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# YES YOU CAN

WINTER 2010

## FINANCIAL EDUCATION FROM AMERICAN CENTURY INVESTMENTS®

The information in *Yes, You Can* is provided to help parents, educators and kids work together to understand key financial concepts. *Yes, You Can* stresses critical thinking and problem solving that helps young people develop basic economic, financial, personal and career development skills.

*Yes, You Can* is based, in part, on the beliefs of James Stowers, founder of American Century Investments and co-founder, with Virginia Stowers, of the Stowers Institute for Medical Research.



Ideas for achieving  
financial security  
and a more  
meaningful life.

## Understand How to Build Your Credit Score

Many Americans don't realize the importance of their credit record, yet it's something that is critical to their daily lives. Your credit record is especially important when it comes to making big purchases like a house or car. If you don't have a good credit history, you may be forced into a loan at a very high interest rate...that is, if you are able to secure a loan at all.

### What makes up your credit score?

Credit scores are used to rate the information in your credit report. They are calculated much like a traditional report card and are weighted based on a number of factors. There are many different credit scores with a variety of ranges. One of the most recognized is produced by FICO and has a range of 300 (for someone with poor credit) to a perfect 850. Here's approximately how it breaks out:

- **35 percent** of the score is based on your payment history. Paying your bills on time is crucial to a good credit score. On the other hand, if you've paid your bills late, filed bankruptcy, or have received collection notices in the past, your score will be negatively impacted.
- **30 percent** is based on outstanding debt. This portion is impacted by the total number of loans you have outstanding – such as your home mortgage, a car loan, any student loans or credit cards – and the balance on those loans.
- **15 percent** is based on the length of time you've had credit. The longer you've established credit, the better it is for your overall score.
- **10 percent** is based on new credit. This means you'll be penalized if you've opened too many credit card accounts in the last year, or even if you've had too many inquiries into your credit record.

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# YES YOU CAN

**Yes, You Can** is the quarterly publication of Yes, You Can Financial Education from American Century Investments.

## Subscriptions

Help spread the message of financial literacy. Annual subscriptions are available free of charge at: [YesYouCanOnline.info](http://YesYouCanOnline.info).

For more information, please call 1-800-234-3445 or write:

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## Credit Score continued from cover



- **10 percent** is based on the type of credit you currently have. This refers to various types of credit such as installment loans (like an auto loan), a revolving credit card account and a home mortgage.

Even though there are many factors which can impact your credit score, here are three simple ways to build good credit:

1. Pay your bills on time;
2. Eliminate outstanding balances on credit cards, since high debt can negatively affect your score; and
3. Don't open new credit card accounts if you don't absolutely need them.

Maintaining good credit can mean an enormous difference in what you'll pay in interest rates over the years. According to [myfico.com](http://myfico.com), a 100 point difference in your credit score could mean paying more than \$40,000 in extra interest payments over the life of a 30-year mortgage on a \$300,000 home loan.

To help you track your credit record, review your credit report regularly and monitor your activity. You can get one free report annually from each of the national credit reporting companies at [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com). □



## Teachable Moment

It's important for young college students to take the right steps toward building good credit. According to Rod Griffin, director of public education for Experian, one good way is to have your son or daughter become a joint account holder on one of your credit cards. "Once your student becomes a cardholder, he or she should use the card periodically, while you make sure the balance is paid off monthly. This is a fairly risk-free way to help your student build a good credit record while you can monitor the purchase activity and ensure the balance is paid on time." Mr. Griffin adds, "Just be certain to visit regularly with your student about the status of the account balance to be sure he or she clearly understands the value of a good credit record."

## New Resources for the New Year

As you plan your second semester activities, we're excited to share that we're adding some new tools to the Resources area of [YesYouCanOnline.info](http://YesYouCanOnline.info).

### Activities for students in grades K-6

We've added a number of downloadable coloring pages, puzzles and activities for your kids in grades K-6 to enjoy. With your guidance and discussion, these activities will help your kids start to appreciate the value of a dollar.

### MoneyClips eNews Center

Does your school have a newspaper or other media outlet that targets the student body? If so, take advantage of our MoneyClips eNews Center. Scheduled to launch in first quarter, MoneyClips provides news releases students can use as a guide for crafting their own stories to be broadcast, published or otherwise shared with their classmates.

Watch for more information in your email in-box on these exciting learning and educational tools.

# Watch for the Hidden Costs of College

Already contributing to a 529 plan for your kids' college? Good for you! But tuition is just the beginning of what it costs to go to college. Expenses start adding up even before the acceptance letter arrives. Parents now spend an average of \$3,500 during the application process, according to ApplyWise, an online guidance service that includes a free budget calculator.

The biggest pre-enrollment expense is for campus visits, so you may want to consider limiting the number to three or four colleges that best match your financial resources with your son or daughter's interests and academic record. During the visit, they may be able to stay in a dorm, which gives them an opportunity to meet current students while saving money on hotels.

To make arrangements call the college or see if your high school guidance counselor can provide the name of a recent graduate who is now attending there. During the visit, eat in one of the campus dining halls so you can sample the food.

Here's a list of expenses you may want to budget for, plus ways to minimize the impact on your wallet:

**Electronics** – Many students want a new PC or laptop, but you can save hundreds of dollars by buying a year-old model. Now is also a good time to compare cell phone plans to get the best deal.

**Transportation** – Does your student really need a car on campus? You can save on parking passes, gasoline and insurance by leaving it at home. Most campuses offer extensive bus service to meet the transportation needs of students. Providing a bus pass is considerably less expensive than providing a car.

**Clothes and Furnishings** – The retro look is still in style, so why buy everything brand new? Clothing basics can come from resale shops, and they can bring towels, sheets, lamps and other furnishings from home.

**Food** – Most dorms, and many sorority and fraternity houses, have student meal plans that offer healthy food options at a reasonable price. Signing up for a one of these plans helps assure your student has a daily meal option and can greatly reduce the need to eat out.

**Activities** – If the college has an active sports program, consider including the cost of tickets in the entertainment budget. Also plan for other social events like campus mixers. Consider opting out of cable TV since most common areas provide access and many programs are viewable online.

**Health Insurance** – The new Affordable Care Act allows young adults to stay on their parents' health insurance to age 26. Check before signing them up as there may be better options offered through the school. Compare your plan to what the college offers to see which is the better choice.

By planning ahead, your child can get an "A" in life lessons and potentially avoid having huge debts after graduation. □



## Teachable Moment

Check out schools online by following them on Facebook, Twitter, reviewing class enrollment guides, taking virtual tours, and emailing with school representatives.

Sites like [mycollegeoptions.org](http://mycollegeoptions.org) can help students match their academic profile and interests to the colleges that are most likely to accept them.

You should consider using a qualified financial advisor to help you plan for your future.

## Tips for Hiring a Financial Advisor

There are a least **95** different professional designations for financial advisors. It was **48** in 2005.

Have you done some basic investing over the years but are stumped when it comes to how much you'll need for retirement? Since we're living longer these days – and because you don't want your money to run out before you die – now may be time to seek professional financial advice.

Just like knowing when to turn to a lawyer for legal advice, an accountant for help with your taxes or a doctor for a medical diagnosis, you should consider using a qualified financial advisor to help you plan for your future. But how do you find that person and, once you hire him or her, how do you know you've made a good choice? Start by asking the right questions.

Some things to discuss include:

**Tell me about your credentials.** According to the Financial Industry Regulatory Authority (FINRA), there are at least 95 different professional designations for financial advisors, nearly double the 48 it listed in 2005. As you begin your research, it's important to understand what the stream of letters on their business card after their name means. Ask the advisor to explain the designation and the process they went through to earn those credentials. The criterion to earn a professional designation varies greatly by organization. Some require extensive testing and ongoing education. Other designations may be acquired simply by paying membership dues.

**How are you compensated?** Be sure you understand how the financial advisor gets paid. Is it from a flat fee, an hourly rate, commissions on stock trades or a percentage of the value of your assets? It may be some combination of those things. If you're not clear, ask for this information in writing to avoid any confusion.

**What kind of clients do you have?** If you have a relatively modest investment portfolio, but an advisor says he or she tends to focus on high net worth individuals, your investments may not get the attention they deserve. In addition to asking for a description of typical clients, ask for references. You won't need details about someone else's portfolio to ask if they are satisfied with the investment results provided by this financial professional.



**What is your process for investing my money?** Find out how the investment advisor determines where your money should be invested. He or she should take into consideration a number of factors including your age, the needs of your family members – such as children who are yet to attend college – what your goals are for retirement and other important factors. Be sure to ask how often you will meet to review your investment results and make necessary adjustments.

**The bottom line:** Do your homework. Your financial future depends on it. Don't just pick a financial advisor from the phone book. Ask friends and colleagues you respect for the names of financial professionals they may be using; then research their credentials. Go to [finra.org](http://finra.org) and use its "BrokerCheck" to check a financial advisor's background. □



### Teachable Moment

Arrange to have a local financial advisor visit your classroom. Prior to the visit, have your students use the BrokerCheck option at [finra.org](http://finra.org) to research the advisor.

If the advisor has a Web site, visit the site to learn about his or her money management philosophy and the services offered.

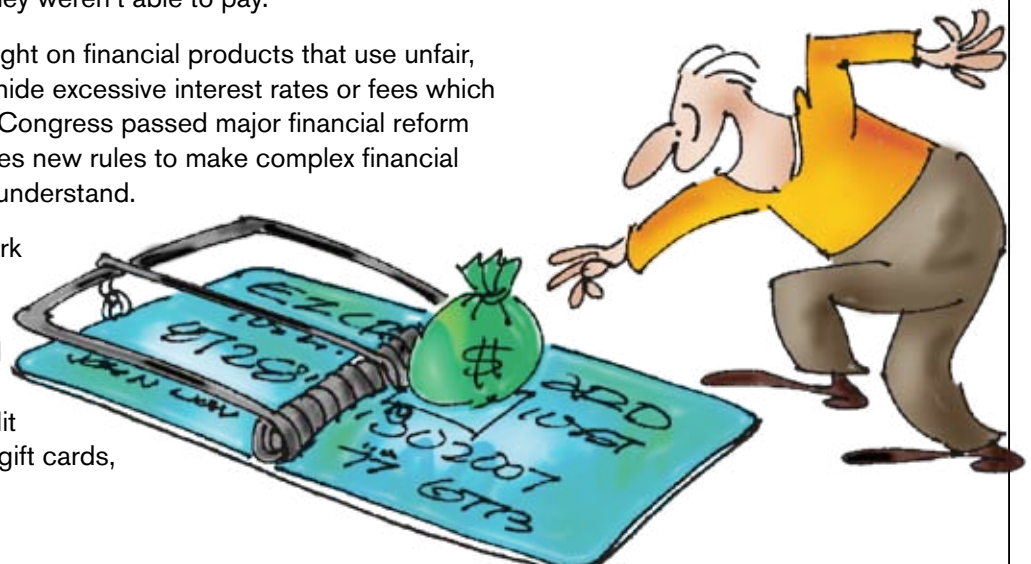
## Understand the Consumer Financial Protection Rules

It's no secret that the past couple of years have presented economic challenges for many Americans. It can be difficult to live within your means, especially if you've experienced a change in employment that resulted in a salary loss or reduction. In *Yes, You Can... Achieve Financial Independence*, James Stowers cautions, "If you spend more than you make, you are spending your future income."

Unfortunately, many individuals caught up in the spend-more-than-you-make cycle are risking their financial independence to pay for things that exceed their regular income. This includes applying for multiple credit cards, relying on overdraft programs and turning to easy access credit to make ends meet. Over the past decade, one of the most costly alternatives turned out to be getting home loans they couldn't afford and didn't understand. As a result, when the country's economy began to melt down in 2008, many consumers were left holding notes on loans they weren't able to pay.

This situation turned a regulatory light on financial products that use unfair, deceptive or illegal practices that hide excessive interest rates or fees which are easily overlooked. As a result, Congress passed major financial reform legislation in July, 2010 that includes new rules to make complex financial products easier for consumers to understand.

A major component of this landmark legislation was the creation of a Consumer Financial Protection Bureau that oversees creation and enforcement of rules that mandate conditions set for mortgages, credit counseling services, credit cards, gift cards,



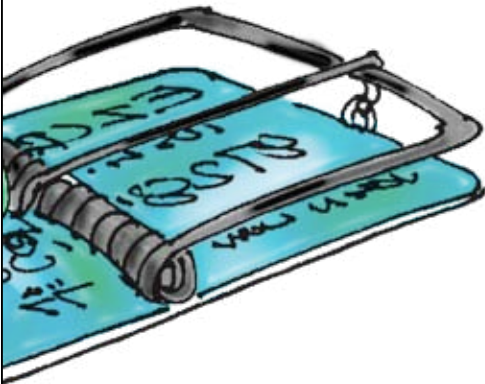
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## Consumer protection continued from page 5

payday loans and other financial products and services, including overdraft protection programs. What does this mean for consumers?

- Home mortgage forms and documents will be simplified and consolidated. Oversight will increase for both mortgage companies and banks to protect borrowers from unfair, deceptive or illegal mortgage lending practices.
- Credit card issuers will be required to clearly indicate the interest rates they charge. Rate increases on existing balances will be prohibited.
- Financial institutions may not automatically enroll account holders in expensive overdraft programs for electronic transactions (ATM and one-time debit card) unless the account holder “opts-in” to the service.

While these changes will take some time, the goal is to protect consumers from unfair and deceptive practices and make it easier for them to understand the costs and benefits of the financial products and services that are available. □



### Teachable Moment



The best way to avoid getting caught up in a credit trap of any kind is to “live within your means.” According to James Stowers, “The more money you save before paying for your wants, the better prepared you will be to face future financial storms and the more money you will have to invest in your financial independence.” Sit down with your kids and make a list of your expenses from “needs” like food, clothing and shelter to the “wants” like entertainment, gadgets and luxury items. Determine together what things might cause you to overextend your budget and spend your future income.

## Be Informed Before You Go Home Shopping

For generations, buying a home has been considered a big part of the great American Dream. But if you don't do your homework, committing to such a major purchase can turn into a nightmare. According to the National Foundation for Credit Counseling, some important things to consider before making the financial commitment to buy a home are:

- Buy when you are ready to settle down. In today's depressed real estate market, you could end up losing money on the transaction if you decide to sell too soon. It is best to live in a house for a period of time before putting it back on the market, especially when prices are stagnant.

Annual household expenses should not exceed **30 percent** your annual income.

- Check your credit report to make sure it's accurate and to clean up any errors.
- Determine how large a mortgage you can afford. The rule of thumb is that your housing expenses should not exceed 30 percent your income. The costs to consider include not only the price of the home, but also the monthly expenses that go along with homeownership – i.e., utilities, taxes, insurance, any maintenance costs, etc. Check with your lender or use an online calculator, such as those found at [ginniemae.gov](http://ginniemae.gov), [FHA.com](http://FHA.com) and [Interest.com](http://Interest.com) to help you determine how much you can afford to borrow to finance your home.
- Talk to with your lender about getting pre-approved for a loan before you start looking for your dream home. This can help you stay within your price range and set realistic expectations so you aren't turned down for a loan on a house you love but can't afford.
- Establish a stable employment history. A lender will consider your work history when evaluating your mortgage application. Most look for at least two years with the same employer or in a related field.
- Have enough money for the down payment and any up-front costs. Most mortgage lenders require a down payment between three and 20 percent of the total purchase price. Closing costs can vary, but are usually about two to seven percent of the loan amount. Add to that the costs for moving and any updates you plan to make on the house.
- Protect your investment. Get a home inspection to make sure there aren't any hidden problems like a leaky basement, bad plumbing or electrical problems before you sign the final mortgage papers.
- Beware of buying a foreclosed property. With the elevated number of homes in foreclosure, it may be tempting to purchase a house that has been returned to the lender. You should thoroughly investigate these properties to make sure you are not taking on major problems. Many of these homes were purchased by buyers who had little or no equity in their property giving them little reason to keep it properly maintained. Also, make sure there are no property liens or second mortgages that could become your responsibility once the home is titled in your name. □



### Teachable Moment

As a family or classroom, visit [zillow.com](http://zillow.com) and research the estimated value of homes in your neighborhood. Notice how the value of homes can vary and how homes just a couple blocks away can be estimated to be worth more or less than the ones you're looking at. Discuss what factors might contribute to the variance.



## Get a Head Start on Preparing Your Income Tax Return

With 2010 clearly in the rearview mirror, now is a good time to get your files organized and pull together what you need to file your federal, state and local income taxes. But before you start filling out your forms, don't forget about some of the changes in the tax laws that could benefit you and your family.

Here are a few to consider and to discuss with a qualified tax advisor.

### **Tax Credit for First-Time Homebuyers and Existing Homeowners:**

This tax credit, which originated in 2008, was extended to include houses that were purchased by April 30, 2010, and closed on or before September 30, 2010. First-time homebuyers are eligible to receive a tax credit of 10 percent of the purchase price up to \$8,000; existing homebuyers are eligible for up to \$6,500. Members of the armed forces who were on official extended duty outside of the United States for at least 90 days between Jan. 1, 2009, and May 1, 2010, may qualify for a one-year extension.

**Credit for Energy-Saving Home Improvements:** The credit for the cost of energy-saving home improvements is 30 percent for 2010, up to a combined maximum of \$1,500 in both 2009 and 2010. This credit applies to qualified insulation, windows, outside doors, biomass fuel stoves and high-efficiency furnaces, water heaters and central air conditioners.

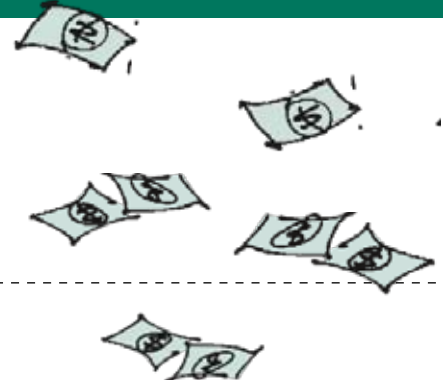
**Teacher Deduction:** Teachers may deduct up to \$250 - \$500 if married filing jointly and both spouses are educators, but not more than \$250 each - of any un-reimbursed expenses you paid or incurred for books, supplies, computer equipment (including related software and services), other equipment and supplementary materials you use in the classroom. To qualify, you must have worked at least 900 hours a school year in an elementary or secondary school.

**Tax Credit for College Tuition:** For 2010, the American Opportunity Credit provides a credit of up to \$2,500 per student per year for four years of college, including the cost of books.



### Good record keeping is key to benefiting from deductions

The key to receiving the benefits of these credits — and other deductions — is having organized documentation of your expenses. Doing so will help you complete your tax forms and can help you answer any questions if your return is selected for an examination by the IRS. □



### How long should you hold on to your documents?

According to the Internal Revenue Service (IRS) you should keep your supporting documentation for at least three years. More information on what you should keep and for how long can be found in IRS Publication 17.

Some things to consider:

- W-2, Wage and Tax Statement or 1099 Form (for independent contractors);
- Bank and brokerage statements for an end-of-the year accounting of earned interest or stock earnings, life insurance policies that have a cash value or investment component;
- Receipts, credit card bills or canceled checks for expenses such as mortgage interest, real estate taxes, alimony or child care; and,
- Written acknowledgements from donations to charitable organizations.

This information should be stored in a safe place, such as a safety deposit box. Also, keep an inventory list of your records in another safe place.

### Teachable Moment



Before you sit down to figure your taxes, or meet with your tax advisor, gather all of the documents you need to show your income and expenses. After the dinner table has been cleared, sit down as a family and go through your tax file. It can be an eye-opening experience for everyone to see where the family's income has gone during an entire year.

## Why do we need to pay taxes? How did our tax system evolve?

Oliver Wendell Holmes, former Justice of the United States Supreme Court, once said, "Taxes are what we pay for a civilized society." Although people work hard to meet their needs and the needs of their families, there are some things they cannot purchase themselves. For example, the taxes paid to state and local jurisdictions help pay for police and fire protection. These taxes also pay for the operation of the local governments, and for local recreation areas such as parks and other public facilities.

On the national level, federal income taxes help pay for defense for the country. They also pay for capital facilities such as highways and other transportation services, and to help those who are poor or ill. These are all services that individual citizens cannot purchase the way they can buy food and clothing and the other necessities of life. When people live together in a society, all of its

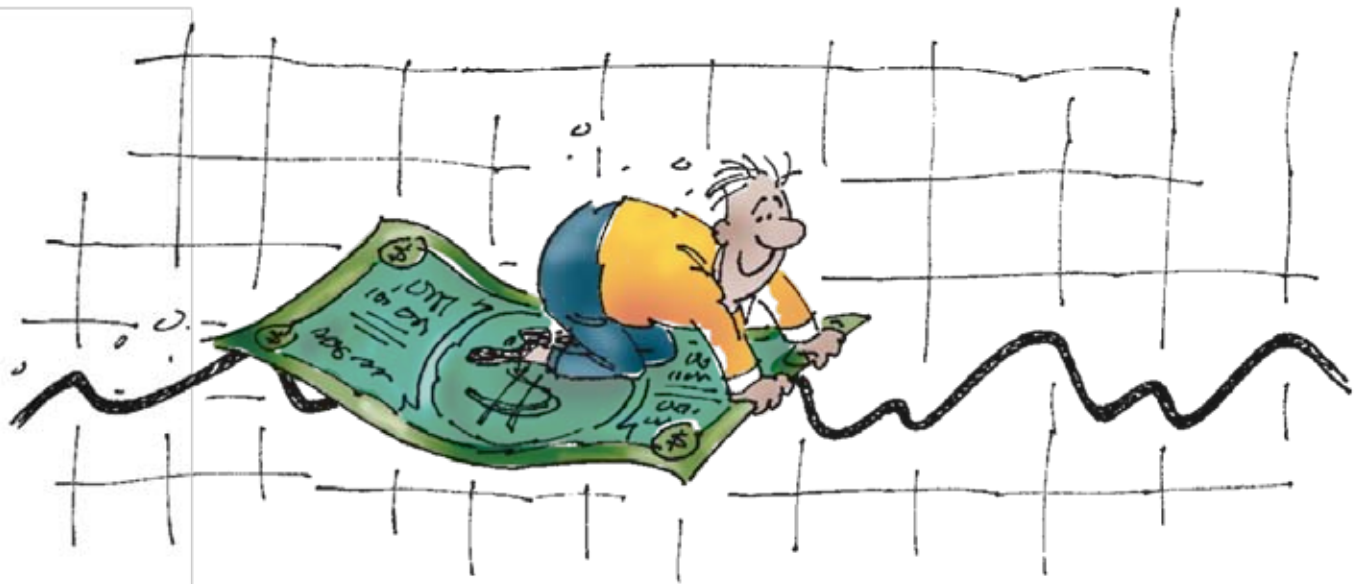
citizens bear the cost of providing such services. Taxes are the means by which the society raises the money to cover these public costs.

The United States Department of the Treasury has a number of fact sheets that can help people better understand the various taxes imposed in the United States. These include:

*Economics of Taxation* explains how taxes support government services and benefit the country's citizens. *Writing and Enacting Tax Legislation* explains the process for developing and passing legislation into law.

In addition, Lesson 1.5 of the Yes, You Can Curriculum includes classroom examples of how taxes are collected and used by the various jurisdictions.

Source: Adapted from United States Department of the Treasury (ustreas.gov)



### Teachable Moment



When your kids earn money or receive a windfall, they may rush to spend it. Instead, encourage them to save or invest part of the money.

Use the Compound Interest Calculator, one of the FIT Tools in the Resources section of [YesYouCanOnline.info](http://YesYouCanOnline.info), to help them visualize how compound interest works.

With each amount and interest rate entered, they'll see the calculator's savings line go up, showing how much their money could earn over time.

It's impressive!

**Chances are you wouldn't bet everything on the roulette table. But after the 2008 Wall Street meltdown, you might feel it's nearly as much of a gamble to invest in today's stock market. If so, you have lots of company. In July, 2010, the personal saving rate reached nearly 6 percent after dipping as low as 1 percent in 2005, according to the Bureau of Economic Analysis in the U.S. Department of Commerce.**

## Understand the Relationship between Time and Rate of Return with Dollar Cost Averaging

Continuing to hold assets in low-interest savings accounts, CDs and money-market funds prevents you from rebuilding your nest egg. An investment that lost 50 percent, for example, needs to earn an 8 percent annual return for nearly a decade just to recover.

There are two important factors to consider as you think about your recovery plan – time and rate of return. Building wealth can be accelerated when you take advantage of higher compound interest and your odds of coming out ahead improve when you leave your investments alone over a long period of time.

One way to manage risk over time is through dollar-cost averaging. American Century Investments' Web site, [americancentury.com](http://americancentury.com), explains how it works: "You regularly invest a specific dollar amount, such as through an automatic investment plan, even during economic or market downturns. As a result, you buy more fund shares when their price is low and fewer when it's high, which can drive down your average cost per share."

The important point is that by investing at planned intervals over a sustained period of time, the price of the shares does not necessarily have to go up each month in order for your investment to grow. The key is being able to sustain the investment and avoid having to liquidate at a time when shares are worth less than what you paid for them.

In his book, *Yes, You Can... Achieve Financial Independence*, American Century Investments founder, James Stowers shares that dollar-cost averaging is a long-term strategy. "When share prices vary, periodic investing may reduce the average cost of a share and can enhance your potential for making a reasonable profit over time," he says. "Of course, a periodic investment plan does not guarantee a profit and will not prevent short-term losses in a declining market. However, it does offer a solid strategy for long-term investing." □

You can easily see how the rate of return can impact your investments by applying the "Rule of 72." This is a simplified way to show how long your money takes to double at a fixed annual interest rate. Dividing 72 by the following percentages shows the time needed:

| Interest | # Years to Double |
|----------|-------------------|
| 2%       | 36                |
| 4%       | 18                |
| 6%       | 12                |
| 8%       | 9                 |
| 10%      | 7.2               |

## Economist teaches continued from back

### Should you encourage your kids to earn money?

"Absolutely! The connection between work and money should be set very early. Distinguish between chores and jobs, so kids don't expect payment for household tasks like cleaning their room. What they get paid for should be something out of the norm that's a distinct job, such as big projects that go beyond maintenance."

### How do you teach your kids about saving and investing?

"Kids don't think much beyond the next few weeks or months, so it's hard to get them to focus on long-term goals. One key is getting them to understand that money makes money. If they start to mow lawns for extra money, for example, they'll learn that investing in advertising and a better mower helps them earn more money."

### How can you tell if your messages are sinking in?

"Your first clue is when they hesitate to spend on something silly so they can more quickly achieve their big goal."

### Many states now require high school credits in financial literacy. Do you think it's effective?

"It depends on how well teachers can get the messages across. Kids also need to learn from their parents and others that achieving financial stability will give them the wherewithal to live the life they choose." □



### Teachable Moment

When your child wants something expensive, such as a shiny new bike, you can use it as an opportunity to show the importance of saving toward a goal. "Take them to see the object of their desire, and post a picture of it on the wall," Chris suggests. "Then have them track their progress towards its acquisition. They'll soon learn that spending money on junk puts their goal further out of reach."

The Savings Goal Calculator available in the Resources area of [YesYouCanOnline.info](http://YesYouCanOnline.info) can help your kids calculate how much to save on a monthly basis to achieve a future financial goal.

# What an Economist Teaches His Kids About Money

If you lived and breathed financial issues every day, what would you teach your own kids about money? We asked Ph.D. economist Chris Kuehl, who has finance experience on three continents – Europe, Asia and North America - and he offers these suggestions:

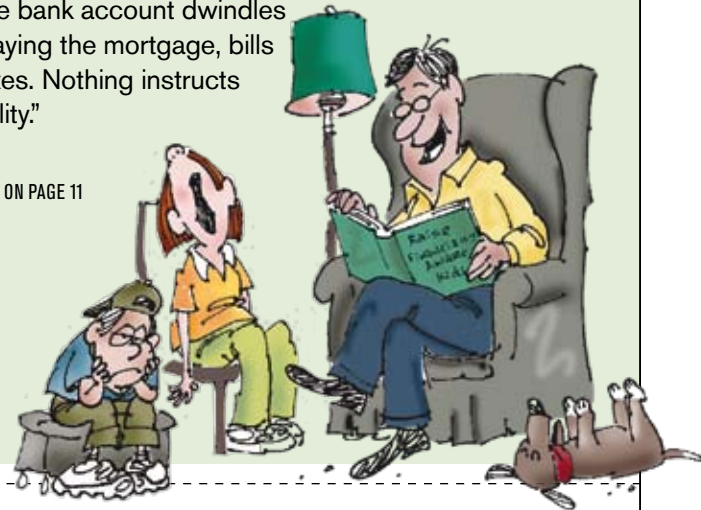
**How young should you start talking to your kids about money?** “Begin when they start asking you to buy them things. The average kid quickly understands the connection between having money and getting what they want, but they also need to learn that dad and mom aren’t manufacturing money in the basement.”

**How did you learn about money as a child?** “I learned from hard work. My first job at 13 was delivering pharmacy circulars for a penny. I walked the neighborhoods from 7 a.m. until 8 p.m. on weekends to maximize my profit. One Saturday I managed to make \$50!”

## How important is it to set a good example?

“We all know that ‘Do as I say, not as I do’ doesn’t work. If kids have extravagant parents, that’s what they’ll copy. Parents who set budgets and make wise choices will be emulated as well. Good communication is essential, so show them where money comes from and where it goes. Let them see what it costs to run the house and how the bank account dwindles after paying the mortgage, bills and taxes. Nothing instructs like reality.”

CONTINUED ON PAGE 11



# YES YOU CAN



**Yes, You Can**  
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