
GivingGrinch.com

BudgeFree for Life!
April 2009 Newsletter
Volume 2, Issue 4
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April 2009: BudgetFree Investing

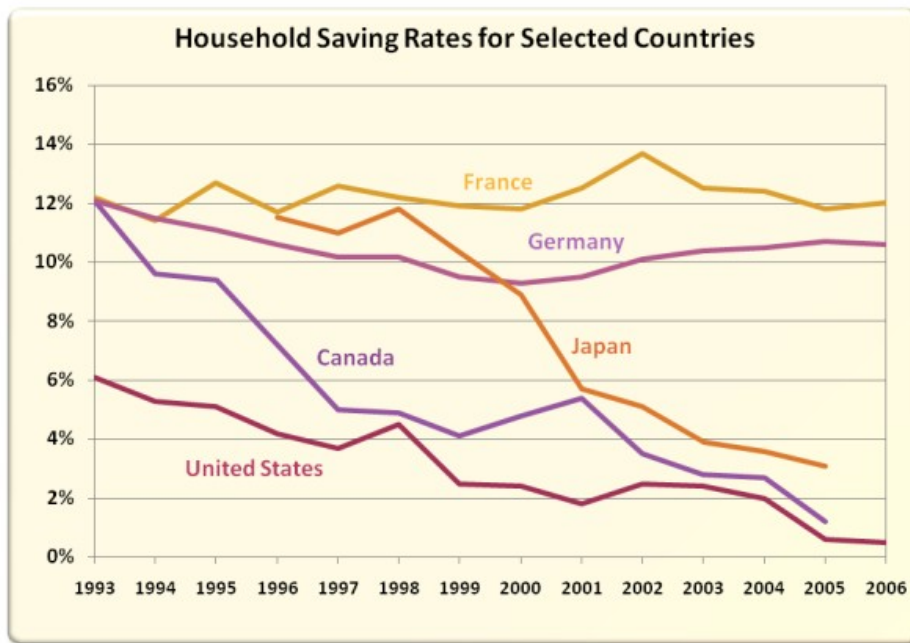
Having short-term financial security and a long-term savings are crucial **SAFETY** needs. Whether you invest individually or work with a professional it is important to understand how your money is invested and the risks involved.

Know Your Goals

Planning for retirement is an on-going process. You must know how much income you'll need to live comfortably, provide adequate health care and ensure financial security for dependents. Online sites like www.Schwab.com and www.BankRate.com provide tools to help you with this process.

Know What It Takes

North Americans are notorious for living beyond their means. Saving rates are very low and in decline.



Source: Organization for Economic Cooperation and Development (2007)
OECD Economic Outlook: December No. 82 – Volume 2007 Issue 2

Because of this, an above average return on our investments is a requisite to meet retirement goals. To get higher returns, one must take higher risks. A simple example:

Assumptions

- Work Life: 40 years
- Historical Inflation: 3%
- Historical 5-Year CD Rates (lower risk): 5%
- Historical Stock Market Returns (higher risk): 8%

Calculator: <http://www.bankrate.com/calculators/savings/saving-million-dollars.aspx>

Saving \$275/month for 40 years (8% market return) will result in a million dollars. Saving \$675/month for 40 years (5% CD return) will also result in a million dollars. The difference goes beyond risk and \$400/month. Historical information does not account for market timing or inflation fluctuation. In the past 20 years the average stock market return, adjusted for inflation, has been 8%. Over the past 10 years, that number falls to 1%. Since January 1, 2000 the number falls to -4%. Meanwhile inflation rates in the past 20 years have fluctuated between 1% and 6.3%. Higher inflation impacts real income invested in less risky vehicles (CDs, Money Market, Treasuries, etc). Source: http://www.moneychimp.com/features/market_cagr.htm

Bottom Line: Market volatility has hampered the retirement plans of millions – especially the average investor who takes greater risk to make up for lack of savings. **I'm not advising you how to investment, but I am pointing out the importance of saving so you are not completely dependent on the market to make up the difference.**

Know Your Investments

Underfunding your retirement is unsettling. Not understanding what is in your portfolio is downright scary – especially when the market takes a turn for the worse. Before making an investment decision make sure you understand the investment, its upside and downside. Three suggestions:

1. **Beware of False Promises:** There is no such thing as a no risk investment or a get rich fast scheme (the only person getting rich is the one selling the scheme). Do not agree to anything on the spot or act on testimonials from strangers.
2. **Don't Gamble With Money You Can't Afford To Lose:** The less you can afford to lose, the more conservative you should be in your choice of investments. A young person with a long-term horizon can absorb more risk because they have the benefit of time. If you're close to retirement a volatile portfolio can wreak havoc on your golden years. *Tip: If you are meeting your investment goals and want to invest for fun set up a separate account that is isolated from your essential savings.*
3. **Diversify:** Don't put all your money in one stock, bond, fund family, sector, commodity, industry or region of the world.

Self-Help

Even if you choose to work with an investment advisor it is important to understand a wide-range of investment topics. My recommendation is to subscribe (or read at the library) one or more of the following every month: Kiplinger's, Money Magazine or Smart Money. These magazines cater to a general audience. If you are new to investing, don't get frustrated if topics seem foreign. Over time you will gain familiarity.

Know Your Advisor's Place

If you choose to work with an investment professional, remember you are buying their service and they must work for you and your interests. Interview several before settling on one. Although I personally do not work with an investment professional, I would recommend a fee-based advisor rather than one who makes money on commission (annuities, mutual funds and frequent trading generate a lot of commission for a broker).

Secure Your Short Term

Make sure your current financial needs are addressed. For advice on an Emergency Fund, see my September 2009 Newsletter: http://givinggrinch.blogspot.com/2008_09_01_archive.html

BudgetFree for Life Consulting

Tailored for individuals, couples or families, this package comes with all the training, tools, techniques and support you'll need to live BudgetFree for Life. It's an affordable way to bring fiscal and personal balance to your life. To learn more, check out my 60 second presentation: [GivingGrinch: Budget Consultation Service](#)

Reader Tips

Survival: Explore the Bulk Section and Eat Healthy for Less

The food industry makes it easy for us to eat processed foods, but they good for us or the environment. With food prices rising and incomes shrinking it's time to make grains and beans the centerpiece of our diets.

Begin your day with whole grain cereals topped with nuts and dried fruit. For lunch combine whole grains with beans, veggies and a sauce or dressing. For dinner casseroles, pilafs and stir fries. Need a quick snack? Try Bulgur, couscous, instant black beans or re-fried beans with veggies. Submitted by Susan B. in Hancock, Michigan

Social: Road Trip Clip

I clip coupons from restaurant chains and keep them in the car to use on road trips.

Grammar Contest/Winner: Congrats to Uwe Kirch of Grand Junction, CO for being the first reader to submit two grammar errors from my March newsletter. Uwe, your coffee is en route! Thank you for all who responded. **The first newsletter subscriber to find two or more errors from this newsletter will win a 2 oz pack of coffee.** Email me at advice@givinggrinch.com. Please include your name and address.

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