

YTD % CHG	52-WEEK HI	52-WEEK LO	STOCK (SYM)	DIV	YLD %	PE	VOL 100s	CLOSE	NET CHG
24.0	7.50	5.35♣	Dimon DMN	.30	4.0	13	1792	7.44	0.14
26.3	21.55	13.48	Disney DIS	.21	1.0	39	121919	20.60	0.02
8.2	27.48	23.70	Disney 6.875Corts KVJ n	1.72	6.4	...	21	27	-0.18
27.8	13.05	7.50	Dist&Srv ADS DYS	.21e	1.6	...	635	12.78	0.08
▲ **248.4**	**11.70**	**2.70**	**djOrthopedics DJO**		**...**	**dd**	**2250**	**13.10**	**1.40**
60.7	19.95	9.50	DlrGenl DG	.14	.7	23	20111	19.20	0.27
-2.2	**26.60**	**14.35♣**	**DlrThrfty DTG**		**...**	**15**	**1567**	**20.68**	**1.03**
▲ 26.9	27.30	17.55	DomResBlkWar DOM	2.56e	9.3	...	279	27.47	0.42
15.1	66.15	35.40♣	DominRes D	2.58	4.1	13	11423	63.21	-0.22
10.8	55	36.77♣	Domin un	4.38	8.1	...	879	53.80	-0.10
7.2	11.73	8.60	Domtar DTC	.17fg	...	...	456	10.78	-0.17
▲ 29.9	46.14	29.91♣	Donaldson DCI	.36	.8	23	1285	46.76	0.75
24.1	28.40	16.94	Donnelly DNY	1.00	3.7	24	6381	27.02	0.19
65.0	47.79	21.01♣	DoralFnl DRL s	.56	1.2	15	3462	47.18	0.49
8.4	34.70	22.85	DoverCp DOV	.54	1.7	35	7956	31.61	0.28
12.2	13	7.41♣	DoverDwns DDE	.20	2.0	13	304	10.20	0.12
-1.1	5.55	3.07♣	Dover Motor DVD	.04	.9	cc	240	4.60	0.01
5.1	34.19	24.10	DowChem DOW	1.34	4.3	dd	36249	31.20	-0.05

VOL:
Represents a stock's trading volume for that day, often listed in hundreds of shares, or *round lots*. For example, if the trading volume is 1026, it means 102,600 shares were traded that day.

NET CHG OR CHANGE:
Is the amount the closing price moved, higher or lower, from the previous day's closing price.

YTD % CHG:
The percentage change in the stock price since January 1 of the current year.

LOW OR LO:
Indicates the stock's lowest price over the last 52 weeks.

HIGH OR HI:
Indicates the stock's highest price over the last 52 weeks.

CLOSE OR LAST:
Indicates the price of each share at the end of the trading day. That's what your stock is worth, at least for that day.

The Power of Compounding

When you save and invest your money, you help the money itself earn more money. The ability of money to grow on its own can be extremely valuable to achieving long-term goals and in giving you financial security when you grow older.

Money earns more money when it draws *simple* and *compound* interest. Simple interest is the interest earned on the deposit amount, or principal. For example, if you put $100 into an account that earns 6 percent interest annually, that investment would be worth $106 at the end of the year.

Compound interest, in addition to paying interest on the principal, pays interest on the interest earned. To illustrate how compounding works, imagine what happens to a $100 investment when the earned interest is withdrawn each year and not left in the account to draw more interest. Say the $100 earns 10 percent, compounded annually. At the end of the first year, the total investment is worth $110. If you withdraw the $10 and leave the $100 invested, you will have $110 at the end of the second year. If you do this each year for 10 years, your $100 investment will have earned $100, all of which was withdrawn and spent.

But consider what would happen if you did not withdraw the first $10 of interest. If you leave it with the original $100, the second year's interest will be based on $110, not $100. At the end of the second year, your investment will have earned $11 and the total will have grown to $121. Again, if you reinvest your earnings, you will earn 10 percent on $121 instead of $100, as in the first example.

If you do this for 10 years, your initial $100 investment will have earned $159.39, which is $59.39 more than if you withdrew the interest each year. What is more, the investment's total value will have grown to $259.39, with the earnings becoming greater with each passing year. That is why compounding makes such a dramatic difference over time.

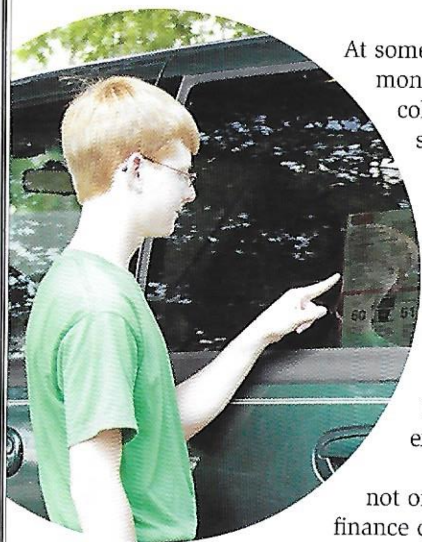
You can earn compound interest from a savings account that pays compound interest, and by investing in stocks. As you know, many companies pay their stockholders dividends annually or quarterly. If you choose to reinvest the dividends instead of receiving them as income, you will own more shares in the company and increase potential earnings by receiving more dividends.

Compounding

Year	Spend earnings	Reinvest earnings
1	$ 10	$ 10.00
2	$ 10	$ 11.00
3	$ 10	$ 12.10
4	$ 10	$ 13.31
5	$ 10	$ 14.64
6	$ 10	$ 16.11
7	$ 10	$ 17.72
8	$ 10	$ 19.49
9	$ 10	$ 21.44
10	$ 10	$ 23.58
Total earnings	$100	$159.39

Compound interest draws the best return because it pays interest on the initial deposit and on the interest your money earned.

Borrowing Money



At some point in your life, you may need to borrow money, whether to buy a car, a house, or to pay for a college education. When you borrow money to buy something you are buying it on *credit*, which is another way of saying that you took out a loan.

Maybe you have borrowed money from a friend or a family member and repaid it in a day or two. If you could not pay back the sum in one payment, you might have made smaller, regular payments, called *installments*. If you borrowed $10, for example, perhaps you repaid it over a month at $2.50 a week. This type of borrowing is straightforward because you pay back exactly the amount loaned to you.

However, most loans require that you pay back not only what you borrowed (the principal) but also a finance charge (interest). Lenders, such as banks, charge borrowers for the privilege of temporarily using the lender's money. Remember, the bank may pay interest on your savings account because you are letting the bank use your money.

The total finance charge depends on several factors:

1. The amount you borrow.
2. The amount of any fees charged by the lender.
3. The interest rate charged, which is generally a percentage of the principal. For example, if you borrow $10 at 5 percent interest, you would pay back $10, plus 50 cents.
4. How long it takes you to repay the loan.

Naturally, it is better to save money in order to make purchases without borrowing. Paying finance charges adds to the real cost of the item you are buying. But, sometimes it is difficult to save enough money to pay for expensive items, such as a car, a house, or college tuition, and you have to borrow.

When it is time for you to borrow, the following tips will help reduce your costs.

- **Shop around.** Different lenders charge different interest rates. An interest rate that is just one percentage point lower can provide substantial savings.
- **Compare the annual percentage rate (APR),** not just the simple interest rate. The APR reflects the true percentage rate of a loan because it takes into account various fees and other costs over a year. The APR is always higher than the simple interest on a loan, unless there are no additional fees or other charges. While loans may include fees and other costs in the APR calculation, credit cards normally do not do so. As a result, the APR for credit cards does not accurately reflect the total amount you must repay.
- **Ask what the total cost of the loan will be** in dollars and cents. The lender must disclose this.
- **Find out the amount of any and all fees.** Fees add up quickly and can greatly increase the cost of a loan.
- **Do not always choose the loan with the lowest payment.** A lower payment might mean a longer payment period. The longer you take to repay a loan, the more you will pay in total interest charges. If you take five years to pay off a car loan instead of three, you could pay 60 percent more in interest.
- **Ask if there is a charge for paying off the loan early**—for example, paying off a three-year loan in two years. Try to get loans that do not penalize you for repaying the balance early. Paying off the loan early can save you interest payments.

When it comes to securing a loan and using credit cards (and not paying off the balance every month), compounding works *against* you.

Before you borrow, the lender will check on you, just as you should check out the lender. The lender must be confident that you have the ability to repay the loan. You probably will need to prove that you have steady income, and, if you have borrowed money before, you will need to show that you paid it back. The lender also might ask for references. These are other people or businesses that will state that you are trustworthy.

In some cases, a loan must be *secured*. This means that if you fail to make payments the lender can take possession of whatever you bought with the money you borrowed, such as a car or house.

Credit Cards

By the time you reach your late teens, you probably will have received numerous offers from credit card companies to apply for their cards. Just remember that you are personally responsible and legally obligated to pay back all amounts charged to your card.

A credit card is a form of loan—just as if you had borrowed cash from a bank. It can be a convenient substitute for carrying checks or a large amount of cash and especially useful in emergencies. However, because credit cards do not seem like real money and are easy to use, people often buy items they cannot afford and that they cannot pay for when the credit card bill is due. In fact, credit cards do represent real money; using them unwisely can lead to financial difficulties.

A credit card, issued by a bank or credit card company, can be used to pay for any product or service as long as the seller accepts the card. Not all sellers accept credit cards or a particular type of credit card, however.

In addition, credit cards have a charge limit, which means you can charge only up to the amount the credit card issuer allows. The limit usually is based on your income, credit history, and other factors that might affect your ability to repay. When you reach your credit limit, you must stop using the credit card until you pay off at least some of the accumulated debt.

When you use a credit card to buy something (a process called charging), the salesperson swipes the card through an electronic card reader to make sure your credit is good. Once your credit is confirmed, the salesperson gives you a slip of paper to sign, which is your agreement to repay the loan. The store receives payment from the bank that issued the credit card, and the bank collects the cost of the purchase from you.

You are billed each month for the total amount charged. You must pay the minimum amount stated on the bill each month. If you do not repay the entire balance, instead paying only part of it, a finance charge will be added to the unpaid balance. This can be expensive because the annual interest rate can be 18 percent or more. The longer it takes to pay off the balance, the more costly the items you bought become.

Credit cards look like and can be used in much the same way as debit cards and charge cards. Because a debit card is connected to your checking account, the costs of any purchases you make with it are automatically deducted from your checking account. A charge card works somewhat like a credit card except that the balance of your charge card must be paid in full by the payment date. However, because the balance is paid in full, no interest is charged. A charge card is a good option for those who want to build their credit and learn to be responsible for handling credit without letting it get out of hand.

Credit Record

When you begin using a credit card or when you take out a loan from a bank, you will begin building a "credit record"—a history of how well you have paid your bills. It is much like the history of a baseball player's career. If you trade baseball cards, you know that a player's playing history usually is recorded on the back of the card. You can tell at a glance whether a player is a good hitter, pitcher, or fielder.

Companies called *credit bureaus* keep track of the credit histories of individuals. Your history will tell whether you are good at paying back your debts. Anyone offering credit to you likely will check with credit bureaus to see if you have paid your bills promptly.

People who do not use credit responsibly can get into serious debt. Some people use too much credit and owe more than they can reasonably pay back. If this happens to you, you might not be given additional credit. Some businesses, including potential employers, also might check credit histories. It pays to maintain a good credit history by paying your bills on time.

If you do get into debt problems, here are some tips to help reduce or eliminate debt:

- Stop buying things you do not need. See what you can do without for a while, such as movies, video games, and snacks.
- Pay cash for purchases. Do not charge anything.
- Perform "plastic surgery." Cut up your credit cards if you cannot stop from using them.
- Make a budget to track your income and expenses.
- Try to earn extra money to help pay off debts.

College-bound Scouts, don't become credit bound, too. Many colleges and universities join with major credit card issuers to offer students credit cards because the school receives hefty fees in return. If you are in the market for a credit card, shop around just like you would for any other "product." Look for a low interest and low or no annual fee. Once you have a card in hand, use it responsibly, pay your bills on time (don't depend on Mom and Dad!), and keep your credit limit low so that you can't overindulge.