

NOTE TO READER: This 2005 Update is to serve as a sample for marketing purposes only! Readers should use this as an example of what the annual updates will look like in terms of length, content and tone.

## Welcome to the 2005 Annual Update!

2005 was a year of SCANDALS! I have plenty of great tips for you, but first my pledge:

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### Things to Do This Year and EVERY Year for the Rest of Your Life

- **Write your goals.** Remember, financial planning is all about financing or paying for your plans. So take a moment and write it down.
- [www.annualcreditreport.com](http://www.annualcreditreport.com) **Goes live! Listen up because this one is pretty cool.** This site was created out of legislation in the Fair and Accurate Credit Transactions Act. This site allows you to get a FREE copy of your credit reports (you actually have three of them) once per year and you can buy your credit scores at a discount (don't worry, I'll explain all this below.) While there are a bazillion websites online offering you a seemingly "free" copy of your credit report, often there are gimmicks hidden in these sites that reveal they really aren't so free. For instance, some of them take your email address and sell it to the WORLD!
  - Remember you have THREE credit reports and therefore three different scores. These three companies that compile credit reports are private independent companies so the information on the reports may vary slightly. Therefore, the scores may vary slightly. Your credit score is just the numeric summary of your credit report.
  - Remember that none of these companies are any nicer or meaner than the others. If one score is higher, that just means that that particular company reported information that helped raise your score while the others didn't.
  - Credit scores are on a scale of 300 (the worst) to 850 (the best). Don't worry about hittin' 850, I don't have that score; I don't know anyone who

does. The number to shoot for is 720. Banks really treat any score above 720 as the same score.

- About 66% of Americans have a mistake on their credit report that is NOT their fault. So scan your report for errors. If you see something, there is an address at the bottom of the report you can write to and request an “investigation.” When you do this, the reporting agency has 30 days to prove the mistake is actually legitimate. If they cannot, they have to take it off the report and your score goes up! (There’s no harm in asking for investigations, so long as you believe it to be a mistake-don’t just recklessly challenge anything you don’t like.)
- If you are in a serious relationship please take your significant other to this website and check your scores together. What credit scores do (literally) is they determine how expensive your *life* is going to be. Credit scores determine the interest rate on your loans AND they also determine some of your insurance rates (about 50% of the insurance companies use credit scores to determine part of your premiums, and this percentage is growing fast.)
- **Communicate, communicate communicate!** (Did I mention how important it is to communicate?) No one is a financial island. Your parents and grandparents are tied to your financially like it or not. So if you live in a family where the motto is “we don’t talk about money” you need to change that. You need to make sure your parents have a will, a living will, and possibly a trust (or several trusts.) Don’t tell me they don’t make enough money to justify this. *Everyone* needs to at least investigate it. If you don’t know where to start just say that: “Hey Mom and Dad, I have no idea about estate planning or what we as a family should do but I at least want to talk about it.” If you want more information, I like the books on estate planning written by NOLO’s Press. Also Suze Orman is all over this stuff-wills, living wills and trusts, so check out her website at [www.suzeorman.com](http://www.suzeorman.com)
  - Please don’t give me the old, “yeah yeah yeah Pete, I’m only 19 do I really need to do this?” YES. If your parents aren’t the financial communicators then you need to be it. You don’t have to know everything and neither do they, just all of you admit out loud that something needs to be done. (See below for a powerful example of how important this is.)
  - In addition to families, this goes for *ex*-families as well. It may be more beneficial if your ex husband claims your daughter on his tax return, and then writes you a tax free gift for half the additional savings. I know I know, you hate him and if you call you know that young floozy of his will answer the phone, but still much money can be made with financial communication. You do what you want but I have seen firsthand a LOT of money lost simply because families don’t (or won’t) talk to each other.
- **Sign up for Upromise.** ([www.upromise.com](http://www.upromise.com)) EVERYONE over the age of 18 should be on this website. Yes EVERYONE. Upromise is one of the few times in the financial world where I can recommend it to everyone. I don’t care how

old you are, how much you make or how much debt you have, please sign up. Basically it is a nationwide rebate program. Upromise members get discounts from hundreds of vendors (Exxon Mobile, Ford, Kellogg's Cereals etc) But the discounts don't get credited at the cash register, they get swept into your Upromise account (which you can get at anytime and spend on anything, tax free) In short, THIS IS FREE MONEY. You are crazy not to sign up.

- **Get your tax return double checked for free.** Any of the major tax franchises (H&R Block, Tax Man, Jackson Hewitt etc) will double check your tax return for free. During tax time, these companies advertise this everywhere. But here's some advice they won't tell you. When you make an appointment to have your return double checked asked to visit with an Enrolled Agent. Don't just visit with whoever is available. An Enrolled Agent has earned an IRS tax designation. In short, they know their stuff.
  - When you visit take the last THREE years returns. (You can amend up to three years past returns and still get money back!)
  - Basically if they find either a costly mistake, or a deduction you missed, they will tell you, but they won't tell you what it is. At that point you can either pay them to do the return or go back and try to figure it out yourself. But hey it was FREE and you may find some huge savings. When I prepared taxes I had more than one person walk out several THOUSAND dollars richer because I found a deduction they missed!

## **What happened this year and what did we learn from it?**

- **Hurricane Katrina** This devastation hit all of us both emotionally and financially. Permit me to speak on the financial side:
  - Rising gas prices. They shot up right after the storm, but I do not see gas becoming a bargain ever again. So think energy efficiency, car pooling and smaller cars. Even if I am wrong you will still save some green by being a little more green.
  - Rising insurance rates. If you are in a hurricane prone area your homeowner's insurance will likely head up. If you rent in hurricane prone area, your landlord's homeowner's insurance will likely head up and he will likely pass some of that cost onto you in the form of higher rent. Either way, be ready.
- **Does Crime Pay? Who Cares? I'm Here to Warn Ya, They'll Try Again Anyway** For years the big wigs at some of America's largest companies— World Com, Enron, Merrill Lynch, Tyco and more— had their chance, now the government took theirs. This year former WorldCom Chairman Bernie Ebbers, got convicted of (among other things) securities fraud. Dennis Kozlowski, former

chief executive of Tyco, and Mark Swartz, the company's former chief financial officer, found guilty of fraud, conspiracy, and grand larceny. James Brown (not *the* James Brown, as in the hardest working man in show business, but as in the former head of Merrill Lynch's brokerage asset lease group) and Daniel Bayly (former head of investment banking for Merrill Lynch) both got sentenced this year.

- But what does this mean to you? I'll tell you. Right now, even despite all these guys getting hard time, *someone* right now is scheming deep within the halls of Corporate America. So it is, so it was, so it always will be. Congress will do their best to write a new law but don't count on them for protection.
- The lesson is the same as it always has been. *Never* put all your eggs into one basket. No one saw Enron coming (or if they did, no one did anything about it.) Same thing with WorldCom and Tyco. Now these are public companies, which must make their financial statements available to the public. But if those statements are outright lies, how are you and I to know? *We can't...ever*. The only way to protect yourself from this happening again (and I am here to tell you it *will* happen again) is to diversify your investments. I don't care how appealing one particular stock, business or piece of real estate looks, 2005 taught us you can never be sure so spread your money around.
- **Teri Schiavo has the nation talking about living wills-Do you and your parents have one? (Remember how important communication is?)**
  - For the past 12 years Teri Schiavo has been in a persistent vegetative state unable to clearly communicate her medical wishes to either remain or refrain from further life support. As it stands her husband Michael is her legal guardian because they are still legally married (even though Michael has been living with another woman for the past ten years.)
  - It is not my intention to get political in any of these financial updates so I will just address the facts and my advice. The facts are that the Schiavo case has brought a lot of debate and controversy over who has the final say over someone's medical care when they are unable to speak for themselves. Regardless of where you stand, the whole debate would have been clearer if Schiavo had what is known as a living will.
  - A living will is simply a legal document that instructs your preferences for medical treatment should you be unable to communicate these wishes on your own. Many living wills also appoint a guardian to act on your behalf. If you fall into a coma without a living will, then the state will have a legal hierarchy of who can make those decisions for you but this can get ugly very quickly.

- In short, living wills are cheap, easy to draw up and they can be changed at any time. It is one of the few times in the financial world where I can say that EVERYONE over the age of 18 should have one. So if you don't, get on it. (Again Nolo's has a great book called *Plan Your Estate* or check out Suze Orman's *Will and Trust Kit*. Then have a lawyer look over the final draft.) The point is DO IT!
- **Bankruptcy isn't so easy now.** The ole' "let all yee debts be forgiven" spiel kinda washed away in 2005. Most individuals who file bankruptcy file either what is known as Chapter 7 or Chapter 13 (these are based on the two most exciting chapters in *The DaVinci Code*. Only kidding, they just refer to the actual chapters in the federal bankruptcy law books). Basically the biggest changes came under Chapter 7 which previously allowed someone to discharge (or wipe out) their personal debt. It was truly a fresh start.
  - The old wipe the slate clean is much tougher to qualify for, simply because now, you need to actually qualify. Instead of allowing people to simply wipe out their debt, a much higher percentage of people will have to file a Chapter 13 bankruptcy instead, which creates a court supervised repayment plan. In short bankruptcy is not as easy as it once was.
  - If you are considering it, please do your research. It used to be a last resort, now it is a last *last* resort. Remember that bankruptcy attorneys make money *only if and when you file bankruptcy*. They don't make money trying to talk you out of it. Try first going to the National Foundation for Credit Counseling for a free initial consultation ([www.nfcc.org](http://www.nfcc.org)) Start there. They might be able to help you with a repayment plan. But remember credit counselors make money *only if and when you start on a repayment plan*. While they are nonprofit, they still need to make money and they only make money when you sign up for a plan. Tough to find an unbiased source isn't it? Whatever you do, just take it slow, do your research and don't do anything you are not comfortable with.

### **If Any Of The Following Happened To You This Year Then Do This:**

- **If you had or will soon have a child this year** (well first of all congrats). Be sure to save for your own retirement BEFORE putting a dime toward the baby's college education. Please tell the baby's grandparents the same thing. The more money in the child's name, the less financial aid she will qualify for down the road. So save for yourself first.
- **If you graduate this year, be sure to check your credit score.** (see above) Employers often check credit reports and use them as a yardstick to measure job applicants. Also employers WILL check your Myspace

and Facebook pages so clean them up (get rid of that picture of you wearing a diaper and drinking beer out of a cowboy boot) or set them to private before you send out that resume. Also visit your HR department at your new company and ask them to CLEARLY outline ALL the employee benefits. (Ya never know what perks they offer.)

- **If you got married this year** (again congrats) be sure too to check your credit *together*. (see above for how credit scores work.) No more financial secrets. Ladies, you typically have higher credit scores. So make a night of it, have a nice dinner, check your scores, and if his is above 720 he gets the French maid costume. Below 720, he gets the couch. Also *communicate* with your spouse about money management. (There's that communication theme again). What are your goals? How do you feel about sharing accounts? Also please find out if you are legally responsible for your spouse's debts in your state (hint: if you live in a "Community Property State" you probably are.) Ask a divorce attorney in your state for the answer. (Although don't say to your spouse, "honey one sec, I just want to call a divorce attorney" ;-)) Please talk about this stuff; there are no wrong answers, the only wrong answer is silence.
- **If you bought a house with an adjustable rate mortgage;** watch out! Rates can't stay low forever. *They will go up.* (They did go up this year) I just don't know when they'll go up again and how high. Rate hikes are coming so be prepared and investigate your options of getting out of your adjustable rate.
- **If you entered college this year** chat with your parents about taxes. Some of the tax breaks (like the HOPE Scholarship and Lifetime Learning Credit) are more profitable if YOU claim them on YOUR tax return (as opposed to mom and dad.) How do you know? Go get your return doubled checked (see above.) Also this year "Deduction for Higher Education Expenses" goes away, so be sure to ask about this!
- **If you got divorced this year** (sorry :-)) Remember you cannot file a tax return as "single" until you are legally divorced. Divorce fees are NOT tax deductible, but fees for tax advice related to the divorce IS. So be sure your lawyer gives you itemized bills. Also I know it's tough, but communicate with your ex about who is going to claim your children (if any.) Working together will ensure you get the most money.

## **My Two Most Frequently Asked Questions This Year:**

**Are we at the top of the real estate market and should I wait to buy? (Or should I sell now?)** The short answer is I have no idea and *neither does ANYONE else.* My

rule for real estate is this: Forget about timing the market. If you can live in the house at least five years, history tells us it will be unlikely that you will lose money. No one knows where the real estate market will go so stop trying to control it. Focus on what you can control, which is your own life. Five years in real estate seems to be the magic number.

- **Should I buy oil stocks? Those guys have *gotta* be makin' a killing? Shouldn't I get in on that?** The short answer is I have no idea *and neither does ANYONE else*. While I think oil stocks are good, safe long term buys, they may *not* be a good bet for *you*. It depends on what else is in your portfolio and if oil stocks support your goals. Remember we don't buy investments based on the news of the day we buy investments *that support our goals*. I do however think that Young Americans can't go wrong by investing 10% of their income in 3 different index mutual funds:
  - One that tracks the performance of the S&P 500 (US Companies)
  - One that tracks the performance of the Morgan Stanley EAFE Index (foreign companies)
  - A REIT Index Fund (REITs are Real Estate Investment Trusts which are huge money funds that buy large pieces of real estate like shopping malls and skyscrapers.)

Just be sure to watch the expense fees! Whichever mutual funds you buy they should be no load, ("no load" just means there is no sales fee to buy them) with expense fees of *less* than 1%. How do you know, just ask the company you are working with. Too lazy for that? Try Vanguard, Etrade, or T Rowe Price. All three can help you set this up and all three are pretty good with fees. Hey once you invest 10% of your income in these funds, I really don't care what you do with your money. (Okay not entirely true but you get me ;-)

## **What's On the Horizon? (Planning For Next Year)**

- **Get Some Green Goin' Green!** Energy Policy Act of 2005 (effective 2006) gives some sweet tax breaks for buying energy efficient cars and making energy efficient improvements to your home. Tell your parents, tell your friends (and ask a tax professional) if this is a good move for you (and your family.) But most likely 2006 and 2007 will be ideal years for increasing energy efficiency.
- **Roth 401k** Ask your human resources department about this, but definitely worth considering if you are a young person. With this one, you lose the upfront tax deduction a traditional 401k offers, but everything you contribute grows tax free (whereas money in a normal 401k will be taxed as income when you take it out.) As long as this doesn't cut you out from any matching funds, I'd seriously consider the Roth 401k.

Have question for me you'd like to see me answer in the next annual update? Email me at [peter@peterbspeaks.com](mailto:peter@peterbspeaks.com) and put "Annual Update" in the subject line of the email. I'll do what I can! See you next year!