

Let's Talk Money™

Compliments of... Peter J. Anderson



Making the fear factor irrelevant

How do you view money? For many people, the subject of money provokes fear and uncertainty. It's only normal that our upbringing and current circumstances combine to shape our views of finances. But with a little knowledge, you may help lessen some of your biggest money fears. Two of the biggest money fears are losing money and having your identity compromised.

Losing money

It's not uncommon to fear losing money. After all, money drives our nation's economy and it drives our families' economies. When our fear of losing money colors all that we do financially, it may be time to look at the source of that fear. For example, a young worker may invest exclusively in money market funds*, seeking a typically low-risk investment. Or perhaps, a young worker invests in a balanced portfolio that includes stock and bond mutual funds, but obsesses about performance each day. In both scenarios, the young workers had many years until retirement. Both should be looking ahead to the long term, and history shows that a portfolio including stocks outperforms other types of investments, although past performance doesn't guarantee future results. Proper asset allocation and an eye toward the future can help you overcome this money fear as you prepare financially for retirement. **

Fear of identity theft

Whether you throw sensitive financial information away in the trash or you do all your banking transactions online,

you run the risk of identity theft. A few measures should allay your fears in this area. Shred all paper copies of sensitive financial information that isn't saved. Online, make sure your virus protection and anti-spam software are regularly updated. Don't give out your Social Security number and never carry your Social Security card with you; store it in a lock box or safety deposit box.

**An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. Mutual funds involve risk and are offered by prospectus only, which you should read carefully before investing or sending money. Because investment return and principal value fluctuate, shares may be worth more or less than original value upon redemption. Carefully consider investment objectives, risks, charges and expenses of the investment company before investing. The prospectus, which you can get from your registered representative, will include this and other information.*

***Asset Allocation won't guarantee a profit or ensure that you don't have a loss, but may help reduce volatility in your portfolio. Asset allocation, which is driven by complex mathematical models, should not be confused with the much simpler concept of diversification. Diversification cannot eliminate the risk of investment losses.*



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"Lost time is never found"
Ben Franklin

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SPEND OR SAVE? YOUR CHOICE CAN AFFECT YOUR FINANCIAL FUTURE

Are you a spender or a saver? Unfortunately, Americans as a group are notoriously poor savers. In today's consumer society, succumbing to advertising and marketing pressures is easier than learning how to put money away for tomorrow. Here are five ways to turn yourself into a saver.

1. Understand your spending behavior. By examining your spending patterns, you may learn you spend more than you thought. Do you buy from a list when you go to the store or supermarket, or do you make impulse purchases? If the end-of-aisle displays are too much for you to pass up, consider always making a list and buying nothing that deviates from that list.
2. Relive past history. A look at your checkbook over the past three months can give you clues about money that seemingly vanishes. Perhaps your \$4 a day designer coffee can be scaled
3. Live for tomorrow. Time flies by, so today is the best day to prepare financially for tomorrow. Establish an emergency fund. Contribute to savings vehicles for a child's college costs and your retirement. Time and compounding may help you reach your goals over time.
4. Automate everything. If you're not saving the maximum for retirement, start today. Some 401(k) plans have automatic escalators that increase your contributions when your salary increases. Take advantage of them. Pay your bills online. You'll save time and the cost of postage.
5. Pay down debt. High-interest credit cards can eat away at your saving power. Start with the smallest high-interest rate balance and work your way up to eliminate credit card debt.



Learn to resist the urge to buy

Preaching the reasons for saving is easy, but resisting the urge to buy can be difficult. One way to help yourself resist that urge is to understand how marketers and advertisers get to you, your emotions and, ultimately, your pocketbook.

Marketing and advertising is tested and retested before focus groups to ensure the greatest number of potential customers. A purchase is often a reaction to an emotional appeal. For the teen, it may be the lure of the fastest snowboard or skateboard. For an adult, it may be a tug at the heart that leads directly to the wallet. Get out from under the

influence by coldly analyzing everything you buy and why. There is a big difference between need and want.

Another way to help resist marketers is to teach your children financial lessons. Not only do you help create more financially savvy adults, but you help reduce the pressure of children begging for the latest and greatest products. Monitoring commercials they watch is a good start toward understanding the marketing pressures put on your children.

Finally, take what you hear in advertising with a grain of salt. Some political advertising is a prominent example of statements that may not quite be facts, but you can find at least a hedging of the truth on everything from cereal box labels to consumer rankings (what category?) to health claims (will make you look ten years younger!). Learn to understand advertising and marketing for what it is: an all-out attempt to make you buy.

TRIM YOUR HIGH-TECH BILLS



Technology is ever-present today. We surf the Internet, talk on our cell phones and choose from more than 100 channels for our viewing pleasure. With advances in technology comes advancing costs. The more we want, the more it costs.

You can, however, trim your high-tech bills. Consider the following:

One phone is enough for most people. Separate phones for your home, your mobile and your fax can cost you big time. Consider installing an inexpensive fax/phone switch to eliminate one phone in your home. Or consider dumping your home phone and using your cell phone to take all calls. If you have a cell phone with limited free time per month, consider using most companies' much more liberal weekend policy of free calls. One final consideration might be adopting Internet phone service — called *VoIP* or Voiceover Internet Protocol. Quality has improved greatly and most cost less than traditional phone service.

Re-examine your television viewing habits to learn if you're paying for more than you watch. Most cable companies bundle pay channels with other channels. If you don't

watch the pay channels, you're paying for more than you should. If you spend a lot of time with pay channels, you might want to consider the bundle.

Shop for Internet service. Many cable companies now offer discounts for using their broadband Internet service in addition to their cable television service. These discounts typically run for about six months, then you're generally charged a higher rate, though not as high as you would if you weren't a cable television customer.

Bargain and negotiate. Nothing brings a discount faster than the threat to use another provider. If you are paying regular rates for your cable or broadband service and notice the same company advertising a cheaper price for new customers, you might call to request the same or threaten to take your business elsewhere. It costs more to find new customers than it does to keep old customers happy.



Identity theft at any age

Most Americans are aware that identity theft can affect them, but are they also aware that their children — even infants — can be targets? A minor's stolen identity can go undetected for years, a good reason why thieves might choose a minor's identity. The solution? Guard your child's personal financial information, such as a Social Security number. Make

sure older children don't carry the card around with them. Also, keep your computer's virus protection and anti-spam software up to date in case your older child uses the Internet to apply for credit. Finally, consider requesting your child's credit report periodically to ensure that your child's identity remains only your child's identity.

GUIDING YOUR TEENAGER ON THE CREDIT CARD PATH

One of the biggest decisions many parents make when their children are about to enter college is whether or not to give them a credit card. It's easy for teenagers to look at a credit card as "free money," oblivious to the bills that will eventually come. If you want to give your new college student some financial freedom but you also want some restraints on spending, you might consider a pre-paid credit card.

With a pre-paid credit card, parents put money up to the limit into the account and the cardholders — college students in this case — have that amount of credit available to them. Many cards allow you to replenish the card, which is something you might consider if your teen's spending is under control and bills are paid on time. Because parents put up the money for the account, it isn't necessary to perform a credit check on your child. With a prepaid card, children don't risk the potential for damaging their credit rating, while actually building a good credit rating.





ROTH IRAS: AN INTERGENERATIONAL SAVINGS VEHICLE

For many people, Roth IRAs are an important part of a total strategy for retirement savings. This is true, in great part, because qualified Roth IRA distributions are, in most cases, taken tax-free. For this reason, a Roth IRA may prove beneficial to people who expect to occupy the upper income tax brackets in retirement, since traditional IRA distributions are taxed at ordinary income tax rates. However, a Roth IRA may also make sense for younger adults and even children with earned income. In the latter case, parents and grandparents may want to help loved ones get a head start on saving for retirement.

Know the rules

In 2006, you may contribute up to \$4,000 to the Roth IRA, plus another \$1,000 in catch-up contributions if you're age 50 or older. (If you contribute to both a Roth and traditional IRA, this limit includes contributions made to both IRAs.) You must have earned income equal to or greater than your contribution; otherwise your annual contribution limit is the total of your earned income. The annual income limit for couples or a qualifying widow(er) to contribute to a Roth IRA is a modified adjusted gross income of \$160,000; the limit for singles is \$110,000, and for married persons filing separately, \$10,000 if you lived with your spouse at any time during the year or \$110,000 if you lived apart.

Roth IRA account owners may choose to delay distributions for as long as they live. A traditional IRA mandates that minimum distributions must begin by April 1 of the year after reaching age 70½. Another huge difference is that Roth IRA distributions are federal income tax-free when certain criteria are met, although distributions may be subject to state taxes. To qualify for tax-free and penalty-free withdrawal of earnings, a Roth IRA must be in place for at least five tax years and the distribution must take place after age 59½ or due to death,

disability, or a first-time home purchase (up to a \$10,000 lifetime maximum.) Tax-free and penalty-free withdrawals of contributions to Roth IRAs are permitted anytime.

For retirees, a Roth IRA is one of many retirement vehicles that may help contribute to financial security in retirement. Additionally, a Roth IRA may be ideal for people who have accumulated many retirement assets and don't anticipate needing all these assets during retirement. Because a Roth IRA has no minimum distribution requirements, the Roth's assets can potentially build over a lifetime, which is particularly important if your intention is to leave a financial legacy to loved ones. Conversely, delaying distributions from a traditional IRA beyond age 70½ can result in tax penalties.

A building block

If your intent is to leave financial assets to a loved one, consider a gifting program of which a part would be a contribution to a Roth IRA for children and even grandchildren. There is no age limit for Roth ownership, but a minor's IRA would have to be held by a custodian under a state's applicable law. One catch: a child's earned income must at least equal the contribution made on the child's behalf.

Ownership of a Roth IRA can give a child a base for retirement savings, as well as teach a valuable financial lesson. One \$2,000 contribution made at age 17 potentially can grow significantly by age 67½ without ever making another contribution again! A teenager might never think about saving for retirement, but a parent or grandparent who matches the child's earned income can help give a child a great start on the road to investing for future goals.



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