

<http://money.cnn.com/magazines/moneymag/money101/>

Goals for setting priorities

Lesson 1

1. Narrow your objectives.

You probably won't be able to achieve every financial goal you've ever dreamed of. So identify your goals clearly and why they matter to you, and decide which are most important. By concentrating your efforts, you have a better chance of achieving what matters most.

2. Focus first on the goals that matter.

To accomplish primary goals, you will often need to put desirable but less important ones on the back burner.

3. Be prepared for conflicts.

Even worthy goals often conflict with one another. When faced with such a conflict, you should ask yourself questions like: Will one of the conflicting goals benefit more people than the other? Which goal will cause the greater harm if it is deferred?

4. Put time on your side.

The most important ally you have in reaching your goals is time. Money stashed in interest-earning savings accounts or invested in stocks and bonds grows and compounds. The more time you have, the more chance you have of success. Your age is a big factor - younger people (who have more time to build their nest egg) can invest differently than older ones. Generally, younger people can take greater risks than older people, given their longer investment horizon.

5. Choose carefully.

In drawing up your list of goals, you should look for things that will help you feel financially secure, happy or fulfilled. Some of the items that wind up on such lists include building an emergency fund, getting out of debt and paying kids' tuitions. Once you have your list together, you need to rank the items in order of importance.

6. Include family members.

If you have a spouse or significant other, make sure that person is part of the goal-setting process. Children, too, should have some say in goals that affect them.

7. Start now.

The longer you wait to identify and begin working toward your goals, the more difficulty you'll have reaching them. And the longer you wait, the longer you postpone the advantage of compounding your money.

8. Sweat the big stuff.

Once you have prioritized your list of goals, keep your spending on course. Whenever you make a large payment for anything, ask yourself: "Is this taking me nearer to my primary goals - or leading me further away from them?" If a big expense doesn't get you closer to your goals, try to defer or reduce it. If taking a grand cruise steals money from your kids' college fund, maybe you should settle for a weekend getaway.

9. Don't sweat the small stuff.

Although this lesson encourages you to focus on big-ticket, long-range plans, most of life is lived in the here-and-now and most of what you spend will continue to be for daily expenses - including many that are simply for fun. That's OK - so long as your long-range needs are taken into consideration.

10. Be prepared for change.

Your needs and desires will change as you age, so you should probably reexamine your priorities at least every five years.

The Prioritizer

Lesson 1

This calculator helps you rank a series of goals or options which are most attractive to you.

In the spaces below, enter as many as 15 different goals to which you or your family aspire. Goals can be short-term, such as "Taking a great vacation this summer," or long-term like "Securing a comfortable retirement." The calculator will then ask you a series of questions that force you to choose between each possible pair of goals. Based on your answers, it will then compute a preference score for each goal and an overall rank order for the list.

Note: while the calculator is designed for choosing among financial goals, it can be used to rank any series of options -- such as deciding which movie to see, which vehicle to buy or which college to attend.

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The Prioritizer

For each item listed, number starting with the one that is most important to you. When you have chosen a favorite among all items, notify the instructor.

Test

Lesson 1

1. What's the most important first step to take towards achieving your financial goals?

Contribute regularly to an IRA or 401(k).

Work hard so you'll get promoted to a better job.

Figure out which goals are achievable and worth striving for.

Put yourself on a tight budget to get spending under control.

2. Financial planners generally stress the importance of starting to save and invest early. What's the main reason why?

Because it helps build good habits that will last a lifetime.

Because of the power of compounding and appreciation.

Because you generally don't have as many bills to pay when you are young as when you are older.

Because it means you'll need the services of a financial planner for longer in your life.

3. Two people save money in a tax-deferred Individual Retirement Account that earns 8% annually. Person A invests \$ 3,000 a year from age 20 to 29, but then never saves another penny. Person B starts investing \$ 3,000 a year at age 30 and saves that same amount annually for the rest of his life. Who has more money in the account at age 65?

Person A

Person B

They both have the same

4. What's a good question to ask yourself whenever you pay a large expense?

Should I go into debt to pay this bill?

How can I charge this item to my expense account at work?

Is this expense getting me closer to my top financial goals, and, if not, can it be deferred?

Would Bill Gates have spent his money this way before he grew rich?

5. When two equally important goals conflict, which of the following questions may be the *least* helpful in resolving the conflict?

Is someone's health involved?

Which of the two goals benefits a larger number of people?

Which goal, if not achieved, will harm more people?

Which goal, if achieved, would be more impressive to readers of my obituary?

6. Once I've ranked my priorities, and am working towards them, is it a bad thing to change my mind?

Probably, because you'll undermine your savings discipline and jeopardize your ability to achieve your chief goals.

Not necessarily, but it does mean that most of what you've done to date will be in vain.

No. In fact, your priorities are likely to change over time anyway, and you should be prepared for that.

Steps to making a financial budget Lesson 2

Bring your spending under control

1. Budgets are a necessary evil.

They're the only practical way to get a grip on your spending - and to make sure your money is being used the way you want it to be used.

2. Creating a budget generally requires three steps.

- Identify how you're spending money now.
- Evaluate your current spending and set goals that take into account your long-term financial objectives.
- Track your spending to make sure it stays within those guidelines.

3. Use software to save grief.

If you use a personal-finance program such as Quicken or Microsoft Money, the built-in budget-making tools can create your budget for you.

4. Don't drive yourself nuts.

One drawback of monitoring your spending by computer is that it encourages overzealous attention to detail. Once you determine which categories of spending can and should be cut (or expanded), concentrate on those categories and worry less about other aspects of your spending.

5. Watch out for cash leakage.

If withdrawals from the ATM machine evaporate from your pocket without apparent explanation, it's time to keep better records. In general, if you find yourself returning to the ATM more than once a week or so, you need to examine where that cash is going.

6. Spending beyond your limits is dangerous.

But if you do, you've got plenty of company. Government figures show that many households with total income of \$50,000 or less are spending more than they bring in. This doesn't make you an automatic candidate for bankruptcy - but it's definitely a sign you need to make some serious spending cuts.

7. Beware of luxuries dressed up as necessities.

If your income doesn't cover your costs, then some of your spending is probably for luxuries - even if you've been considering them to be filling a real need.

8. Tithe yourself.

Aim to spend no more than 90% of your income. That way, you'll have the other 10% left to save for your big-picture items.

9. Don't count on windfalls.

When projecting the amount of money you can live on, don't include dollars that you can't be sure you'll receive, such as year-end bonuses, tax refunds or investment gains.

10. Beware of spending creep.

As your annual income climbs from raises, promotions and smart investing, don't start spending for luxuries until you're sure that you're staying ahead of inflation. It's better to use those income increases as an excuse to save more.

Insert Budget plans

Lesson 2

Test Lesson 2

1. The first step in getting your spending under control is to:

Seek help from a financial planner.

Consult a credit counseling service on how to get out of debt.

Draw up a budget of your current expenses.

Subscribe to financial newsletters, magazines or Web sites.

2. Banking online using personal financial software makes it easier to track your expenses because:

You can download transactions directly from the bank or credit card company.

The software forces you to categorize your spending.

Such programs usually have an automatic budget generator.

All of the above.

3. How much of your income should you aim to save and invest:

At least 10 percent.

At least 30 percent.

At least 50 percent.

At least 70 percent.

4. If inflation averages a modest 3 percent per year, how long will it take before the average price you pay for goods and services doubles?

9 years.

24 years.

41.5 years.

It will never double.

5. If you examine your bank records and can't explain why you withdrew so much cash, you should:

Complain to the bank because it probably made a mistake in the records.

Review your purchases to make sure no one is stealing money from the account.

Vow to take no more withdrawals for the next two weeks.

Start keeping a journal of your spending.

6. The most common cause of spending beyond your means is:

A too-large house.

A too-luxurious car.

A too-lavish life on credit.

All of the above.

Smart banking and saving basics Lesson 3

It's all about saving the money you earn by banking smart, and using your banking for financial growth.

1. Money in a bank account is safe.

A bank is one of the safest places to stash your cash. In the wake of the financial crisis of 2008, the federal government increased the level of insurance on bank accounts -- it's now \$250,000 per depositor.

2. You pay for the convenience of a bank account.

Banks generally pay lower rates on interest-bearing accounts than brokerages and mutual fund companies that offer check-writing privileges. What's more, bank fees can be high -- account costs can easily add up to \$200 a year or more unless you keep a minimum required balance on deposit.

3. Inflation can eat what you earn from a bank.

Even at a low rate of inflation, the annual creep in the cost of goods and services usually outpaces what banks pay in interest-bearing accounts.

4. Not all interest rates are created equal.

Banks frequently use different methods to calculate interest. To compare how much money you'll earn from various accounts in a year, ask for each account's "annual percentage yield." Banks typically quote both interest rates and APYs, but only APYs are calculated the same way everywhere.

5. You can get better rates

Certificates of deposit (CDs) offer some of the best guaranteed rates on your money and are insured up to \$250,000 each.

The catch: you have to lock up your money for three months to five years or more. If interest rates fall before the CD expires, the bank is out of luck and must give you the rate it quoted. If rates climb, you're stuck with the lower rate.

Also online bank and money market accounts can be an attractive option, too. They can pay more than banking accounts and you don't have to lock up your money for a specific amount of time.

6. ATM fees can take a significant bite out of your budget.

The convenience of using automated teller machines is an increasingly pricey one. On average, the fee your bank charges you to use another institution's ATM is \$2.00. That's on top of the fee that the other institution will charge you to use its ATM.

7. Getting the best deal takes work.

You won't get a great deal on a car if you just walk into a dealer and plunk your money down. Likewise, you won't get a great banking deal unless you comparison-shop and ask about price breaks. For example, a bank might offer free checking if you are a shareholder or if you direct deposit your paycheck.

8. Use the Internet to shop for bank services.

You can use the Internet to compare fees, yields, and minimum deposit requirements nationwide. Sites like Bankrate.com allow you to search and compare the highest yields and the lowest costs on banking, savings, loans and deposit rates nationwide.

9. Banking online can make bill-paying easier.

Electronic bill-paying can save you the monthly hassle of paying your bills. And if you couple online banking with a personal-finance management program, such as Quicken or Microsoft Money, you'll be able to link your banking with your budgeting and financial planning as well. But be careful. Some vendors only warn the consumer of price hikes in the fine print of a bill.

10. You can bank without a bank.

A number of financial institutions offer accounts that resemble bank services. The most common: Credit union accounts; mutual fund company money market funds; and brokerage cash-management accounts.