Loose CHANGE®

A PENNY SAVED IS A PENNY EARNED

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Are You Practicing Good Investing Habits?

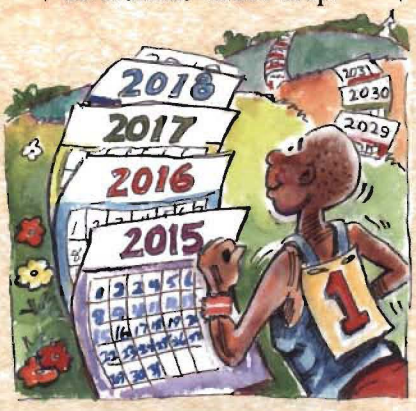
Investing for a goal that's far in the future isn't always easy. Immediate financial needs — like paying your mortgage and putting gas in your car — may seem a lot more pressing. So what can you do to make sure you're saving enough to reach your future goals? Practicing tried-and-true long-term investing habits can keep you on course.

Be Clear About Your Goals

Defining your long-term goals is the first step toward choosing investments that will help you reach them. Since different investments respond differently to various market conditions, select a mix from the major asset classes that fits your risk tolerance and time frame.

Stick with Your Strategy

Market ups and downs are a fact of life. Create a long-term strategy you won't be tempted to abandon if investment values drop.



Your long investing horizon gives your portfolio time to benefit from any market rebound since, historically, stocks have always recovered their losses over the long term.

Rely on Reason

Making decisions in haste or based on emotion can result in investment moves you may later regret. Review your original reasons for buying an investment and compare performance with an appropriate benchmark index before you sever ties. If returns have been poor over several years, consider replacing the investment with a similar one that's a better performer.

Stay Invested

Attempting to buy investments when prices are low and sell when prices are high — market timing — may sound like a sensible plan. But market movements are very hard to predict. Being out of the market during an upswing can significantly affect your portfolio's long-term performance. Remaining fully invested is your best chance for reaching your goals.

Saying Goodbye

Okay, so you don't know the manager of your mutual fund personally. Still, you might be concerned that a fund's focus and performance will change when a manager leaves. Consider holding off on any decision to sell the fund until you've had a chance to assess the impact of the change.

Active Versus Index

A fund that tracks a particular index or is managed by a large team isn't going to change much if a manager leaves. But an actively managed fund that you own because of the manager's expertise and reputation may be a different story. Review the new manager's credentials and follow performance closely before you make a decision.

Style Differences

Determine if the fund's strategy has changed since the new manager came on board. A substantially different investing approach may not fit your investment objectives and risk tolerance.

Think Big

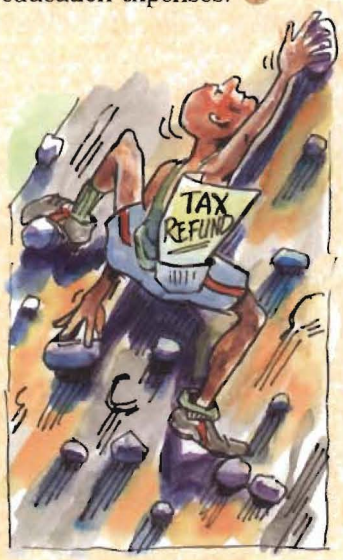
Getting a tax refund? Put it to good use. Using your refund to improve your financial situation can offer long-term benefits. Here are several ways that "extra" money can help you become more financially secure.

Boost your emergency fund. Having cash for unexpected expenses can keep you from charging repairs and other costs on a high-interest credit card. Don't have an emergency fund? Use your refund to start one.

Reduce your debt. Paying off loans or credit card balances will cut your interest expense and leave you with more money for other things. Eliminating debt should be a priority.

Invest more. Adding to your retirement portfolio can help you get to your goal. Look for asset classes that may be underrepresented to round out your holdings.

Pump up the college coffers. Putting extra cash in your child's college savings account can help you prepare for future higher education expenses.



Pay Less for College

As the importance of having a college education grows, so do the costs. Finding ways to curtail expenses has become a necessity for many students. Financial aid can help, but it may not do enough. Here are other cost-cutting measures your student may want to investigate.

Do some research. Costs can vary substantially from school to school. Look for colleges that have the programs your child wants and compare the tuition and amount of financial assistance they typically provide.

Create a spending plan. A budget can help you compare colleges based on your child's anticipated income and expenses. Narrow the choices by eliminating any schools whose costs exceed the predetermined amount.

Get a discount. Colleges may offer discounted tuition to children of alumni, family members of employees, or two or more students from the same family. Check with the college if any of these situations apply to you.

Get credit. Some schools offer credit based on a student's knowledge or life experiences. This can be particularly helpful for students who return to school after a hiatus. Getting credit for nontraditional learning can reduce the number of credits needed for graduation and thus the cost of attending college.

Take the maximum. Many schools charge a fixed amount per semester rather than per credit. Taking the maximum number of credits allowed may permit your child to graduate sooner and with less expense. Similarly, some schools offer accelerated degree programs that allow students to take all courses needed for graduation in three years.

Margin Trading: Risk Versus Reward

"Buying on margin" lets you purchase investments without using all of your own money. While this strategy increases your buying power, it also involves substantial risk.

How It Works

When you buy on margin, your brokerage firm lends you part of the money needed to buy the securities you want. You deposit the rest of the purchase price in a margin account with your broker, and the securities serve as collateral for the loan. By using borrowed money, you increase the principal amount invested — and, potentially, your investment profits — without tying up your own cash. If you choose well and the price increases, you sell the securities, repay your broker with interest, and pocket the net proceeds.

If It Goes South

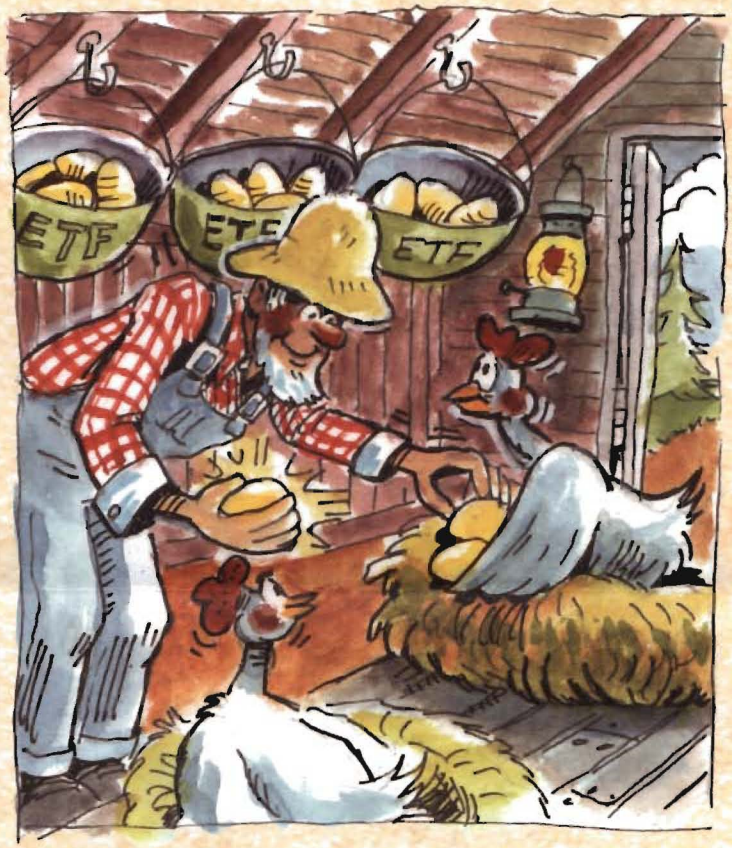
The major risk is that the value of the securities you've purchased on margin will drop. If their value falls below a required minimum, your broker will issue a "margin call," and you'll have to deposit more cash or sell some of the securities already in your account to make up the difference. If you don't meet the margin call in a timely fashion, your broker may sell the securities without consulting you.

It's possible to sustain very large losses if the price of the securities purchased on margin keeps dropping. Talk to your financial professional before adopting this strategy.

A-Tisket, A-Tasket, an ETF Basket

Can you name an investment that acts like a stock but looks like a mutual fund?[1] If you said "exchange-traded funds" (ETFs), you're right on the money. ETFs typically consist of a "basket" of securities that mirrors a particular market index. Like stocks, ETFs trade on an exchange and can be bought or sold throughout the trading day.

Since most ETFs are designed to follow an index, fund managers generally make changes to their investment lineup only when the underlying index changes. Because the goal is to match the performance of the index, fund expenses tend to be low.



You don't need a lot of money to invest in ETFs. You can start with a small investment and increase the amount over time.

Easy Diversification

ETFs offer a simple way to diversify[2] your portfolio. You can buy ETFs that mirror a broad market index. You can also invest in ETFs representing specific market sectors, such as tech, health care, and finance; foreign markets; investing styles, such as growth or value; market capitalization; and asset type.

In addition to stocks, bonds, and real estate, ETFs provide investment opportunities in market sectors that individual investors may not be able to access easily, including currencies and commodities. With ETFs, you can use many of the same strategies that are available for individual stocks, such as buying on margin, short selling, and placing limit or stop-loss orders.

Tax Facts

Compared to index mutual funds, ETFs that track broad market indexes typically are relatively tax efficient because they make capital gains distributions less often. However, if you hold ETFs in a taxable account, any distributions of interest and/or dividends will be taxable, as will any capital gains distributions that result from a sale of securities to mirror the index and any capital gain on the sale of your shares.

Weighting ETFs

Traditional ETFs — the largest category — track indexes that are weighted by *market capitalization*, assigning the most weight to companies with the highest stock market value. ETFs that track traditional weighted indexes generally have low costs and tend to mirror the way the market itself is weighted.

Alternative-weighted ETFs mirror indexes that take a different approach to weighting stocks. An *equal-weighted* index gives the same weight to each stock in the index. A *fundamental-weighted* index uses criteria such as a company's profits, dividends, cash flow, and number of employees to assign weight to stocks. And a *low volatility-weighted* index looks for stocks that demonstrate lower overall volatility compared to the market as a whole.

Another Option

Although ETFs were originally designed to be passively managed by tracking an index, actively managed ETFs are making some headway with investors. Actively managed ETFs seek to outperform indexes but generally have higher management fees. Consider the pros and cons carefully before you invest.

[1] *You should consider the fund's investment objectives, charges, expenses, and risks carefully before you invest. The fund's prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.*

[2] *Diversification does not ensure a profit or protect against loss in a declining market.*

Retire Your Roth 401(k)

If you've been contributing to a Roth 401(k) account offered through your employer's retirement plan, you've potentially benefited from tax-free growth of your contributions and earnings. But once you reach age 70½, you'll have to begin taking required minimum distributions (RMDs) from your Roth 401(k) account just as you would from a traditional 401(k).

You may want to consider a strategy that will allow you to avoid taking RMDs. When you retire or leave your current employer for another reason, you can roll over Roth 401(k) contributions and earnings directly into a Roth individual retirement account (IRA). Unlike traditional and Roth 401(k) accounts, a Roth IRA has no requirement that you take RMDs during your lifetime.

If you meet tax law adjusted gross income and earnings requirements, you can continue contributing to a Roth IRA after age 70½.

Money Market Funds — Your Go-to Place for Holding Cash?

You *could* just stash your cash in a savings account. Your money would be easy to access, and there may be a low (or no) account minimum. But if you're looking for another option without a lot of risk, money market mutual funds[1] are a possibility to consider.

What They Are

Money market funds pool money from investors to buy high-quality, income-producing investments, such as Treasury bills, certificates of deposit, and other short-term securities. Just like other mutual funds, money market funds regularly distribute dividends to shareholders and charge a management fee to cover fund expenses.

The Cash Advantage

Money market funds are highly liquid, so your investment can easily be turned into cash. Since many funds hold short-term securities from a variety of issuers, they're typically well diversified.[2] Close regulation by the Securities and Exchange Commission (SEC) makes money market funds relatively safe investments. However, when interest rates are low, returns on money market funds may not keep pace with inflation.

Taxable or Tax Exempt

Investors have the option of purchasing either taxable or tax-exempt money market funds. Tax-exempt funds should be held in a brokerage or other taxable account (rather than in a tax-deferred retirement plan) to benefit from the tax advantages.

Before You Invest

Check the fund's management and transaction fees and any balance requirements before you invest. As with any mutual fund, you should read the prospectus carefully.

Keep in mind that even though they may seem like cash, money market funds are investments and are not FDIC insured. While a retail money market fund attempts to maintain a net asset value (NAV) of $1 per share, it's possible for investors to lose money. Although incidents of "breaking the buck" are rare, the SEC has adopted new regulations to protect investors.

[1] *An investment in the 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.*

[2] *Diversification does not ensure a profit or protect against loss in a declining market.*

An Important Decision

Creating a trust to hold some or all of your assets offers a number of benefits, including making it easier for someone to handle your financial affairs if you die or become incapacitated. The person or institution you name — the trustee — will be legally responsible for managing the trust assets.

The trustee you choose should have the expertise, time, and commitment to manage the trust, either alone or with a co-trustee. Although trusts vary in their complexity, here are some of the tasks a trustee may be required to perform:

- Accounting and administrative duties, such as paying bills, retitling assets, and bookkeeping
- Asset management, including reviewing investment performance, maintaining records, tracking investments, and collecting dividends and other income
- Maintenance and transfer of real estate, including obtaining titles, deeds, and appraisals
- Management, valuation, and disposal of business interests held in the trust
- Valuation and distribution of personal property
- Management of unique assets, such as farm or ranch holdings, copyrights, patent rights, etc.
- Tax return preparation
- Distribution of assets according to the trust terms

Got Insurance? Time for a Policy Review

Do your homeowners and auto insurance policies provide all the coverage you need? You won't know if you don't review your policies periodically. An annual review can help determine if you have the appropriate coverage to accommodate your lifestyle.

Don't Be Left Out in the Cold

Homeowners insurance is intended to repair or replace your home if a covered event occurs. But inflation can cause the prices of materials to rise, and new building codes that have taken effect since your home was built can increase the costs of rebuilding. Make sure your homeowners coverage will replace your home at today's costs.

Be Safe on the Road

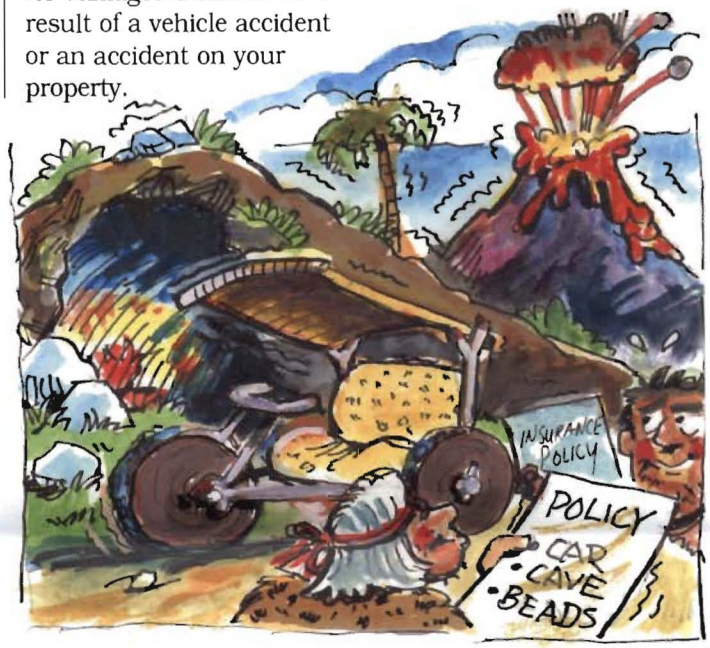
Review the limits on your auto policy. If your car is an older model, you may be able to save money by dropping some coverage, such as collision.

Stay Dry with Umbrella Coverage

An umbrella policy exceeds the coverage limits of your auto and homeowners policies. Umbrella liability coverage may protect you if you're sued and found liable for damages incurred as a result of a vehicle accident or an accident on your property.

Be Alert to Changes

Your policy renewal may include notices of important changes to your coverage. Be sure to read all notices you receive from your carrier, and compare your policy declarations with the previous version. You could be underinsured without being aware.



Stuff's Gotta Go!

Your kids are grown and on their own, and the house that sometimes seemed way too crowded now seems too spacious. Time to downsize! A smaller home or an apartment can be easier to maintain *and* save you money on utilities and property taxes.

But there's a catch, and it's a big one. Moving to a smaller place means getting rid of some of the stuff you've accumulated over the years.

Establish a Time Frame

Give yourself approximate start and end dates. Then set aside time every day to work on decluttering. Start small if you have to, but *start*! It helps if you've at least weeded out some smaller stuff — like clothing and paperwork — over the years.

Have a System

Decide whether you want to tackle one room at a time or focus on specific items, such as furniture or clothing. Choose the approach that will give you a sense of accomplishment and motivate you to continue.

Identify Recipients

You might be able to sell furniture or antiques to dealers or offer them on consignment. Charities may also be willing to accept furniture and clothing. (Make sure you get a receipt for tax purposes.) You can also ask family members if they want any of the things you're giving away. And don't forget the appeal of a yard sale.

Ask for Help

Ask friends or family members to help sort through your things. Hiring a professional "declutterer" can also make the task easier.

Working Kids: A Win-Win

If you are self-employed, hiring your children to work for you can provide spending money for them and tax savings for you. But make sure you follow the guidelines.

Pay Reasonable Wages

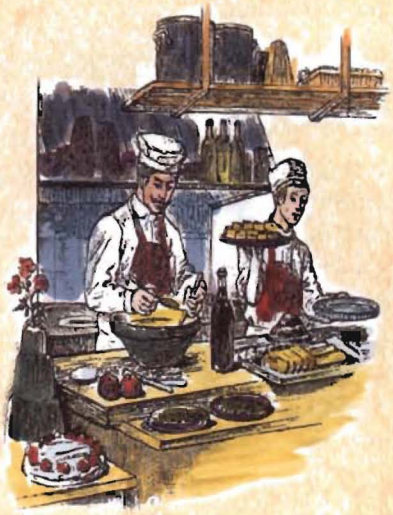
You can deduct "reasonable wages" paid to your children for legitimate work performed for your business. As long as your children are under age 18 and your business is unincorporated, you generally won't have to pay Social Security or Medicare taxes on their pay.

Keep Good Records

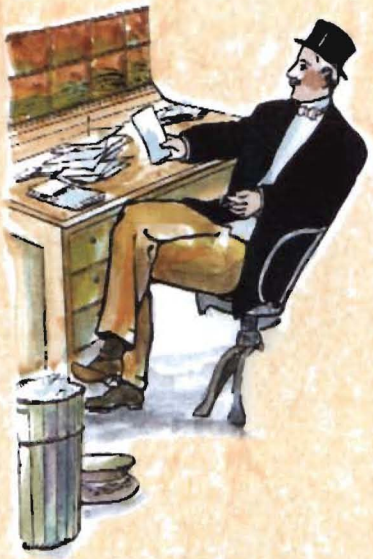
Ask your child to fill out a time sheet or punch a time clock, and pay with a check rather than cash. Keep in mind that wages that are inconsistent with the job or the age of the child won't pass muster with the IRS.

Report Their Earnings

Complete and file a Form W-2 at the end of the year showing how much you paid your child. Income that exceeds the standard deduction will be taxable.



Credit Card No-no's



Sometimes it's smart to use a credit card. Many cards offer purchase protection or award points. As long as you pay off your balance every month, using your card can be to your benefit.

But there are times when paying with a credit card isn't smart. Avoid paying for the following with your card unless you can quickly pay off the balance.

- Utility, cell phone, or cable bills. The interest you'll pay won't be worth it.
- Student loans. Try to work out a payment plan or ask for forbearance.
- Medical bills. If your provider offers a medical credit card to pay for services, read the fine print. Or ask about a payment arrangement.
- A night out. Instead of running up a tab on your card that you can't afford, pay cash.

The Ingredients for Money-smart Kids

It's really too bad that financial sense isn't something you can whip up on the stove and feed to your children. Good "nutrition" is important for their future financial health as well as for their bodies.

Consider how your own feelings about spending and saving got cooking. Attitudes about money typically develop during childhood and come from seeing how your family handled finances. So it stands to reason that your children's money habits will probably get their start with you.

Spenders or Savers?

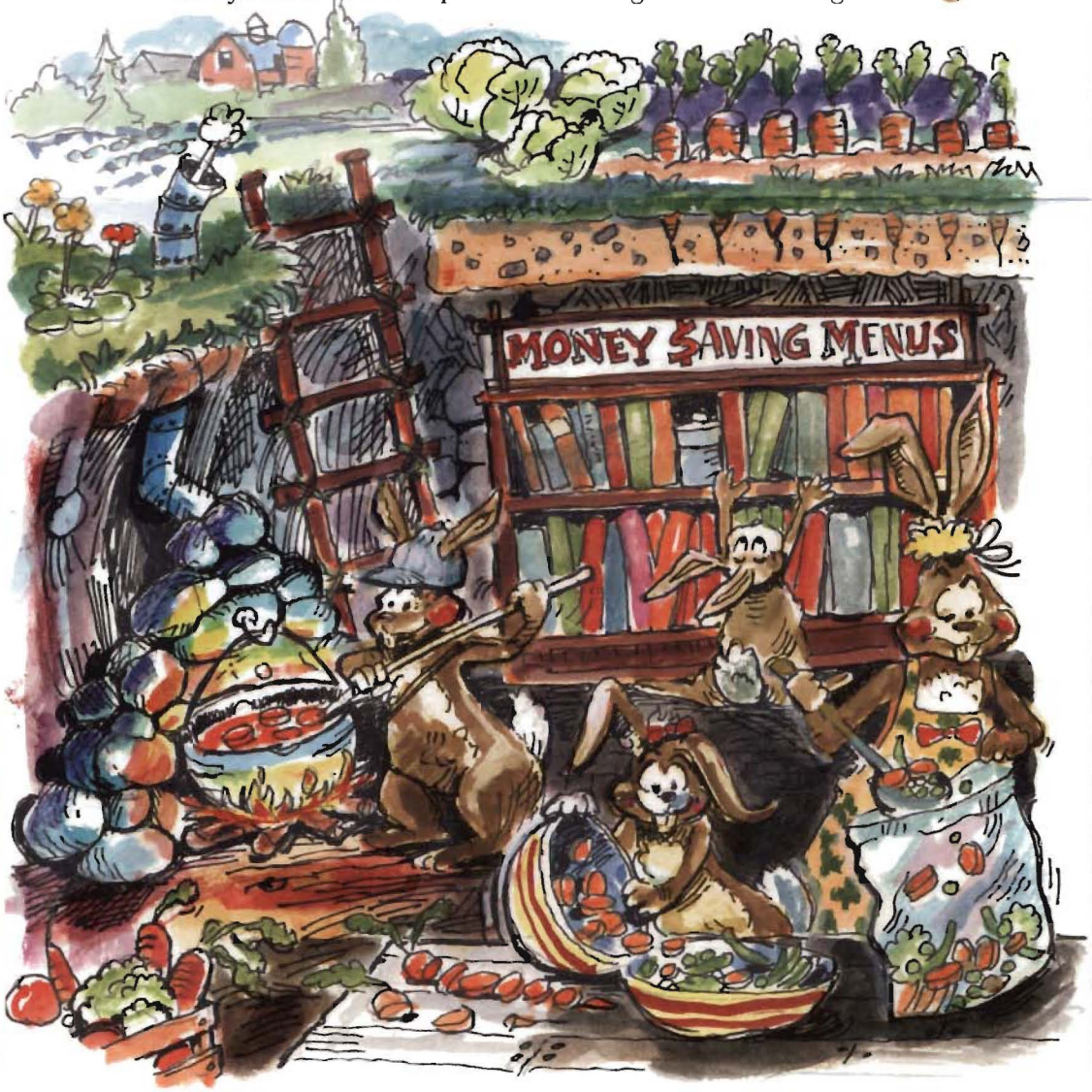
What kind of money habits did your family have when you were growing up? Children who grow up in families that spend impulsively and don't value saving may not learn the discipline needed to manage finances successfully. On the other hand, growing up in a frugal family that saves every extra dollar and never spends money on anything but the basics can rob children of memorable activities and experiences that bring families together.

Everything in Balance

Balance is the key to good money habits. Make it a priority to teach your children the importance of saving for the things they want and will need in the future. But also show them that spending money on shared activities is rewarding and often worth the expense.

Practice Helps

Consider giving kids an allowance so they learn to save for the things they want. Encourage them to put at least part of the money they receive for birthdays and holidays in a savings account and offer to match the amount. When they finally start earning money on their own, they'll already have a head start on practicing good spending and saving habits.



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Should You Say "I Do" to Wedding Insurance?

Of course, you hope your wedding will go smoothly. But what if it doesn't? Wedding insurance can help protect you in case of unexpected and unpreventable events that may force you to reschedule the ceremony and reception, such as illness or a natural disaster. Wedding insurance also can cover the costs of wedding-related deposits, attire, and gifts and provide liability protection.

Appropriate insurance limits and deductible amounts will depend on the cost and size of the wedding. Before you purchase a policy, check with the vendors, caterers, and venues to find out how much coverage they may already carry. To avoid duplication, have copies of their policies with you when you talk to your insurance company.

Also check your current homeowners or renters policy. It may already provide partial coverage for some items.

Retirement — Have a Plan

Retirement's coming. Are you ready? Your financial welfare and personal well-being are too important to just wing it. Planning what you want to do in retirement and how you'll pay for it should begin well ahead of your actual retirement date.

Your Income

When you retire, your most immediate concern may be how you'll pay all your living expenses without a steady paycheck. Having a clear idea of how much you spend each month on mortgage or rent, property taxes, insurance premiums, car costs, groceries, and utilities can help. Calculating your expenses will allow you to determine how much income you'll need to cover them.

Where will that income come from? Listing your anticipated income sources should be your next planning move. Social Security may account for some of it. Check your benefits statement or visit the Social Security website (*www.ssa.gov*) to estimate how much you'll receive.

Your income may also come from 401(k) or other qualified retirement plans, traditional or Roth individual retirement accounts, investments, an employer pension, and other savings. You'll probably want to keep some money in an easily accessible account for financial emergencies.

Your Leisure Time

Once you have your finances squared away, it's time to think about what you want to *do* in retirement. The transition from working to not working may be more difficult than you expect. How you'll spend your leisure time — and any costs involved — is something to think about *before* you retire. Pursuing hobbies, traveling, and volunteering may be possibilities. You might even decide to work part-time or turn a hobby into a business. The important thing is to plan ahead and put mechanisms in place to help you achieve your dreams.

Your Spouse's Expectations

You and your spouse may have very different visions of your retirement lifestyle. You can avoid future conflict by discussing what each of you expects from retirement while you're both still working. Downsizing, relocating, traveling, and continuing to work can be major areas of disagreement. If you and your spouse have different expectations, try to work out a compromise.

Rent, Etc.

You've found an apartment you really like in a great location, and the rent seems reasonable. But before you load up the moving truck, consider the "other" costs you may be responsible for. The lease agreement is a good place to start, since it should spell out any charges beyond rent you're expected to pay.

Application and other fees. You may have to pay a fee to cover the cost of the application and credit check. A security deposit and "move in" fees are also common.

Parking. You might be charged for parking in a lot or garage, especially in urban areas where spaces are at a premium.

Utilities. Find out if the rent includes heat, water, and electricity. If not, ask the landlord what the previous tenants paid. Cable and Internet may be extra as well.

Pets. If pets are allowed, you might have to pay extra to have one.

Social Security — Are Benefits Taxable?

If you thought Uncle Sam would forget about taxes on your Social Security retirement benefits, think again. When you have other income, up to 85% of your benefit could be taxable. Your "combined income" determines whether — and how much of — your benefits will be subject to federal income tax.

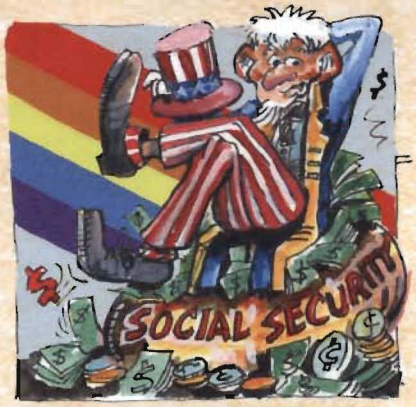
What's Combined Income?

Your combined income comprises all the income you receive from any source, with only a few exceptions. Combined income includes wages and self-employment income; rental income; investment income, such as interest, dividends, and capital gains; income from pensions and retirement accounts (but not tax-free Roth distributions); and — here's the kicker — even *tax-exempt* interest from municipal bonds. In addition, you have to add in half your Social Security benefits when you are figuring your combined income.*

The Thresholds

You won't pay taxes on your Social Security if:

- Your combined income is not more than $25,000 and your filing status is single or head of household
- Your and your spouse's combined income is not more than $32,000 and you file a joint return



Up to 50% of benefits are taxable if you have combined income between:

- $25,000 and $34,000 (single/head of household)
- $32,000 and $44,000 (married joint)

Up to 85% of benefits are taxable if you have combined income of more than:

- $34,000 (single/head of household)
- $44,000 (married joint)

And if you're a married taxpayer filing a separate return, you'll probably have to pay taxes on your benefits.

* You have to take certain adjustments into account in the combined income calculation.