Building Native Communities

Investing for the Future

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A Native community is more than the sum of its parts. It embodies the mystique of community, the circle of inclusion. Within each member it generates powerful feelings of cultural solidarity. That precious spirit cannot survive without the underpinnings of economic development. But the development must be for everyone—not for just a few. That is the Native understanding.

This Investor Education workbook is for Native communities. It is part of the Building Native Communities series published by First Nations Development Institute with support from the NASD Investor Education Foundation.

The purpose of this workbook is to:

Provide guidance to individuals interested in learning basic financial investment skills. We hope this book will be useful for individuals thinking about their own investment strategies. This workbook is designed to be used with the *Building Native Communities-Financial Skills for Families* workbook, and assumes a basic knowledge of budgeting and finance.

NASD
Investor
Education
Foundation

FNDI
First Nations Development Institute is a nonprofit organization that helps Native communities build sound, sustainable economies. First Nations helps community members to identify assets and build models to create and retain wealth in ways that reflect the culture and desires of the people in those communities. The strategy coordinates local grassroots projects with national program and policy development initiatives to build capacity for self-reliant communities. For more information, visit www.firstnations.org.

NASD Investor Education Foundation
The NASD Investor Education Foundation, established in 2003 by NASD, supports innovative research and educational projects that give investors the tools and information they need to better understand the markets and the basic principles of financial planning. For details about grant programs and other new initiatives of the foundation, visit www.nasdfoundation.org.

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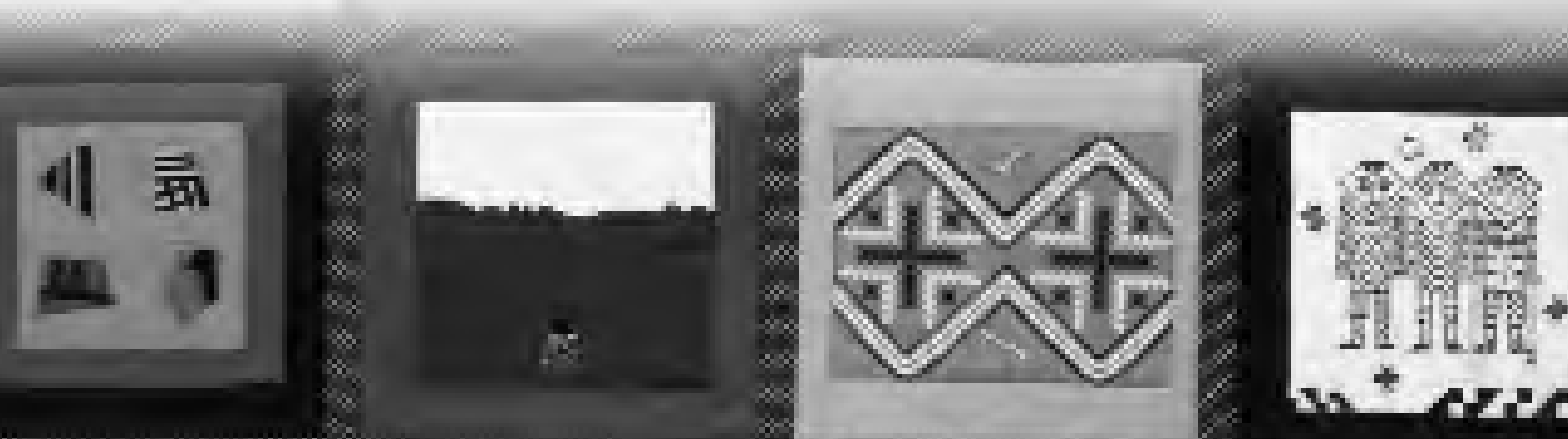

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This workbook is only meant to be used as guidance and should not be relied on as legal or tax advice. Please seek the counsel of a qualified attorney or tax professional for further assistance.

More Information

To obtain additional copies of this workbook or for more information about training opportunities for instructors, please contact First Nations Development Institute at 540-371-5615 or info@firstnations.org.

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Session 1

Introduction to Investing and Basic Financial Planning

Overview

In Session 1 we will discuss:

- Basic investing terms
- What it means to invest
- Investment goals
- Risks and returns
- Diversification

Introduction

Something new has happened in Indian Country. For the first time, a substantial and growing number of Native people—and their nations—have money to invest. Whether the sources of this new money are economic development, gaming, natural resources, or land claim settlements, this money needs to be managed, and managed well. Investing skills are part of leadership skills—caring for resources and planning for the future.

Investing is also a skill that individuals can use to manage their own finances. Investing will not make you rich overnight, but it can help you reach your goals.

Since having money to invest is a new experience for many Native people, we often lack the experience and skills necessary to invest carefully and successfully. Even people with advanced degrees in formal education may know little about investing, with its specialized concepts, practices and people.

This workbook was written to introduce tribal members to the world of investing. The information included is meant to teach and guide, to start you off in the right direction. It is neither an encyclopedia nor a comprehensive text. It is a beginning.

Basic investing terms

Before we begin to discuss investing, let's define some of the terms we will be using in this session.

Interest is the amount that is agreed to be paid in return for the *use* of a certain amount of money (principal). Interest is usually expressed as a percentage of the principal. For example, the bank may give you 2% interest on your principal of $100. Over the course of a year, you will earn $2 in interest on your $100 deposit (that is, if you leave the $100 in the savings account all year).

The **market** refers to people coming together to buy and sell investments such as stocks and bonds, which we will discuss later.

Principal is the amount of money you invest to make money. For example, if you deposit $100 in a savings account in the bank, that deposit is your principal.

Return is the profit earned on an investment. The $2 you earned in interest on your $100 deposit is known as your return. Returns come from many investments—like stock and mutual funds. But be aware that returns are not guaranteed. Returns can be negative if there is a loss.

Term refers to a period of time. You might take out a home mortgage on a 15-year term or on a 30-year term. (Note that this differs from "terms," which usually refers to the conditions set in a loan agreement.)

What does it mean to invest?

Investing is putting your time or money into something with the expectation of getting something greater in return in the future.

Investing is not the same as saving. When we save something, we are holding on to it so we can use it later. When we invest in something, we hope to get back what we invested *plus more* at a later time. Saving, however, is the first step in investing. We will talk more about that in a moment.

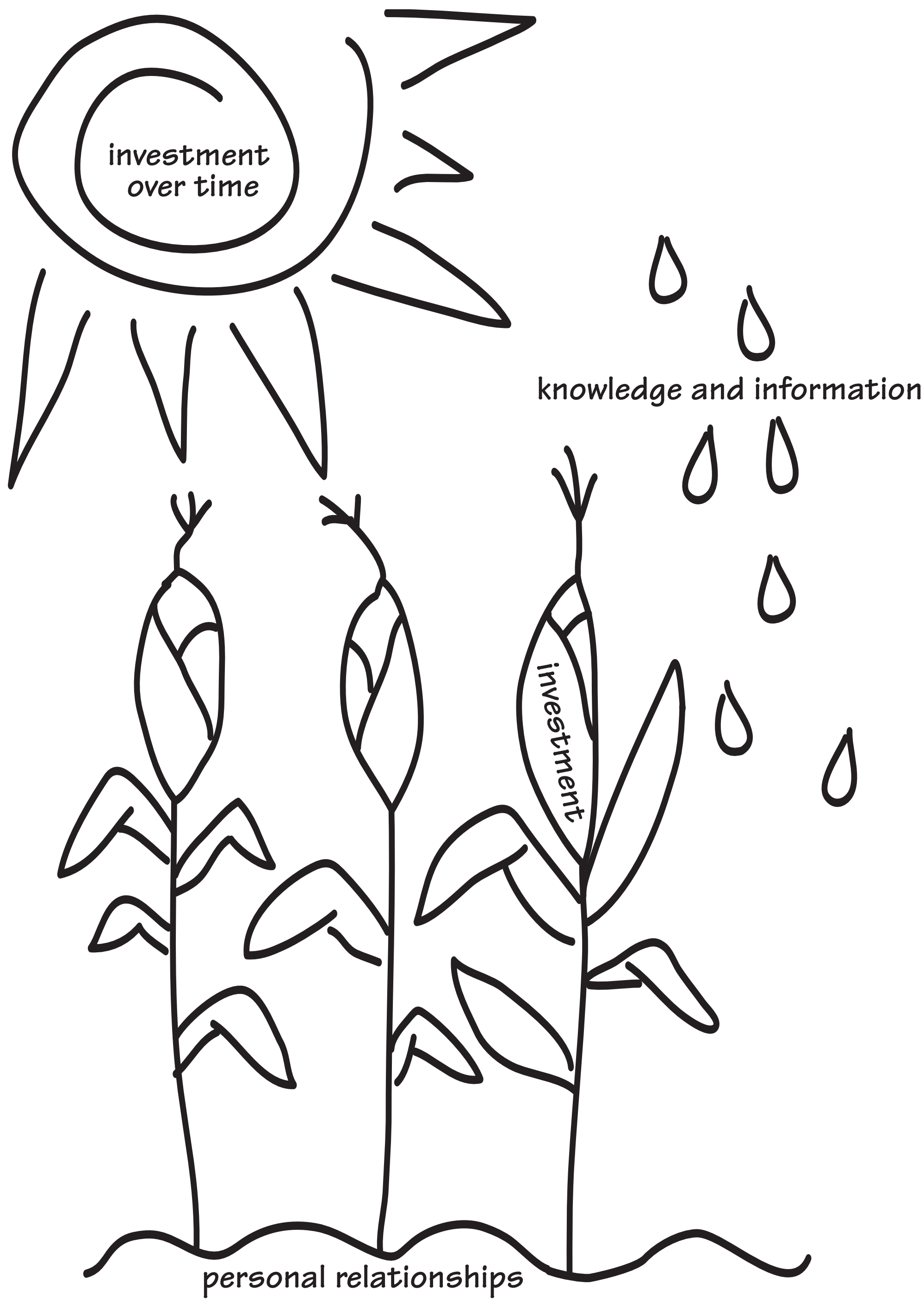
Exercise: What do you think it means to invest?

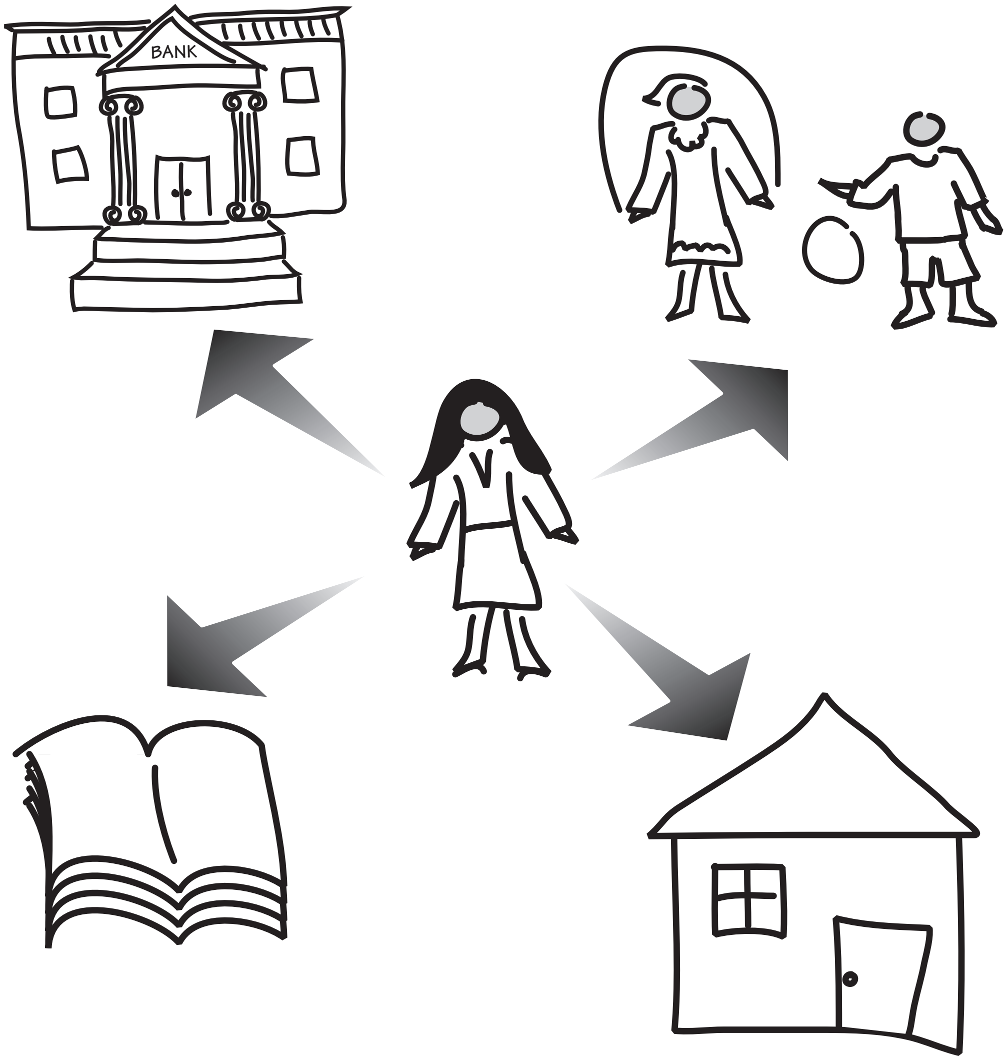
Our lives are filled with investment decisions. Opening a savings account is an investment decision. Buying a house is an investment decision. Helping your children or grandchildren pay for college requires investment decisions. And then there's your retirement. Even your ancestors "invested" in strong social bonds for their "retirement."

Investing money is not something that only rich people do. Or something that you only do when you get old. Investing is something that you do practically every day of your life.

In fact, investing is just a modern form of doing what Native people have always done—learning about and taking good care of our resources. In the old days, those were natural resources. Everyone learned about hunting, medicinal herbs, building comfortable shelters and preparing during the harvest for the lean winter days. We acquired this knowledge from our families and community members. Today the skills we need to master include managing our money and other financial resources.

As we journey through this book, think about how the ways we save and invest today are similar and different from the ways our ancestors managed their resources. We can learn a great deal from thinking about how they saved and invested. Everything that they did not consume, they saved, and much of what they saved, they invested. For example, out of their corn harvest, our ancestors saved some corn as seed to plant the following spring. One bushel of corn saved over the winter and planted in the soil in the springtime grew into hundreds of bushels of corn at harvest time the following year. Today, money is a resource, and we often need to invest it so that in the future we will have enough for those who rely on us.





There are many types of investments. Here are a few:

- Investing in your health
- Investing in your personal relationships
- Investing in powwow regalia
- Investing in seeds to grow crops next year
- Investing in new heifers to add to your herd
- Investing in your education
- Investing in your home
- Investing in a family business
- Investing your money in the bank
- Investing in stocks and bonds
- Investing your tribe's money in hotels, casinos, natural resources, or businesses
- Investing your tribe's money in Native Community Development Financial Institutions (CDFIs)

Exercise: Understanding investing

You are probably already investing every day of your life, without even thinking about it. Remember, *investing is putting your time or money into something with the expectation of getting something greater in return in the future*. In the space below, jot down if you have invested in any of these things, and what you got in return for your investment (also known as returns).

What I invested in	How I invested in this	What I got in return for my investment (returns)
My health		
My personal relationships		
My education or job		
My home		
My family		
My business		
My money		

Investing in yourself

Investing in yourself is a good idea. For one thing, you control a lot of the risk. For instance, you may decide to go back to school. Investing in yourself with further education, professional development training, or even learning about your culture from elders in your community, are all ways of investing in your own human assets. Your human assets are things you will always have—the stock market may crash, and businesses may go belly up, but you will always be thankful that you dedicated time and resources to yourself and your family by developing your personal skills, cultural skills, or furthering your education.

Also, you can get a very high rate of return by investing in yourself. Stock market investors are happy if they can average a 7% return on investments year after year. (That's 7 cents on every dollar they invest.) Here are typical returns on an investment in yourself. The U.S. Census Bureau reports the following average incomes in 2004:

EDUCATIONAL ATTAINMENT	YEARLY INCOME
high school dropout	$18,144
high school degree	$25,360
bachelor's degree	$42,404
professional degree (attorney, accountant, etc.)	$55,065

Investment goals

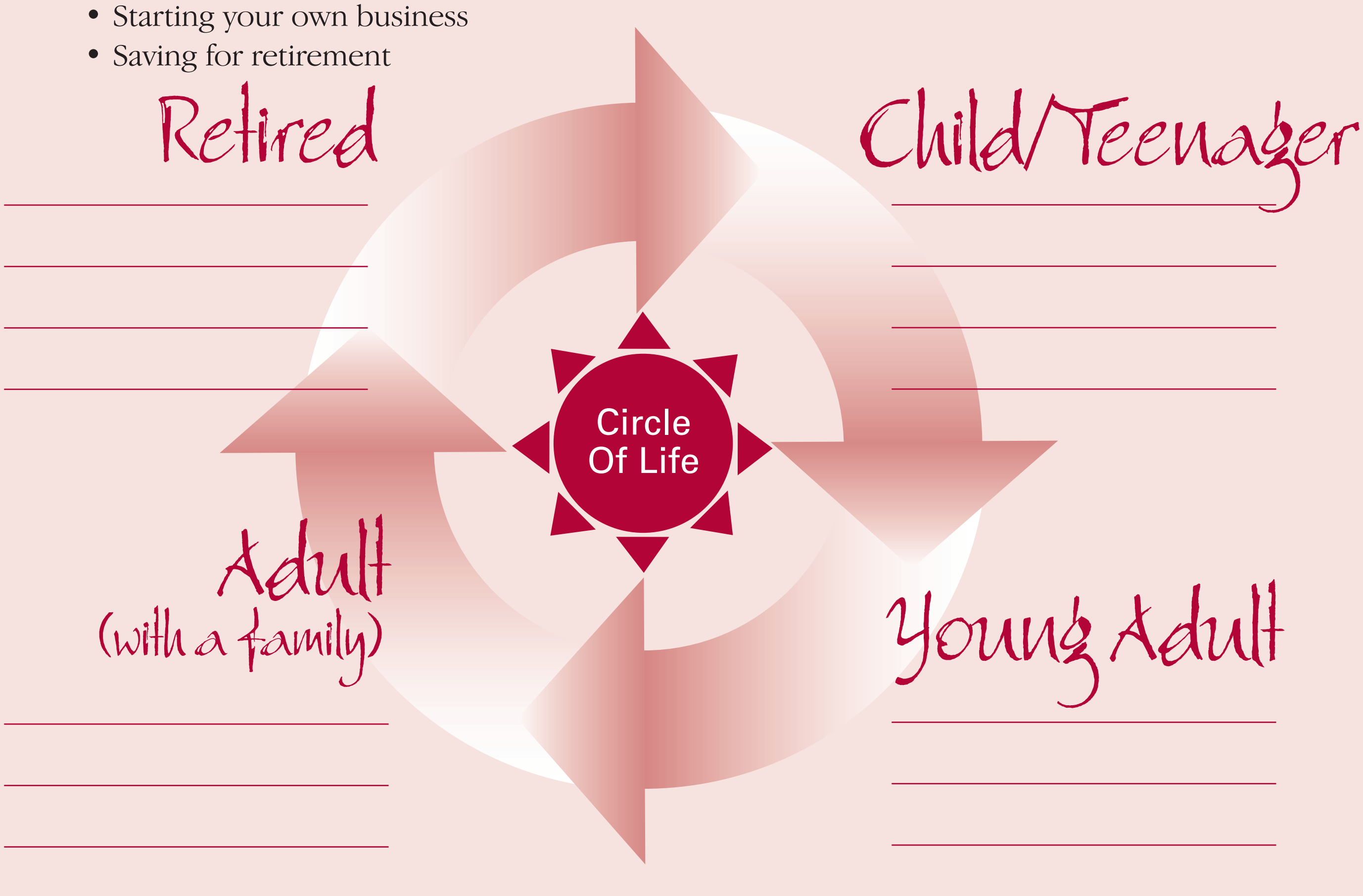
Ever since we were young, most of us saved money toward a goal. Maybe it was a trip to the candy story or a present for our grandmother. It's a good idea to begin with a financial goal in mind before making detailed decisions about saving and investing your money. Having a goal will encourage you to save and to make wise decisions.

Exercise: What are your investment goals?

What kind of future would you like to plan for you and your family? Look at the illustration of the Circle of Life and think about what your goals are in each part of your life. Inside each section of the Circle of Life, list your life goals (including the ones you've already started or completed, such as finishing school or making a major purchase). Here is a list of common goals to give you some ideas. Be sure to include your own goals that may not be on this list.

Goals:

- Paying off debts
- Buying a house
- Getting more education
- Having a child
- Helping your children go to college
- Starting your own business
- Saving for retirement



Now it's time to divide your goals into short-term goals and long-term goals. Under short-term goals, take the goals listed in the Circle of Life and list those goals you want to meet within the next year. Under long-term goals, list the goals you want to meet within the next five years.

Short-term goals (within 1 year)	**Long-term goals (the next 5 years)**

Now, for the last part of this exercise, you need to prioritize your goals. What goals are most important to you? What goals do you want to start working on today? Perhaps you are already working on your most important goals.

Short-term goals, in order of priority	**Long-term goals, in order of priority**
1.	**1.**
2.	**2.**
3.	**3.**
4.	**4.**
5.	**5.**

Investment goals change as you travel around the Circle of Life, as your earning power changes and your family and other obligations and expenses change. So before you answer an advertisement to invest money with some Wall Street firm, call a financial planner, open an account online or even drive over to the nearest bank, it's important to be very clear about your investment goals. There are some questions you will need to ask. We will deal with these questions and appropriate investments for different stages of your life as we go through this workbook.

Reflection

Time for reflection: Ask yourself these questions…

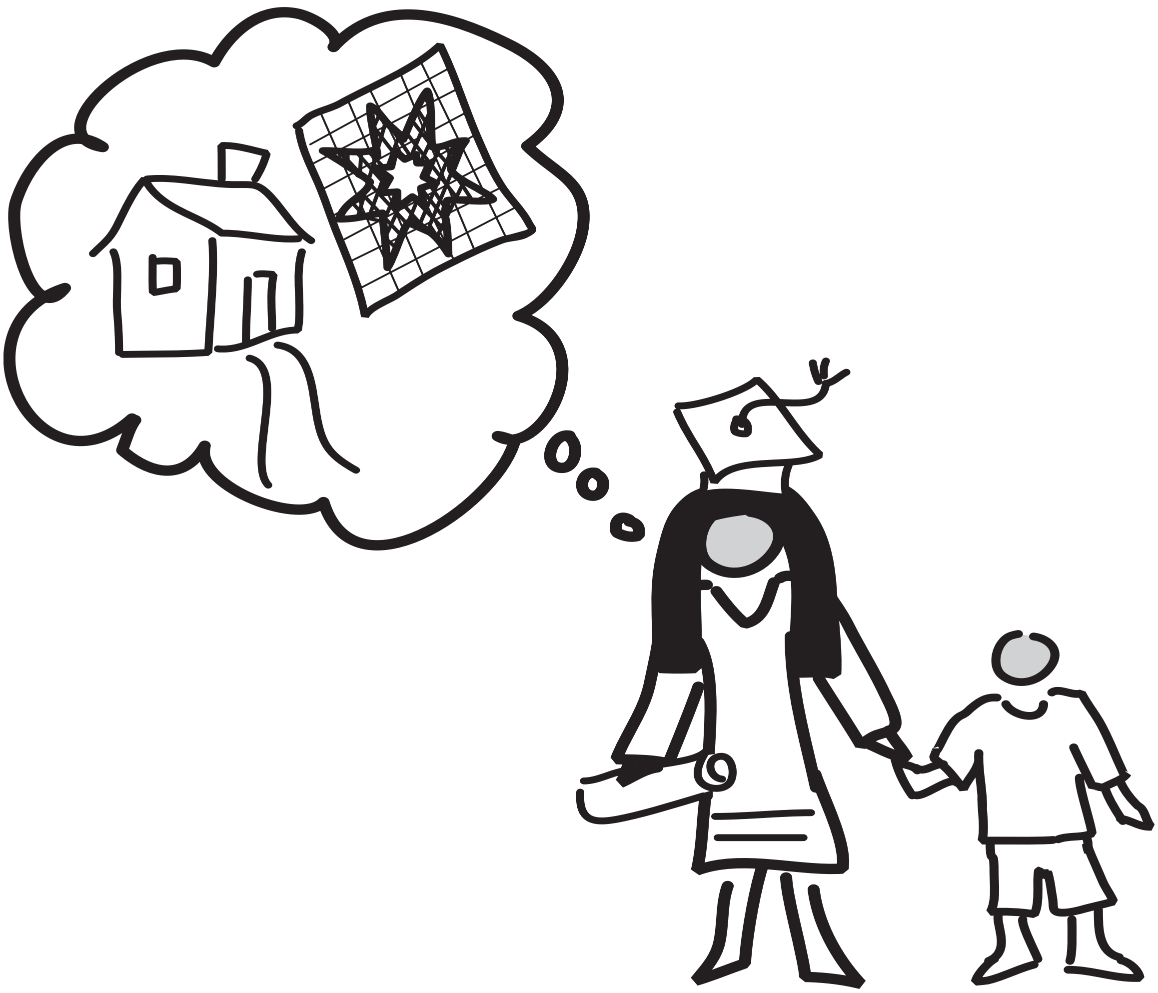
1. What are your goals for saving and investing?
2. How much are you saving on a monthly basis?
3. Do you have a one-time bonus to invest? Is this all you have, or will you have money to invest every month or year?
4. How much do you already have saved?
5. How much do you already have invested?

You need very safe investments if you are investing for a home, education or retirement. But if you have all your kids' education taken care of and your retirement fully funded, and have set aside any other funds you will definitely need—to support local charities, for example—then you can take more risk with additional money you may want to invest. In a moment, we will talk about taking risks when it comes to investing. It's probably a good idea to build your investments over time, phasing them in one by one as you get used to the process.

Underlying all your financial planning is the same commitment that always guided the elders. Planning for the future was always done with great deliberation and care. As you do your planning, think of the ways that investments will help you, your family, and your future generations.

Planning for the seventh generation

Historically, the Six Nations Iroquois Confederacy required that chiefs consider the impact of their decisions on the seventh generation. For every decision they made, they had to consider how it would impact the families and communities that would be alive seven generations from now. While most of us do not think that far ahead, many of us think about what our goals are for the next five years, 10 years, and 15 years. We think about what we want to provide our kids, and what we can do to help our family members.



This workbook—please meet Jennifer

Jennifer is going to be traveling with you through this workbook, learning about investing at the same time you are. Jennifer is 32 years old, and has a seven year old son at home. Jennifer has just finished her accounting degree at the tribal college, and just got a job in the finance office at the tribe. She has found it hard to make ends meet as a single mom in the past, but for the first time, she has a good salary and is having no problem paying her bills.

Now that she has been working for the tribe for a while, she has been told that there is a retirement plan available for her to invest money in. She doesn't really know much about investing, and has not really thought about retirement, but she is interested in learning more. She has other goals that she would like to save money for—like starting her own quilting business or buying a home. She is interested in learning more about how she can better manage her money so that she can accomplish her life goals.

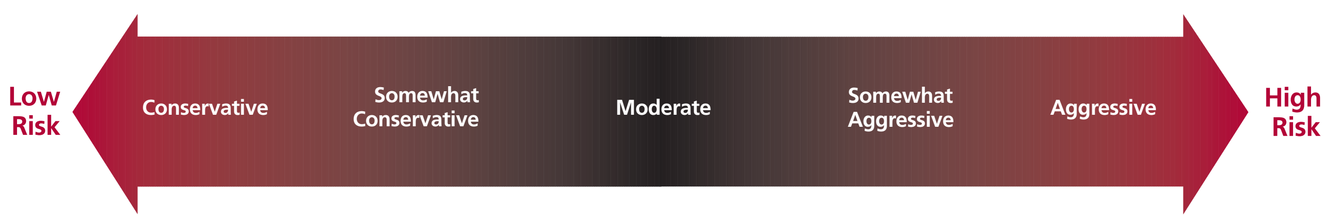
Risks and returns

One of the basic concepts about financial investing is that *to make larger returns on your investment requires that you take more risk*. And when you take more risk, you can lose money. Fully understanding the risk/return relationship concept is important, but applying it to your situation takes time.

You will want to think about a few things when making decisions about your investments:

- What is your **time horizon** for investing? (How long do you plan to have money invested before you use it for something?) For example:
  - If you are young, you can probably afford to make more risky investments. When you are investing for the long term (over 10 years or so) your investments can "recover" from most downswings in the market.
  - If you are older and you are nearing retirement, you want to make sure that your investments are low risk so that you know for sure the money will be there when you retire.
- How much of your **bankroll** are you willing to risk? Another important part of determining your risk tolerance is deciding the amount of money you can stand to lose. This may not be the most optimistic way of investing, but it is realistic. There is always some chance that you may lose some money if you invest it. If you are saving money to buy a home, you probably don't want to put it in a high risk investment, because you want the money to be there when you are ready to buy a home.
- What do your **emotions** tell you? What is your risk tolerance? Some people can't sleep at night knowing that their investments may lose money. Others deposit their money in an investment account and forget about it until they are ready to take it out. Still others like the thrill of possibly earning a large return on their investments. One way to determine your own personal risk tolerance is to take the risk tolerance quiz on the following page.

We will discuss these concepts of risk again in later chapters.



Exercise: Using our experiences to understand risk

Risk is any chance of loss. Can you describe a time when something you did carried with it a risk? Was the risk worth it? Why or why not?

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The rule of thumb is simple: higher risk investments potentially produce higher returns. Your goal should always be to improve your returns without taking on too much additional risk. This requires being very smart about your investments and understanding your "risk tolerance," which is how much risk you can afford to take or feel comfortable with. To learn about your risk tolerance, take the quiz on the next page.

You will want to think about a few things when making decisions about your investments:

1. **When you need the money. If you are saving for a down payment on a home three years from now, you cannot afford to lose any principal. In this case, a low risk investment is wise.**
2. **Your goals. If you are saving for retirement in 30 years, you can put your money in higher return, higher risk investments. If there is a market downturn, you can sit it out because you have 30 years to reach your goal.**
3. **The amount of money you can afford to risk. With savings, your principal is not at risk. If you are starting out and only have a little money, you may not be willing to risk any principal.**
4. **How comfortable you are with taking risks. Once you understand the risks of saving and investment options, you must choose those that you can live with. If having your money in stocks will keep you awake at night, it may not be the right choice for you.**

Quiz

Give yourself the following points for each answer:

a=1 b=2 c=3 d=4

Add your points for your total score: ________

6-10 points	You are risk averse; you don't like taking risks at all.
11-15 points	You are not very risk tolerant.
16-20 points	You can handle a certain amount of risk.
21-24 points	You are a risk taker.

**Note*: This is not a scientific survey; it's simply an exercise to help you think about your risk tolerance.*

Select only one answer for each question below.

1. How would your friends describe you?
   - ❑ a. Very cautious.
   - ❑ b. On the cautious side.
   - ❑ c. On the risky side.
   - ❑ d. A real risk taker.

2. Do you ever gamble at a casino or play the lottery?
   - ❑ a. Never have, never will. I don't think it is worth the money spent.
   - ❑ b. Not yet.
   - ❑ c. Yes, occasionally.
   - ❑ d. Yes, as often as I can. I like the thrill of maybe hitting it big.

3. What would you do if you got $500 for your birthday from a relative?
   - ❑ a. Pay off my bills.
   - ❑ b. Put it in a savings account.
   - ❑ c. Invest it.
   - ❑ d. Go on a shopping spree.

4. When you think about a risky investment that has a potential to pay off big, what comes to mind?
   - ❑ a. I could lose it all.
   - ❑ b. It sounds a bit uncertain.
   - ❑ c. It sounds like a potential opportunity.
   - ❑ d. This could be my chance to hit it big.

5. You have the option to choose one of the best/worst case investments below. Which chance do you prefer to take?
   - ❑ a. I could gain $250 and there is no risk of losing any of my money.
   - ❑ b. I could gain $750 and there is a risk of losing $250 of my money.
   - ❑ c. I could gain $2,000 and there is a risk of losing $1,000 of my money.
   - ❑ d. I could gain $4,000 and there is a risk of losing $4,000 of my money.

6. You're on a TV game show. You have the option to try for one of the following chances to win. Which would you choose?
   - ❑ a. A 75% chance of winning $100.
   - ❑ b. A 50% chance of winning $1,000.
   - ❑ c. A 25% chance of winning $10,000.
   - ❑ d. A 10% chance of winning $100,000.

Conversation on the Navajo reservation about risk and reward

Grandmother: Grass is thin in the pasture this year. I'm going to move the sheep to the higher valley, to fatten them up some more.

Granddaughter: But aren't there more coyotes up there?

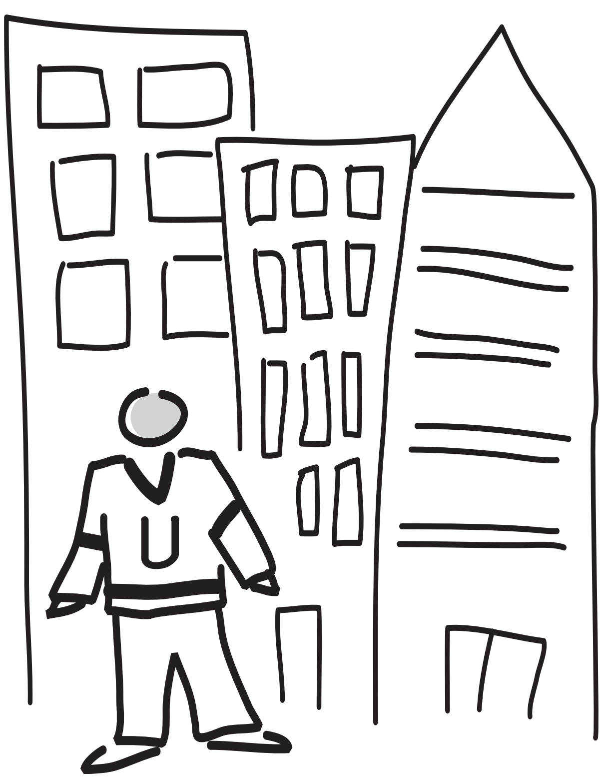
Grandmother: Yes, there are, so I might lose some sheep. But the others will fatten up a lot.

This Navajo grandmother had made her risk-reward calculation—that the probable reward of fatter sheep was worth the risk of losing one or more to coyotes—and decided to invest her time into moving the sheep to the other pasture. Then she tried to reduce her risk by spending more time watching over them.

Types of risk

Almost everything we do has some risk to it. Part of becoming a good investor is understanding the types of risk you face. Another part is knowing how much risk you can afford—both financially and personally. There are three types of risk investors should know about:

1. **Market risk** is the chance that your investment will lose value because of a decline in the market. When you invest your money in the market, there is always a risk you could lose some or all of your investment (again, market refers to the "place" where people buy and sell investments). Usually this risk is very low, but there is always a risk that the $1,000, say, that you put in the market could only be worth $800 a year or two (or 10) later.
2. **Inflation risk** is the chance that the money you have saved or invested will not keep up with the cost of living. For example, if you keep $250 in cash under your mattress, 10 years from now it will still be $250 in cash. However, 10 years from now, your rent and health care costs will have increased quite a bit. That $250 isn't worth as much anymore! Inflation protection is a major reason why people invest.
3. **Liquidity risk** is the chance that you will commit your money to someone or something and will not be able to get that money back, or "liquidate" it, when you need it. For example, you might put $2,000 into a 48 month CD. But you cannot take the money out of the CD for 48 months.

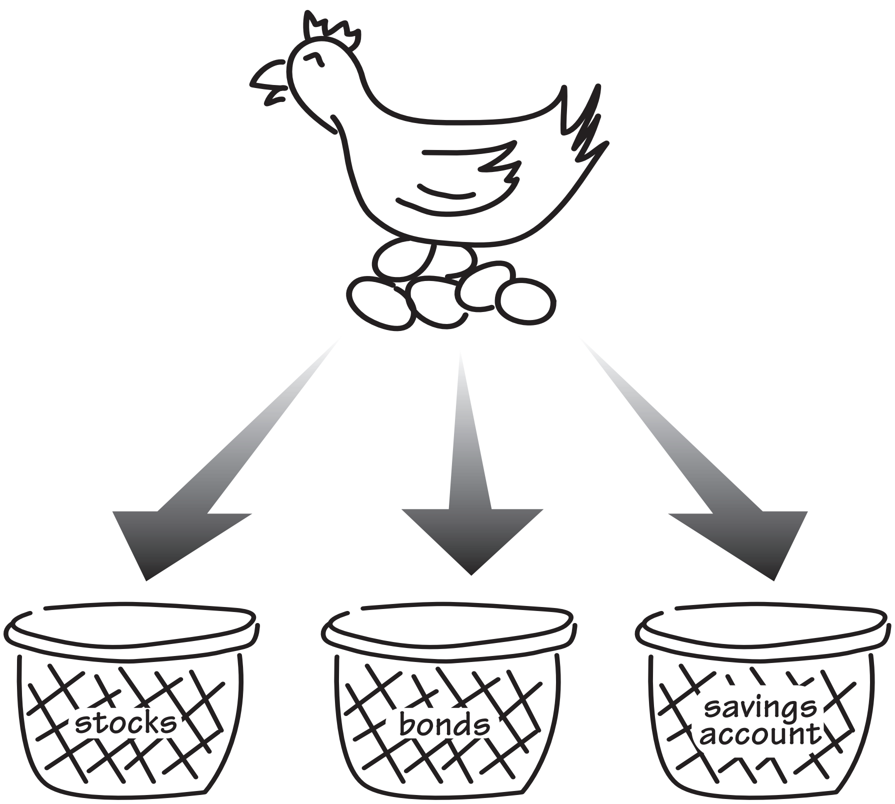


Earl's risk calculation

Earl has lived on the Navajo reservation with his grandparents for the past 20 years. He recently decided to go to Phoenix to attend college. He is taking a risk, leaving his family and community behind. But, he is also hoping that his investment in his education will pay off in the future. He weighed his risks and rewards, and hopes that his investment in his future will work out for him.

Diversification

What's the best way to reduce risk? In one word, it's "diversification." Diversification simply means don't put all of your eggs into one basket. For example, you may put some money into stocks, some into bonds, and some into a savings account. If one of these investments does poorly, hopefully the other investments will make up for it. We will talk about diversification in greater detail in the next section.



Conversation on the Fort Peck reservation about diversification

Daughter: The beef market doesn't look so good this year, Dad. How about diversifying your holdings and starting a bison herd?

Father: But I don't know anything about raising bison.

Daughter: But we have all that family land. We should be able to get advice from folks who run other bison herds nearby or from the Intertribal Bison Cooperative. I think that you should get a few head of buffalo out there. I also know a farm in Kentucky that is looking for a place to pasture their older thoroughbreds. What do you think? We could have more than one revenue stream coming in off those acres of pasture.

Father: Ok, I'll think about it.

Investing in a home

Sheila lives in Arizona and is a member of a tribe that provides a per capita payment of around $10,000 per year. Ten years ago, she used her per capita payment to make a down payment on a new home in the Phoenix suburbs. She bought her house when she was pretty young, and bought in a good location, where property values went up significantly. Her per capita payments helped her pay down her mortgage, and the value of her home tripled over that ten year period. She found herself in a great situation—she owned 90% of her home that had tripled in value from $100,000 to $300,000! She ended up refinancing her current home (that means she took out a new mortgage for more than she owed before, so she would have some money for a down payment on her next home) and bought a vacation home in the mountains. She was also able to pull some equity (the equity in your home is the difference between what it is worth and what you owe on it) out of her second home, and now has an investment property with her father. The investment home is a vacation property, and she rents it out like a timeshare—she has made enough money that she has been able to pay off the mortgage on her first home—it is paid in full! She is happy that her investment in the asset of a new home has increased in value, generated wealth, and has helped her—and her father—become more financially secure.

Cautionary Note: Real estate doesn't always increase in value this fast—It depends on the area, the real estate market, and other factors. But real estate can be a good investment if managed well. Even if housing values don't increase this fast, real estate is usually a good investment over the long term because: 1) historically, real estate has tended to rise in value over time; 2) you are paying off your mortgage over time and therefore building equity, that is, you are owning a bigger and bigger share of your home; and 3) the interest you pay on the loan you took out to purchase your home can be deducted from your federal taxable income, as can your real estate taxes (this is why people say that you can "save on taxes" when buying a home). Furthermore, it's an investment you can live in and enjoy even while it's increasing in value!

Session 2

Starting your Financial Planning and Investing

Overview

In Session 2 we will discuss:

- More investing terms
- Getting ready to invest
- Types of bank accounts
- How compound interest works
- The time value of money
- Inflation

Introduction

Native people have traditionally developed tools to invest in their future. Over time, Native people have adapted to new situations and adopted new tools, skills and technologies. This session will talk about some basic investing tools—the tools provided by your local bank or financial institution. You will learn more about options available to you by opening a checking account, savings account, or other bank account. In addition, we will cover some new investing terms, and will talk about how compound interest works—how your money can make money. By thinking about the ***time value of money***, you will have a chance to think about why it makes sense to begin saving and investing now.

More investing terms

Again, let's begin by defining some terms we will be using in this session:

Accrue means to add up, or to accumulate. In the world of finance, accrual refers to money adding up, especially interest.

Annual percentage yield (APY) refers to the amount of interest that invested money earns in a year, including compounded interest.

CD stands for certificate of deposit. CDs are fixed amounts of money deposited with financial institutions for a certain amount of time. A CD has a fixed interest rate that depends on the amount of money deposited and the length of time the money is left in the financial institution.

Compound interest refers the ability of an asset to generate earnings (or interest), which are then reinvested in order to generate their own earnings. In other words, compounding refers to generating earnings from previous earnings. We will talk more about this later in this chapter.

Consumer Price Index (CPI) is an index of the cost of living commonly used to measure inflation. It is a measure of the average change in prices over time for goods and services.

Fixed is a word to describe something that cannot be changed. A fixed interest rate or a fixed maturity date cannot be changed, once set. Fixed investments are those that pay a set rate of return, without fluctuation.

Inflation is the increase in the general price of goods and services, such as housing, food, taxes, and so on. The consumer price index (CPI) measures inflation.

Liquidity is how easily an asset (such as a savings bond or a home) can be converted into cash.

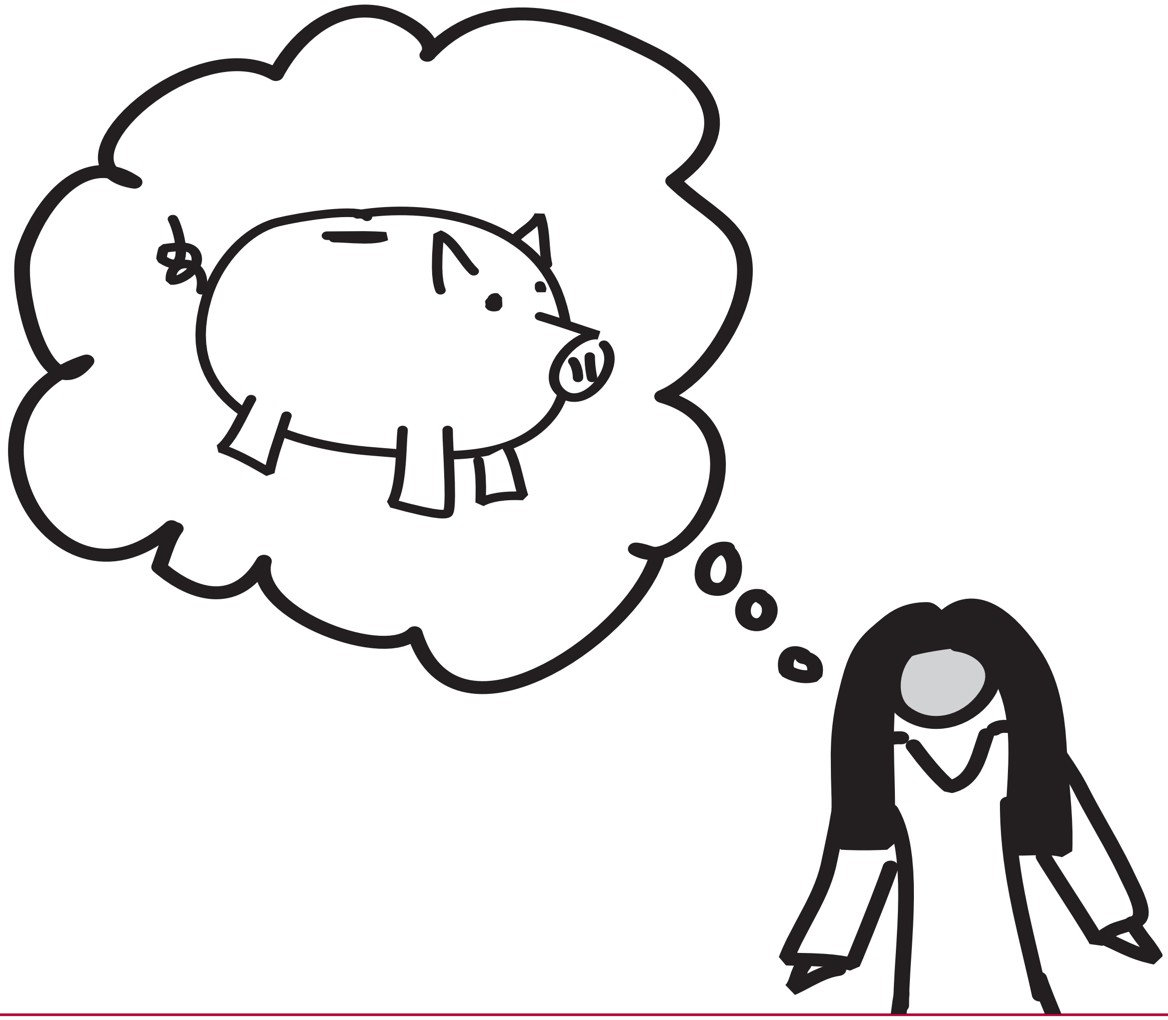
Maturity is the date when the balance of a loan, bond, or other security becomes due and payment is required.

A **money market account** is a type of interest-earning savings account offered by a FDIC-insured financial institution and with limited transaction privileges.

Real rate of return is simply an investment's annual return adjusted for inflation.

Security is a general term for investments, such as stocks or bonds.

Variable investments are those that do not have a set or guaranteed rate of return. Something that is variable has the ability to change over time.



The other day, Jennifer was talking with her favorite uncle, Wes. Jennifer was talking about her new job, about how well her son was doing in school, and how great life has been lately. After listening quietly for a while, Wes asked Jennifer if she was doing any planning for the future. Jennifer had never thought much about the future, except that she wanted to open her own quilting business. Wes asked Jennifer how she was going to come up with the money to open that business. The question really got Jennifer to thinking. How was she going to open a business some day? Wes told Jennifer that it was time to start saving and investing in the future, just as their ancestors had always done. Jennifer decided right then and there to go to the bank and open an account that would allow her to save for her business.

Getting ready to invest

You have to first save money in order to invest it. Do you already have savings? If you do not have any savings yet, ask your instructor for a copy of *Building Native Communities: Financial Skills for Families*. There you will find worksheets that will help you track your income and spending and will help you develop a spending and savings plan.

In order to begin investing, it is best to complete the following steps:

1. **Set up a checking and a savings account.** To make sure you have money to invest, each month "pay yourself first" by putting money into your savings account. Put the rest of your money in your checking account to pay your bills and other expenses.
2. **Eliminate debt.** Debt—too much debt or old debt—will get in the way of investing your money. The problem with debt, especially credit card debt, is that it can carry a higher interest rate than interest rates you can earn on your investments.
3. **Set up a "rainy day" fund.** Try to get three to six months worth of living expenses saved in a "rainy day" fund. Make sure this is money you can take out of the bank at a moment's notice.
4. **Think about why you are investing.** Do you want to see if you can earn some money in the stock market? Do you want to start putting money away now for retirement? Do you want to preserve some of your money in an investment so you will have a resource later? Think through these options, and talk to people you trust about them.
5. **Think about saving and investing for retirement.** It is important to create short-term investment goals, but don't forget about retirement. Begin saving for retirement as soon as you can. Talk to people about the best way to start saving for retirement. Explore any retirement benefits your employer may offer.

Jennifer has decided to open an account at the bank in order to start saving for her business. She learned that there are many different bank accounts: checking accounts, savings accounts, certificates of deposit, and money market accounts, to name a few. And they are all quite different. It is intimidating, but Jennifer is determined to make the best decision about choosing a savings tool. She would also like to learn more about her investment options through her local bank.

Bank accounts

Let's start our study of investments with those institutions that are closest to home—a bank or credit union. Banks or credit unions can be found in many towns. Banks and credit unions offer checking accounts and savings accounts—tools that can help you get ready to invest.

A savings account may be your first "investment." Everything you save, you can invest—in a bank as a savings account, certificate of deposit, or some other type of savings option.

But you shouldn't simply walk into the first bank you see and sign up. You are lending the bank your money when you make a deposit, so take a look at what it's willing to pay you.

Checking accounts

Let's look at checking accounts first. Checking accounts are where you put your money that you need to pay bills. You deposit your money in a checking account and then write checks to pay your phone bill, car payment, mortgage, and other bills.

There are numerous varieties of checking accounts available in most banks or credit unions. Depending on how much money you keep in your account and other factors (like if you have other accounts at the same bank), some checking accounts even pay interest. Some checking accounts are free, some charge a monthly fee, some charge a fee for each check you write. Paying fees is like a negative investment—you have to pay the bank rather than the bank paying you interest. Do some research and figure out which banks offer the best type of account for your needs—and which bank charges the least amount of fees.

Some questions to ask your bank about checking accounts:

- Are there fees for writing checks? How much?
- Are there fees for using the ATM? How much?
- Are there monthly fees for having this account?
- Is there a minimum balance I have to keep?
- Do I earn any interest on my balance?
- Does this bank offer any online services? (Even if there is no bank in your community, you can still do some banking online.)

Other questions:

- Does this bank work with my tribe?
- Does the tribe have an account at this bank?
- Is this bank known for working well with the tribal community?
- Can I use a tribal ID as a form of identification?

You may want to talk to your tribal treasurer about which banks in town work with your tribe.

Thanks to the Federal Deposit Insurance Corporation (FDIC), which is a federal insurance system established during the Great Depression, any funds you keep in a federally insured bank are insured by the U.S. government for up to $100,000. Even if the bank fails, and cannot pay you back the money you deposited, the FDIC will pay you. (If your money is invested in a credit union, it is usually insured up to $100,000 by the National Credit Union Administration, another government agency. About 1% of credit unions are not insured—make sure to ask if you choose to do business with a credit union.)

In sum, checking accounts offer:
- No risk (up to $100,000)
- Immediate access to funds through writing checks (liquidity)
- Often no interest
- Interest sometimes, but usually with a fee

Savings accounts

The simplest investment you can make is to open a savings account at a bank. Thanks again to the FDIC, a savings account is very safe. There are no safer investments than this, although there are several that are equally safe.

Unlike most checking accounts, savings accounts pay you interest on your principal. This is because you are "lending" the bank this money. The interest is usually a small amount. This is because you can withdraw the funds at any time, thereby taking back the money you "loaned" the bank.

Some questions to ask your bank about savings accounts:

- **How much interest do I earn on my savings account balance?**
- **Are there any fees for withdrawals from my savings account?**
- **Is there a minimum balance I have to keep?**

In sum, savings accounts offer:
- No risk (up to $100,000)
- The ability to withdraw funds at any time (liquidity)
- A small amount of interest

Money market accounts

A money market account is a type of interest-earning savings account offered by a FDIC-insured financial institution. Money market accounts usually have a minimum balance requirement and limitations on the number of transactions within a given time period. They pay a low interest rate, but the interest rate on a money market account is usually higher than the rate paid on savings accounts. Money market accounts are attractive because they are low risk, have high liquidity (you are usually allowed to make a few withdrawals every month), and pay slightly higher interest than a savings account.

In sum, money market accounts offer:

- No principal risk (up to $100,000)
- The ability to withdraw funds at any time (liquidity)
- Higher interest rates than savings accounts

TIP:
Using your calculator—or even a paper and pencil—100% looks like 1.00. The same format goes for 50% (.50), 25% (.25), 10% (.10), 5% (.05) and so on. When calculating interest, simply multiply the principal by the percent of interest.

Exercise: Calculating your annual interest

Congratulations! You've just deposited $2,000 in a money market account. The annual interest on this account is 2%. How much money will you earn in interest this year?

Amount deposited ($2,000) x interest rate (2%, or .02) is also written as:

2,000 x .02 = 40

Interest earned = $40

Let's try it again. You'll do it this time. You've deposited $1,000 into a savings account. The annual interest on this account is 2% a year. How much money will you earn in interest this year?

_______ x _______ = _______

Let's do it one last time. You've deposited $2,000 in a money market account with an annual interest rate of 2.5% a year. (Hint: 2.5% is also expressed as .025)

_______ x _______ = _______

Certificates of deposit (CDs)

To earn more interest at a bank, you may invest in a certificate of deposit, or CD for short. A CD pays you more interest, but you have to agree to keep your money in the account until it "matures," or reaches the end of the agreed-upon time period. In other words, you select the "maturity date" when you establish your CD account. You have many options for how long you leave your money in a CD, usually from 30 days to five years. Generally, the interest rates are higher, the longer you agree to leave your money in a CD.

Sample interest rates for certificates of deposit (CDs)*

Time on deposit	Interest rate
3 months	1.98%
6 months	2.27%
12 months	2.71%
24 months	3.05%
48 months	3.59%
60 months	3.92%

**These rates are taken from Chase Bank in New York from April 2005. Every bank offers different rates and rates change every week or so.*

A well-known rule of thumb in the financial world: long-term investments pay higher rates than short-term investments. The first reason longer term investments pay higher rates is that the investor (or lender) bears greater risks when they tie up their money for a longer time. There is also a risk that interest rates will rise, reducing the value of the principal. Another risk is that inflation will accelerate, reducing the purchasing power of the money invested and earned. A final risk is the general risk of not knowing what will happen tomorrow.

As we just discussed, when you establish a CD, you agree to leave your money in the bank for a certain length of time. If you change your mind about the CD or your circumstances change, you might ask for your money back before the maturity date. If this happens, the bank does not have to comply with your request. If the bank agrees, it can penalize you, and the amount of that penalty varies by how close to the maturity date you are and how much you withdraw. For example, you might take all of your money out of a CD, but the bank will penalize you by withholding some of the interest.

In sum, CDs offer:

- No principal risk (up to $100,000)
- Limits to your ability to withdraw the money (must wait until the CD matures to avoid penalty)
- Usually higher interest rates than savings and money market accounts

Comparison chart of bank accounts

Type of account	Risk	Access (liquidity)	Returns
Checking	none (up to $100,000)	immediate, through writing checks	no interest or low interest rate
Savings	none (up to $100,000)	can withdraw funds	earns interest, usually very modest
Money market	none (up to $100,000)	can withdraw funds at any time	earns interest, usually higher rate than savings accounts
Certificate of deposit (CD)	none (up to $100,000)	must wait until CD matures to withdraw money; face penalty for early withdrawal	earns interest, usually higher rate than money market accounts

Jennifer decides that she will open a checking account and a savings account at her local bank. Her local bank pays .2% interest on checking accounts (not very much!) but she can write up to 50 checks a month with out paying fees and can use the bank's ATM as often as she wants. She can also access her account over the Internet, and pay bills and move money between accounts using the online banking features. Her savings account earns 1.5%, which is OK for now.

Jennifer has done a household budget, and has decided she can save $50.00 per month towards her savings goals right now. She starts putting $50.00 a month in her savings account, and is trying to decide between a CD and a money market account for her longer term investments. She also plans to talk to the investment professional affiliated with the tribe (also known as a financial planner), to learn about other investment options.

Exercise: Choosing an account that's right for you

You've saved $500 toward your financial goal, but it's just sitting there in your checking account. How do you want to invest the money? Fill in the blanks below.

My financial goal: ____

	Rewards	**Risks**
Checking	____________________	____________________
	____________________	____________________
	____________________	____________________
	____________________	____________________
Savings	____________________	____________________
	____________________	____________________
	____________________	____________________
	____________________	____________________
Money market	____________________	____________________
	____________________	____________________
	____________________	____________________
	____________________	____________________
CD	____________________	____________________
	____________________	____________________
	____________________	____________________
	____________________	____________________

What type of account would you choose for your $500 investment? Why?

____

____

____

Compound interest: How money makes money

One good thing about earning interest is that, if you keep it in your account, you begin earning interest on your interest. This happens when you add the interest earned back into the principal. This is called compounding, and it is one of the wonderful and powerful forces in investing. Because of it, you can patiently build substantial wealth over time.

One good thing about earning interest is that, if you keep it in your account, you begin earning interest on your interest.

For example, if you invest $100 at 5% interest, you earn $5 and you've got $105 at the end of a year. In the second year, you earn 5% of $105, or $5.25, and end the second year with $110.25. In year three, you earn 5% interest on $110.25, which is $5.51. Compounding means that even if you don't invest any more money, and even if interest rates don't rise, your account and your interest earnings will continue to grow by larger and larger amounts every year.

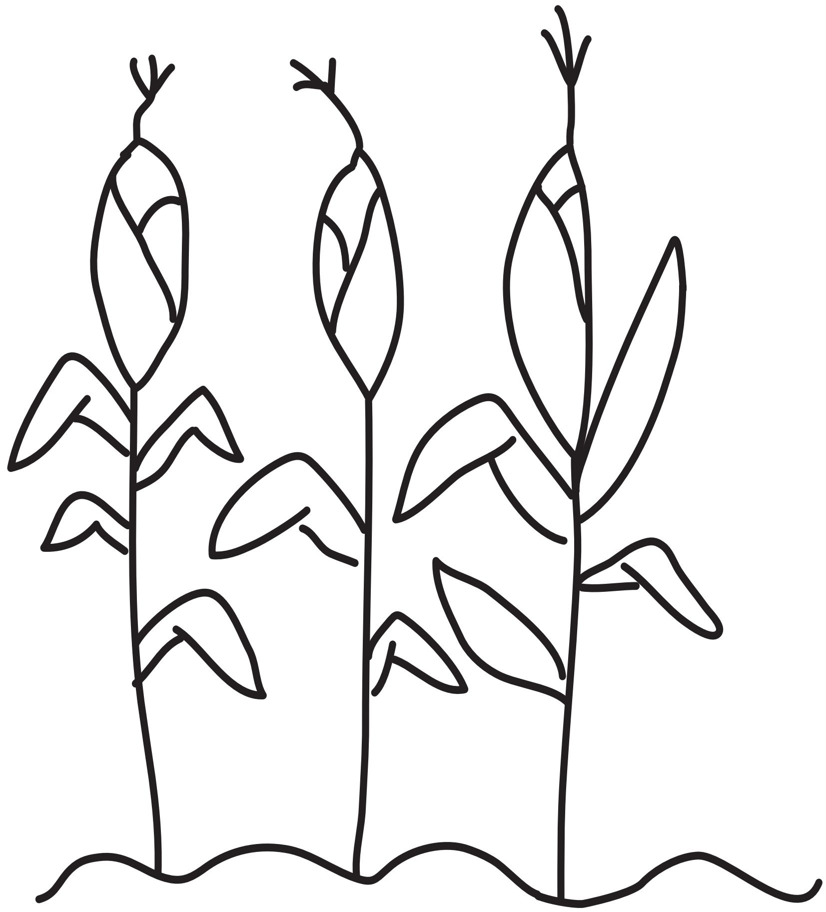
Often, bank accounts will give two interest rates—interest and APY. "Interest" generally means simple interest, where you multiply the interest rate times the principal. But, you may now be thinking, that doesn't include compounding. That's where APY comes in. It stands for Annual Percentage Yield and is the rate your money earns, compounded.

Exercise: The power of compound interest

Let's go back to that $500 you've saved to invest. You've decided to put it into a CD that earns 3.5 APY. How much will that $500 grow in five years if it is compounded annually?

Year 1	$500 (principal)	x	.035 (interest)	=	$17.50	+	$500 (principal)	=	$517.50
Year 2	$517.50 (new principal)	x	.035 (interest)	=	$18.11	+	$517.50 (principal)	=	$535.61
Year 3	$535.61 (new principal)	x	.035 (interest)	=					
Year 4		x	.035 (interest)	=					
Year 5		x	.035 (interest)	=					

Total principal at the end of Year 5 = ___________



The time value of money: Watching your money grow

You may be asking yourself why you should invest your money rather than keeping it at home or even in a checking account. The ***time value of money*** teaches us just that. This is an important concept that shows us how investing our money now can help us reach our goals in the future. Throughout our cultures we can see the value of investing our resources and the returns we receive in doing so. For example, some of our ancestors kept some of the corn from each year's harvest to plant the next year. They could have eaten that corn then, when they harvested it. Instead they saved and planted it. That meant that they were able to get many ears of corn the next year from just one seed planted in the ground. Believe it or not, this is an example of the ***time value of an investment***. When it comes to money, the time value theory basically tells us that a dollar invested today can earn interest and potentially become more dollars in the future.

So why should I invest my money?

The potential returns for money invested in stocks and bonds are higher than most CDs and bank account rates. We'll talk about those in the following sessions. But no matter what kind of return you get on your investment—large or small—time and compounding have big effects.

So, now let's see the numbers. This chart compares the returns on $100 at various rates and over various periods of time.

Future value of $100 at the end of _____ years compounded annually (interest added once a year)

ANNUAL PERCENTAGE YIELD

YEARS	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	$ 102.00	$ 103.00	$ 104.00	$ 105.00	$ 106.00	$ 107.00	$ 108.00	$ 109.00	$ 110.00
2	$ 104.04	$ 106.09	$ 108.16	$ 110.25	$ 112.36	$ 114.49	$ 116.64	$ 118.81	$ 121.00
3	$ 106.12	$ 109.27	$ 112.49	$ 115.76	$ 119.10	$ 122.50	$ 125.97	$ 129.50	$ 133.10
4	$ 108.24	$ 112.55	$ 116.99	$ 121.55	$ 126.25	$ 131.08	$ 136.05	$ 141.16	$ 146.41
5	$ 110.41	$ 115.93	$ 121.67	$ 127.63	$ 133.82	$ 140.26	$ 146.93	$ 153.86	$ 161.05
6	$ 112.62	$ 119.41	$ 126.53	$ 134.01	$ 141.85	$ 150.07	$ 158.69	$ 167.71	$ 177.16
7	$ 114.87	$ 122.99	$ 131.59	$ 140.71	$ 150.36	$ 160.58	$ 171.38	$ 182.80	$ 194.87
8	$ 117.17	$ 126.68	$ 136.86	$ 147.75	$ 159.38	$ 171.82	$ 185.09	$ 199.26	$ 214.36
9	$ 119.51	$ 130.48	$ 142.33	$ 155.13	$ 168.95	$ 183.85	$ 199.90	$ 217.19	$ 235.79
10	$ 121.90	$ 134.39	$ 148.02	$ 162.89	$ 179.08	$ 196.72	$ 215.89	$ 236.74	$ 259.37
11	$ 124.34	$ 138.42	$ 153.95	$ 171.03	$ 189.83	$ 210.49	$ 233.16	$ 258.04	$ 285.31
12	$ 126.82	$ 142.58	$ 160.10	$ 179.59	$ 201.22	$ 225.22	$ 251.82	$ 281.27	$ 313.84
13	$ 129.36	$ 146.85	$ 166.51	$ 188.56	$ 213.29	$ 240.98	$ 271.96	$ 306.58	$ 345.23
14	$ 131.95	$ 151.26	$ 173.17	$ 197.99	$ 226.09	$ 257.85	$ 293.72	$ 334.17	$ 379.75
15	$ 134.59	$ 155.80	$ 180.09	$ 207.89	$ 239.66	$ 275.90	$ 317.22	$ 364.25	$ 417.72
16	$ 137.28	$ 160.47	$ 187.30	$ 218.29	$ 254.04	$ 295.22	$ 342.59	$ 397.03	$ 459.50
17	$ 140.02	$ 165.28	$ 194.79	$ 229.20	$ 269.28	$ 315.88	$ 370.00	$ 432.76	$ 505.45
18	$ 142.82	$ 170.24	$ 202.58	$ 240.66	$ 285.43	$ 337.99	$ 399.60	$ 471.71	$ 555.99
19	$ 145.68	$ 175.35	$ 210.68	$ 252.70	$ 302.56	$ 361.65	$ 431.57	$ 514.17	$ 611.59
20	$ 148.59	$ 180.61	$ 219.11	$ 265.33	$ 320.71	$ 386.97	$ 466.10	$ 560.44	$ 672.75
21	$ 151.57	$ 186.03	$ 227.88	$ 278.60	$ 339.96	$ 414.06	$ 503.38	$ 610.88	$ 740.02
22	$ 154.60	$ 191.61	$ 236.99	$ 292.53	$ 360.35	$ 443.04	$ 543.65	$ 665.86	$ 814.03
23	$ 157.69	$ 197.36	$ 246.47	$ 307.15	$ 381.97	$ 474.05	$ 587.15	$ 725.79	$ 895.43
24	$ 160.84	$ 203.28	$ 256.33	$ 322.51	$ 404.89	$ 507.24	$ 634.12	$ 791.11	$ 984.97
25	$ 164.06	$ 209.38	$ 266.58	$ 338.64	$ 429.19	$ 542.74	$ 684.85	$ 862.31	$1,083.47
26	$ 167.34	$ 215.66	$ 277.25	$ 355.57	$ 454.94	$ 580.74	$ 739.64	$ 939.92	$1,191.82
27	$ 170.69	$ 222.13	$ 288.34	$ 373.35	$ 482.23	$ 621.39	$ 798.81	$1,024.51	$1,311.00
28	$ 174.10	$ 228.79	$ 299.87	$ 392.01	$ 511.17	$ 664.88	$ 862.71	$1,116.71	$1,442.10
29	$ 177.58	$ 235.66	$ 311.87	$ 411.61	$ 541.84	$ 711.43	$ 931.73	$1,217.22	$1,586.31
30	$ 181.14	$ 242.73	$ 324.34	$ 432.19	$ 574.35	$ 761.23	$1,006.27	$1,326.77	$1,744.94

Exercise: Returns over time

Use the chart on page 40 to answer these questions.

1. If you invest $100 for 20 years and get a 7% return on your investment, how much would it be worth?

____

____

2. If you invest $100 for 30 years and get a 9% return on your investment, how much would it be worth?

____

____

The rule of 72

Another good way to give you an idea on how your returns are performing is *The Rule of 72*. This is a simple formula that tells you how fast your money will double depending on your rate. It works like this:

72 ÷ rate of return = the number of years needed to double your money

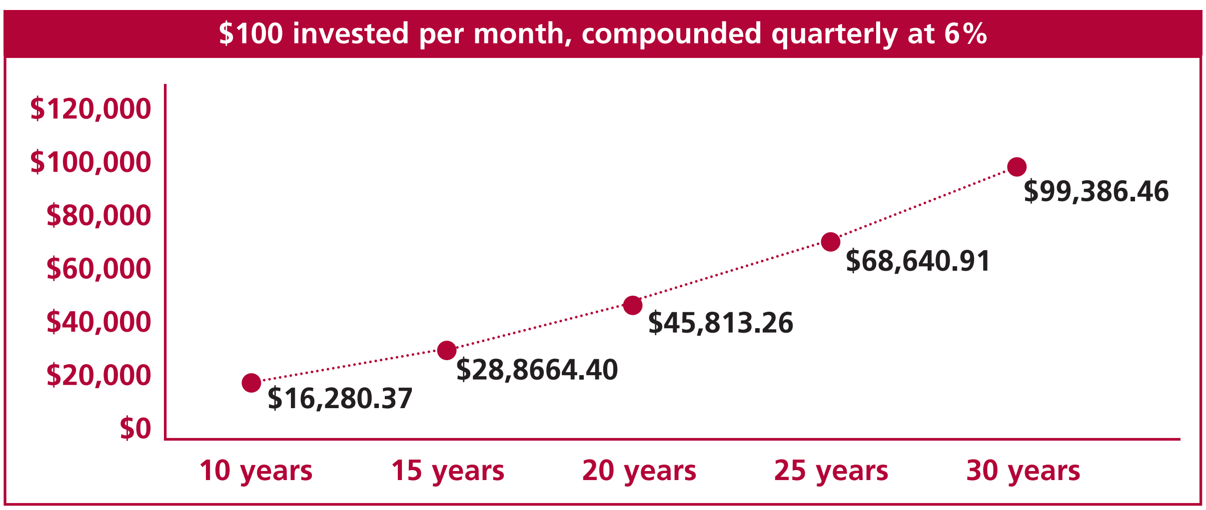
Examples:

6% rate of return: 72 ÷ 6 = 12 years

4% rate of return: 72 ÷ 4 = 18 years

The power of periodic investing

An important thing to know is that it does not take a lot of money to invest. You don't have to have thousands of dollars to start. One of the most common and effective ways to invest is through periodic investing. This is when you consistently invest smaller amounts of money over time. For example, you may be able to invest $100 from each paycheck. That may not seem like much, but it is amazing what that consistent effort can do over time. Time is your greatest ally when it comes to investing. Take a look at this chart that shows what investing just $100 a month can do for you. This chart compares the returns if you invested $100 a month for several years, assuming you get a 6% return on your investment. Be prepared to fall out of your chair.



The next table shows your return on $100 invested per month over different rates of time with different levels of return on your investment. It doesn't take a lot of money to invest; it just takes dedication, patience, and time.

Compound interest: Monthly investing

$100 per month—compounded quarterly (interest added four times a year)

Annual Percentage Rate	10 years	15 years	20 years	25 years	30 years
2.0	$13,247.65	$20,931.01	$ 29,420.31	$ 38,800.11	$ 49,163.80
2.5	$13,585.29	$21,758.13	$ 31,015.58	$ 41,501.55	$ 53,379.10
3.0	$13,933.94	$22,627.24	$ 32,721.76	$ 44,443.35	$ 58,054.28
3.5	$14,294.02	$23,540.67	$ 34,547.34	$ 47,649.01	$ 63,244.44
4.0	$14,665.91	$24,500.90	$ 36,501.46	$ 51,144.41	$ 39,011.61
4.5	$15,050.05	$25,510.54	$ 38,594.00	$ 54,958.15	$ 75,425.61
5.0	$15,446.87	$26,572.35	$ 40,835.64	$ 59,121.70	$ 82,565.12
5.5	$15,856.82	$27,869.27	$ 43,237.90	$ 63,669.84	$ 90,518.77
6.0	$16,280.37	$28,864.40	$ 45,813.26	$ 68,640.91	$ 99,386.46
6.5	$16,718.01	$30,101.00	$ 48,575.15	$ 74,077.24	$109,280.82
7.0	$17,170.24	$31,402.56	$ 51,538.15	$ 80,025.53	$120,328.86
7.5	$17,637.59	$32,772.75	$ 54,717.96	$ 86,537.37	$132,673.85
8.0	$18,120.59	$34,215.46	$ 58,131.59	$ 93,669.69	$146,477.45
8.5	$18,619.82	$35,764.80	$ 61,797.40	$101,485.40	$161,922.07
9.0	$19,135.85	$37,335.13	$ 65,735.27	$110,053.95	$179,213.66

Exercise: Compound interest

Use the above chart to answer these questions.

1. If you invest $100 a month for 20 years and get a 7% return on your investment, how much would it be worth?

   ____

2. If you invest $100 a month for 30 years and get a 8% return on your investment, how much would it be worth?

   ____

"It is not timing the market, but time in the market"

Start saving while you are young!

The following is an example of simple planning—with dramatic results. Both Mary and Tim are saving for the future.

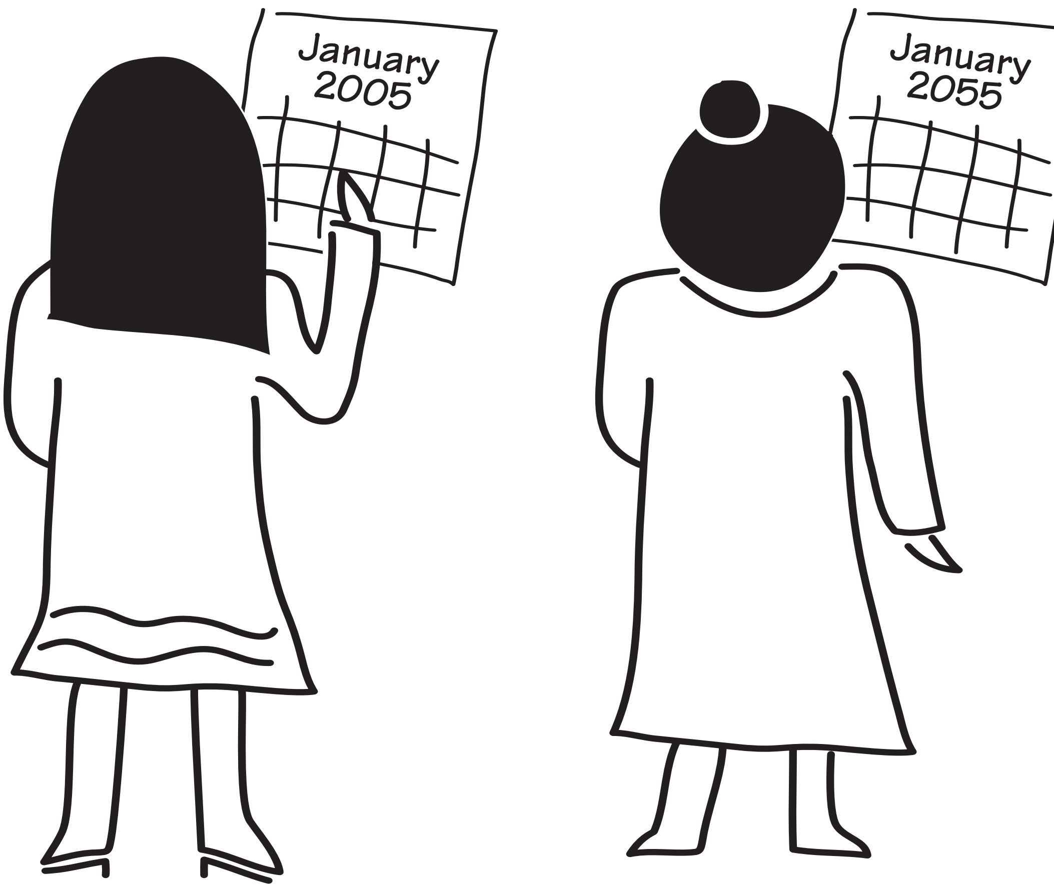
	Mary	Tim
Age when started putting money aside and investing	19 years old	26 years old
Yearly investment	$2,000	$2,000
Total years invested	8	39
Total invested	$16,000	$78,000
Year earning interest	46	39
Value at age 65	$1,035,000	$833,135
Minus investment	–$16,000	–$78,000
Net Earnings	$1,019,000*	$755,135

As you can see from this illustration, even though Mary only invested a total of eight years, because she started young (when she was 19), and left her money in the market a long time (46 years), her $16,000 invested ended up being worth $1,035,000 when she retired at age 65!

**This assumes a 10% annual return, does not take into account taxes and fees, and is used for illustrative purposes only. Your own individual investment performance will vary with market conditions.*

In contrast, Tim didn't start investing until he was 26, and even though he invested a lot more, it was only in the market for 39 years, and his net earnings were only $755,135 when he retired.

Time is your friend.
Start early!
$2,000 per year is only:
$166.66 per month
$38.46 per week
$5.48 per day
22 cents an hour!



The problem of inflation

One problem with some investments is that they often fail to protect you against inflation. Here's the dilemma. You invest $10,000 of your money into a savings account, CD, or money market account that pays 3% interest. Then you get your investment back in 10 years. One thing that has changed over those 10 years is that prices have gone up. Price increases are also called inflation, and inflation can actually outpace the interest you're earning on your investment! To calculate what you're really making from your investments, you have to *adjust for inflation*.

Inflation is the increase in the general price of goods and services, such as housing, food, luxury items, and so on. The federal government uses the "Consumer Price Index" to measure inflation.

TIP:
The U.S. Bureau of Labor Statistics has a Web page with information about the consumer price index and other issues related to inflation. Learn more by visiting www.bls.gov/cpi

Exercise: Thinking about inflation

Remember back when you were a kid? Things cost a lot less then than they do now. The difference between the costs then and now is one way to look at inflation.

Use the table below to record the costs of different things both when you were younger, and today.

What did/does it cost to pay for:	What do you remember paying for this when you were younger?	What is the price of this today?
A candy bar	did cost:	now costs:
A stamp	did cost:	now costs:
A movie ticket	did cost:	now costs:
A gallon of gas	did cost:	now costs:
One month's rent or mortgage	did cost:	now costs:

Inflation can erode the value of your returns. So your "real" return is less than your "nominal" return, which is the interest earned without taking into account inflation. Let's say you have a 10-year, $10,000 investment at 3% interest. Assume that at the same time you earn 3% on your investment, its buying power is being reduced by the inflation rate of 2.5%. You gain 3% and lose 2.5%, so your real gain is only 0.5%. This is called your *real rate of return*. The real rate of return is simply an investment's annual return adjusted for inflation. It's very important to keep inflation in mind when you are making an investment decision.

annual return (or annual percentage yield (APY)) – inflation = real rate of return

Exercise: Real rate of return

1. Let's say you invested $5,000 in your savings account five years ago. It has an annual percentage yield of 2.5%. However, inflation has averaged 3% a year over the same time period. What is your real rate of return per year on your savings account?

___

___

___

2. If you invested $10,000 in a 48-month CD that has an annual percentage yield of 3.59%, and inflation averaged 2.95% a year over that time, what is your real rate of return per year on your investment?

___

___

___

Exercise: What is the impact of inflation?

If average inflation Is:	$100 today would be worth this much in: 5 years	10 years	15 years	20 years	25 years	30 years
1%	$95	$90	$86	$82	$78	$74
2%	$90	$82	$74	$67	$60	$55
3%	$86	$74	$63	$54	$47	$40
4%	$82	$66	$54	$44	$36	$29
5%	$77	$60	$46	$36	$28	$21

1. If inflation is 3%, how much is $100 worth in 20 years?

____

2. If inflation is 4%, how much is $100 worth in 25 years?

____

Start saving as early as possible

The sooner you start saving the greater impact the power of compounding interest will have on your nest egg. For example, a one-time $2,000 investment at an 8% taxable return would grow to:

$2,939 in five years
$6,344 in 15 years
$13,697 in 25 years
$43,449 in 40 years

***Assuming an average annual 8% taxable return and a 28% tax bracket.**

Fixed versus variable investments

So now we know why we should invest, but what do we invest in? As we move forward and discuss actual forms of investing, let's first simplify things. Almost any investment can be put into one of two categories: fixed or variable.

Fixed investments are those that pay you a set rate of return, without fluctuation. A savings account that pays 2% interest, or a five-year CD paying 4% interest are examples we have already seen of fixed investments. Others that we will discuss in the following sessions are U.S. Treasury securities, municipal bonds, and corporate bonds.

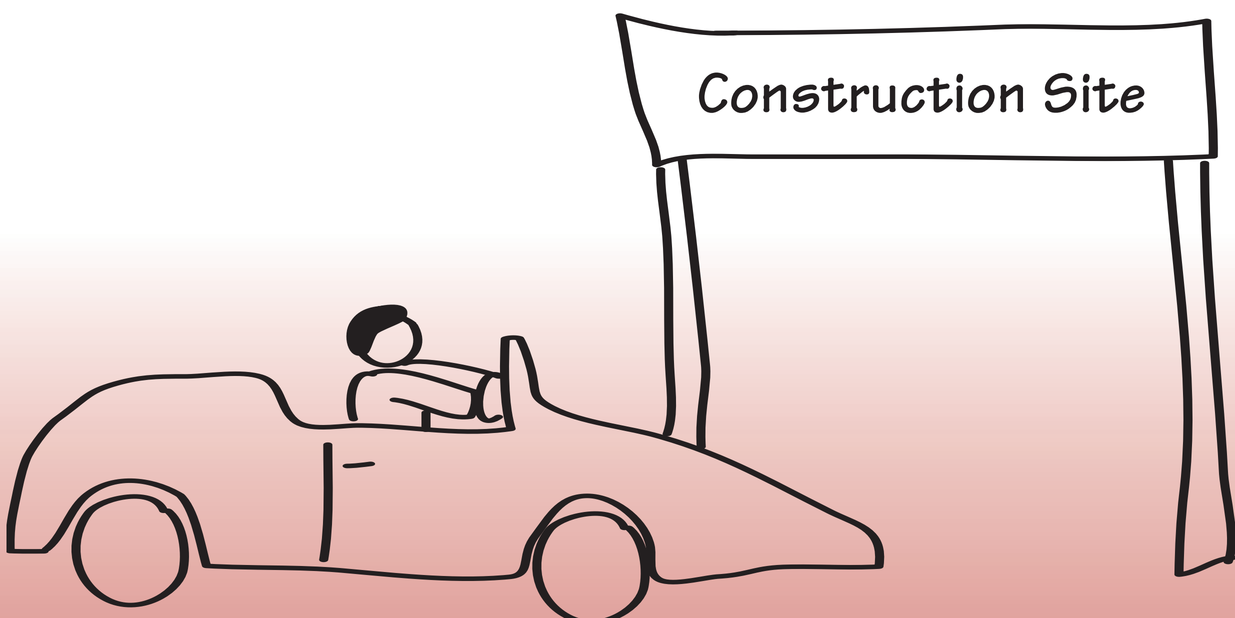
Variable investments are those that do not have a set or guaranteed rate of return. The return on these investments can and will vary over time depending on a number of circumstances. You have probably heard about people making and losing money in stocks. That is because the return on stocks can vary. So, stocks are the main example of variable investments. They can potentially give you a return, sometimes a large return, but it is not guaranteed.

The following sessions will teach us about fixed and variable investments in greater detail.

Gerald's Story

Gerald's baby

Gerald turned 18 last year and received a $45,000 per capita payment from his tribe. He had already picked out the sports car he wanted to buy, and he used it to drive to Las Vegas and live like a high roller for a few days. It was a lot of fun, but when he got back home he only had $5,000 left and his ex-girlfriend was filing for child support payments from him. Then when he decided to apply to the local community college he found out he did not qualify for financial aid because the college and the IRS counted his per capita payment as income for the year he received it. He decided he would go work for his brother instead, so he could earn the money to make his child support payments. Now he drives his sports car, which he calls "his baby," to the construction site every day to work at his brother's company, and swears that he is going to save and invest his next per capita payment very carefully.



Session 3

Investing for Your Golden Years

Overview

In Session 3 we will discuss:

- More investing terms
- Types of retirement accounts
- Saving for retirement
- How retirement accounts help you save on taxes

Introduction

Investing for retirement is one of the most important things you can do. Our ancestors invested in land, home and family ties to get them through their "retirement" years. Today, it's important to also invest financially for retirement. By investing even modestly for retirement when you're young, you can work toward a goal of having financial security in the years after you are no longer working. Even if you're not young anymore, it's still useful to plan and save for retirement.

Just as in other forms of investment, you should diversify your retirement investments. This means that even if you will receive Social Security, you should also invest in a retirement account through your employer if possible and you should also have a personal retirement savings account.

In this session we will learn about retirement options available to most people, and why investing in retirement helps you take advantage of the "time value of money" and even reduce your taxes if you use a tax-deferred retirement plan.

More investing terms

Again, let's begin by defining some terms we will be using in this session:

An **annuity** provides a series of fixed payments paid at regular intervals over a specified period. In the case of a retirement account, the fixed payments are provided after retirement age is reached and a specified amount of investment has been made into the annuity.

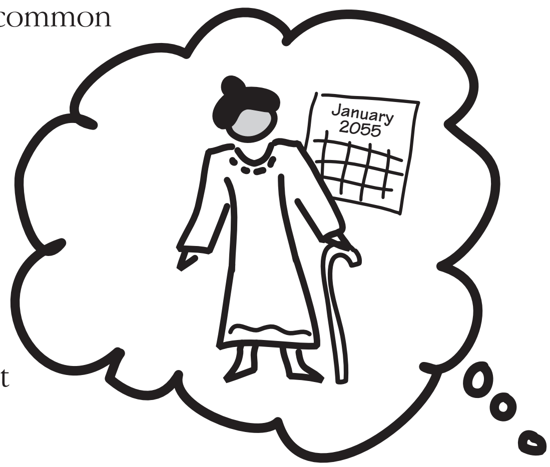
A **defined benefit plan** is an employer-sponsored retirement plan for which retirement benefits are based on a formula indicating the exact benefit that one can expect upon retiring. Investment risk and portfolio management are managed by the company, not the individual. There are restrictions on when and how you can withdraw funds without penalties.

Distribution refers to the money paid out from an investment, such as interest income.

Match refers to the amount or proportion of money that another party (for example, your employer) will contribute to an account that you also contribute to. For example, your employer may provide a "1 to 1" match in a retirement account. For every dollar you contribute, your employer contributes a dollar.

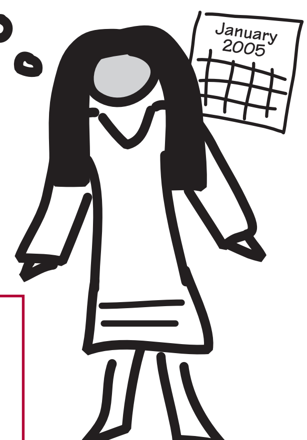
Payroll deduction, or **automatic deduction**, allows an employer to deduct money from an employee's pay and invest it in a retirement account. This reduces the employee's taxable income.

A **pension fund** is a fund established by an employer to manage the investment of employees' retirement funds (including funds contributed by both the employer and employees). The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and begin retirement.



Tax deferred means taxes will be paid on something, like a retirement account, at a later date.

Vesting is the process by which employees accrue rights over employer contributions that are made to the employee's qualified retirement plan account.



When they were talking, Jennifer's uncle Wes said that Jennifer should not only start planning for her business, but she should also start planning for her retirement, even though that may seem like a long way off. Now that she has been working for the tribe for a while, Jennifer has been told that there is a retirement plan available for her to invest money in. She doesn't really know a lot about investing, and has not really thought about retirement, so she is interested in learning more. She schedules a meeting with the personal financial advisor affiliated with the tribe, and is looking forward to learning more about investing.

Retirement accounts

Investing in retirement is a very important long-term goal. Social Security is always undergoing change, and it was never meant to meet all of a person's retirement needs. It is important for you to develop your own retirement plan. There are several important retirement plans that can be very useful—even if they sound like a jumble of numbers and letters: 401(k), 403(b), IRA, Roth IRA, SEP, and SIMPLE. These are all retirement accounts that can hold various kinds of investments, like stocks, bonds, and mutual funds (see Session 4), and they all receive special benefits that make them useful for planning and investing for your retirement. In most, you are not taxed on the money that is invested or on your investment returns, such as interest, dividends, and capital gains. In some retirement plans, your employer can also contribute to your retirement savings. The employee, or owner, of the retirement account generally has some choice in how the money is invested.

It is very important to invest money into your retirement fund. However, remember that these investments do carry risk. They should grow over time, but they could also drop in value. This is why it is important to invest for the long term—to invest your money in a retirement account and leave it in the account for as long as possible, so that you may be able to ride out any downturns in the market.

Also, remember that there are penalties for withdrawing your money from a retirement account too early. Retirement accounts have the disadvantage of low "liquidity"—you can't access your money until retirement, unless you are willing to pay a penalty.

Why invest in a retirement account?

- **Usually tax deferred**
- **Your employer may match your contribution**
- **You are taking advantage of compound interest if you start your retirement investment early**

The most perilous financial decade

Which major decade of life could be considered financially most dangerous: a person's 30s when major career and purchasing decisions are made . . . the 40s when many parents are challenged by the cost of their children's education . . . the 50s when people suddenly realize their retirement plan is underfunded?

The answer is none of these. The period when people complete their education and get the first job of their mainstream career is the most dangerous time financially because that's when budgeting patterns are established that can last a lifetime. Call this decade the Perilous 20s and include all of this year's new graduates.

With a person's first career paycheck, all of those repressed material desires are unlocked: the sports car that was only a dream a few months ago now requires a lease payment of "just a few hundred dollars a month." Anyone tired of communal college life needs a fashionable apartment, preferably with a nice view of the pool. Of course, the new job requires a whole new wardrobe.

If these urges are acted upon, they can absorb all current income, and a little more that can be conveniently scheduled as consumer debt. Many people continue in this pattern for their entire working lifetime—continually trading up their material possessions for larger debts. All their future financial options are dictated by the amount of debt service that can be squeezed from each month's income.

By contrast, a person's 20s can be the most financially enriching time of life for those who choose to save and invest part of their income. Money invested in one's 20s can benefit from compounding to a greater degree than any other time of life.

Here's another quiz: How much money could a person have at age 65 if he or she begins investing $2,000 each year at age 24, an average annual return of 10% is achieved, and returns are compounded annually and tax-deferred, as in a 401(k) or IRA? Check one of these figures before reading on: (A) $402,276, (B) $660,079, or (C) $1,075,274.

The answer, of course, is C. A person maintaining a plan of regular investing throughout his or her working life can enjoy the benefits of compounding. During the 40 years of this example, you would have actually paid in $82,000. The miracle of compounded growth at a hypothetical 10% return can accomplish the rest of the work. Of course, our example is for illustrative purposes only and does not reflect the impact of taxes. Actual rates of return cannot be predicted and can fluctuate. Further, a plan of periodic investing does not assure a profit or protect against loss in declining markets.

The trick is to convince today's youth that a couple hundred dollars a month should be set aside. Those parents or grandparents who are especially helpful can jumpstart the process by helping their son or daughter establish an IRA (check with your accountant or financial advisor on the rules).

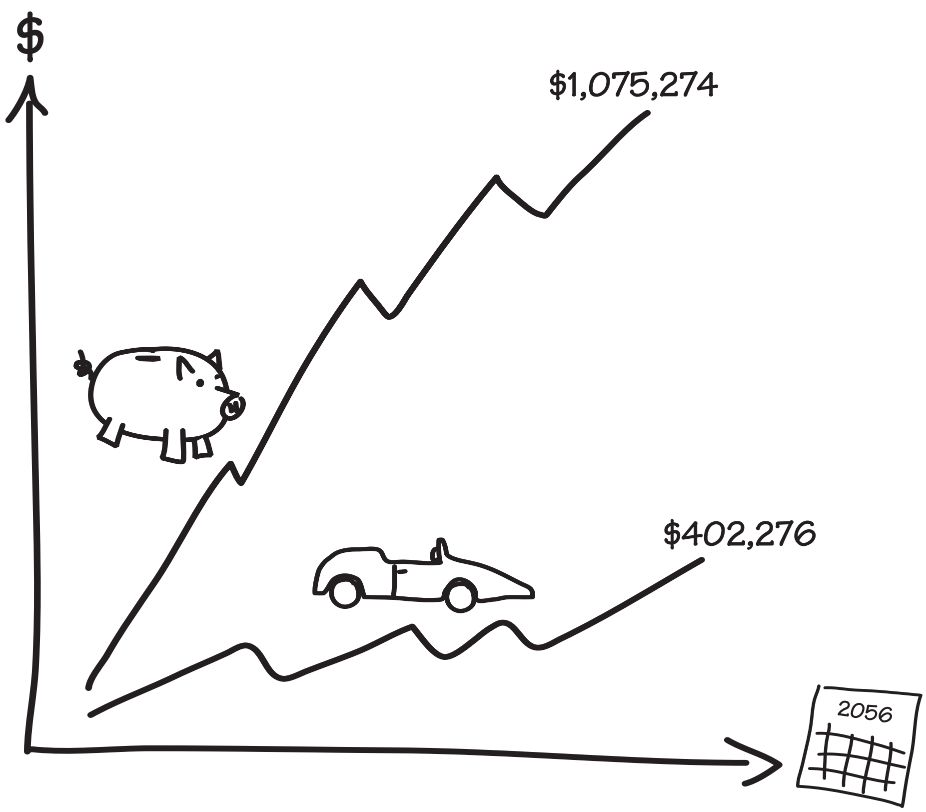
Above all, don't let the young person procrastinate. It is often too easy to think that putting off the investment program for five years wouldn't hurt much . . . after all, that's just $10,000 at $2,000 a year.

But the curious—and wonderful—characteristic of compounding is that most of the growth occurs later in the program. Choice (A) above, $402,276, was the result of the program after 30 years and choice (B), $660,079, represented the result after 35 years. In other words, the last five years of this example produced about $415,000!

Exercise: Saving for retirement

How much money could a person have at age 65 if he or she begins investing $2,000 each year at age 24, an average annual return of 10% is achieved, and returns are compounded annually and tax-deferred, as in a 401(k) or IRA? Choose one of these:

❏ A. $402,276
❏ B. $660,079
❏ C. $1,075,274



$10.00 a week is…

- **Four Big Macs,**
- **Three coffee drinks from Starbucks, or**
- **Three packs of cigarettes**

Here is a review of the major retirement account options:

- **401(k) plans** are provided by some employers. You can deposit up to $15,000 or 15% of your income per year (whichever is less) and you will not be taxed on it until you withdraw it when you retire. Employers can match some or all of your contribution. In most cases, there is a penalty for withdrawing the money before age 59 1/2. Most employers will allow you to automatically deduct your investments in your 401(k) plan from your paycheck—allowing you to easily make monthly deposits into your retirement account.

- **403(b) plans**, also known as tax-sheltered annuities (TSAs) or tax-deferred annuities (TDAs), may be offered by nonprofit organizations, educational institutions, religious institutions, and certain hospitals. In a 403(b), your investment menu is limited to annuities—fixed or variable and in some cases equity-indexed annuities (EIAs)—or mutual funds. Your employer may choose to match your contributions, but that practice is less common than with 401(k)s. But if there is a match, you usually have immediate vesting, or the legal right to all contributions and their earnings. That differs from 401(k) plans, where it might take up to six years to fully vest.

- Opening an **Individual Retirement Account (IRA).** You can deposit up to $4,000 a year into an IRA if you are single, and a non-working spouse can also deposit up to $4,000 a year. An IRA grows tax free until you withdraw it, when you have to pay taxes on the amount you withdraw. You can withdraw funds after you turn 59 1/2, and you are required to begin withdrawals when you turn 70 1/2. Many people can fully deduct the amount they contribute to an IRA from their income *before* they calculate and pay their taxes, which reduces their taxable income and saves money.

Pension funds and defined benefit plans

Some companies offer pension funds and defined benefit plans. Your money is being invested and managed—just not by you. A defined benefit plan is an employer sponsored retirement plan for which retirement benefits are based on a formula indicating the exact benefit that one can expect upon retiring. Investment risk and portfolio management are managed by the company, not the individual. There are restrictions on when and how you can withdraw funds without penalties. A pension fund is a fund established by an employer to manage the investment of employees' retirement funds (including funds contributed by both the employer and employees). The pension fund is a common asset pool meant to generate stable growth over the long term and provide pensions for employees when they reach the end of their working years and begin retirement. Your corporation should be investing and managing this money for your benefit. If your company offers either of these programs, do what you can to find out about your company's investment strategy.

What if I change jobs?

Remember, it is important not to withdraw any money from your retirement account, even if you change jobs. Depending on your retirement plan, you can leave your retirement funds where they are, or "roll over" your retirement account into an IRA when you move. Ask the human resources person at your new or old job what options you have for keeping up your retirement account. Or ask the financial company that manages your retirement plan. If you do withdraw your funds, not only will you have to pay a penalty (and therefore lose some of your money) but you will also owe taxes on the money you withdrew! Plus, you may lose the discipline of saving for retirement.

- **Roth IRAs** have the same limits as traditional IRAs in terms of how much money you can deposit. The big difference is that you pay taxes on the money you put into a Roth IRA. However, you will not later pay taxes on the money—including the interest it earns—when you take it out at age 59 1/2 or older. You may withdraw the *principal* at any time without paying taxes or a penalty. There are income restrictions for Roth IRAs, so ask about them before you open one.

- **Simplified Employee Pension Plans (SEPs)** are for owners of small businesses (fewer than 25 employees) and the self-employed. Like IRAs, contributions are tax deductible for both the employer, who makes the decision each year about how much to contribute, and for the employee. You can contribute each year up to $44,000 or 25% of your income, whichever is less, on behalf of yourself (and each eligible employee if you are the business owner). SEPs are "self-directed," which means that the employee decides how to invest the funds.

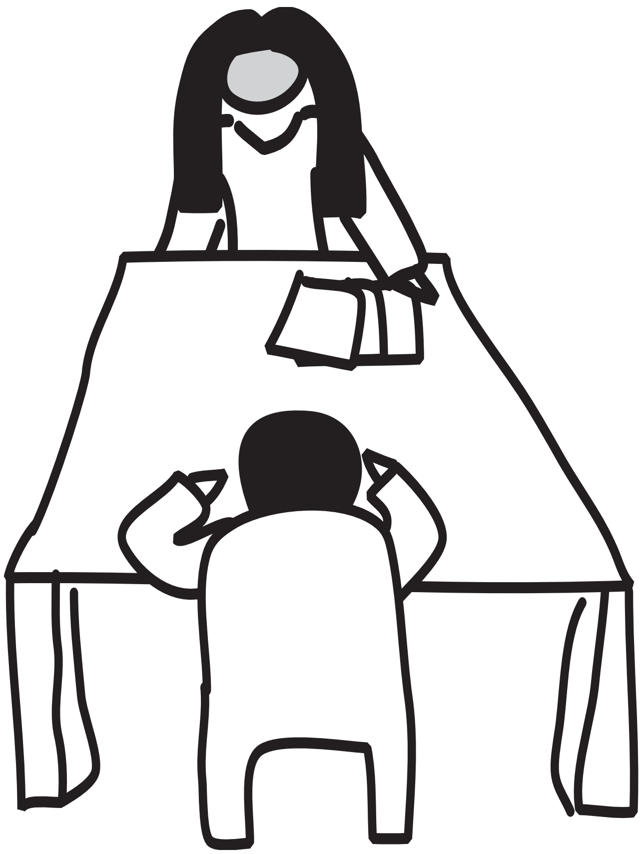
- **SIMPLE** stands for Savings Incentive Match Plan for Employees, which is a retirement plan sponsored by companies with fewer than 100 employees or for those who are self-employed. SIMPLEs are attractive for employers because they avoid some of the administrative fees and paperwork of plans such as 401(k)s. A SIMPLE plan may be structured as either a 401(k) or an IRA. The maximum yearly contribution an employee can make to a SIMPLE was $10,000 in 2005. The maximum amount is set to increase $500 a year.

Remember that there are penalties for withdrawing your money from a retirement account too early.

The IRS regularly changes rules, such as the maximum contribution per year to a retirement account, in order to make up for inflation. When you get ready to contribute to a retirement account, check on the latest figures.

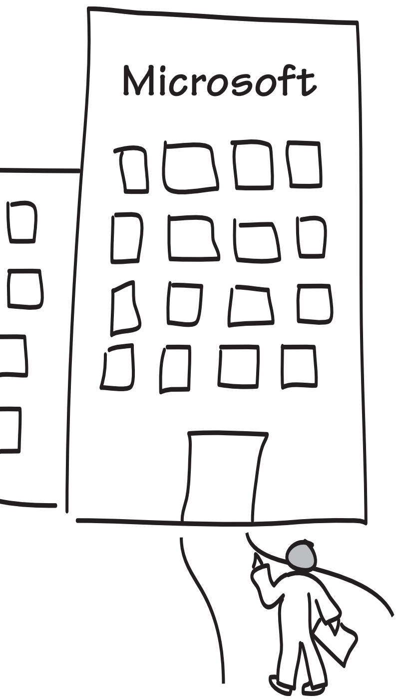
Comparison chart of retirement accounts

Type of account	When can you withdraw funds without penalty?	Who contributes	Maximum contribution	When do you pay taxes?
401(k)	age 59 1/2	employee and employer	$14,000 a year, or 15% of income, whichever is less	when you withdraw funds
403(b)	age 59 1/2	employee and employer	$14,000 a year, or 15% of income, whichever is less	when you withdraw funds
IRA	age 59 1/2	individual	$4,000 a year	when you withdraw funds
Roth IRA	can withdraw principal at any time	individual	up to $4,000 a year, depending on income	when you contribute funds
SEP	age 59 1/2	employee and employer	$44,000 a year or 25% of income, whichever is less	when you withdraw funds
SIMPLE	age 59 1/2	employee and employer	$10,000 a year	when you withdraw funds



Jennifer finally had a chance to meet with the personal financial advisor affiliated with the tribe. What she learned in the meeting really surprised her. She found out that the tribe offered a good retirement plan, and that the tribe would match any amount she put into her own retirement, up to $5,000 per year! Basically, she could double her money. The payroll office could set it up so that the money was automatically deducted from her paycheck and placed into a retirement investment account, so she wouldn't even notice it being taken out every month.

Jennifer decided right away to start deducting $150 from her paycheck each month and putting it into the retirement plan offered by the tribe. The tribe would match that amount, so $300 would be invested every month into her retirement account. She went to the tribe's payroll office the next day and spoke to someone there about setting up her automatic deposits into her 401(k) account.



Leonard's new job

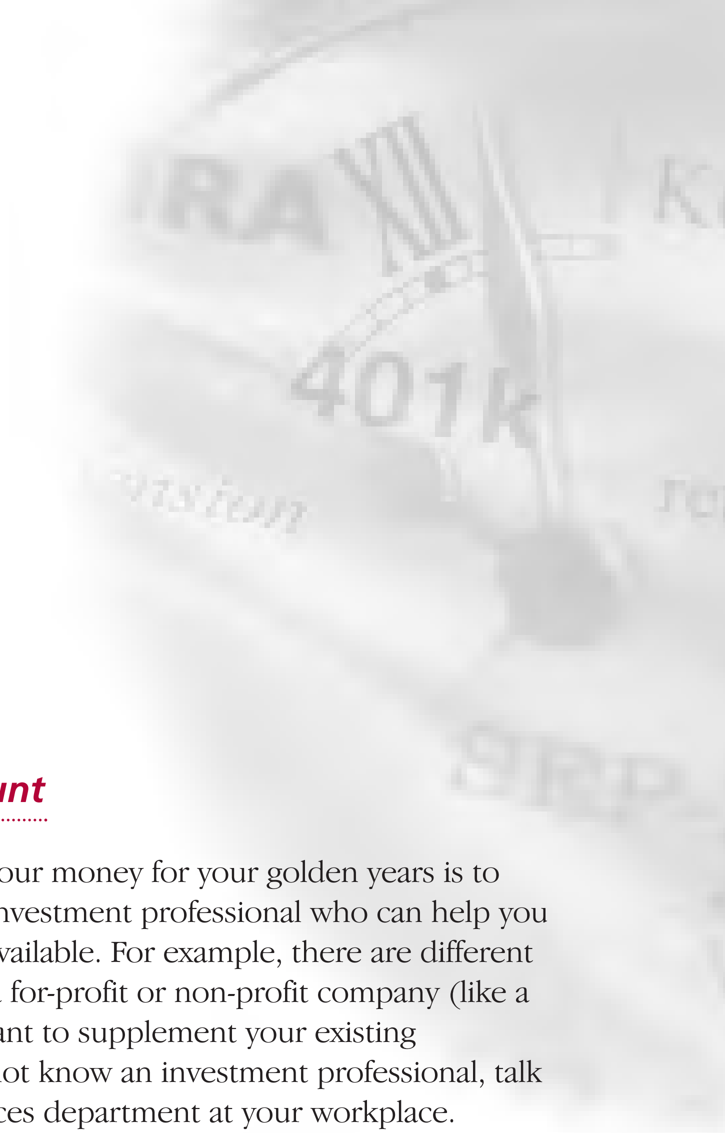
Leonard has just graduated with his electrical engineering degree and he is heading off to Seattle to start his new job at Microsoft. He worked for them as an intern and they invited him back to start as a trainee right out of college. He is nervous about leaving Phoenix, where he grew up, but is excited to start the next phase of his life. He found out that Microsoft offers a great retirement program and will match his contributions into his retirement account at 100%, up to $3,000 per year. He does a household budget and figures out that he can deposit $200 per month into his retirement account using direct deposit. That will be matched by his employer, so he will have a total of $400 deposited into his 401(k) every month. His dad told him to go ahead and start to make deposits into his account now, while he is young, and that money will have more time to grow. He chooses a moderately aggressive stock mutual fund for his first retirement investment and is looking forward to seeing it grow over the next few decades.

Exercise: Jennifer's match

Jennifer's 401(k) is all set up now. She is contributing $150 per month into her retirement account, and her employer, the tribe, is matching that amount.

How much money will she have invested into her account at the end of 12 months?

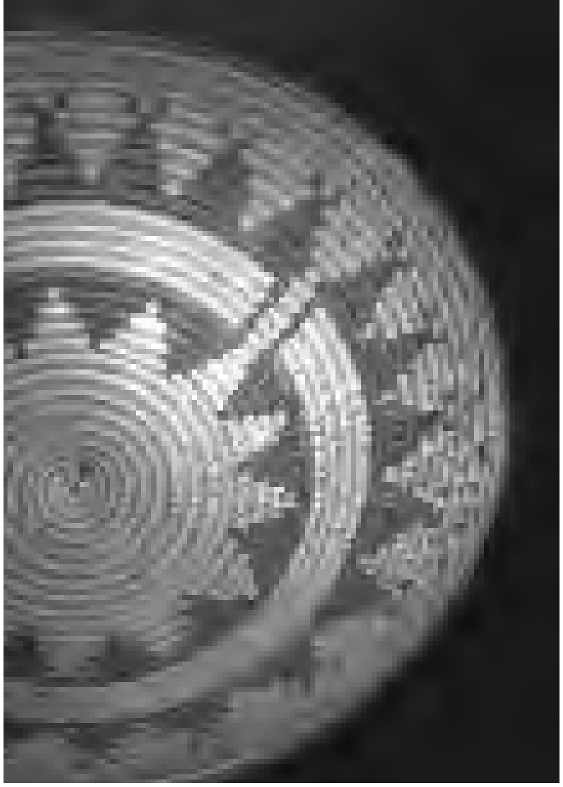
	Jennifer's investment	Employer match
Month 1	$150.00	$150.00
Month 2		
Month 3		
Month 4		
Month 5		
Month 6		
Month 7		
Month 8		
Month 9		
Month 10		
Month 11		
Month 12		
Total		
Grand Total		



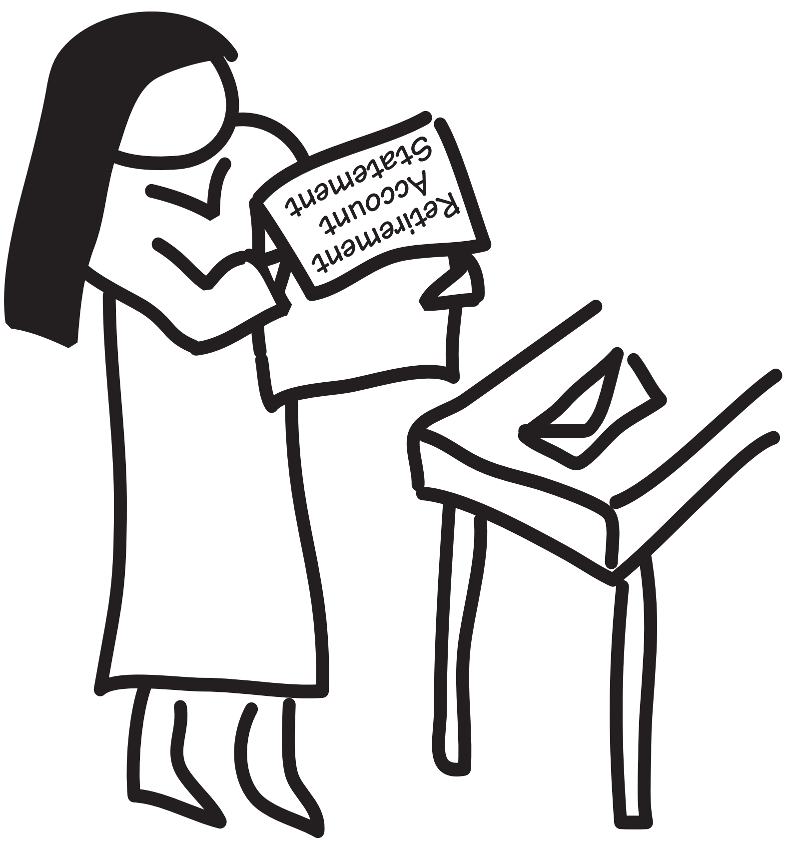
How to set up a retirement account

The best way to learn about how to invest your money for your golden years is to read up on the subject and then talk to an investment professional who can help you learn more about all the options you have available. For example, there are different plans depending on whether you work for a for-profit or non-profit company (like a school or hospital), are self-employed, or want to supplement your existing retirement program with an IRA. If you do not know an investment professional, talk to someone in the payroll or human resources department at your workplace. Someone there will explain the retirement program available through your workplace, whether it is a pension program, a defined benefit plan, a 401(k), or 403(b). If your company offers a 401(k) or 403(b), be sure to ask whether contributions to your retirement account will be matched by the employer and if so, by how much. Some workplaces offer seminars on investing for retirement and it is always a good idea to attend these seminars when they are available.

If you are self-employed, you may want to set up an IRA, Roth IRA, SEP IRA, or some other type of retirement account. You will need to find an investment professional to help you set up this type of account, and to facilitate your deposits into this type of account. You can find an investment professional at many banks, mutual fund companies, and discount brokers, but the best way to find an investment professional is by asking around and getting a recommendation from someone you know and trust. Even if you already have a retirement plan in place at work, you may wish to supplement your existing retirement investments with an IRA, Roth IRA, or some other investment tool. Again, you will need to work with an investment professional to set up this type of retirement account.



Jennifer's 401(k) is all set up now. The payroll office automatically deducts $150 from her paycheck, and it goes directly into her retirement account along with the match money provided by her employer, the tribe.



Saving for retirement

You hear it all the time: save as much as you can for retirement. It is always a good idea to save for retirement. But after paying all your bills, you are lucky to have anything left for savings. So how do you find the dollars you need to save now for your retirement? Keep these things in mind:

Planning. The first step is to make a plan. Suppose you are currently investing $20 per week towards your retirement and after reviewing your budget, you find that you can afford to contribute an extra $10 per week to your investment program. That is a good start. In fact, your additional $10 weekly savings, earning a fixed average 7% compounded annual return over 30 years, can accumulate an additional $52,865 toward your retirement.

Invest and stay invested. Now that you've made the decision to invest in your retirement, staying invested is a key requirement to your success. If your employer offers you the opportunity to contribute part of your earnings to a retirement plan through payroll deduction, you should contribute as much as you can afford, within plan limitations. Continue contributing each payday so your account has a chance to grow. And budget your money so that when you get a pay raise or pay off a loan, the extra money can be contributed to your retirement account. Remember to keep your contributions working for you during your pre-retirement years and don't be tempted to take money out of the plan early unless it is an emergency.

Markets go up and down. Keep in mind that during your savings years markets typically fluctuate in value. In fact, no one can guarantee that your investments will perform well enough to meet your retirement dreams. But, if you put in place a plan to save and invest now, you increase the opportunity to achieve the secure retirement you want. While young investors may lack the financial resources of many of their elders, they have one of the most valuable resources of all—time! With time, young investors can slowly build an investment portfolio to help secure their financial future. Also, if an investment doesn't quite pan out, or if the market experiences a downturn, there is still time to recover from such losses.

Watch your account balance grow

Weekly before-tax contribution*	Account balance after 20 yrs.	Account balance after 30 yrs.	Account balance after 40 yrs.
$10	$22,573	$52,865	$113,742
$20	$45,147	$105,731	$227,483
$30	$67,720	$158,596	$341,226
$40	$90,294	$211,462	$454,968
$50	$112,867	$264,327	$568,710
$75	$169,301	$396,491	$853,064
$100	$225,735	$528,654	$1,137,419

**These are hypothetical examples involving a retirement plan participant who regularly makes a before-tax weekly contribution over the applicable time periods and earns a fixed 7% average annual investment return. Your investment returns will differ and your contribution amount will not likely remain the same over an extended period. The maximum annual 401(k) deferral allowed under current tax law is $5,000. Your plan's limit may be less. Your account balance will be subject to income tax at distribution.*

Exercise: Watch your account balance grow

Using the above chart, answer the following questions:

1. If you save $40 per week for 20 years, how much will your account be worth?

____

2. If you save $10 per week for 40 years, how much will your account be worth?

____

Invest for the long term. No investment is without risk. However, investing for a retirement that is many years away allows you to take on riskier investments, such as stocks, that offer potentially higher returns. While stock values can fluctuate up and down over the shorter term, over longer periods they have generally performed well. Of course, past performance does not guarantee future returns.

While young investors may lack the financial resources of many of their elders, they have one of the most valuable resources of all—time! With time, young investors can slowly build an investment portfolio to help secure their financial future. Also, if an investment doesn't quite pan out, or if the market experiences a downturn, there is still time to recover from such losses.

Pay yourself first with your retirement plan. You work hard to earn your paycheck. But where does all the money go? Before you actually receive your check, taxes have been withheld. Then you have to take care of the mortgage or rent, car payment, day care, groceries, utilities and perhaps a stack of credit card bills. How much is left to save for your future? If your answer is "not much," you need to start paying yourself first. How? Your employer-sponsored retirement plan is the place to start.

Put your money to work for you. You work hard, and so should your money. Saving for retirement through your company's qualified retirement plan is a great way to put your money to work for you. By taking advantage of the tax deferral your plan offers, you stand a better chance of accumulating enough to have the retirement you've always dreamed of. And in the meantime, you can enjoy the benefits of paying less in federal income taxes. Take advantage of this opportunity to pay yourself first and Uncle Sam later. Join your plan, open an investment account, or increase your contribution soon.

Confused about the meaning of a word or concept? There are many investment dictionaries on the Internet that have definitions, explanations, and examples. Just enter the words "investment dictionary" into your search engine, and follow the links.

How retirement accounts help you save on taxes

When you save through a qualified salary deferral retirement plan such as a 401(k), 403(b) or SIMPLE plan, your contributions to the plan are put aside before you get your paycheck and before income taxes are taken out. You pay no income tax on your retirement plan contributions until you take distributions from the plan (Pennsylvania residents do pay state tax first). There's also no current tax due on any employer contributions to the plan.

Having your retirement savings deducted out of your salary first means you'll pay income taxes on fewer of the dollars that you earn. For example, Leon earns $30,000 a year and decides to defer 5%, or $1,500, a year to his qualified retirement savings plan. Leon therefore will pay income taxes on only $28,500. The other $1,500 will not be taxable to him as long as it stays in the plan. In a 28% tax bracket, Leon will reduce his Federal bill by $420!

Your first thought may be that Leon now has $420 more dollars to spend. But in actuality, Leon is saving an additional $420 for retirement—money that he would have normally sent to Uncle Sam! By saving through your company's retirement plan, you should be able to save more for retirement than you would by setting aside savings after you receive your paycheck. And, while your money remains in the plan, all investment earnings are tax deferred. Over time, tax-deferred growth makes quite a difference.

This can all seem very abstract—let's take a look at an example:

Leon and Anita both earn $30,000 a year. Anita decides to save on her own after paying taxes—not through the company's retirement plan.

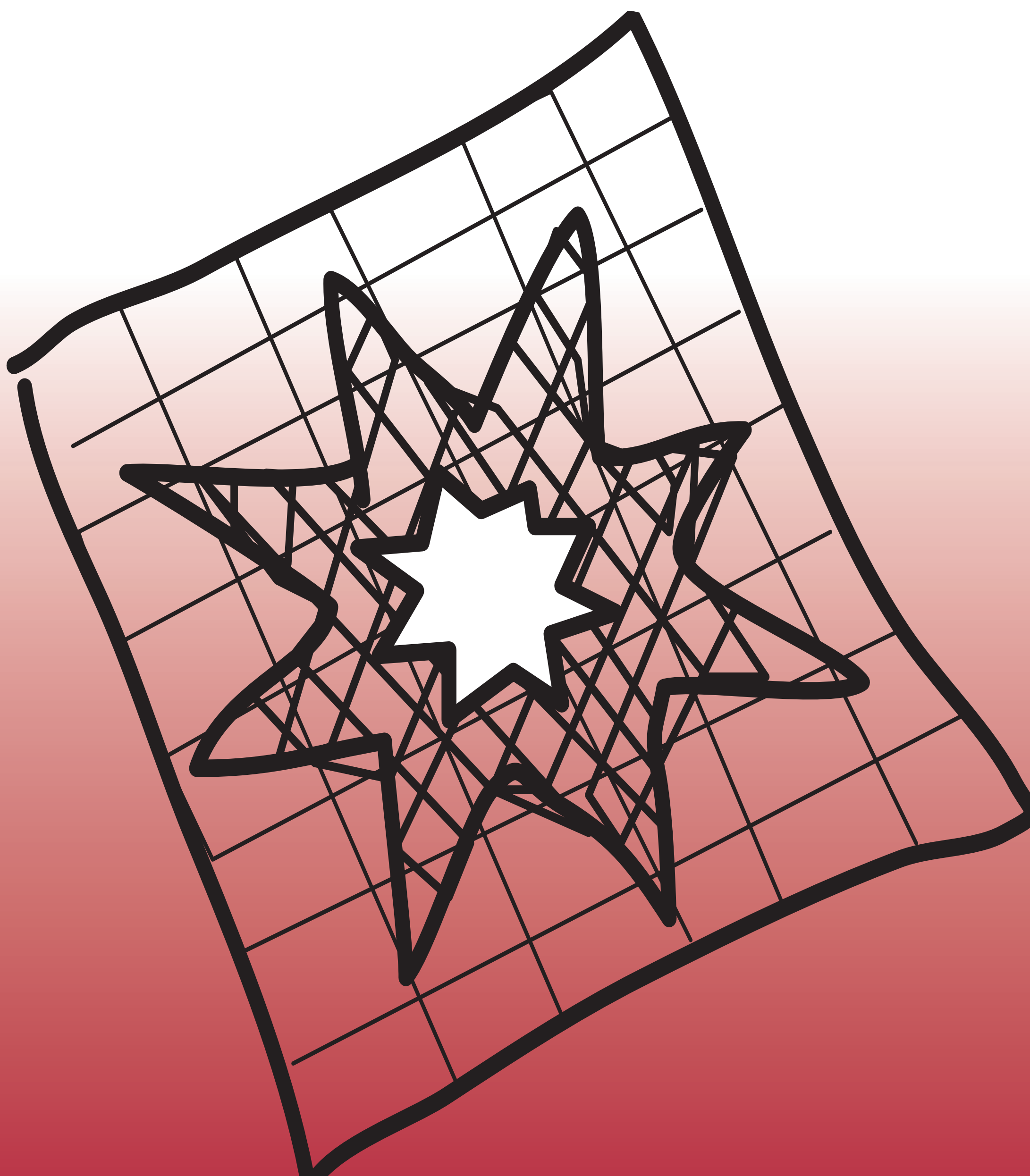
	Leon	Anita
Salary	$30,000	$30,000
Retirement plan contribution by payroll deduction	$1,500	$0
Take-home pay, after payroll deductions	$28,500	$30,000
Non-retirement plan contribution	$0	$1,500
Difference in federal income taxes on $1500 take-home pay (at 28%)	N/A	$420
Real annual contribution	$1,500	$1,080
Years of accumulation	30	30
Accumulation after 30 years	$169,925	$81,861
Federal taxes payable on distribution (28%)	–$47,579	–$0 (Unlike the retirement investment, taxes have been paid annually instead of deferred and compounded.)
Total for retirement	$122,346	$81,861

This is a hypothetical example. The investment results are for illustrative purposes only and are not representative of any particular investment vehicle. Your investment performance and account balance will differ. Rates of return will fluctuate with market conditions.

Cheyenne's Story

Investing artisan profits for retirements

Cheyenne has made star blankets since she was 17 years old. Having learned the patterns and traditional designs from her mother over the past 15 years, she has gotten many requests for her blankets and decided to become self-employed. Cheyenne was asked to make several blankets for a historical celebration near her home. In all, she was asked to make 16 large star blankets and three baby star blankets. Her pay would account for time and materials, and the final product would total $25,800. She was given a year to complete the order and figured that she would use the money to start a retirement investment account. The event came and passed and Cheyenne figured out how much she had to invest after deducting the cost of the materials and what she would count as her income. Her total amount to invest was $4,000, which she then put into a SEP IRA that she set up with an investment firm in Bismarck. Her aunt helped her find an investment advisor she could trust, and they created a balanced portfolio of mutual funds with good track records. Now every time she makes a blanket she puts 10% of her earnings into the IRA.



Session 4

Investing in Stocks, Bonds, and Mutual Funds

Overview

In Session 4 we will discuss:

- More investing terms
- Stocks
- Bonds
- Mutual funds
- Asset allocation
- Brokers
- Taxes on investment profits

Introduction

In the last session, we learned how to save money in retirement accounts. When you open a retirement account, you often have to choose what the account will be invested in. Most retirement investment accounts are restricted to certain mutual funds selected by your retirement plan's administrator. Mutual funds are collections of stocks and bonds. This session will provide an overview of stocks, bonds, mutual funds, and other investment options. As an owner of a retirement account, you will want to know what your money is being invested in, and want to learn more about how to manage your stocks, bonds, and other investments.

Even if you do not have a retirement account, and are investing for some other reason, you will need to learn all about stocks, bonds, mutual funds, and other securities.

More investing terms

Again, let's begin by defining some terms we will be using in this session:

Asset allocation is the term used to describe diversification of investments between stocks, bonds, bank accounts, and other investments. It involves putting money in several different types of investments.

Bonds are types of securities that governments and corporations use to borrow money. The bond is the certificate of debt; governments and corporations pay back the bonds with interest.

A **broker** is a person or entity working as an agent between investors in the sale of securities.

Brokerage firms are made up of people or entities working as agents between buyers and sellers of securities.

Capital gains are the profits earned when an asset is sold for a higher price than the purchase price. You pay taxes on capital gains.

Commission is a fee charged by stockbrokers when they buy or sell stock for you, or real estate agents when you buy or sell a house. Many other salespeople also earn commissions.

Default is the failure of a company to pay interest and, when due, the principal on an investment, such as a loan or bond.

Dividends are payments from company profits made to stockholders (investors who own the stock). Dividends are usually paid quarterly, and in cash, but can be paid in company stock.

"Investment grade" is a term used to describe bonds worthy of purchase by investors who do not want to take big risks. Investment grade bonds are bonds that have a high rating from one of the five rating agencies.

An **initial public offering (IPO)** is the first time that a company sells stock to the general public.

"Large cap" stocks have a relatively large market capitalization (in other words, are stocks of relatively large companies). Capitalization is share price times number of shares outstanding.

Load is the word used for the sales charge attached to some mutual funds.

Portfolio is a word for the list of the financial assets held by an individual, bank, or other financial institution.

Secondary markets are where most stock and bond trading occurs; the secondary market is the one in which securities are traded after they've already been sold by the corporation and bought by the public at the "initial public offering." Most stock is bought in secondary markets.

Self-directed refers to an investment account in which the investor is responsible for deciding where the funds will be invested.

"Small cap" stocks are stocks with a relatively small market capitalization (in other words, are stocks of relatively small companies).

Stockholders are investors who own stock in a company. Stockholders are also often referred to as **shareholders**.

Stock is one equal share of a corporation's net worth and profit.

Stock market refers to the "place" where stockbrokers buy, sell, and trade securities. Today, this "place" is often electronic.

A **stockbroker** is an agent who charges a fee or commission for executing buy and sell orders submitted by an investor, or the firm that acts as an agent for a customer, charging the customer a fee for its services. Also referred to as a **broker**.

Getting started with investing

There are many ways to get started with investing. You may have already opened a retirement account and want to know what this account will be invested in. Or, you may want to start investing on your own, by choosing some stocks, bonds, or mutual funds to invest your money in.

The section below will provide introductory information on stocks, bonds, and mutual funds, and will help you understand how to use these investment tools.

When Jennifer set up her 401(k) retirement account, she had to decide what to invest her retirement funds in. She was told she had a choice of several mutual funds, which were invested in different stock and bond portfolios. All these terms were new to her, and she decided to learn more before making a decision.

An old saying in the investing world that you may have heard goes "buy low, sell high."

Stocks

Stocks are a very common investment tool. When you buy stock in a company, you become part owner of that company, including all its buildings, products, inventory and earnings—or losses. You are a stockholder, or shareholder, as it is also called. Most stockholders own a very small portion of a company. If the company grows, and if the stock market reflects that growth, then your investment will grow as well. In fact, over long periods of time, stocks have done better as an investment on average than bank accounts or bonds.

How does one decide what stock to buy? Investment professionals who choose stocks to buy do a lot of research on the companies offering the stock. Some of the questions they ask are the following:

- Does this company have a good future?
- Is this company growing?
- Is it well managed?
- Does it have a strong product line?
- Is it profitable? In other words, is it making money?
- Does it have a healthy "balance sheet," or financial statement that shows the assets, liabilities, and worth of a company at a specific time?

We recommend that you work with an investment professional before buying stock, or that you consider purchasing stock only as a part of a professionally managed diversified portfolio, or as part of a mutual fund. However, if you do decide to try purchasing individual stock, there are a number of ways you can go about it.

You can start by thinking about what company you would like to be part owner of. A good way to start is to look around your home. What are some products you use every day? Who built your vacuum cleaner or your microwave? Open your refrigerator. What products do you buy often? Is there always some orange juice in your fridge, or a certain brand of ketchup? Think about where you go out to eat. Is there a restaurant chain you like? Do you think they run a good business, and that others think that as well? In addition, you can research companies and stocks on the Internet, at your nearest library, or through your stockbroker. To research a company on the Internet, it is useful to visit the company's Web site and go to "Investor Relations." There you will usually find earnings releases, the links to information that companies are required to file with the federal Securities and Exchange Commission (SEC), charts of the stock price, and other such information. Remember, be careful about "hot stock tips" you may see on the Internet—if it sounds too good to be true, it probably is!

An old saying in the investing world that you may have heard goes "buy low, sell high." One key to successful stock investing is the purchase price. No matter how good the company is in all other respects, if you overpay when you buy stock, you may not make any money—even if the company does very well. So you want to buy a company's stock when you think it will still go up, not when it has already peaked.

Famous Dave's BBQ, Inc.

In 1994, Dave Anderson, a member of the Chippewa and Choctaw tribes, opened his first Famous Dave's BBQ Shack in Hayward, Wisconsin, on Round Lake. It was reminiscent of the old-fashioned BBQ joints popular across the country 50 years ago, featuring slow-smoked ribs along with Dave's own secret BBQ sauces. The restaurant was an instant success, serving up to 8,000 people a day in a town of only 1,800. By 2006, Famous Dave's of America, Inc. owned and operated 40 locations, and franchised 91 additional units in 33 states. The company has developed agreements for an additional 197 franchise locations. In the first quarter report for 2006, Famous Dave's reported overall earning of $742,000, or $0.07 per diluted share, on total revenue of approximately $27.1 million. In comparison, for the first quarter of 2005, net income was approximately $533,000 or $0.05 per diluted share, on total revenue of approximately $23.5 million. Total revenue for the first quarter of 2006 increased 15.3% over the 2005 comparable period, reflecting an 11.9% increase in net restaurant sales and a 46.5% increase in franchise royalties.

Questions about Famous Dave's:

1. Does this company have a good future?

____

____

2. Is this company growing?

____

____

3. Is it well managed?

____

____

4. Does it have a strong product line?

____

____

5. Would you invest in Famous Dave's Restaurant? Why or why not?

____

____

Note: it is always a good idea to check with someone who knows the industry you are investing in, or who has experience with investing, before you purchase stock.

Exercise: Good investments

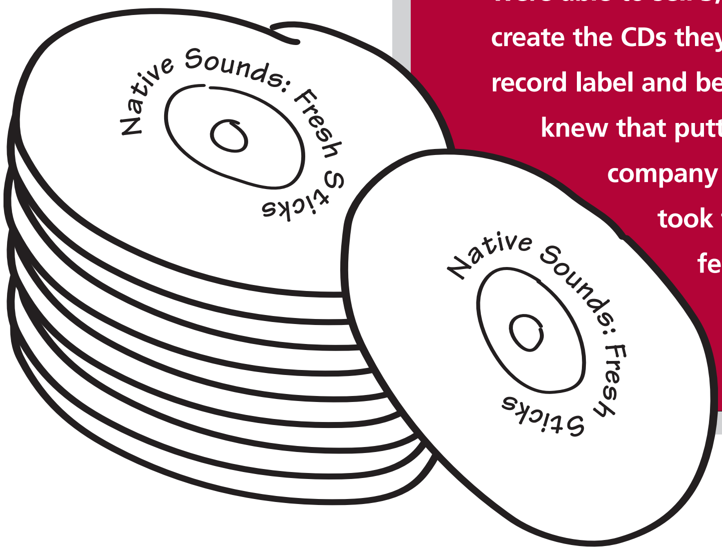
1. What kinds of products do not have a good future? Here's one example: cassette tapes. Jot down a few other products you probably shouldn't invest in:

2. What kinds of products probably do have a good future? Here's one example: Organic food products (this is the fastest-growing segment of the food market). Jot down a few other products you think would be good to invest in:

3. When it comes to Internet-based businesses like Google or amazon.com, do you think they are a good investment in the short run? How about in the long run?

Drumming for investment funds and taking a risk

In recent years, many Native American drum groups have been able to make and sell CDs to bring in additional funds while sharing their music, from traditional to rap. A northern drum group decided to put all of their CD earnings into the stock of the company that makes their CD. Since they know and like all of the other groups that produce CDs under that label, they think the company will do well in the Native American music industry. Through online and powwow sales they were able to sell 3,000 CDs. After taking out the costs to create the CDs they had $30,000 left over to put into the record label and become individual stockholders. They knew that putting all their investment in one company was a high-risk strategy, but they took the risk because they were young and felt they knew the industry and the people running the business.



Diversify your investments

It is important to note that most people do not buy only one or two individual stocks as an investment strategy. It is much more common—and smarter—to buy a collection of stocks, or shares in a mutual fund (we talk about mutual funds later in this chapter), or to invest in a portfolio of securities. By investing in a portfolio of securities, you are diversifying your investment and reducing your risk of losing money. This is how you can follow the old adage, "don't put all your eggs in one basket."

What kind of investment professional should I work with?

You will encounter a lot of people who are willing to help you manage your investments, but you should be careful about who you trust with your financial information. Below is a little more information about the different types of financial and investment professionals you may choose to work with:

Financial Planners: Financial planners are professionals who help clients identify their financial goals and understand their levels of risk tolerance. They help formulate a long-term plan of action specific to the needs of each client. Planners often work to implement the plan, recommending investments consistent with the client's financial and social objectives, preferences, and tax situation. Planners may charge the client a flat fee or an hourly rate to design a comprehensive financial plan. There may be commissions or ongoing asset-based fees paid to the planner for implementing and overseeing investments with the plan. Comprehensive financial plans generally include budgeting and cash flow, net worth analysis, risk management assessments, tax planning, education fund planning, and estate planning. Many financial planners advise businesses and institutions in addition to individual investors, and may have earned one or more of the following professional designations:

Accredited Investment Fiduciary™ (AIF): A professional designation that recognizes knowledge and competency in the area of fiduciary responsibility. Holders of the AIF mark have successfully completed a specialized program on investment fiduciary standards of care and subsequently passed a comprehensive examination. Designees must be able to understand and articulate the legal and regulatory environment surrounding the fiduciary, be able to develop and implement an effective investment management process applying the principles of Modern Portfolio Theory, document all due diligence, and above all, treat their clients with the utmost prudence and care.

Certified Financial Planner™ (CFP®): CFP®s have completed a two or three year course and comprehensive examination. Depending on the level of degree work completed in a collegiate setting, a CFP® must have three to five years of financial planning-related experience prior to receiving the right to use the CFP® mark and must voluntarily ascribe to CFP® Board's Code of Ethics. CFP®s must obtain 30 hours of continuing education every two years in the body of knowledge pertaining to financial planning areas such as estate planning, retirement planning, investment management, tax planning, employee benefits, and insurance.

Certified Public Accountant (CPA): Accountants often offer financial products/services, but CPAs with the "Personal Financial Specialist" designation have at least 250 hours of yearly experience in financial planning, and have passed an exam. Depending on the state, most CPAs are required to hold a college accounting degree.

Chartered Financial Consultant / Chartered Life Underwriter (ChFC/CLU): These designations are awarded upon completion of a three-year course of study with the American College focused on taxes, estate planning, insurance, financial planning, and portfolio management. Insurance agents (or life underwriters) are licensed by the states in which they do business.

Registered Investment Advisor (RIA): RIAs are registered with and regulated by the Securities and Exchange Commission (SEC) and/or the states in which they conduct business. Compensation paid to RIA firms is generally based on fees earned on assets under management.

Brokers: Brokers are NASD (National Association of Securities Dealers) registered representatives who buy and sell securities on behalf of their clients.

Stockbroker: A stockbroker is an agent who charges a fee or commission for executing buy and sell orders submitted by an investor, or the firm that acts as an agent for a customer, charging the customer a fee for its services.

"Buy good value at a fair price."

How do you make money owning stock? Warren Buffett, a famous and widely respected investor, says you should "Buy good value at a fair price." Over the long run, this means you should buy stock (invest) in companies that:

- **Are growing**
- **Are well-managed**
- **Have a healthy "balance sheet," or financial statement that shows the assets, liabilities and worth of a company at a specific time**
- **Have a strong product/product line**

Buying stocks

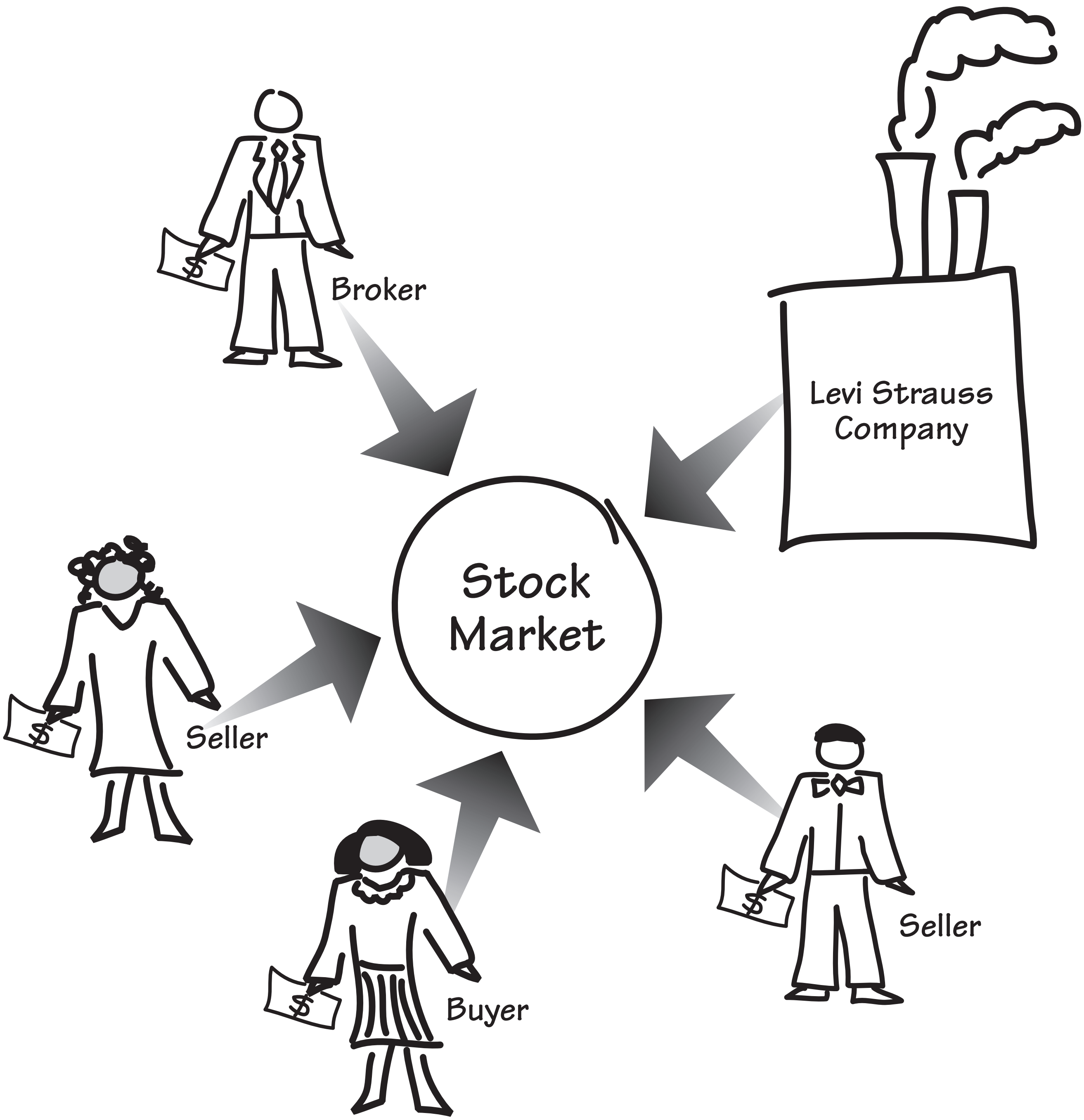
In most cases, when you buy stock, the money you pay does not go directly to the company. You purchase stock from someone who already owns it and has decided to sell it. The markets where these transactions occur—including the New York Stock Exchange, the American Stock Exchange, Nasdaq, and others—are secondary markets, where investors buy and sell stock. (The only times money used to purchase stock goes directly to the company is at the Initial Public Offering (IPO)—the first time that company sells stock to the general public—and secondary offerings—when it sells additional stock to the public. This happens in the primary market.) In the vast majority of cases, when stock is bought or sold, it involves a transaction between buyers and people who already own the stock. Also, a broker—someone who serves as a facilitator between the buyer and seller of the stock—often serves as an agent for the transaction.

Small cap and large cap stock

You may have heard the terms "small cap," "large cap," and "mid-cap." These terms refer to the size of different companies you may invest in, and it is good to know the risks and rewards associated with these different types of companies. Sometimes investors just refer to "large company stocks," or "small company stocks," which are similar in meaning to "large cap" and "small cap." The term "cap" refers to market capitalization and is calculated by multiplying the price of a stock by the number of shares outstanding. Companies are usually classified as large cap, medium cap, small cap, or even micro cap, depending on their market capitalization. As a general rule, the market capitalization is $5 billion or more for large caps, $1 billion to $5 billion for medium caps, and $250 million to $1 billion for small caps. Different investors define these categories differently, however, so it is best to look up definitions on the Internet.

Historically, different risks and rewards are associated with small cap and large cap stocks. Small cap stocks are considered riskier, but are assumed to offer higher growth potential. Large cap stocks are considered less risky, but historically have experienced slower growth.

If you wish to purchase individual stock, there are several ways you can go about it. As a general rule it is a good idea to work with your investment professional of choice, at least until you have a lot of experience buying stock. You can purchase stock through a full-service brokerage firm, or you could work with your bank or credit union. Many banks have a financial planner who can meet with you to discuss buying stocks. If you are Internet savvy, there are many companies on the Web who will help you buy stock—but be on the alert for fraud. Finally, you might want to begin by talking to friends who have purchased stock in the past, to get some advice from them.



STOCKS

52 week High	52 week Low	Stock	Div	Yld %	Sales P/E	Vol 100s	High	Low	Last	Chg
27.94	23.82	Microsoft	0.32	1.2	24	2252453	27.17	26.74	26.97	+ 0.25

Exercise: Reading the stock quotes in the newspaper

Newspaper description of stocks

This is what the Wall Street Journal showed for the stock of Microsoft Corporation at the close of business on August 26, 2005. All the prices, dividends and change are expressed in dollars. Here's what it all means:

52 week High and Low
The first two figures show the highest and lowest prices that the stock reached during the preceding 52 weeks.

Stock
This is the name of the company, sometimes abbreviated.

Div
This is the amount of dividend, if any, that the stock pays.

Yld %
This is the dividend yield, expressed as a percent. It is calculated by dividing the dollar dividend by the Last price.

P/E
This is the price earnings ratio. It is calculated by dividing the closing price of the stock by the earnings (profits) per share.

Vol 100s
This is the number of shares of stock that changed hands the previous day (or week, in weekend papers). It is expressed in 100s, so you have to add two zeros to the end of the number in the paper to get the actual number (volume) of shares traded.

High
This is the highest price the stock traded for that day (or week, in a weekly paper).

Low
This is the lowest price the stock traded for that day (or week, in a weekly paper).

Last
This is the price paid on the very last trade of the day on this stock for the previous day.

Chg
This is the change in the stock price since the previous Last price.

Exercise:

1. What is the highest price the stock traded for that day?

 ____

 ____

2. Did this stock go up or down since the last newspaper listing? By how much?

 ____

 ____

Dividends

Another way to make money by investing in stocks is through dividends. Dividends are a portion of company profits given back to stockholders (investors who own the stock) and usually paid quarterly. Dividends are usually in cash, but can also be paid in stock. In general, large, stable companies that reinvest in themselves and still have some profits remaining offer dividends to their stockholders. New companies and high-growth companies usually don't pay dividends because all profits are being reinvested in the company.

Stock market risks

Keep in mind: the stock market does not always act rationally, especially in the short run. And it is the stock market that ultimately determines the value of your stock. In general, it rewards good companies and punishes bad ones. Think of the growth of Microsoft Corporation versus the stock value of Enron Corporation. During 2001, Enron's stock plummeted from a high of $90.56 per share to $0.30 per share. And then the company went bankrupt. In that same year, Microsoft's stock also experienced a lot of fluctuation—a high of $82 per share and a low of $41.50.

However, from Microsoft's initial public offering at $21 per share in 1986 to 2005, its stock price has remained relatively steady. Microsoft stock's high/low prices in 2004-2005 were $30.20 and $23.82. But Microsoft grew rapidly during that period and when its stock price got above some price—usually $100—the company would "split" the stock. So if you owned 100 shares of stock worth $114, you would own 200 shares of stock at about half that price—$54 is what the market priced it at three days after the split. So your total investment would be about the same, but you would own twice as many shares. What made Microsoft's stock such a great growth stock from the late 1980's through the 1990's was that its stock price kept rising and it kept splitting its stock to where 100 shares owned in 1987 had split nine times and was equal to 28,800 shares in 2003. Beware: very few stocks are that successful. That's why you should diversify.

Generally, if the company you own stock in prospers, and it is well managed, your stock will rise in value. You can hold on to the stock or sell it to make a profit (as long as its value has increased, that is).

But the stock market does not always reward good companies and punish bad ones. And even if your company is doing well, the stock market might take a long time to reflect that progress. The stock market—and usually the value of your stock—can drop for any number of reasons that don't have anything directly to do with the companies you may own stock in. International crises, general pessimism about the future health of the economy, rising interest rates, higher oil prices, and particular economic news like the unemployment rate, consumer confidence, and economic growth can all impact stock prices—especially in the short run.

Bear and bull markets

You may have heard the terms "bull market" and "bear market" and wondered what they meant. A bull market is what we call the stock market when it is experiencing a rise in prices for a period of at least a few months. This can also apply to a group of securities or individual securities. In the other direction, a bear market means that the overall stock market or sectors of the stock market are experiencing a decline in prices.

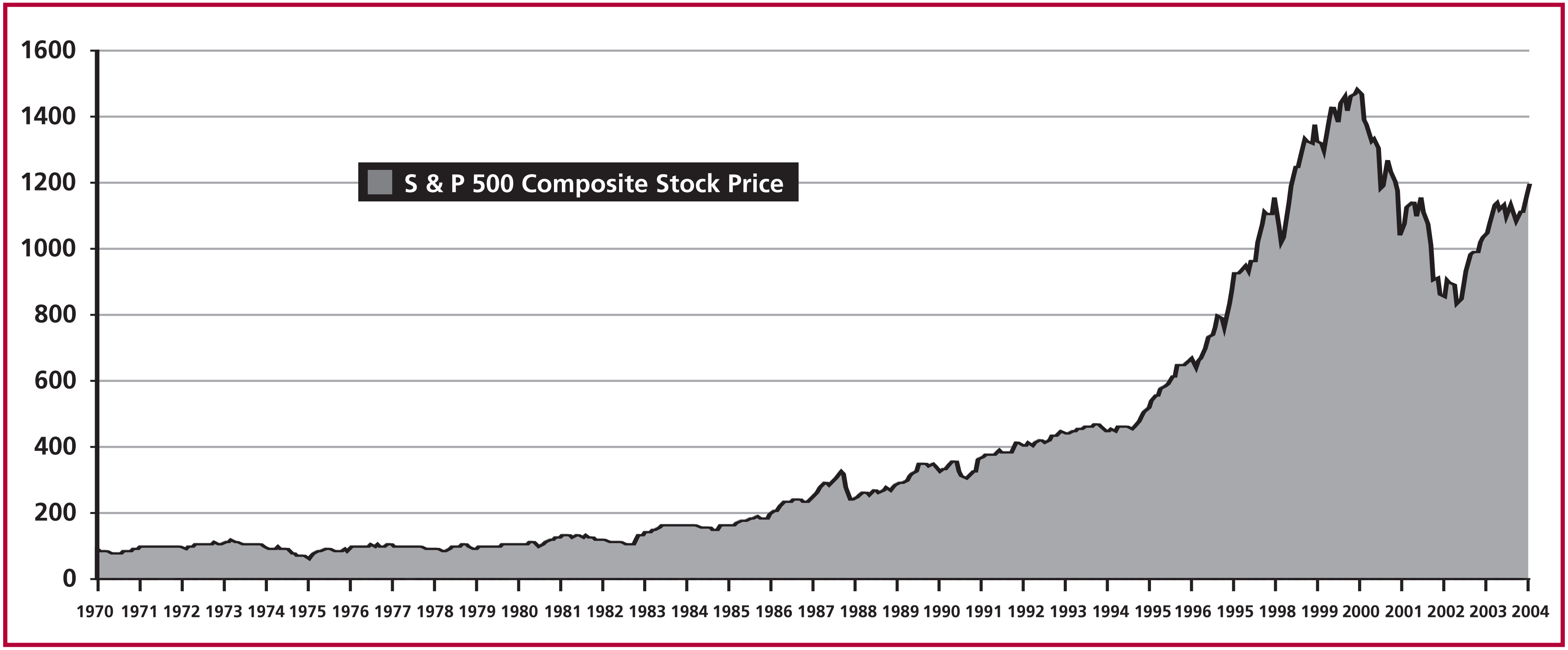
A person is "bullish" when they think that a stock or the general market will rise, while a "bearish" investor is someone who thinks that a stock or the general market will fall.

But remember, on average, stocks are a good investment and have outpaced inflation over time. Large company stock has grown at an average rate of 10.2% between 1926 and 2003, and small company stock grew at an average rate of 12.1% during the same time period (source: Ibbotson Presentation Materials, 2004).

The stock market fluctuates a great deal over time, but on average, the value of the market has increased. The illustration on the next page shows the growth of the S & P 500, an "index" of stocks, over the past several decades (we will talk about indexes and index funds in the next chapter). As you can see, this index reflects a lot of ups and downs in the market, but over time, it has increased in value.

Jennifer just enrolled her son with his father's tribe and found out that her son receives $5,000 in per capita payments every year. She decides to invest $3,000 of this money this year, and starts to do some research on what investment tools are available to her. Out of curiosity, she checks on the Internet for some stock information about Famous Dave's BBQ. What she finds confuses her—the stock was going up for the past year but declined in value over the last month. She has been getting e-mails about hot stock tips, and wonders if she should check these out. Confused, she decides to talk to her uncle Wes.

S & P 500 Composite Stock Price, 1970–2004



Exercise: How stocks perform in the long run

1. If you bought shares in an S & P 500 index fund in 1980, and sold these shares in 2001, would you have made money _______ or lost money _______ ?

2. If you bought shares in an S & P 500 index fund in 2000, and sold these shares in 2003, would you have made money _______ or lost money _______ ?

Although, in the long run, stocks *overall* perform better than bank accounts and bonds, stocks are not a good investment for people with very low risk tolerance. If you make a long-term investment in stock, you must be willing to see short-term declines in the value of your stock without worrying. But that doesn't mean to close your eyes. You always need to keep up on the company's progress and issues like foreign competition, rising costs, and slowing sales.

Bonds

Bonds are issued by the U.S. government, state and city governments, and corporations. These institutions use bonds to borrow money from investors and promise to pay the money back at a later date with interest. In Session 5, we will discuss U.S. Treasury bonds. We will now discuss corporate bonds and municipal bonds.

Five questions to ask your broker (or to research on the Internet) about corporate stocks and bonds:

1. **What is the "debt ratio" of the company? That is, how much debt does the company owe compared to its assets and profits?**

2. **Does the company face strong competition?**

3. **Are the company's earnings predictable? That is, are the earnings fairly steady over the years?**

4. **Is the company's management stable?**

5. **Do the company's executives own stock in their own company?**

Some words of advice on brokers

A broker is a person who serves as your agent when you buy stocks, bonds, shares in mutual funds, or other securities. Many brokers also serve as all-around financial advisors. Brokers cannot work independently of a broker-dealer, or brokerage firm, and both the firm and the broker are regulated by the U.S. Securities and Exchange Commission (SEC) and NASD.

A *full service broker* will offer investment advice and many products in which to invest, but works on commission (a fee for the transaction of buying or selling a security). Discount brokers do a lot of work online and are cheaper than full service brokers, plus they are paid on salary, not commission, so they have no personal reason to steer you into any particular investment. If you purchase securities on the Internet, you do not have to go through a broker.

Potential conflicts of interest are rife in the world of finance, and must constantly be watched for. For example, a broker who is paid only out of commissions may encourage you to buy and sell securities more often than is in your best interest. Also, brokers may be paid more for selling certain products than others. And brokers might also be compensated more for selling mutual funds managed by their own firms than those managed by other mutual fund companies.

One thing to keep straight is the difference between discretionary and non-discretionary accounts. In discretionary accounts, your broker has discretion over your account, meaning that he or she can make decisions on your behalf (buy or sell). In non-discretionary accounts, he or she can only execute orders that you give.

Corporate bonds

Corporate bonds are similar to U.S. Treasury bonds, in that they represent legal debt obligations, like an IOU or promissory note. Just like U.S. Treasury bonds, they generally pay a specified amount of interest periodically, and they repay the principal at the maturity date. The only difference is that, in this case, it's a corporation, not the U.S. government, issuing the bond. Exactly how and when the corporation pays the interest and sets the maturity date differs from bond to bond. In addition, how the bond is "secured" is different. That is, it doesn't have the "full faith and credit of the U.S. government" behind it, so it is usually backed by the "full faith and credit of the corporation." So as long as the corporation is financially healthy, your bond should be secure. Some corporate bonds are backed by a certain piece of property or other collateral—cash or another asset that backs up a loan. In general, corporate bonds are more risky than U.S. Treasury bonds; because of this, they offer better rewards—that is, higher interest rates.

Generally, bonds can be bought from and sold to other investors (again, this happens in the "secondary" market), but not as easily as stocks. You can purchase a bond through a broker at any time. When it comes to buying bonds, you often have a lot of choice in selecting one from a corporation you know and trust, because they may have issued several different types of bonds.

For example, in the year 2000, Wal-Mart issued a bond with a 30-year maturity. On this bond, Wal-Mart pays an interest rate (also called the "coupon" rate) of 7.55%. For someone who bought a $5,000 bond from Wal-Mart in that bond auction, they receive $377.50 in interest every year. Since the bond pays interest semi-annually, the investor receives $188.75 every six months.

A corporate bond can be a good investment if you want to receive a certain amount of interest at a particular time every year. And even though the market value of a corporate bond can fluctuate, you still receive the same dollar amount of interest until the bond matures. The same holds for other types of bonds as well.

A corporate bond can be a good investment if you want to receive a certain amount of interest at a particular time every year.

Choosing an investment professional

It is important to find an investment professional you trust. If you have a friend or relative who has a good and long-standing relationship with a broker, you might decide to go with that broker. If not, as a next step, you might ask the financial planner who works for your bank or credit union for a recommendation. Otherwise, you can turn to a regional or large brokerage firm or go to the Internet to find a broker. Also, some tribes have made arrangements with brokerage firms to service small accounts belonging to tribal members. See if this is true in the case of your tribe.

If you do go to the Internet, begin with the U.S. Securities and Exchange Commission (SEC), which oversees investment markets. Go to the SEC's "Tips for Checking Out Brokers and Advisers" at www.sec.gov/investor/brokers.htm. Also, once you have a name, you can investigate them further by visiting the NASD site at www.nasd.com and click on "BrokerCheck: Check your Broker's Professional Background."

Once you find a potential broker, here are some questions to ask:

1. How many years have you been a broker or financial planner?
2. What financial certification(s) do you hold?
3. Can you give me some references from other clients you have worked with? (Ask for phone numbers of other clients the broker has worked with, and call them.)
4. Do you have any clients with similar financial status and goals as mine? How are their portfolios invested and how have they done?
5. Are you willing to take the time to explain everything to me in detail?
6. Have you worked in Indian Country before?
7. Are you a conservative or aggressive investor?
8. Does your income come from commissions or a salary?

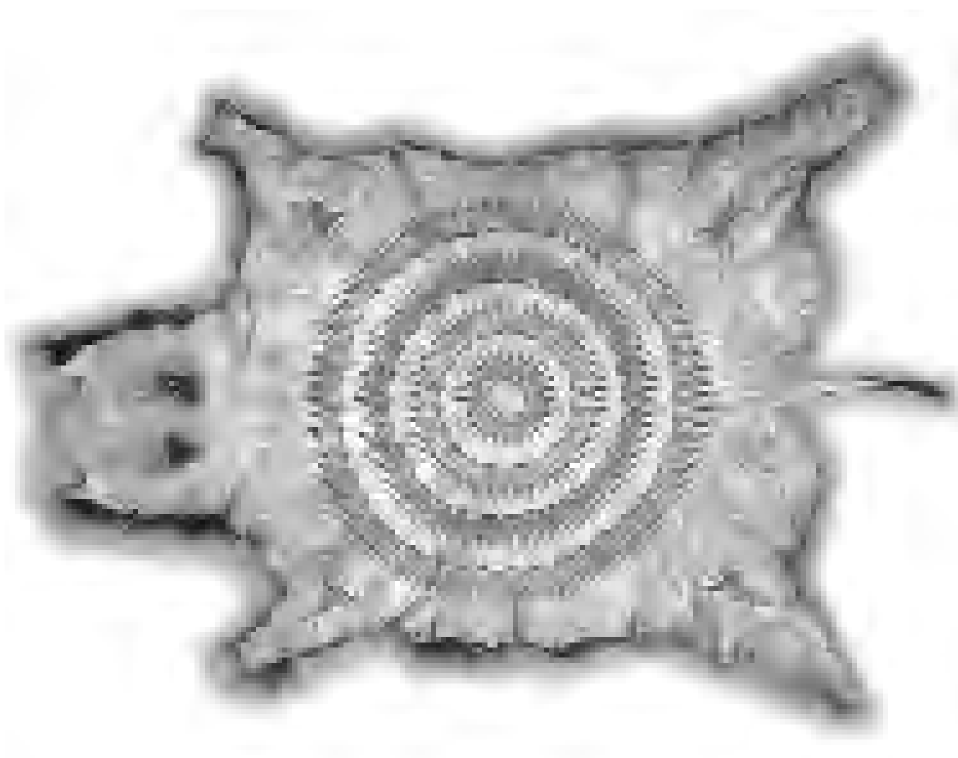
Make sure you are completely comfortable with all the answers to these questions, or any other questions you may ask. Remember, they want your business! It is important that you are happy with your investment professional.

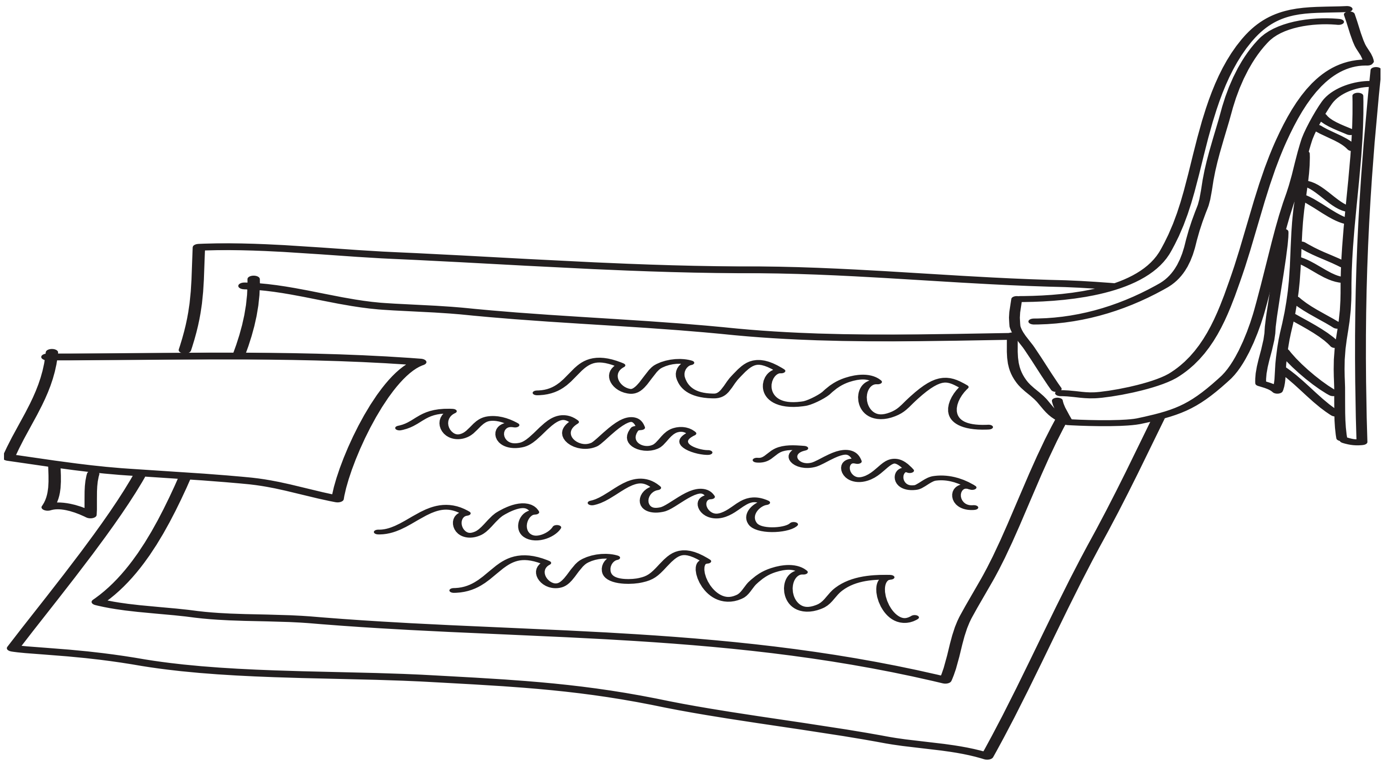
Buying corporate bonds

The only way to buy corporate bonds is through a broker, and prices and fees vary. (This may change, however, as electronic trading continues to expand.) A recent study found that individuals pay substantially more for corporate bonds than for other securities because it's so difficult to get market price information. You have to take your broker's word for what's a fair price, so it's important to find a broker you trust, as we discussed above.

Before you buy corporate bonds, get price quotes from several brokers. And visit the NASD Web site www.nasdbondinfo.com, which gives you current pricing information on all 23,000 corporate bonds, plus detailed information on the bonds.

www.nasdbondinfo.com





Municipal bonds

Just as the U.S. government and corporations do, state and local governments (and some tribes) issue bonds. Sometimes a city or county needs to build a new school or swimming pool, and they issue a bond to raise money for their project. These are called municipal bonds, or "munis," for short. Municipal bonds are particularly appealing because you don't pay federal taxes on any interest you receive from such municipal bonds. And if you live in the state whose muni bonds you are purchasing, you don't pay state and local taxes either. The only time you pay taxes on muni bonds is if you sell them for more than the purchase price (capital gains) or if you purchase a muni bond from a state that you don't reside in. In terms of limitations and commissions, municipal bonds cost about the same to buy or sell as corporate bonds.

Bond ratings

Five private companies, Moody's, Standard & Poor's, A.M. Best, Dominion, and Fitch Ratings, provide independent ratings of the "quality" of many bonds and other securities issued by corporations, governments, non-profit organizations, and even tribes. These ratings must be requested by and paid for by the issuer, or the party that issues the securities (that is, the corporation, government, tribe, etc.). Not every bond is rated, however. Small towns usually cannot afford to pay the fees, for example, so their bonds are not rated. Just because an issue is not rated does not mean that it is of lower quality than a rated issue. It only means that you will have to find some other way of determining how secure it is. Ratings are periodically reviewed and updated, and may be raised or lowered, if the company's (or town's, or state's or other issuer's) financial conditions improve or deteriorate. These ratings are concerned primarily with the issuer's ability to pay interest on its debt and to repay the principal when due. The following table shows the rankings, from highest to lowest.

Securities with ratings above Ba and BB are considered "investment grade." Anything below that rating runs a risk of default, which is failure to pay its interest and, when due, its principal. That risk increases the further down the list you go. Bonds with the lowest ratings are referred to as "below investment grade," "speculative," or even as "junk bonds."

Bond credit quality ratings by two main rating agencies

Credit Risk	Moody's	Standard & Poor's	
Highest quality	Aaa	AAA	Investment grade
High quality	Aa	AA	
Upper medium	A-1, A	A	
Medium	Baa-1, Baa	BBB	
Speculative	Ba	BB	Not investment grade
Highly speculative	B, Caa	B, CCC, CC	
Default	Ca	C	

In addition to these letter ratings, Moody's may add a 1, 2 or 3 to the ratings from Aa to Ca, to show relative standing within that category. Similarly, Standard & Poor's and Fitch Ratings may modify their ratings from AA to CC by adding a plus or minus sign to show relative standing within the category.

Bond Insurance

The safety of a bond—especially a municipal bond—can be improved by bond insurance. Specialized insurance firms guarantee the timely payment of principal and interest on bonds they have insured. Major bond insurers include MBIA, AMBAC, FGIC, and FSA. Most bond insurers are rated by Moody's, Standard & Poor's, or Fitch Ratings, and insured bonds receive the same rating as the insurer. Ask your broker which bonds are insured. Since they are considered safer, they generally pay slightly lower interest rates.

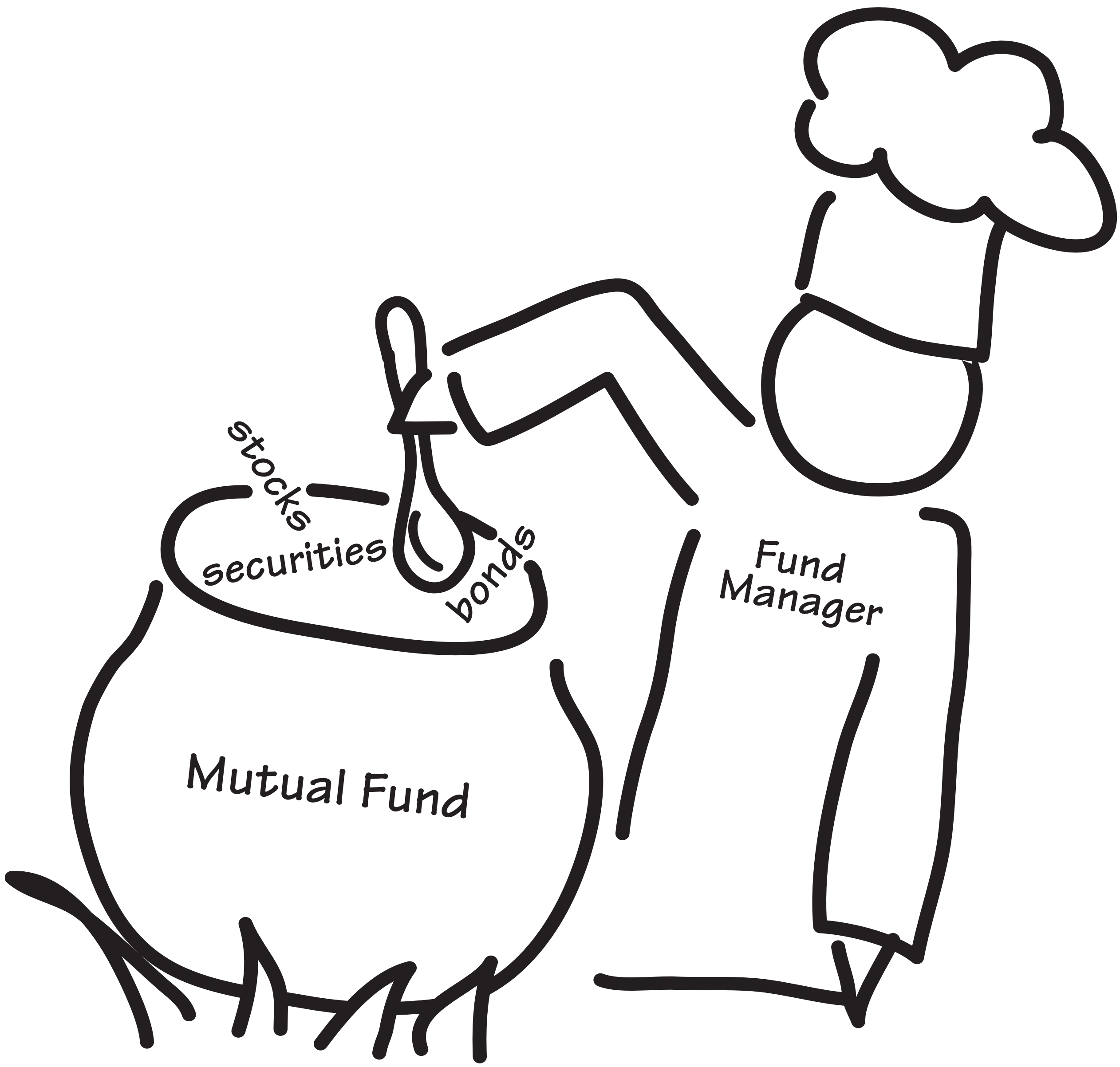
Mutual funds

Mutual funds have become one of the most popular ways to invest. Most people don't take the time to research individual stocks, or read about different types of bonds. Instead, they invest in mutual funds. Many people own mutual funds, so let's take a look.

A mutual fund is nothing more than a collection of stocks and/or bonds. When you buy shares of a mutual fund, you buy a percentage ownership in a portfolio of a fairly large number of stocks and/or bonds. You can think of a mutual fund as a company that brings together a group of people and invests their money in stocks, bonds, and other securities. Each investor owns shares in the mutual fund, which represent a portion of the holdings of the fund. That mutual fund is managed by professionals whose entire job is to make sure that the fund performs well. When you invest in a mutual fund, you own a slice of that portfolio of securities. The advantages of a mutual fund are diversification and professional management. More on that in a moment.

When you buy shares of a mutual fund, you buy a percentage ownership in a portfolio of a fairly large number of stocks and/or bonds.

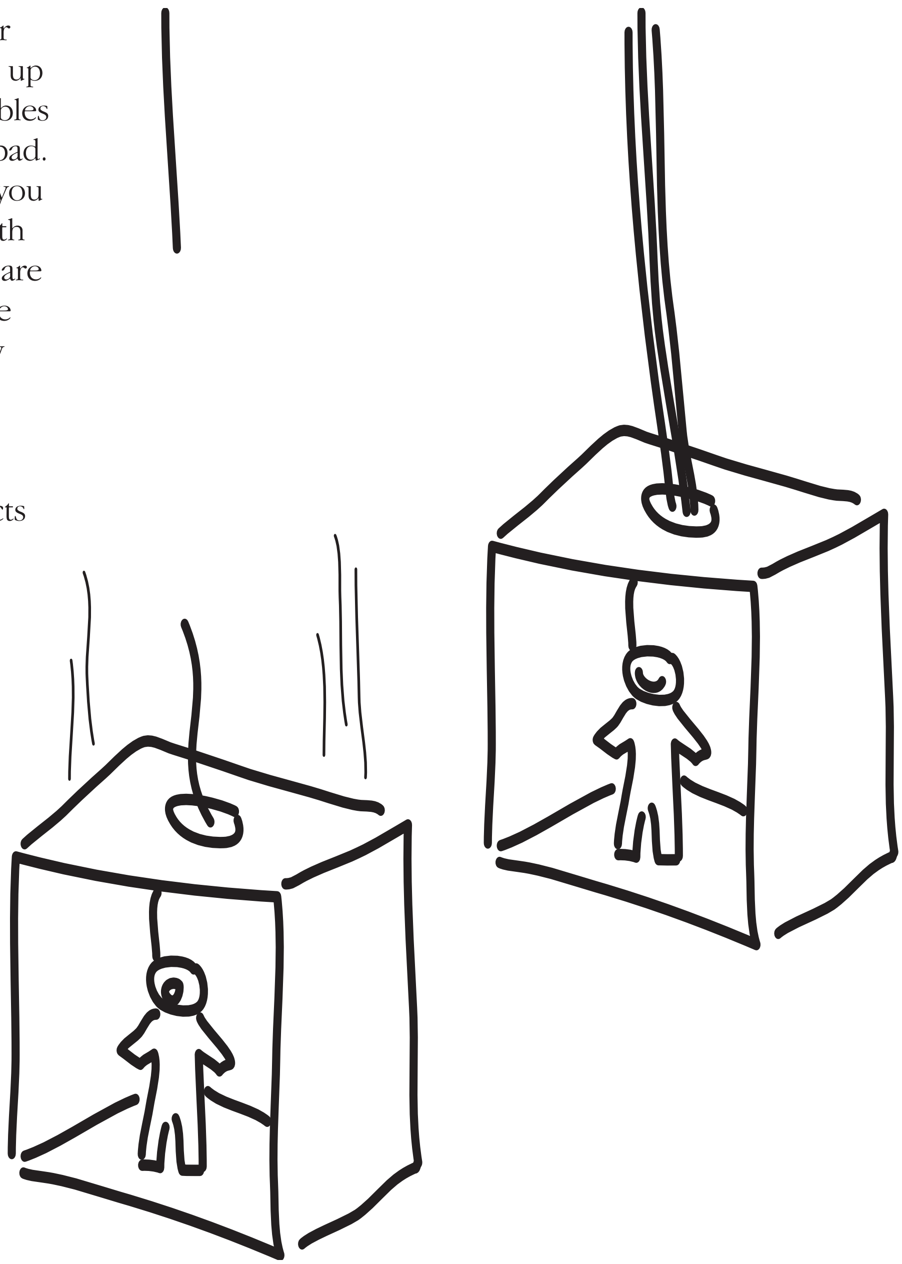
An analogy helps us to understand this. A mutual fund is a lot like a pot of soup or stew, for example. When a cook makes stew he or she gets all of the ingredients together. They need potatoes, celery, onions, carrots, meat, spices, water, and many other things. The cook picks the best ingredients he or she can find and throws all of these things into the pot and cooks them together with the anticipation that the end result will be better than any single ingredient. The cook should know from experience what is needed to make a great stew. We can think of this stew like a mutual fund in the following ways. First, you have the cook, who is like the fund manager. Fund managers are the ones responsible for managing the ingredients to make a good stew. The ingredients are like the individual securities—the stocks or bonds—that are in the fund. By investing in the fund you get a bowl of soup that should be better than just a potato or a carrot.



Advantages of mutual funds

Mutual funds are investment vehicles that satisfy two needs of many small investors: 1) diversification and 2) professional management.

Risk reduction through diversification. As we all know by now, diversification is how we manage risk in the financial world. With mutual funds, you get instant diversification by investing in just one thing—the fund. When you buy into a mutual fund, you are buying small parts of hundreds of companies. Instead of only being able to buy three or four stocks, you can invest in a mutual fund that owns stock in dozens or even, in the case of index mutual funds, hundreds or thousands of companies. This helps to lessen your risk. It is sort of like riding in an elevator. If you were in an elevator with just one cable pulling you up and down and that cable broke, you would be in trouble. But, if that elevator had lots of cables pulling it up and down, one of those cables breaking would not be so bad. By owning a mutual fund, you are riding in an elevator with many cables. Those cables are the different stocks that the fund owns. With only a few stocks, your portfolio's performance could be affected by the bad luck or bad management that affects only one company.

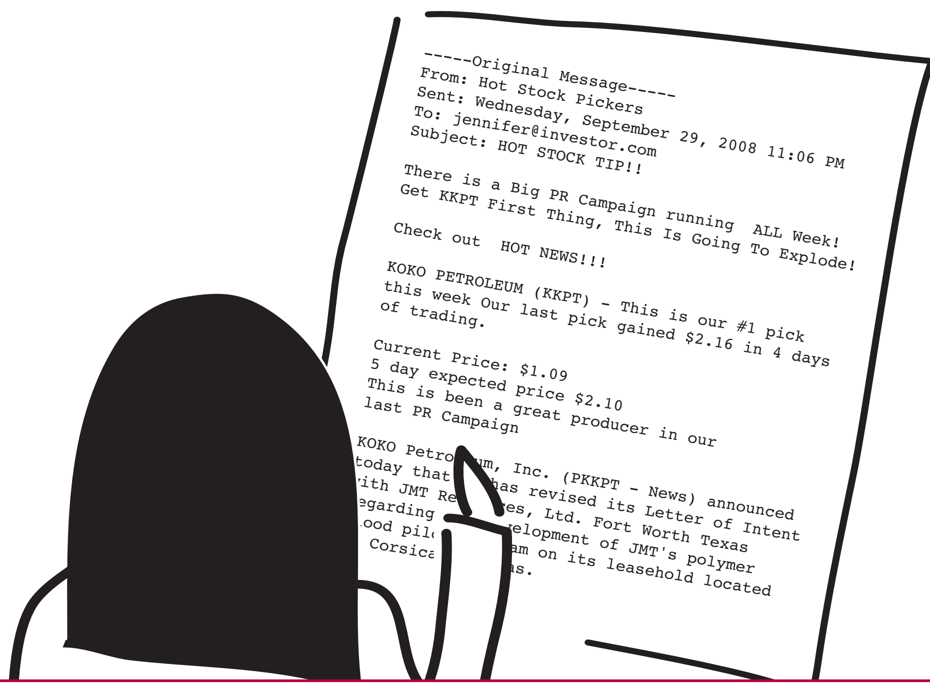


Professional management. The second advantage to owning a mutual fund is professional management. A mutual fund is managed by one individual or a team of people responsible for the performance of the fund. It is their job to try to manage the fund so it gives a good return. For many investors, having a professional money manager handle their mutual funds is better than constantly worrying about their stocks each day.

Mutual funds come in a huge variety. There are stock funds, bond funds, sector funds (that invest in particular industries), "balanced funds" (that invest in a balance of stocks and bonds), and many more.

Advantages of mutual funds

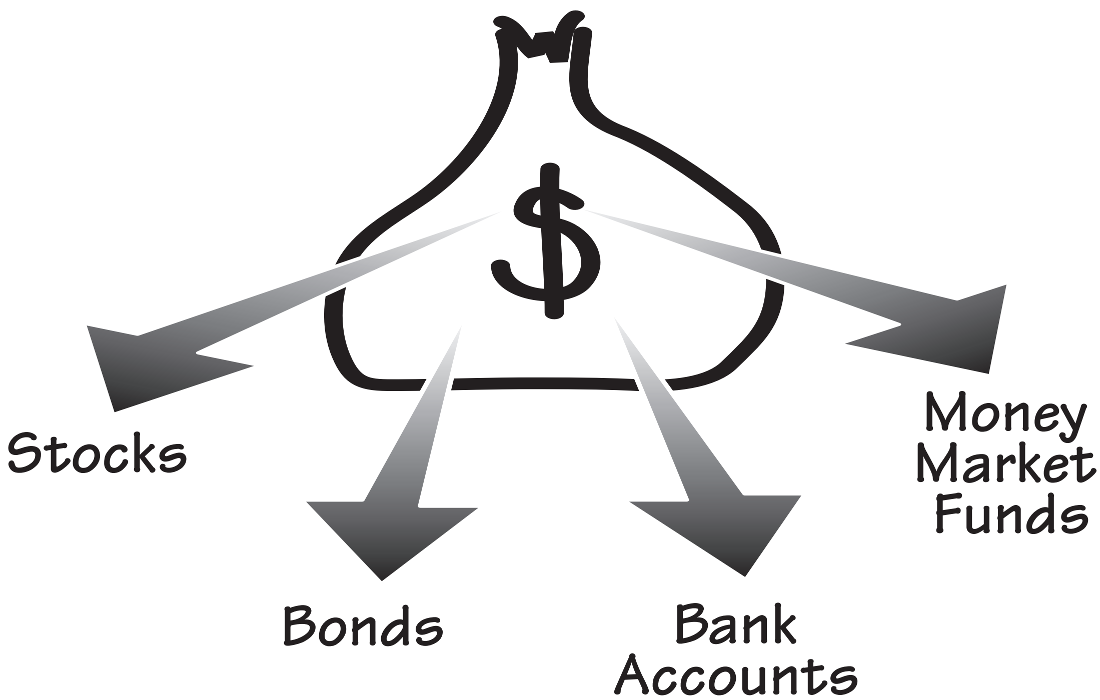
- **They provide a way to diversify your investments to lower risk.**
- **They have professional management.**
- **You can decide what type of industries or sectors to invest in—technology, medicine,utilities, etc.**



After talking with her uncle Wes, Jennifer learned that investing in individual stock is not always a great idea. In addition, Wes warned her to be careful about all those e-mails she is receiving—if it sounds too good to be true, it probably is! Instead, he recommended that she speak to an investment professional about investing in a stock mutual fund.

Diversification through asset allocation

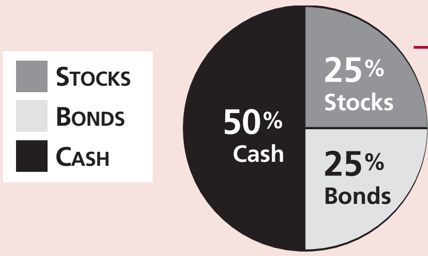
The beauty of balanced mutual funds is that they offer diversity across investment types. *Asset allocation* is the term used to describe diversification of investments among different types of "asset classes." This means dividing investments between such asset classes as stocks, bonds, and cash or "cash-equivalents," meaning money market funds or bank accounts. This way, the portfolio contains some investments that are likely to earn interest with little risk (like bonds), and some investments that are more aggressive (like stocks). Many investors make sure that their asset allocation includes some cash or "cash-equivalents" such as bank accounts or money market funds so that they can have immediate access to them (in other words, they have high liquidity). And some investors further diversify into industry groups or into securities from foreign countries, for example. Asset allocation is an important part of your investment strategy, and you (and your advisor or broker) should think long and hard about how to allocate your assets to make sure they are aligned with your overall investment strategy and your life goals.



Asset allocation: Some examples

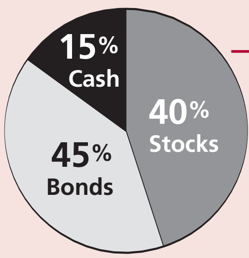
As mentioned earlier, asset allocation is the term used to describe diversification of investments among different types of "asset classes." This means dividing investments between stocks, bonds, and cash or "cash-equivalents," meaning money market funds or bank accounts.

There are many styles of asset allocation—this illustration includes some examples of asset allocation.



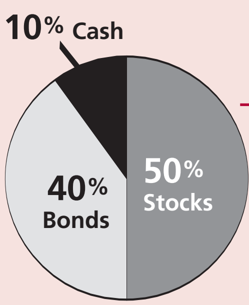
Capital Preservation

Stocks 25%
Bonds 25%
Cash 50%



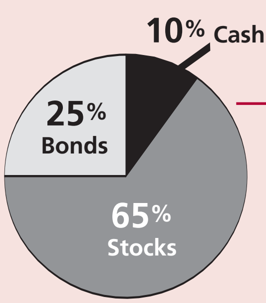
Income

Stocks 40%
Bonds 45%
Cash 15%



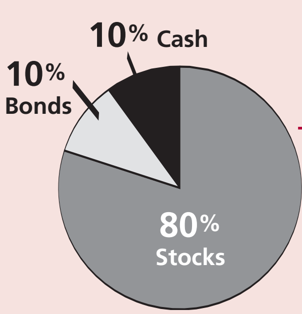
Income/Growth

Stocks 50%
Bonds 40%
Cash 10%



Growth

Stocks 65%
Bonds 25%
Cash 10%



Aggressive Growth

Stocks 80%
Bonds 10%
Cash 10%

CONSERVATIVE INVESTING: BEST FOR THOSE WITH LOW RISK TOLERANCE AND FOR SHORT-TERM INVESTMENTS (SUCH AS WHEN YOU ARE NEARING RETIREMENT).

AGGRESSIVE INVESTING: BEST FOR THOSE WITH HIGHER RISK TOLERANCE AND FOR LONG-TERM INVESTMENTS (SUCH AS RETIREMENTS ACCOUNTS FOR YOUNG PEOPLE).

Mixed emotions on Indian Country's economic development

By Lance Morgan, CEO of Ho-Chunk, Inc. of the Winnebago Tribe of Nebraska
This editorial appeared in Indian Country Today in 2003.

I have some mixed emotions on tribal economic development, especially how it relates to gaming. I am so excited about all the money that gaming is bringing to Indian Country, but I am usually disappointed in how it is being used. Those gaming dollars are Indian Country's one big chance to set us up for decades of growth and prosperity. But despite the rhetoric I hear from tribal political leaders, the average gaming tribe is not focused on the future.

If I had to predict what economic development in Indian Country would look like in ten years, I would guess that competition or severe restrictions are coming in the areas of gaming and taxation. Gaming has historically never been a stable economic industry. Combine that instability with a growing backlash against tribal gaming and you have a recipe for a real decline. I can assure you that the state and federal politicians are thinking of ways to restrict gaming or to increase our taxes. I challenge you to name an industry or resource that the non-Indians have valued that they didn't try to limit or take for themselves. Any other conclusion is just wishful thinking.

I believe in the near future Indian Country will be divided into the "Have's", the "Used to Have's", and the "Never Had's." The "Have's" are where you will want to be in the future. The "Have's" will have likely become state political players by buying influence or protecting their gaming monopolies by cutting a revenue sharing deal with the state. This is already happening in some states. They will also have managed their resources wisely.

Economically, if you want to be one of the "Have's" your tribe should exploit some of the huge advantages a government has in a business environment. They should systemize their economic development by separating their business entities from the political body. They should maximize their unique tax status. They should also do everything possible to ensure a stable political environment, hopefully by staggering their political terms. Your tribe should also invest your resources wisely, in the markets or other businesses, so that you will have a chance to see your money make more money.

Most of all, tribes shouldn't try and do anything too difficult. Business is easy. It requires really only a working knowledge of junior high math. (Revenue–Expense= Profit). Tribal leaders love the big deal, the innovative start-up company, the big groundbreaking, and trying to succeed where others have failed. It rarely works. I always advise tribes to work with experienced business people and companies with established track records. Almost everything else is not worth the risk.

You don't want to be a member of a tribe that will be a "Used to Have" in the future. Getting a taste of the good life and having it taken away is probably worse that never having it at all. These tribes will have not diversified their economic interests or invested their money wisely, and will have lost their competitive advantage in gaming in some way. Most likely they will have lost it due to a change in the state political environment that allowed gaming competition or shut gaming down completely.

If the "Used to Have's" also had made large per capita payments their situation will be much worse because their new generation of leaders will be plagued by the hidden costs of per capita payments: drug and alcohol abuse, a declining work ethic, and a "why bother" attitude toward

(continued on page 102)

Mixed emotions on Indian Country's economic development (continued from page 101)

education. Tribal economies and lifestyles built on per capita payments have almost no chance of long-term sustainability. This new form of welfare is just the latest in a cycle of dependency that Indian Country has been trying to break out of for over 100 years. These new members of the "Per Capita Welfare" are not going to be prepared for future struggles that they will face.

The "Never Had's" will continue to struggle and find ways to get by and continue to try and improve their lot. If your tribe hasn't been able to tap into the gaming dollars significantly and hasn't been able to develop its economy, then you should likely step back and assess why it hasn't happened. I submit that it might be your tribe's system of government.

Nothing is easy and nothing is given in our new reality, but I can't wait to see how it all turns out.

Lance Morgan is a member of the Winnebago Tribe of Nebraska. Lance earned a Bachelor's degree in Economics from the University of Nebraska (B.S., 1990) and graduated from Harvard Law School (J.D., 1993). For more information about Lance Morgan or Ho-Chunk, Inc., visit their website at www.hochunkinc.com.

Exercise: Will you be a "Have," a "Used to Have," or a "Never Had?"

1. Do you know anyone who falls in the categories of the "Have's" the "Used to Have's" or the "Never Had's?" Write down their story here.

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2. Name some ways to that you or your tribe can manage your resources more effectively.

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Buying mutual funds

As we discussed above, mutual funds sell shares to the public and then use that money to purchase securities. The mutual fund manager makes the investment decisions, and your holdings rise or fall with the value of the mutual fund's portfolio.

Many mutual funds can be purchased directly from the fund company or, in some cases, through a broker. There are several large mutual fund companies that sell "families" of mutual funds. You can find them in your newspaper or through an Internet search engine. Some provide a great deal of consumer information on their web sites. They have written material, too, that they will send you.

Fees

Most mutual funds charge fees for their services. The money manager doesn't work for free, and someone has to pay the electric bill at the fund company, so the investors are charged fees on the money they invest in the funds.

Mutual fund investors pay a management fee that covers most administrative costs and commissions. Some funds (called load funds) also impose sales charges. These loads are paid when a purchase is made (front-end loads), or when the shares are sold (back-end loads). In addition, there are many no-load funds that charge no sales fees. (Of course they still charge management and administrative fees.)

It's important to consider fees when making your investment decision. Over time, an extra half or even a full percentage point being paid out of your account for fees every quarter can add up to a hefty sum. That's why many investors put their money into "no-load" mutual funds. No-load families of funds sell their funds directly to the public (not through brokers or other salespeople), and therefore charge no sales commissions.

A useful tool for comparing the impacts of fees for mutual funds is available from NASD. Visit www.nasd.com, go to Investor Information on the right side of the top menu bar, and then Fund Expense Analyzers on the menu bar on the left hand side of the screen. It tells you how your returns vary as the various expenses and other aspects of that mutual fund vary. Every mutual fund by law must issue a "prospectus" to prospective buyers, which is a document that is supposed to contain all fee information.

According to Morningstar, Inc., a big company that evaluates and ranks all mutual funds, the average total operating expenses as of April 30, 2004 by fund category ranged from 1.09% to 1.43%.

If these fees seem small and inconsequential to you, think again. It's amazing how much difference the fees you pay can make in your total investment performance over a long period of time. Here's the example from the www.nasd.com web site:

> *"Let's say you invest $10,000 in two funds with annual returns of 10%. Fund A has total annual fund operating expenses of 0.18% and Fund B has expenses of 0.9%. Fund A, the lower expense fund, will grow to about $165,313.20 in 30 years. Fund B will only be worth $133,042.44—a $32,270.76 difference."*

Need we say more? The powerful lesson: watch those expense fees!

As a final note, remember two things about prices in the investment industry:

- You can often find lower prices by shopping around.
- Many prices are negotiable.

Of course price is not always the most important variable, because the services included in the deal and the quality of those services can vary greatly. Better service is often worth a higher price.

MUTUAL FUNDS

Fund Family Fund Name	NAV	NET CHG.	YTD % Ret.	3-YR % Ret.
Happy Funds				
SkyHigh	15.27	0.02	7.7	18.0

Note: The names of the Fund Family and Fund Name are fictitious.

Exercise: Reading mutual funds in the newspaper

Newspaper description of mutual funds

This is what the *Wall Street Journal* showed for a randomly selected mutual fund at the close of business on November 30, 2005. Here's what it all means:

NAV

This is the Net Asset Value, which is the value of one share of the mutual fund at the close of the market the previous day.

NET CHG

This is Net Change, which is the change in NAV from the previous trading day.

YTD % Ret.

This is the Year To Date Total Return, which is the total return since the beginning of the calendar year.

3-Yr. % Ret.

This is the annualized total return from the previous three years, including reinvested dividends and capital gains, and excluding all expenses.

Where to get information about mutual funds

Major business or finance publications, including *Business Week*, *Forbes*, *Barrons,* and the *Wall Street Journal* all publish quarterly evaluations of mutual fund performance. So do some other general interest newspapers, such as the *New York Times* and *USA Today*.

The Internet is a valuable source for mutual fund information. Two large organizations that monitor and evaluate mutual funds and their performance are Morningstar (www.morningstar.com) and Lipper (www.lipperweb.com).

In addition, each mutual fund family has its own web site, which contains information about its own funds. The big fund families will send you material, and you can find good books on the subject at your library or your bookstore.

Paying capital gains taxes on your investment earnings

If you buy something (a house, bonds, stocks) and sell it later at a higher price, you have just made a profit. This type of profit is called a *capital gain*. You have to pay taxes on capital gains. If you bought a security for $10,000 and sold it for $12,000, your capital gain would be $2,000. (Of course assets don't always go up in value. If they drop in price and you sell them, then you have a *capital loss*.)

Investing has numerous tax consequences, and they can change when new tax laws are passed. Investments are affected by both federal and state taxes. Check on your local and state taxes. Here is what's going on at the federal level: Interest is taxed just like any other income. Dividends are taxed at a maximum flat rate of 15%, and maybe 10%, depending on your income. Capital gains are tricky and depend on the type of asset, how long you have owned it (your holding period), what you paid for it (your cost basis), and your income level.

And recall that there are ways to make investments work in your favor when it comes to taxes (retirement accounts, municipal bonds, Treasury bonds). The bottom line is this: investing has tax consequences, and you should be aware of what they are when you make an investment decision. If you are investing your money, it is a good idea to work with an accountant when filing your yearly income taxes.

Exercise: Applying what you've learned

1. What is a way to reduce risk?

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2. Right now, if you had $25,000 to invest, where would you invest this money? Why?

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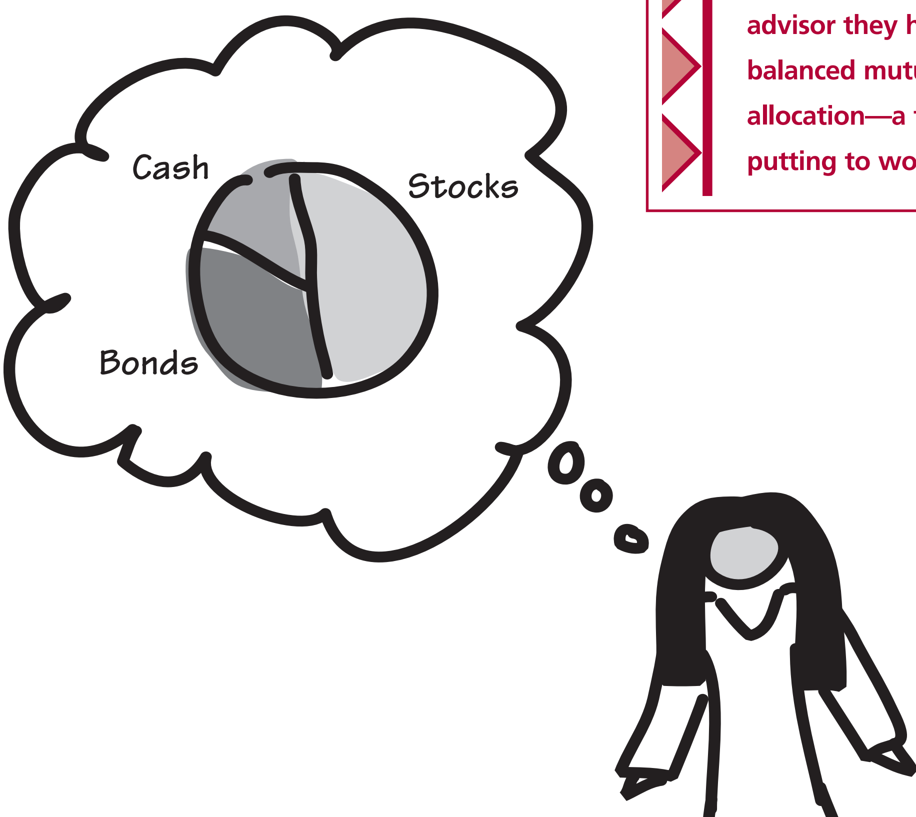
Now that Jennifer has learned more about diversification as a tool for risk management, she plans to ask the benefits office and the financial advisor they hired if she can invest her 401(k) in a balanced mutual fund, in order to improve her asset allocation—a term she just learned but is already putting to work.



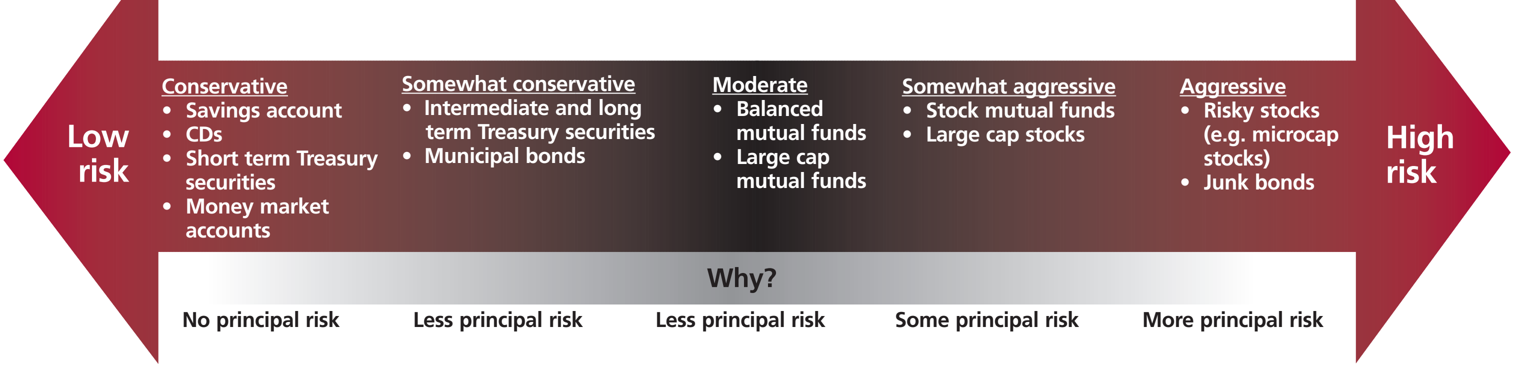
Thinking about risk

As we have discussed before, in the investment world there is a direct relationship between risk and expected returns. Riskier investments have a chance of providing a higher return. But putting your money in more risky investments also means there is a higher chance that you will lose some of your principal.

As we mentioned in Session 1, when making a decision about how much risk to carry in your portfolio, you want to consider the following things:

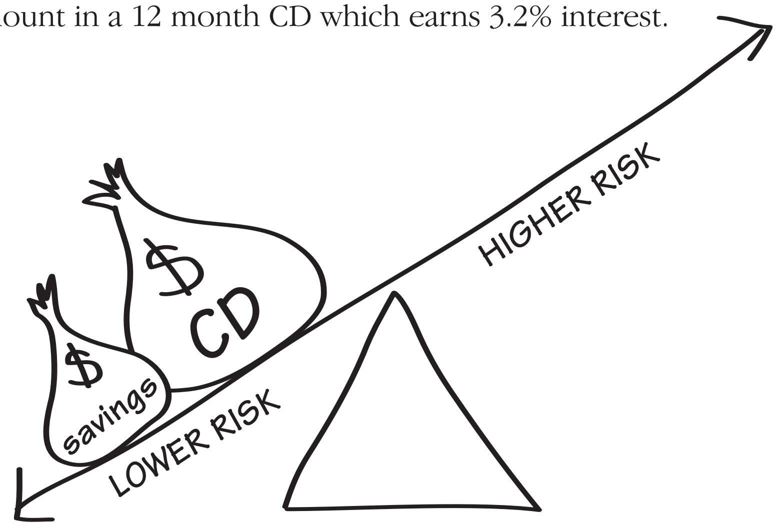
- What is your **time horizon** for investing? (How long do you plan to have money invested before you use it for something?)
- How much of your **bankroll** are you willing to risk?
- What do your **emotions** tell you? (What is your risk tolerance?)

The following chart provides an overview of the way investors see the risk level of different asset classes.

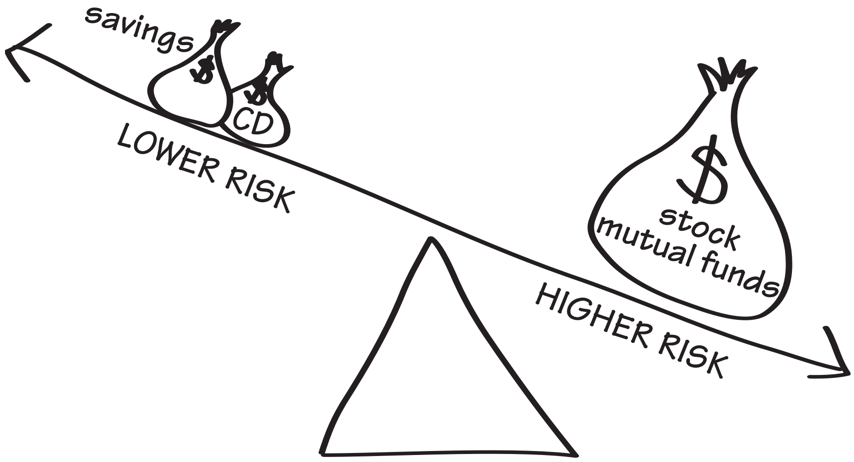


Let's look at the following scenarios:

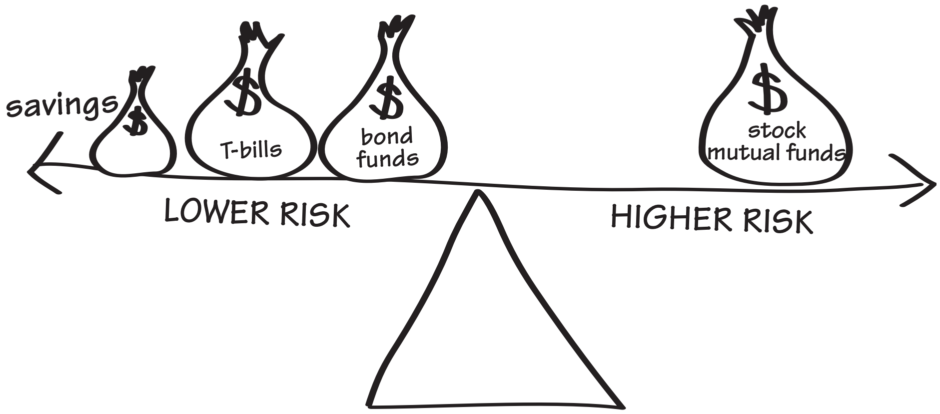
> Gerald just got $5,000 from his aunt to help him make a down payment on a home. Gerald is a very cautious (risk averse) person, and has always played it safe. He has been saving his money in a savings account, and he wants to buy a home a year from now. He wants to put his money in an investment that will earn interest, but has no risk of losing any of the principle. He decides to put the full amount in a 12 month CD which earns 3.2% interest.



> Mary just started her new job right out of college, and she has a chance to set up a retirement account in a 401(k) program. She sets up a direct deposit and deposits $300 a month into her 401(k). After talking to someone in her benefits office, she decides to put the funds in an all stock mutual fund, one that is considered moderately aggressive. Her dad told her to go ahead and try an all stock mutual fund because she is young and will not need to take the money out of her retirement account for at least 35 years. She also has some money in a savings account, and a small amount of money in a CD. She has always been a thrill seeker, and has recently signed up to take sky-diving lessons. She hopes that her retirement fund will achieve a really high rate of return over the next several decades.



Loretta just got her first per capita payment from her tribe. The casino her tribe built last year has been very successful and each tribal member now receives $18,000 per year. Loretta has always been careful with her money, and has a small amount in a savings account that she calls her "rainy day fund." Loretta is nearing age 55 and is planning on making her per capita money last through her golden years. She wants to invest it, but wants to make sure that if there is a market downturn, she will not lose too much of her principle. She talks to her financial advisor and sets up an investment account that distributes her money among stock mutual funds, bond mutual funds, and Treasury securities. She plans to invest at least 80% of her per capita payments over the next few years, so that she can retire from her job soon and live off her investments.



Exercise: Thinking about risk

Now you draw what you think would be the best investment strategy for the following people. Remember, your decisions about asset allocation and risk are made based on a variety of factors and can differ from person to person. What would you recommend for the following people?

Sarah got her first real job when she turned 29. She didn't have any savings, but she had a chance to deposit some money into a retirement account through a 403(b) program at work. She didn't trust the stock market, and was wary about losing any money, but she had heard that it was important to save for retirement. She set up a direct deposit of $300 a month into her retirement plan, and after talking to her mother and her uncle she decided to put the money in several different mutual funds. What kind of mutual funds would you choose for Sarah? Why?

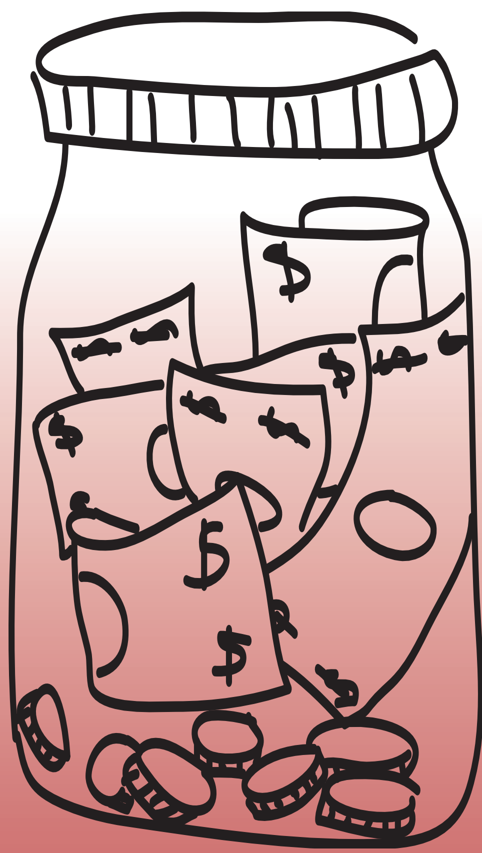
Draw your recommended asset allocation here:

Aaron just turned 18 and received a large $45,000 per capita payment from his tribe. He spent $20,000 on a new car, but took the remaining $25,000 and opened an investment account. His investment advisor told him that he should put 75% of his funds in stock mutual funds, because he is young and has time to ride out the market. Aaron is a little nervous about losing any of his principal, though. What kind of investment portfolio would you recommend for Aaron? Why?

Draw your recommended asset allocation here:

Billy's savings

LuAnne is a member of a tribe that has a $3,000 per capita payment every year. Her son, Billy, is 12 years old and LuAnne has been saving his per capita payment in a mason jar under her bed for the past 12 years. She discovered that a family member had been stealing from the mason jar, so she went to talk to a manager at the tribal housing authority. The manager used to work as a stockbroker, and told LuAnne that she should put her funds in a safer investment, for example a CD or a mutual fund. LuAnne made an appointment the next day with a brokerage firm in Rapid City, and decided to open an investment account where she could invest her son's money in a balanced family of mutual funds.



Session 5

Treasury Securities

Overview

In Session 5 we will discuss:

- More investing terms
- U.S. Treasury securities
- Direct purchase of Treasury securities

Introduction

The investment opportunities provided by banks are some of the most common and safest investment options. But there are many other investment options available to you, and many of them are as safe as bank accounts. This chapter covers U.S. Treasury securities, which are a form of investment backed by the federal government. Treasury securities offer a range of investment opportunities, all with different features.

More investing terms

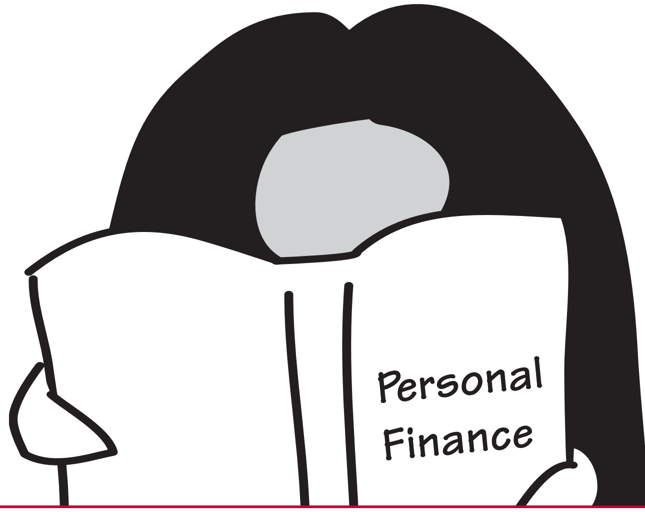
Again, let's begin by defining some terms we will be using in this session:

Consumer Price Index for all Urban Consumers (CPI-U)—The CPI-U program produces monthly data on changes in the prices paid by urban consumers for certain goods and services. It is a way of tracking the inflation rate.

EE Bonds (formerly E Bonds) are a type of savings bond with special advantages when used to pay higher education expenses.

Treasury securities are debt obligations of the U.S. government.

TIPS are Treasury Inflation Protected Securities.



Jennifer likes the feeling of security she gets from having money in her retirement account. But she has been reading some books on personal finance as well as the business and personal finance sections of several local and national papers and has learned about other safe investments. She is thinking about moving on to investing in government securities.

U.S. Treasury securities

Treasury securities are debt obligations of the U.S. government, and generally considered the safest of all investments. This is because U.S. Treasury securities are "backed by the full faith and credit of the U.S. government." (OK, we know what you're probably thinking about how well the U.S. government keeps promises. But things are different when it comes to their own securities. The entire government would collapse if they failed to pay off their bonds.) In all Treasury security relationships, you are lending money to the U.S. government, and the government promises to pay you back, with interest.

There are huge markets in Treasury securities, so they are very "liquid," meaning they can be bought and sold easily, quickly, and with a modest transaction cost. Since Treasury securities are so safe and liquid, they pay lower interest rates than most other securities that mature in the same length of time. Treasury securities can be purchased through a brokerage firm or directly from the United States Treasury. One other advantage of Treasury securities: the interest they pay is exempt from state and local taxes. You have to pay federal taxes on that interest, but not state and local taxes.

In sum, U.S. Treasury securities

- Are a debt of the U.S. government
- Are considered to be the safest of all investments
- Are easy to buy
- Generally pay higher interest rates than bank accounts
- Are exempt from state and local taxes

We will now discuss six types of U.S. Treasury securities:

1) Treasury Bills
2) Treasury Notes
3) Treasury Bonds
4) Treasury Inflation Protected Securities
5) Treasury I Bonds, and
6) Treasury E Bonds

Treasury Bills, or T-Bills for short, are *short-term investments*—sometimes referred to as "obligations" because the federal government is obligated to repay them—issued with maturities of four weeks, 13 weeks, and 26 weeks. T-Bills are sold at a discount and mature at face value. For example, you could purchase a 52 week T-Bill for, say, $9,700 with a face value of $10,000. When the T-Bill reaches maturity, you can cash it in for the $10,000 face value. By doing so, you've earned $300 in interest.

Treasury Notes are *intermediate-term investments* issued with maturities of from two to 10 years. They are sold at face value in $1,000 denominations and pay interest semi-annually (twice a year).

Treasury Bonds are *long-term investments*, issued with terms of 30 years. They are sold at face value in $1,000 denominations and pay interest semi-annually (twice a year). The longest time they run for is 30 years.

Treasury securities and inflation

We talked about inflation in Session 2. The last three Treasury securities we will cover all account for inflation.

Treasury Inflation Protected Securities (TIPS) are linked to the inflation rate. They are available with terms of five, 10, and 20 years. You can hold a TIPS to maturity or sell it before it matures. Here's how TIPS are tied to inflation: every six months, the U.S. Treasury adjusts the *principal* value of TIPS based on changes in the Consumer Price Index, and pays interest on the new, often higher value of the TIPS. If inflation occurs, the principal increases. If deflation occurs, the principal decreases. When your security matures, the Treasury pays you the inflation-adjusted principal or the original principal, whichever is greater.

TIPS pay a fixed rate of interest. The interest rate is applied to the inflation-adjusted principal. If inflation occurs throughout the life of your security, every interest payment will be greater than the one before it. In the unlikely event of severe deflation (falling prices), interest payments would decrease in value.

When you purchase a TIPS, you don't just see a price and interest rate and decide whether or not to purchase one. Instead, you participate in an auction, where the U.S. Treasury is selling huge amounts of securities to pay the government's bills. This auction will determine the rates that the government pays on the TIPS that it is selling. The Treasury holds about 200 auctions a year. You decide how much you want to purchase—starting with a $1,000 minimum with increments of $1,000—and put in your order. You will get the interest rate that everyone else gets in the auction.

You can hold a TIPS until maturity or sell it at the market price at any time. There is a $45 fee for selling it before maturity; there is no fee if you wait until it matures. If you go through a broker, the fees may vary, so ask in advance.

I Bonds are another low-risk, liquid security backed by the U.S. government. Like TIPS, I Bonds pay interest and help protect your savings from inflation. They differ from TIPS in that you can purchase smaller amounts of I Bonds, and the way they protect you against inflation is a little different.

I Bonds are sold at face value, which means that you pay $50 for a $50 bond. You can purchase them in amounts of $25 or more with a $30,000 maximum purchase in any one calendar year. I Bonds have a maturity of 30 years. If you redeem I Bonds within the first five years, you'll forfeit the three most recent months' interest; if you redeem I Bonds after five years, you won't be penalized.

I Bonds protect you against inflation by paying two separate interest rates:

- a fixed rate that stays the same for 30 years (set when the bond is purchased)
- an inflation rate that changes every six months

The semi-annual inflation rate is determined each May 1 and November 1. It is the percentage change in the Consumer Price Index for all Urban Consumers (CPI-U) over six months. Each semi-annual inflation rate applies to all outstanding I Bonds for six months. Then it is reset.

So, for example, you might purchase an I Bond with a fixed interest rate of 1.2% with an additional inflation rate of 1.8%. The total rate of return would be 3% (until the next inflation rate is set in six months, at which time it may change.)

EE Bonds (formerly E Bonds) are a type of savings bonds with special advantages when used to pay higher education expenses. In 1990, the Treasury Department announced the "Education Bond Program." This program allows interest earned on EE Bonds to be completely or partially excluded from federal income tax the year the bonds are redeemed when 1) the bond owner pays qualified higher education expenses at an eligible higher education institution, or 2) the bond owner pays into an eligible state tuition plan. EE Bonds can be used for non-educational purposes also, and they are exempt from state and local tax.

Comparison chart of U.S. Treasury securities

Type of security	Maturity	Rewards	Risk	Inflation Protection	Tax benefits	Minimum/maximum purchase/calendar year
Treasury Bills (T-Bills)	4, 13, 26 weeks	safe short-term investment, generally higher interest rate than banking accounts	inflation; penalty if redeemed before maturity	none	exempt from state and local tax	$1,000/$5 million
Treasury Notes	2, 3, 5, 10 years	safe intermediate-term investment, generally higher interest rate than T-Bills	inflation; penalty if redeemed before maturity	none	exempt from state and local tax	$1,000/$5 million
Treasury Bonds	30 years	safe long-term investment, generally higher interest rate than Treasury Notes	inflation; penalty if redeemed before maturity	none	exempt from state and local tax	$1,000/$5 million or 35% of offering
TIPS	5, 10, 20 years; can sell before maturity	safe intermediate- to long-term investment; pays interest plus adjusts for inflation	very small risk that inflation rate will fall, thereby offering no inflation protection benefit (principal remains at least the same as when purchased)	principal is revalued every six months, rises (or falls) with inflation	exempt from state and local tax	$1,000/$5 million
I Bonds	30 years; can sell before maturity; can redeem after five years without penalty	safe long-term investment; pays fixed interest rate plus interest rate based on inflation	almost none	pays fixed interest rate plus interest rate based on inflation	exempt from state and local tax	$25/$30,000
EE Bonds	30 years (20 years plus a 10 year extension); can redeem without penalty after five years	safe long-term investment; has additional tax benefits if used for higher education	inflation; penalty if redeemed before maturity	none	exempt from state and local tax; exempt from federal tax if used for higher education when redeemed	$25/$30,000

Let's revisit the well-known fact in the financial world: long-term investments pay higher rates than short-term investments. For example, look at these actual rates from April 2005:

90 Day Treasury Bill	**2.77%**
2 Year Treasury Note	**3.65%**
10 Year Treasury Note	**4.36%**
30 Year Treasury Bond	**4.68%**

Exercise: Reviewing U.S. Treasury securities

Jennifer has saved $1,000 since putting her money into a savings account. She knows she can earn more money in interest if she invests in a U.S. Treasury security. She is still saving money to someday open her quilting business. She doesn't know the exact timeline for opening her business, but she hopes it will be in about five years.

Review the comparison chart of U.S. Treasury securities and then answer the questions below.

1. Which types of securities should Jennifer avoid? Why?

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2. Which types of securities should Jennifer seriously consider? Why?

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Direct purchase of Treasury securities

The U.S. Treasury has done an excellent job in recent years of opening up the huge and useful U.S. Treasury market to small investors. You can purchase various maturities of Treasury securities through its "TreasuryDirect" program, at its Web site: www.TreasuryDirect.gov. It works like this: you open an account on their Web site and link it to your bank account. When you purchase a security, the amount is deducted directly from your account. Then, when the security pays interest, that interest goes directly into your bank account.

If you don't use the Internet, you can call the TreasuryDirect toll free number (800-722-2678) to get your regional Customer Contact Center.

If you open an account directly with the U.S. Treasury, you can hold not only TIPS, but also other Treasury securities. You can also buy EE Bonds and I Bonds through most financial institutions, banks, or brokers, and through a payroll deduction plan where you work, or use the new payroll feature on www.TreasuryDirect.gov.

If you need to sell your Treasury securities before they mature, visit your online account and go to Sell Direct. From there, Treasury will obtain quotes from different brokers, sell at the highest price, and deposit the proceeds directly into your bank account. The process usually takes only a couple of days.

What is a Savings Bond?

Some Treasury Bonds are called "Savings Bonds." They are a great way to save for the long term, and some of us may remember when our grandmother bought us a savings bond that we could cash out 10 or 20 or 30 years later. Today there are three types of Savings Bonds: I Bonds, Series EE Savings Bonds, and Series HH Savings Bonds. These savings bonds are known as "non-marketable securities." This means you cannot sell Savings Bonds to or buy them from anyone except an issuing and paying agent authorized by the U.S. Treasury Department. There is no secondary market in them.

I Bonds and Series EE Savings Bonds are discussed elsewhere. They earn interest at variable rates and it is accrued, which means that you don't receive your interest until you redeem the bond. Until then, your interest compounds. Series HH Savings Bonds, on the other hand, pay interest semiannually, and when you redeem them, you receive the same amount of money that you invested in the first place.

You can purchase these Savings Bonds directly from the U.S. Treasury Department (www.TreasuryDirect.gov) or from a bank.

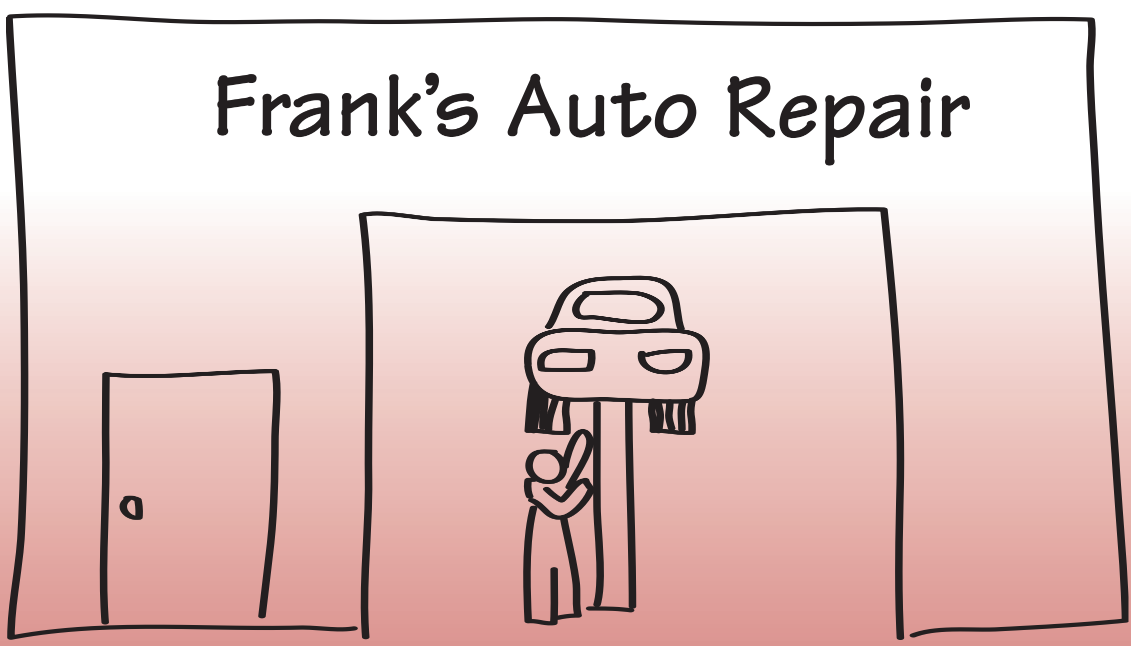
How to purchase EE Bonds and I Bonds

Both EE Bonds and I Bonds can be purchased online by visiting www.TreasuryDirect.gov and looking for the particular kind of bond. Some employers also offer them through payroll deduction plans. Ask your employer if you have that option. Incidentally, www.savingsbonds.gov will take you to that same site, if you find that name easier to remember. Also, some banks sell them, but be sure to ask about any fees they charge before you purchase. You pay no fees if you purchase them on the Internet through the Treasury Direct program.

Because Jennifer is a cautious investor, she decides to invest in ultra-safe U.S. Treasury securities. Jennifer goes to the Internet and investigates them. After some time studying them, she decides to purchase a TIPS (Treasury Inflation Protected Security). She goes online, follows the directions carefully, and purchases her first TIPS. After setting up her account (with only one call to the help line), she completes her purchase, and the U.S. Treasury withdraws the money directly from her bank account to pay for it. She is surprised at how easy it was.

Frank's dream

Frank has worked for the tribe for many years now, and earns a good salary. His dream has always been to manage his own auto repair shop, though, and he plans on bidding for tribal police car service contracts. Five years ago he started saving money in a Certificate of Deposit and some Treasury securities, and he now has $20,000 saved. He recently moved it to a money market account, so that he can get at the money easily when he decides to make his move. With this year's $3,000 per capita payment in addition to his savings, he feels ready to start his own business. He takes a class at the local business assistance center on how to write a business plan, and works with a business counselor at the center to lease a building and buy some of the equipment needed to start the business. Fast forward three years—Frank's Auto Repair is a successful small business, Frank is his own boss, and he has finally been able to accomplish his dream.



Session 6

Refining Your Investing

Introduction

In the last sessions, you learned about stocks, bonds, and mutual funds. You also learned about how to use asset allocation to manage and protect your investments. Now that you have this information, you can think about refining your investment skills. This session will provide an overview of how to monitor your investments, and evaluate the performance of your investment portfolio by comparing it to the growth rate of some common indexes. In this session, you will also learn more about the regulators who protect your investments, and what to do if you feel that you need to file a complaint. Finally, you will also learn about socially responsible investing, which is a way to make sure that your investing matches your values.

Overview

In Session 6 we will discuss:

- More investing terms
- Monitoring your investments
- Evaluating your investments
- Indexes
- Protecting your investments
- Socially responsible investing

More investing terms

Again, let's begin by defining some terms we will be using in this session:

An **index** is a statistical measure of the value of a group of securities. You can compare the performance of your portfolio against indexes like the Dow Jones Industrial or S&P 500 to evaluate how your investments are performing.

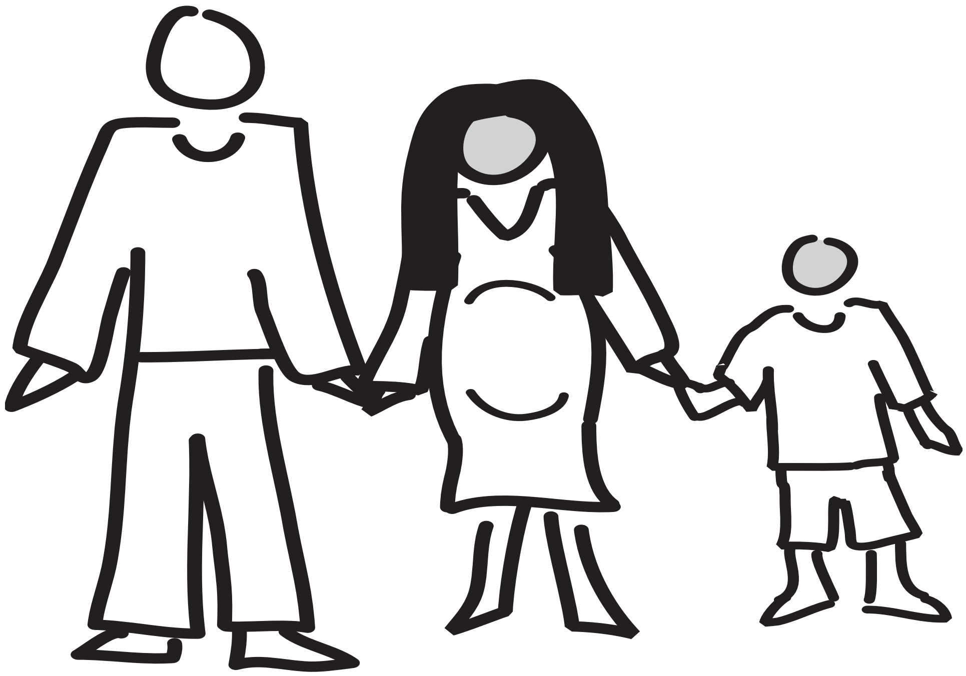
Index funds are a type of mutual fund that attempt to match the performance of a specified stock or bond market index by purchasing some or all of the securities that comprise the index.

Principle, ending with "le" refers to your ethics or values. It's not to be confused with principal ("al"), which is the initial amount of money you put into an investment.

Proxy resolutions are a way for shareholders to call on a company's management to do certain things.

Screened investments is one component of "socially responsible" investments. These funds have "screened out" investments with socially and environmentally damaging impacts.

Underwriters are investment banks that take on the risk of buying new issue of stock and then reselling it to the public.



Jennifer has been really busy the last five years. She has been promoted in her job, and has kept paying into her retirement account. She has continued to study investing, and has learned more and more about how to monitor her investments. Last year she met Kyle, who works on the tribal police force, and they got married.

Jennifer and Kyle recently received a per capita payment from the tribe. It seems like it happened at the perfect time, because Jennifer is pregnant again! They immediately invested the money into mutual funds for their children's future education as well as into different accounts in order to achieve other life goals, like investing in Jennifer's quilting business that she plans to start after she has the baby. They now have a nicely diversified investment portfolio, that is 30% cash (CDs) and 70% mutual funds.

Monitoring your investments

You should always watch your investments because situations and circumstances change, and you may have to change your investments in response. As in all life, the only constant is change. Just because investments are performing well now does not mean that they will continue to perform well.

The most basic level of monitoring is to review the information that you receive—in the mail or online. Every month, look at your statement and make sure you understand everything it says. If there is anything—ANYTHING—you don't understand, get right on the phone to your investment advisor and have him or her explain it to you. It's your money and you have the right to understand everything that's happening to it.

Periodically review your investments against your investment plan. When your life situation changes, you should adjust your plan. And then bring your investments in line with your new plan. Also, you will want to adjust your investments if they are falling behind the targets you set for them, such as one or more indexes (see below) that you chose to use as benchmarks. If one or more individual investments are underperforming—over a period of a year or two, say—you may have to do what you do in the garden when a plant gets sick and doesn't respond to cures: pull it out. Don't let emotional attachments to a certain stock or bond or other investment get in the way of hard-headed investment decisions.

Evaluating the investment performance of your portfolio

There are two kinds of performance: absolute and relative. Absolute targets, like 6% or 9% growth per year, every year, are very difficult to achieve because the financial markets are so volatile. (Unless you put all your money in bonds and hold them to maturity. Still, the market values of the bonds will change when interest rates change, but you will probably continue receiving your interest every year.) For that reason, performance goals are usually presented in terms of relative returns, which means that you need to compare your performance against how the overall market or a segment of the market is performing.

Performance goals are usually presented in terms of relative returns, which means that you need to compare your performance against how the overall market or a segment of the market is performing.

Buyer beware!

It is important to be very careful when making investment decisions. Some rules of thumb:

- Be very skeptical about any e-mails you receive promising a “hot stock tip” or “insider information.” There are a lot of scams out there and a lot of bad information. Always consult a professional or your financial advisor before striking up a business relationship or answering an e-mail. If it sounds too good to be true, it probably is!

- When working with an investment advisor, you need to ask a lot of questions, and make sure you feel comfortable with the answers. Always ask questions about what kind of fees will be charged to your account.

- Always read the fine print. Make sure you thoroughly read anything you are given to sign by your investment advisor or anyone else. If you are not sure, ask to take the documents home and have someone else read them over before you sign them.

Indexes

How do you measure the relative performance of your portfolio? You compare your portfolio to an index, which is a statistical measure of change in a certain segment of the securities market. Think of an index as a portfolio that represents a whole market (say, the U.S. stock market) or a portion of a market. Changes in indexes show the percentage change (positive or negative) in a market. If you compare the percentage change in the value of your portfolio against the percentage change of an index, you can evaluate the performance of your portfolio.

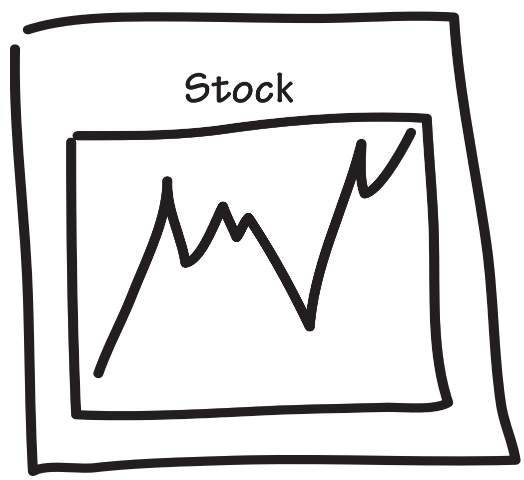
For example, you may think you're doing well if your portfolio is up 10%. But if the indexes you have chosen for comparison are up by 20%, something is wrong. There are many indexes to compare your portfolios returns with. (You can actually invest in funds representing most of those indexes.) There may be as many as 600 indexes, although it's impossible to know for sure, because there is no central listing, new ones are often being created, and some institutions create custom indexes for their clients. But there are less than a dozen that you need to become familiar with. Here are some indexes you can ask your investment advisor about:

Dow Jones Industrial Average is widely reported, but not very useful for investment purposes, because it contains only 30 of the largest industrial companies (and a few service companies).

S&P 500 is probably the most widely watched and used index, containing the 500 largest publicly traded companies in the U.S.

Wilshire 5000 is a broader index, and its 5,000 companies include practically every publicly traded company in the U.S., including those found in the S&P 500.

Domini 400 was the first index of socially screened stocks. It begins with the S&P 500 companies, takes out companies with bad records on pollution, employment practices, nuclear weapons manufacturers, and other areas, and adds in companies with particularly good social and community practices. It generally matches up very well—and often beats—the S&P 500.



Russell 2000 is an index of smaller companies. There are several Russell indexes—ask your broker about them.

Nasdaq 100 Index is comprised of 100 of the largest non-financial companies listed on Nasdaq. The index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade, and biotechnology. For example, it contains Microsoft, Dell, and Starbucks. It does not contain financial companies, including investment companies.

Investing tribal resources: Taking care of people, families, and the nation

The Southern Ute Indian Tribe has a successful hotel and casino, and manages several very profitable oil and gas operations. But their biggest success by far has been their management of their tribal trust funds. The tribe established three investment funds that would diversify the tribe's investment base and support tribal members with a steady income stream. The first fund is called the Permanent Fund and it uses 75% of the energy royalties and the profits from the Sky Ute Casino and invests the money in securities. Valued at around $600 million, the Permanent Fund is designed to finance the tribal government and pay monthly installments of $520 to tribal members.

The second fund is the Growth Fund that is comprised of 24% of the oil and gas royalty payments and the casino profits and all of the profits from the tribe's energy and real-estate holdings. The Growth Fund was created to supply an economic endowment to the Southern Ute community totaling nearly $1 billion and to underwrite new investments with a goal of 15% returns or better. The Growth Fund uses an aggressive strategy of investing in early-stage venture capital opportunities and established corporate entities focusing on consumer and building products, communications, information technology, biotechnology, nanotechnology, and the life sciences. The company has also invested in several domestic and international private equity funds. The Growth Fund currently distributes 10% of its profits to adults under 60, totaling $54,500 per person annually. The third and final fund is the Restricted Fund. This fund is financed by the remaining 1% of the royalty payments and casino profits. The Restricted Fund was created to manage a trust fund for minors, employees' pensions, and similar benefits required by the tribal constitution. Effective management of the Southern Ute Indian Tribe's assets has resulted in the Southern Ute Indian Tribe becoming one of the wealthiest tribes in North America.

How to tell if you are doing well

Investing is the careful use of your financial resources as part of a responsible plan to prepare for the future.

Generally, you are doing well if your investments are keeping up with the general growth rate of the securities markets or of the growth rate of an index that you have chosen for comparison. For example, if the S&P 500 grew by 8% last year, and your portfolio grew by 8.5%, you are doing pretty well.

It's tempting to consider investing like a sport. This can lead to feeling competitive or taking too much risk in an effort to make money fast—to achieve a short term gain. It's important to remember that investing is not a sport and it's not gambling.

If you remember from Session 1, investing is putting your time or money into something with the hope of getting something greater in return. In other words, investing is the careful use of your financial resources as part of a responsible plan to prepare for the future. Investing is about taking care of the resources you have and ensuring a better future for you and your family and others who rely on you. You should plan carefully for the future, invest using a well thought-out plan, and try to meet your investment goals each year.

Protecting your investments: The regulators

Investing is not done in a vacuum. The securities industry is highly regulated. It's important to know that securities regulators are here to protect your investments. The main players include the following:

- The Securities and Exchange Commission (SEC) is the government agency charged with protecting investors and maintaining the integrity of the securities markets. Among other activities, the SEC focuses on making sure securities players disclose information that investors need.
- NASD (formerly the National Association of Securities Dealers) is the primary private-sector regulator of the securities industry. NASD is involved in writing rules, oversight, education, and arbitration.
- Industry associations also exist to oversee parts of the securities industry, including associations such as the International Association of Financial Planners (IAFP) and the Institute of Certified Financial Planners (ICFP). Neither of these are government organizations. Because they are industry-based overseers of the industry, some experts caution that they may protect their members more than the public.

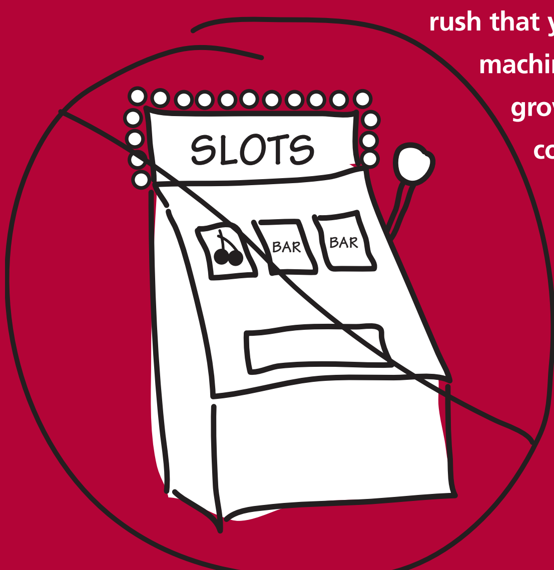
If you ever run into problems of unethical or illegal behavior when investing—or, more importantly, if you are able to spot potential problems before they happen—you might want to consider filing a complaint with the SEC or NASD. Visit their Web sites for more information on how to do this.

Don't gamble on your future

You may know people who think that heading down to the casino and spending a few hours at the slots is a form of investing. It certainly involves putting your time or money into something with the hope of getting something greater in return. And sometimes you do win back some of the money that you put into the slot machine or spent at the blackjack table.

Gambling may be a fun way to pass the time (although it can be an expensive way), but it is most definitely not a form of investing. The reason why is based on simple math. When you put $1.00 in the slot machine, you only have an 80-95% chance of winning that money back. So, over time, and on average, you get a "negative return" on your money—after a short period of time you will only have 80-95% of what you started out with. If you started with $100, on average, you will only have $80.00-$95.00 left. If you then gamble that, you will eventually end up with 80-95% of that amount, or $64.00 - $92.50. The longer you gamble, the more you lose, as that negative returns keep adding up (or "subtracting down"). Some people get lucky and win a large lump sum, but over time, you can be sure that they put more money into a slot machine than they ever got out. And remember, you have more of a chance of getting struck by lightning than you do of winning the state Lotto jackpot.

With investing in stocks, bonds, mutual funds, or other securities, you are more likely to get a positive return on your money. In fact, large company stocks have grown at an average rate of 10.2% between 1926 and 2003, and small company stock grew at an average rate of 12.1% during the same time period (Ibbotson 2004). Even U.S. Treasury Bills average 3.8% returns over the past 80 years. The historical average return from stock market investing is about 7% a year—so that means that if you take the same $100 mentioned above and invest it in the stock market for one year, you are likely to end the year with $107. You may not get the adrenaline rush that you would from hearing the coins clink in the slot machine tray, but you can rest assured that your money is growing. Leave that $100 in the market for 20 years, compounded annually at 7%, and you will have $386.97.



So, in the long run, it is a better idea to take that $100 and invest it in a balanced portfolio of securities. Try this experiment: keep a log of all the money you have spent at the casino, and all the money you have won, and figure out what your rate of return is. You might be surprised at how much gambling costs you!

Socially responsible investing

Socially responsible investing (SRI) is the application of your ethical, social, political, and environmental beliefs in making your investment decisions. A more comprehensive and formal definition is that SRI is investing "with the object of maximizing the financial and social well-being of the investor, the organization in which the investment is being made, and society at large." You can apply your ethical and political principles when you invest in stocks, bonds, and mutual funds or when you select a bank or other financial institution. If you own shares of stock, you can vote them at the annual meetings of those corporations (or by "proxy," with an absentee ballot, if you do not attend the meeting). You can also invest in community development organizations. Studies have shown time and again that investing "responsibly" does not have to lower your return.

Socially responsible investing means investing with the object of maximizing the financial and social well-being of the investor, the organization in which the investment is being made, and society at large.

Exercise: Socially responsible investing

Imagine for a moment that you sit on your tribe's investment committee. What kinds of corporations would you refuse to invest in. Why?

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What kinds of corporations or programs would you like to invest in? Why?

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Jennifer has been elected to the tribe's investment committee. Some friends asked her to run, knowing how conscientious she is about her own investments and how helpful she is with her knowledge. So now she's helping make decisions about millions of dollars. At her first meeting, the committee considered whether to make their investments socially responsible.

Then they discussed how to evaluate the job their money managers are doing, and what benchmarks they should use to evaluate their performance in investing the tribe's money. Also at that meeting, a consultant taught them about how the securities markets are regulated. After all of these years of investing, Jennifer heard several things for the first time.

Where to get information for getting started with SRI and community investing:

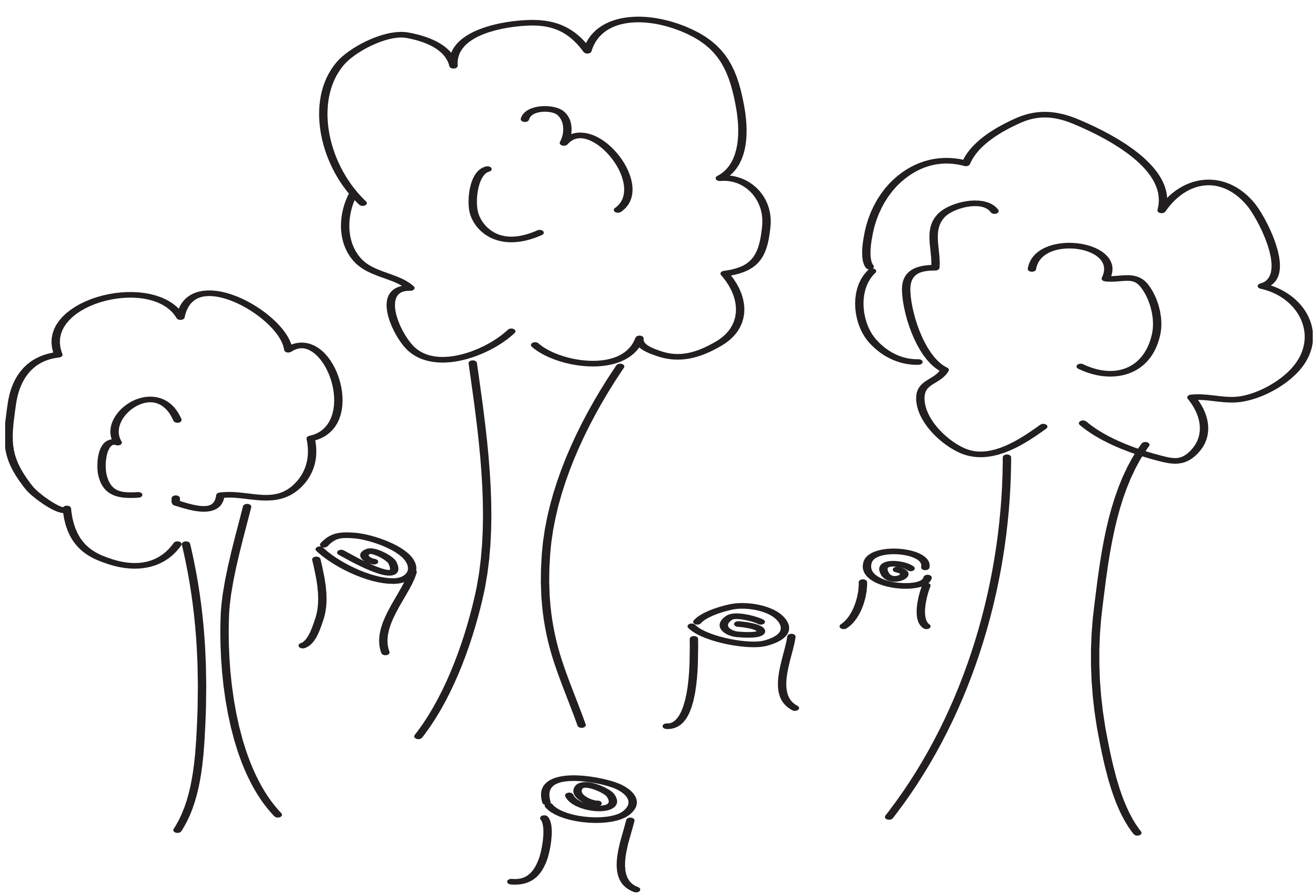
- **First Nations Development Institute: www.firstnations.org**
- **Socially responsible investing: www.coopamerica.org/socialinvesting/sif.cfm**
- **Socially responsible mutual funds can be found at: www.socialinvest.org/areas/sriguide/mfpc.cfm**
- **Community Investing: www.communityinvest.org/**

SRI has been around for a very long time. In the 1800s, London bankers invested in housing for the poor, and in the late 1800s, Quakers began avoiding such "sin stocks" as tobacco, alcohol, and gambling companies. SRI accelerated rapidly during the anti-war, civil rights, and anti-apartheid movements of the 1970s and 1980s. Later, this new generation of activist shareholders—including individuals, churches, and public pension funds—broadened their concerns to such issues as the environment, discrimination in employment, the lack of ethnic and gender diversity on boards of directors, and production and marketing of tobacco products. Today, over $1.16 trillion is invested according to one or more social "screens."

Yet even today, some investors and investment advisors object to SRI, because they feel it limits the investments one can make, and any time you limit your options, you handicap yourself. They argue that you should keep investment decisions separate from your moral standards. But in the Native world view, grounded in spirituality, all things are related, and there is general agreement that ethics and morals should be included in investment decisions.

Yet just because some investors believe in SRI doesn't mean that they agree about what constitutes a good company. Indeed, corporations are complex organizations, often with both good and bad characteristics. For example, the same company whose mining operations are disrupting ancient Hopi and Navajo water tables might give money for Indian scholarships. And the same company that is clear cutting forests in one area may hire a lot of Native employees. Everyone must make these decisions according to their personal values.

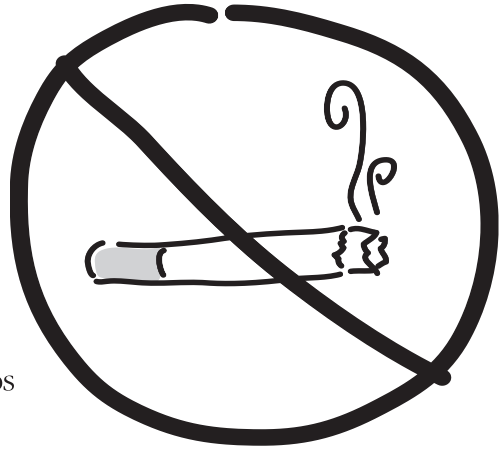
If you decide to invest in a socially responsible mutual fund, make sure to ask your broker—or look up on the Internet—exactly what corporations are included in that fund. Some so-called socially responsible funds only screen for one or two types of businesses, like nuclear power and tobacco, but leave many other questionable corporations in the fund. Innovest Strategic Value Advisors is an investment research firm specializing in analyzing companies' performance on environmental, social, and strategic governance issues. For more information, go to www.innovestgroup.com.



Types of socially responsible investing

There are several types of socially responsible investing:

- Screened portfolios
- Investing in "good" companies
- Proxy resolutions
- Alternative investing or community development investing



Screened portfolios. Investors avoid investing in companies that are engaged in behavior they disapprove of. Common screens include nuclear power; weapons manufacturers; polluters; companies involved in tobacco, alcohol or gambling; companies that discriminate against minorities or women; and gun manufacturers. Most recently, the environment and corporate governance (which covers issues like executive compensation and the independence of directors) have taken front seats. In the 1980s, the Oneida Tribe of Wisconsin began screening its portfolios when it instructed its money managers to sell its stock in three companies that had polluted reservation water for other Haudensaunee People, and to avoid buying stock in those companies in the future. Soon thereafter, the (Wisconsin) Oneida Trust Committee hired money managers that specialized in SRI.

Investing in good companies. Perhaps even better than avoiding bad companies is actively searching out good companies to invest in. These may be companies with stellar environmental records or ones that make particularly good products—products that are good for consumers and the environment. Or they may be companies with such progressive programs for employees as on-site child and elder care and generous parental leave, or programs that support their communities.

Proxy resolutions and engagement with corporate management. A proxy resolution is a way for shareholders to encourage a company to do certain things. A shareholder can submit a resolution and, at the annual meeting of shareholders, it can vote the shares it owns on all the resolutions that have been submitted to a corporation. Usually, this happens when shareholders want a company's management to do something they are not already doing. A proxy resolution is included in the "proxy statement" sent to all shareholders before the company's annual meeting. At that annual meeting, the proxy resolution is voted on by shareholders or their proxies—that is, someone assigned to vote on behalf of the shareholders (like another shareholder or manager). Anyone who owns stock in a company can file proxy resolutions, as long as they abide by certain laws.

By law, resolutions have to pertain to policy issues like doing business in South Africa or selling dangerous products, and not to ordinary business like hiring or firing a particular person. Corporations resist proxy resolutions, because they raise issues that management opposes or would rather ignore. Often, corporations will try to exclude social action proxy resolutions from the proxy statement, but they must receive permission to do so from the Securities and Exchange Commission. Frequently, shareholder activists will write letters to top management and engage in dialogue before filing proxy resolutions. Sometimes, these lead to the desired changes, or at least progress, and the time and expense of actually filing the resolution is avoided.

Historically, most proxy issues have been filed around the same issues that led some investors to sell their shares, such as doing business in South Africa, employment discrimination, and nuclear and other weapons. Now, such issues as environmental stewardship, climate change, marketing techniques for tobacco and alcohol products, and corporate governance are receiving more attention.

In 1992, the first proxy resolutions on an explicitly Native American issue were introduced. Several Catholic religious orders submitted proxies to American Express, owner of Shearson Lehman Brothers, and to investment company Merrill Lynch, to have them report on their reasons for underwriting (helping to sell) bonds for Hydro-Quebec, the giant Canadian utility trying to build James Bay II, a huge series of dams and waterways that would flood 10,000 Cree Indians and Inuit people out of their ancestral homes and destroy their way of life. The proxy resolutions were withdrawn when the companies agreed to disclose some of the information requested. In this case, the threat of a proxy resolution was all it took to get the requested reports.

Indigenous Peoples Rights Policy by Calvert Funds

With the urging of First Nations Development Institute, Calvert Funds, a group of socially responsible mutual funds and other investment vehicles, developed an Indigenous Peoples Rights Policy. It reads, in part, "Companies operating on or directly impacting the land of Indigenous Peoples should support appropriate development that respects Indigenous territories, cultures, environment and livelihoods." They may avoid such companies, or they may invest, in which case they will engage management to develop corporate policies on Indigenous rights. They also work with companies on issues of racist and demeaning logos in sports programming and elsewhere.

For additional information, visit: www.calvertfunds.com/pdf/iprpolicy.pdf

The National Federation of Community Development Credit Unions (www.natfed.org), First Nations Oweesta Corporation (www.oweesta.org), and Opportunity Finance Network (www.opportunityfinance.net) are good sources of additional information for alternative investing.

In 2001, another proxy resolution was filed concerning the use of precious water resources by the Peabody Energy Corporation to slurry coal from the Black Mesa Coal Mine on the Navajo Reservation to the Four Corners Power Plant many miles away. Representatives from the Oneida Trust Committee spoke on behalf of the resolution at the annual meeting.

Other Native issues that have been raised at the highest level in various corporations include calling on Burlington Resources, Inc. (an oil and natural gas company) and Calpine Power, Inc. (an energy company) to adopt a human rights policy for Indigenous lands and issues, and on Chevron Corp., concerning drilling in the arctic.

Alternative investing. A rapidly growing part of SRI involves "alternative investing," or investing directly in organizations that help poor people or strengthen community development efforts. There are several types of alternative investing:

- Investments in alternative financial institutions, such as low income credit unions, loan funds, micro-enterprise loan funds, community development banks, and minority-owned banks.
- Investments in low-income housing or similar facilities.
- Investments in cooperative businesses or businesses in low-income neighborhoods.
- Investments in new companies making socially beneficial products.

Alternative financial institutions have grown substantially in recent years. They have proven to be highly effective at making capital available to low income people and to organizations that could not get capital from other sources. There are several credit unions on Indian reservations that accept deposits from off the reservation, and use that money to lend to their on-reservation members. Or they might invest the off-reservation deposits at higher rates and use the returns on these investments to cover their costs of lending to on-reservation members.

Community development loan funds begin with money raised from individual or institutional "social investors." Loan funds make loans to housing organizations and business developers in economically distressed communities—both urban and rural. For example, there are several micro-enterprise loan funds on Indian reservations, and several more are being established. Usually, loans to a loan fund are not insured or guaranteed by any other organization. The diversification of the loans makes investments in loan funds safer than loans directly to the community organization. The safety of investments in loan funds depends on how the loans and the organization are structured and how well the borrower does. Because of this, loan fund investments can carry a higher risk, but the potential rewards are much more than just their monetary returns.

Very few banks concentrate on community development lending, including housing development, local real estate, and neighborhood businesses. However, there are a few, such as ShoreBank and Community Capital Bank. Deposits in banks that do make these types of loans are insured just like any other deposits in federally insured banks. Also, there are several banks owned by tribes or Native American individuals.

The Oneida Tribe of Indians of Wisconsin has been a leader in SRI. In addition to their screened portfolios and shareholder activism, they also make direct community development investments. They loaned $50,000 to the Nitlapan Loan Fund in Nicaragua, and in 2005 they loaned $25,000 to the Lakota Loan Fund on the Pine Ridge Reservation.

Oneida Tribe of Indians of Wisconsin
Honoring the Elders

The Sovereign Oneida Nation of Wisconsin has several successful enterprises, including a hotel and casino, and real estate investments in the City of Green Bay. The tribal Treasurer's office manages the revenue from these investments. The tribe established the Oneida Trust Committee to manage the tribe's trust funds. The trust funds include a Minors Trust, a Trust Scholarship Fund, a Higher Education Fund, a Language Revitalization Fund, the Elder Per Capita Trust Fund, and the Standing Stone Fund. The largest fund is the Elder Per Capita Trust Fund, which has over $50 million in it and is managed to provide perpetual resources for Elders in the community, including an annual per capita payment for them, similar to a Social Security payment.

The mission of the Trust Committee is "To exercise due diligence for safe guarding and maintaining the trust funds of the Oneida Tribe of Indians of Wisconsin in a manner that does not enable harm to the environment or the spiritual and cultural values of Native Americans." The Trust Committee makes asset allocation decisions on how to best balance the risk and return of the trust funds they manage. They review, monitor, and measure the trust funds' performances on a regular basis. The Trust Committee also applies Socially Responsible Investment principles whenever possible. The tribe has emerged as a leader in managing their tribal trust funds in a way that promotes sustainability for their members and honors their cultural values at the same time.

Does socially responsible investing lower your investment returns?

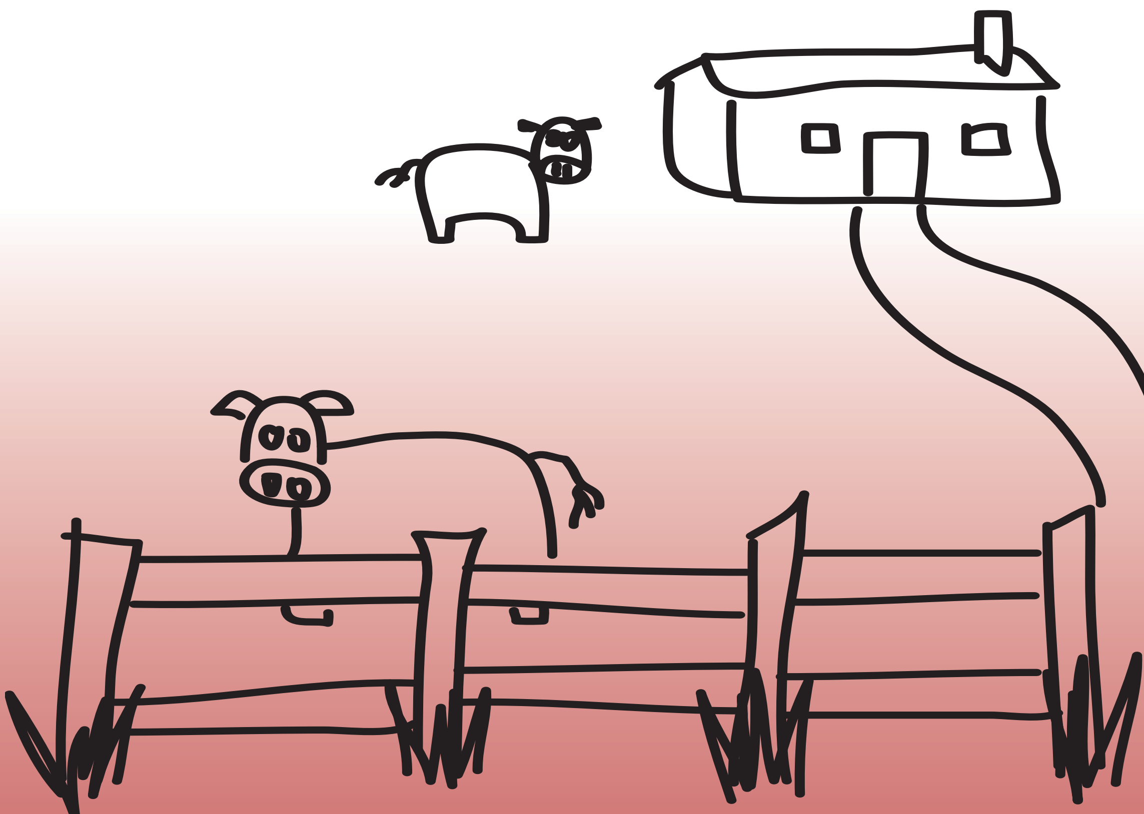
You might wonder if SRI lowers investment returns. After all, don't you have to give up something when you do good with your investment? Increasingly, studies are showing that shares of companies with records of good environmental practice and other corporate citizenship actually outperform shares of companies that are bad environmental and corporate citizens. So the lesson here is that applying your values when you screen mutual funds or stocks does not necessarily harm your investment performance and can lead to higher returns.

If you invest in community development investments, such as community development credit unions or community development loan funds, you might receive a lower rate than by investing in a bank or corporate bond, because such organizations often have to pay lower rates in order to be able to invest in low-income communities.

Anna's Story

Anna comes home

Anna has lived in Baltimore for 30 years, working for Johns Hopkins University. She has a very good retirement program, and the university matches what she deposits into her 403(b) retirement account at 100%. Anna used the automatic payroll deduction plan to deposit $3,000 of her own money into her retirement account each year over the past 30 years. The university has matched her deposits at 100%, and has deposited $3,000 in additional funds into her 403(b) each year. Anna chose a collection of growth stock mutual funds and some bond funds for her retirement investments, and has earned 9% per year on average. Anna loves her job, but she is looking forward to retiring in three years and buying a ranch near her reservation in Montana. She checked her 403(b) retirement account statement last month, and saw that she had $850,000 in her retirement account! Now that she is moving closer to retirement, she made an appointment to talk to her financial advisor to discuss whether she needs to change her asset allocation and move her money to safer, less volatile investments like treasury bonds and CDs, so she can count on the income to pay the mortgage on her ranch.



Session 7

Review

Overview

In Session 7 we will discuss:

- A review of concepts
- Making your own investment plan
- Online resources
- Books and newsletters
- Information about this workbook

Introduction

Congratulations! You have completed six sessions on investing and learned a great deal about how to invest your money and plan for the future. You have learned all about retirement accounts, the time value of money, and the power of compounding. You can now talk to your financial advisor about stocks, bonds, mutual funds, Treasury bills, and asset allocation.

Now that you have learned about why to invest and how to invest, you can put your knowledge to work in designing your own investment plan. This session will provide an overview of all the major concepts you covered in the last six sessions, and then will give you an opportunity to apply what you have learned to design your own investment strategy.

Jennifer and Kyle see grey hair when they look in the mirror these days, and they also look forward to visits by their grown children. It hasn't always been easy, but they still feel fortunate and blessed. They have worked hard and planned carefully. They feel good about their investing. They are not billionaires, but their investments have grown over the years, and will come in handy when they retire. They've put aside something to help with their grandchildren's education (if and when their children ever settle down and have their own kids!)

So now it's time to tell their children about investing, and help them get started. Luckily, they have kept their copies of the First Nations workbook that they had both studied years earlier. While many things have changed in the financial world, the basics of investing are still the same.

Review of concepts

Session 1: Introduction to investing and basic financial planning

- Investing is putting your time or money into something with the hope of getting something greater in return.

- Start by identifying your investment goals; this will help guide you in making the best investment decisions. Define both short-term goals and long-term goals.

- Risk and reward are parts of every investment. To increase your reward from investing, you usually have to take more risk. But taking more risk definitely does not guarantee that your reward will be higher.

Session 2: Starting your financial planning and investing

- Bank accounts are convenient and safe, since they are guaranteed by the federal government. The most common accounts are checking, savings, money market and certificates of deposit (CDs). Interest rates and access to your money vary considerably, so understand the differences before making a commitment.

- One good thing about earning interest is that, if you keep it in your account, you begin earning interest on your interest. This happens when you add the interest earned back into the principal. This is called compounding, and it is one of the wonderful and powerful forces in investing. Because of it, you can patiently build substantial wealth over time.

- The time value of money means that a dollar invested today can earn interest and potentially become more dollars in the future. Recall that retirement accounts are a good example of the time value of money.

- Price increases are also called inflation, and inflation can actually outpace the interest you're earning on your investment! To calculate what you're really making from your investments—in terms of purchasing power—you have to adjust for inflation.

Session 3: Investing for your golden years

- Even if they sound like a jumble of numbers and letters—401(k), 403(b), IRA, Roth IRA, SEP and SIMPLE—retirement accounts are critical for planning for your future. These are all retirement accounts that can hold various kinds of investments, like stocks, bonds, and mutual funds.

- Successfully saving for retirement requires a few things: planning, prioritizing retirement savings, starting young if possible, investing and staying invested—and being patient, because markets go up and down.

- Retirement accounts are excellent ways to save for retirement while taking advantage of special tax benefits.

Investing advice

Through all of the years, Kyle and Jennifer learned a lot of little details about investing. They also met a lot of other people with experience investing. They've come up with some general investing advice.

1. Always study and plan before making an investment decision.
2. Develop alternatives. Talk to at least three brokers before you select one.
3. Study alternatives. Visit and study several online brokerage sites to learn how they operate.
4. Visit and study several mutual fund companies, either on the phone, on the Internet or visit an office that some have in large cities.
5. Get advice from knowledgeable people. Talk to people you know and trust and who have investing experience.
6. Make yourself smart. Do a lot of research.
7. Share knowledge. Consider joining or forming an investment club. Search for such organizations through the Internet. Or form an informal group at the coffee shop or community center. Even if you don't want to talk about money directly, you can tell stories and omit inappropriate details.
8. Be modest. Do NOT follow "hot tips." Try to make an investment that will do well, but don't gamble.
9. Start small. Make your first investment with a modest amount of money.
10. Start planning your retirement early—the younger the better.
11. Compounding is powerful—use it.
12. Investing can be expensive. Make sure you know every fee you are paying. Read the small print. And shop around.
13. There are some sharks in the investing ocean. Be careful.
14. You can be a successful investor and still be true to your Native culture and values.

Session 4: Investing in stocks, bonds, and mutual funds

- *Stocks* represent part ownership in a corporation. Any single stock can be risky, and the risk varies considerably from company to company. Things to look for in a company: low debt, good earnings growth, insiders buy and hold shares, strong market position, and good product offering.

- Dividends are a portion of company profits given back to stockholders (investors who own the stock) and often paid to stockholders quarterly. Dividends are usually distributed in cash.

- In the long run, stocks overall perform better than bank accounts and bonds, but stocks are not a good investment for people with very low risk tolerance.

- *Bonds* are issued by the U.S. government, state and city governments, and corporations. These institutions use bonds to borrow money from investors and promise to pay the money back at a later date. They pay interest until they repay the money.

- An investor normally buys corporate bonds through a broker, and prices and fees vary. It is important to find a broker you trust. Start with asking friends and also check with your bank or credit union. You can check out your broker's qualifications through www.nasdbondinfo.com.

- The quality of your bond investment is rated by several organizations.

- Municipal bonds are particularly appealing because you don't pay federal taxes on any interest you receive from them. And if you live in the state whose muni bonds you are purchasing, you don't pay state and local taxes either.

- A *mutual fund* is a collection of stocks and/or bonds as well as cash securities. When you buy shares of a mutual fund, you buy a percentage ownership in a portfolio of a fairly large number of stocks and/or bonds.

- Mutual funds are investment vehicles that help reduce risk by investing in a variety of stocks and bonds and they also provide professional fund management for your investment.

- Asset allocation is the term used to describe diversification of investments among different types of "asset classes." This means dividing investments between stocks, bonds and cash or "cash-equivalents," meaning money market funds or bank accounts.

- Mutual funds sell shares to the public, and then use that money to purchase securities. There is an active market in mutual fund shares, so investors can buy or sell shares quickly and easily.

- Most mutual funds charge fees for their service. It's important to consider fees when making your investment decision.

- If you buy something (a house, bonds, stocks) and sell it later at a higher price, you have just made a profit. This type of profit is called a capital gain. You have to pay taxes on capital gains. If you sell it at a lower price, you have a capital loss.

Session 5: U.S. Treasury securities

- U.S. Treasury securities are the way the federal government borrows money. These investments are considered the safest of all investments. The government "borrows" money from investors and pays it back, with interest.

- There are a number of Treasury securities, such as bills, notes, and bonds. Some Treasury securities protect your investment against inflation.

- Individuals can purchase Treasury securities directly, without the help of a broker, at www.TreasuryDirect.gov.

Exercise: Kenny gets his youth fund payment

Kenny just turned 18, and as a member of the Ceeherok tribe[1] he is eligible for a Youth Fund payment of $35,000. His tribe has a successful oil and gas business, and their casino has been earning a lot of money as well. The tribe has set aside money from their businesses in a Youth Fund, and invested this fund in the stock market, and the fund has done very well the last few years. Every tribal member receives a youth fund payment upon their 18th birthday, as long as they finish high school.

Kenny has been dreaming about buying a new Ford Expedition SUV, and he has also had his eye on a big screen TV. The day after he receives his check, he heads over to the Ford dealer in the next county and pays cash for his truck. He also drives to the closest city and purchases a big screen TV, one that barely fits in his SUV that he uses to get it home.

Fast forward three years: Kenny got into an accident on the Interstate last year, but fortunately he walked away with only a few bruises. He didn't have money to fix his car though, and didn't have insurance, and his car was totaled. He is now hitching a ride with his sister to get to work. He is thinking about going to college, and has made an appointment to talk to the tribe's education counselor about tribal college scholarships.

Questions:

1. What do you think about how Kenny spent his Youth Fund payment? Would you do the same? Why or why not?

____

____

____

____

2. If Kenny had invested $20,000 of his $35,000 Youth Fund payment, and got a 6% annual percentage yield, how much would it have been worth ten years later? (Use the chart on page 40, session 2).

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[1]This is a fictional name for a tribe.

Session 6: Refining your investing

- Socially Responsible Investing means aligning your investments with your values. You can apply SRI principles to bonds, stocks, mutual funds, and community development investments.

- The most basic level of monitoring the performance of your investments is to review the information that you receive—in the mail or online. Every month, look at your statement and make sure you understand everything it says.

- Indexes—averages of groups of stocks or other securities—can be used to help you evaluate your investment performance.

- If you ever run into problems when investing—or, more importantly, if you are able to spot potential problems before they happen—you can begin by filing a complaint with the Securities and Exchange Commission or the National Association of Securities Dealers.

Turning one-time winnings into a safe investment

Royce was a champion grass dancer at age 26 and competed in several powwows last summer. He placed first two times and second two times for a total of $4,600 for his competition earnings that summer. Wondering what the best thing was to do with his earnings, Royce decided to make several investments. He needed new moccasins and reinvested $300 back into his dance outfit. He then decided to start an investment portfolio and also start saving for next year's powwow season. Once Royce made his plan, he talked to a tribal council member who recommended an investment firm with a branch that was in the same state as his reservation. After several discussions with an advisor at the firm, Royce decided to buy a 26 week Treasury Bill for $2,955 with a face value of $3,000, put $1,000 in a 6-month CD, and $800 into a savings account that earned 2.9% interest. Now he can monitor his new investments and still have some easily accessible savings to pay for occasional dancing costs.

Asset building in Native communities

What is asset building? Asset building is defined as accumulated resources that are invested for social and economic development. The investments can be in people, relationships, or financial accounts, or can also be in things like education, homeownership, and starting a small business.

Assets are things that can increase in value over time, can help you and your family over the long term, and can help you build equity. If you buy a home today, in 10 years you probably will have built up value in that home. If you start a small business today, and the business does well, in five years you will own an asset that has increased in value. If you invest your money in a Certificate of Deposit, mutual fund, or retirement account, you are building assets that will help you in the future.

First Nations Development Institute focuses on asset building in Native communities because:

- Assets are the building blocks of wealth.
- From assets, people derive income, jobs, and other benefits.
- A major difference between rich and poor people is their ownership and control of assets.
- Tribes and Native people own substantial assets (e.g., land, natural resources, trust funds) but because they do not control them, they do not derive the most benefit.

By learning to invest your money, you are learning to manage your financial assets responsibly, and in a way that should help you and your family far into the future. For more information about asset building in Native communities, please visit www.firstnations.org.

Community development through asset building

Native communities can benefit from the investment decisions you or your family make. For example, when you are able to buy a house and save money to maintain it, you can choose later to sell it or pass it on to other family members. This benefits the community as you, the community member, share this investment and keep it within your family. Your family members are also stakeholders in the community. The money generated by the house is circulated through the community in terms of individual family inheritance and real estate ownership. If a person is not able to keep up with house payments, or finds that repairing the house is too costly, then he or she may abandon the house or allow it to become dilapidated. This does not benefit the community and can reduce the value of other real estate in the area. But the impact to the community is not just about money. It is about strengthening the community by committing to the investment over time. If you manage your resources well, save, and invest, you are contributing to the community as a whole.

Design your own investment strategy

Now think about what you have learned from this workbook and from Jennifer and Kyle, and begin to apply what you have learned. Use the following worksheets to design your own investment strategy, and think about some of the opportunities and pitfalls you may encounter along the way.

Exercise: Creating your own investment plan

Now that you have learned about many different options you have for investing, you need to come up with a personal investment plan. This exercise will walk you through the steps of coming up with your own investment plan.

Think back to Session 1 where we talked about identifying your investment goals. Think through the following questions:

1. Why are you investing? (Check all that apply.)
   - ❏ retirement
   - ❏ growth
   - ❏ child's college education
   - ❏ to buy a home
   - ❏ other (describe)____

2. What is your risk tolerance?
   - ❏ low
   - ❏ medium
   - ❏ high

3. How long do you want to invest?
   - ❏ less than five years
   - ❏ 5-10 years
   - ❏ 10-20 years
   - ❏ over 20 years
   - ❏ it depends on my investment goal

4. Where is the money coming from to invest? (Check all that apply.)
   - ❏ savings (lump sum)
   - ❏ tribal dividend/per capita payment (lump sum)
   - ❏ monthly payments into my investment account—how much per month? ______
   - ❏ my employer is putting an amount into my retirement

Now that you have identified some of the information you need to make a decision about investing, think through the following questions:

5. What are you interested in investing in—where do you plan to put your investments? (Check all that apply.)
   ❏ bank accounts/savings accounts?
   ❏ individual stock(s)
   ❏ individual bonds
   ❏ T bills
   ❏ mutual funds
   ❏ other ______________________________

6. What is your preferred asset allocation? (What percent of your investment will go in each?)
   ______% bank accounts/savings accounts?
   ______% individual stock(s)
   ______% individual bonds
   ______% T bills
   ______% mutual funds
   ______% other ______________________________
   ______% TOTAL (Check to see if you percentages add up to 100%.)

   Why did you choose this asset allocation?

   ____
   ____
   ____
   ____

7. Do you want a social screen for your investments?
   ❏ yes
   ❏ no
   What would you consider in your social screen? What is important to you?

   ____
   ____
   ____
   ____
   ____

Exercise: Investing throughout life

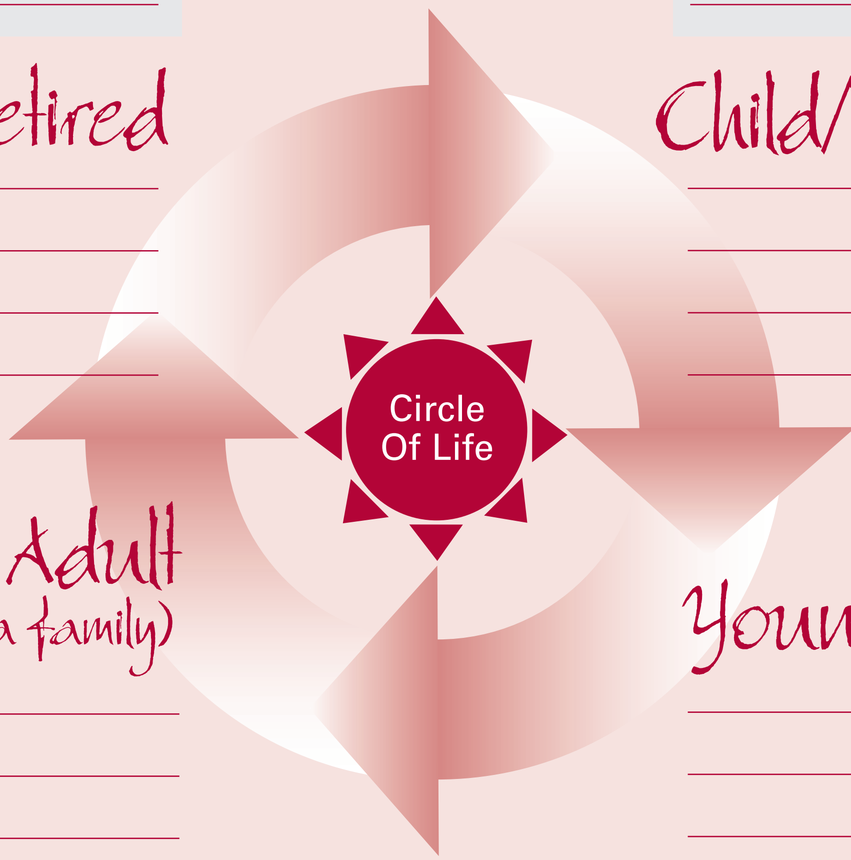
Let's return to the Circle of Life. Go back to Session 1 and look at what you listed as goals throughout the different stages of life. Fill in those goals below. Now that you know the basics about investing, fill in what types of investments would be appropriate for each stage of life.

Types of investments at this stage of life:

Types of investments at this stage of life:

Retired

Child/Teenager



Adult
(with a family)

Young Adult

Types of investments at this stage of life:

Types of investments at this stage of life:

Now list some of the resources available to you that will help you make these investments throughout your life:

____

____

____

____

____

____

____

Investment principles

Four key investment principles that you should consider when developing an investment strategy are:

Planning .... **You need to make a plan for how you intend to accomplish your goals, and follow that plan.**

Discipline .... **You need to be disciplined about saving money and putting money into your investment account.**

Patience .... **It is important to invest for the long term—to be patient, and stay in the market so you can see the full return on your investment.**

Diversification through asset allocation .... **You need to decide how you want to allocate your money —what percent you will put in stocks, bonds, savings accounts, CDs, etc. to make sure your portfolio is diversified. This helps reduce your risk.**

Resources for investing

As you start designing your investment plan, you may want to use some resources that are available on the Internet and in books. Below is a list of these resources.

Online investing resources

Here are several sources of additional investing information that can be found on the Internet. There are many others, but this will get you started. We do not endorse any of these, but want to make you aware of this sampling.

NASD has a Web site (www.nasd.com) that provides a great deal of investor information. Click on the Investor Information link, and you will find tools to help you learn about the professional background, registration/license status, and disciplinary history of the firm and the brokers with whom you're planning to do business. There are also other useful resources like investor alerts, a mutual fund expense analyzer, a variety of learning centers, and an investor complaint center. The U.S. Securities and Exchange Commission (known as the SEC) also has a Web site (www.sec.gov) that has many useful resources for both novice and advanced investors.

For more curriculum material on financial planning, please visit “Session 2: Developing a Spending Plan,” in *Building Native Communities: Financial Skills for Families*, second edition, available from First Nations Development Institute at www.firstnations.org.

MSN’s Money Central is an excellent Web site with information on mutual funds, stocks, bonds, exchange-traded funds, and other investments. This provides a great deal of fundamental information to help evaluate particular investments. Go to http://moneycentral.msn.com/home.asp.

The Bond Market Foundation launched www.tomorrowsmoney.org, a Web site designed specifically to help people—particularly women and young people—learn about saving and investing. A Spanish language version, www.ahorrando.org, is also available.

Online glossaries include:

- Yahoo Financial Glossary, http://biz.yahoo.com/f/g/.
- NASD Glossary, www.nasd.com and go to Investor Information on the top right.
- Investopedia, www.investopedia.com/dictionary/.
- InvestorWords is a glossary that contains over 6,000 terms, with links between related terms, www.investorwords.com.
- Investionary, www.investionary.com.

Books and newsletters

- *Investing for Dummies* and *Personal Finance for Dummies*, both by Eric Tyson.
- *The Motley Fool Investment Guide: How The Fool Beats Wall Streets Wise Men and How You Can Too*, by David Gardner & Tom Gardner.
- *One Up On Wall Street: How To Use What You Already Know to Make Money in the Market*, by Peter Lynch, John Rothchild.
- *Wealth Equation*, by Peter J. Tanous et. al.
- *Wall Street Journal Guide to Understanding Money and Investing*, by Kenneth M. Morris.
- *Money Adviser* is a monthly newsletter published by Consumer Reports, an objective and highly regarded consumer information organization.

Resources for Socially Responsible Investing

- The Social Investment Forum is the main industry group for investors, service providers, and others interested in SRI. There are regional SRI groups in several major cities around the country, as well as other related groups. There are also newsletters and research organizations. The best starting place is www.socialinvest.org.
- The Green Money Journal (www.greenmoneyjournal.com) is a good place to find news and opinion about SRI, as well as ranking and information about SRI mutual funds.
- For information on community investing, visit www.communityinvest.org.
- For more information about investing with community development projects, visit www.crafund.com.
- Another useful Web site is www.SocialFunds.com, which contains information on SRI mutual funds.
- Co-op America (www.coopamerica.org) provides information on their Web page about social investing, and they offer a financial planning handbook.

- The Interfaith Center on Corporate Responsibility (ICCR) is a coalition of religious and other investors using proxy resolutions to pressure corporations to change their behavior and engage in alternative investing. Many members of ICCR have invested in credit unions, banks, and loan funds in Indian Country. Visit www.iccr.org.

Conclusion

Congratulations! You have completed this workbook and learned about all the resources you have available to you as you design your investment strategy. Investing is putting your time or money into something with the hope of getting something greater in return. Investing is also about taking care of the resources you have and ensuring a better future for you and your family and others who rely on you. You are now better prepared to manage your resources and invest in the future of your family, your community, and your nation.

Glossary

Accrue means to add up, or to accumulate. In the world of finance, accrual refers to money adding up, especially interest.

Annual percentage yield refers to the amount of interest that invested money earns, including compounded interest.

An **annuity** provides a series of fixed payments paid at regular intervals over a specified period. In the case of a retirement account, the fixed payments are provided after retirement age is reached and a specified amount of investment has been made into the annuity.

Asset allocation is the term used to describe diversification of investments between stocks, bonds, bank accounts, and other investments.

A **broker** is a person or entity working as an agent between investors in the sale of securities.

Brokerage firms are made up of people or entities working as an agent between investors in the sale of securities.

Capital gain is the profit earned when an asset is sold for a higher price than the purchase price. You pay taxes on capital gains.

CD stands for certificate of deposit. CDs are fixed amounts of money deposited with financial institutions for a certain amount of time. A CD has a fixed interest rate that depends on the amount of money deposited and the length of time the money is left in the financial institution.

Commission is the fee charged by a broker or agent for negotiating or handling a stock, real estate, loan, or similar transaction.

Compound interest refers to the interest earned on principal plus the interest that has already been earned on that principal. Over time, compounding can be very powerful.

Consumer Price Index (CPI) is an index of the cost of living commonly used to measure inflation. It is a measure of the average change in consumer prices over time in a fixed market basket of goods and services.

Consumer Price Index for all Urban Consumers (CPI-U) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services. It is a way of tracking the inflation rate.

Default is failure to pay interest and, when due, the principal on an investment, such as a loan or bond.

A **defined benefit plan** is an employer-sponsored retirement plan for which retirement benefits are based on a formula indicating the exact benefit that one can expect upon retiring. Investment risk and portfolio management are managed by the company, not the individual. There are restrictions on when and how you can withdraw funds without penalties.

Distribution refers to the money paid out from an investment, such as interest or dividends.

Dividends are a portion of company profits given back to stockholders (investors who own the stock) and are often paid to stockholders quarterly. Dividends are usually in cash, but can be paid in stock.

EE Bonds (formerly E Bonds) are a type of savings bonds with special advantages when used to pay higher education expenses.

Fixed is a word to describe something that cannot be changed. A fixed interest rate or a fixed maturity date cannot be changed, once set.

An **index** is a statistical measure of change in a securities market. You can measure the performance of your portfolio against indexes like the Dow Jones Industrial or S&P 500 to evaluate how your investments are performing.

Index funds are a type of mutual fund that attempt to match the performance of a specified stock or bond market index by purchasing some or all of the securities that comprise the index.

Inflation is the increase in the general price of goods and services, such as housing, food, taxes, and so on. The consumer price index (CPI) measures inflation.

An **initial public offering (IPO)** is the first time that company sells stock to the general public.

Interest is the amount that is agreed to be paid for the use of an amount of money (see principal, below). Interest is usually expressed as a percentage of the principal. For example, the bank may give you 2% interest on your principal of $100 that you have in your savings account. Over the course of a year, you will earn $2 in interest on your $100 deposit (that is, if you leave the $100 in the savings account all year).

Investment grade is a term used to describe bonds worthy of purchase by investors who do not want to take big risks.

Large cap stocks have a relatively large market capitalization (in other words, are stocks of relatively large companies).

Liquidity is how easily an asset (such as a savings bond or a home) can be converted into cash.

Load is the word used for the sales charge attached to some mutual funds.

The **market** refers to people coming together to buy and sell investments such as stocks and bonds.

Match refers to the amount or proportion of money that another party (for example, your employer) will contribute to an account that you also contribute to. For example, your employer may provide a "1 to 1" match in a retirement account. For every dollar you contribute, your employer contributes a dollar.

Maturity is the date when the balance of a loan, bond, or other security becomes due and payment is required.

A **money market account** is a type of interest-earning savings account offered by a FDIC-insured financial institution and with limited transaction privileges.

Payroll deduction, or automatic deduction, allows an employer to deduct money from an employee's pay and invest it in a retirement account. This reduces the employee's taxable income.

A **pension fund** is established by an employer to manage the investment of employees' retirement funds (contributed by both the employer and employees). The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and begin retirement.

A **portfolio** is the collection or group of financial assets held by an individual or a bank or other financial institution.

Principal is the amount of money you invest to make money. For example, if you deposit $100 in a savings account in the bank, that deposit is your principal. You are "loaning" the bank $100 when you put your money in the bank.

Principle, ending with "le" refers to your ethics or values. It's not to be confused with principal ("al"), which is the initial amount of money you put into an investment.

Proxy resolutions are a way for shareholders to call on a company's management to do certain things.

Real rate of return is simply an investment's annual return adjusted for inflation.

Return is the profit earned on an investment. The $2 you earned in interest on your $100 deposit is known as your return. But be aware that returns (except in insured bank accounts) are not guaranteed. Return can be negative if there is a loss.

Screened investments is a type of "socially responsible" investments. These funds have "screened out" investments with socially and environmentally damaging impacts.

Secondary markets are where most securities trading occurs; the secondary market is the one in which securities are traded after they've already been bought at the "initial offering" (sold by the corporation) in the primary market.

Security is a general term for investments, such as stocks or bonds.

Self-directed refers to an investment account in which the investor is responsible for deciding where the funds will be invested.

Small cap stocks are stocks with a relatively small market capitalization (in other words, are stocks of relatively small companies).

Stock is one equal share of a corporation's assets and profit.

A **stockbroker** is an agent that charges a fee or commission for executing buy and sell orders submitted by an investor, or the firm that acts as an agent for a customer, charging the customer a fee for its services. Also referred to as a **broker**.

Stock market refers to the "place" where stockbrokers buy, sell, and trade securities. Stockholders are investors who own the stock in a company. Stockholders are also often referred to as shareholders.

Tax deferred means taxes will be paid on something, like a retirement account, at a later date.

Term refers to a period of time. You might take out a home mortgage on a 15-year term or on a 30-year term. (Note that this differs from "terms," which usually refers to the conditions set in a loan agreement.)

TIPS are Treasury Inflation Protected Securities. They are a type of security that protect your investment against inflation.

Treasury Securities are debt obligations of the U.S. government.

Vesting is the process by which employees accrue rights over employer contributions that are made to the employee's qualified retirement plan account.

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Answers

Exercise: Calculating your annual interest (from page 33)

Congratulations! You've just deposited $2,000 in a money market account. The annual interest on this account is 2%. How much money will you earn in interest this year?

Amount deposited ($2,000) x interest rate (2%, or .02) is also written as:

2,000 x .02 = 40

Interest earned = $40

Let's try it again. You'll do it this time. You've deposited $1,000 into a savings account. The annual interest on this account is 2% a year. How much money will you earn in interest this year?

1,000 x .02 = $20

Let's do it one last time. You've deposited $2,000 in a money market account with an annual interest rate of 2.5% a year. (Hint: 2.5% is also expressed as .025)

2,000 x .025 = $50

Exercise: Choosing an account that's right for you (from page 37)

You've saved $500 toward your financial goal, but it's just sitting there in your checking account. How do you want to invest the money? Fill in the blanks below.

My financial goal: ______________________

	Rewards	Risks
Checking	No principal risk (up to $100,000)	Often no interest
	immediate access to funds	Fees
Savings	No principal risk (up to $100,000)	Minimum balances
	Ability to withdraw funds easily	Fees
	Small amount of interest	
Money market	No principal risk (up to $100,000)	Can only withdraw funds a few times a month
	Liquidity	(Lower liquidity than savings)
	Higher interest than savings	Minimum balances
CD	No principal risk (up to $100,000)	Limited ability to withdraw funds
	Higher interest than savings or money market	

What type of account would you choose for your $500 investment? Why?

A money market – it offers a higher rate of interest than a savings account. Also can access it fairly easily (liquidity).

Exercise: The power of compound interest (from page 38)

Let's go back to that $500 you've saved to invest. You've decided to put it into a CD that earns 3.5 APY. How much will that $500 grow in five years if it is compounded annually?

Year 1	$500 (principal)	x	.035 (interest)	=	$17.50	+	$500 (principal)	=	$517.50
Year 2	$517.50 (new principal)	x	.035 (interest)	=	$18.11	+	$517.50 (principal)	=	$535.61
Year 3	$535.61 (new principal)	x	.035 (interest)	=	$18.75	+	$535.61 (principal)	=	$554.36
Year 4	$554.36 (new principal)	x	.035 (interest)	=	$19.40	+	$554.36 (principal)	=	$573.76
Year 5	$573.76 (new principal)	x	.035 (interest)	=	$20.08	+	$573.76 (principal)	=	$593.84

Total principal at the end of Year 5 = $593.84

Exercise: Returns over time (from page 41)

Use the chart on page 40 to answer these questions.

1. If you invest $100 for 20 years and get a 7% return on your investment, how much would it be worth?

   $386.97

2. If you invest $100 for 30 years and get a 9% return on your investment, how much would it be worth?

   $1,326.77

Exercise: Compound interest (from page 43)

Use the above chart to answer these questions.

1. If you invest $100 a month for 20 years and get a 7% return on your investment, how much would it be worth?

   $51,538.15

2. If you invest $100 a month for 30 years and get a 8% return on your investment, how much would it be worth?

   $146,477.45

Exercise: Real rate of return (from page 47)

1. Let's say you invested $5,000 in your savings account five years ago. It has an annual percentage yield of 2.5%. However, inflation has averaged 3% a year over the same time period. What is your real rate of return per year on your savings account?

   Your real rate of return is 2.5% - 3.0%, which equals -.05% per year. In fact, you have a negative real rate of return. Because of inflation, your money is worth less (has less buying power) than five years ago.

2. If you invested $10,000 in a 48 month CD that has an annual percentage yield of 3.59%, and inflation averaged 2.95% a year over that time, what is your real rate of return per year on your investment?

   Your real rate of return is 3.59%-2.95% which equals .64% per year.

Exercise: What is the impact of inflation? (from page 48)

If average inflation Is:	$100 today would be worth this much in: 5 years	10 years	15 years	20 years	25 years	30 years
1%	$95	$90	$86	$82	$78	$74
2%	$90	$82	$74	$67	$60	$55
3%	$86	$74	$63	$54	$47	$40
4%	$82	$66	$54	$44	$36	$29
5%	$77	$60	$46	$36	$28	$21

1. If inflation is 3%, how much is $100 worth in 20 years?

   $54

2. If inflation is 4%, how much is $100 worth in 25 years?

   $36

Exercise: Saving for retirement (from page 56)

How much money could a person have at age 65 if he or she begins investing $2,000 each year at age 24, an average annual return of 10% is achieved, and returns are compounded annually and tax-deferred, as in a 401(k) or IRA? Choose one of these:

- ❑ A. $402,276
- ❑ B. $660,079
- ☑ C. $1,075,274

Exercise: Jennifer's match (from page 62)

Jennifer's 401(k) is all set up now. She is contributing $150 per month into her retirement account, and her employer, the tribe, is matching that amount.

How much money will she have invested into her account at the end of 12 months?

	Jennifer's investment	Employer match
Month 1	$150.00	$150.00
Month 2	$150.00	$150.00
Month 3	$150.00	$150.00
Month 4	$150.00	$150.00
Month 5	$150.00	$150.00
Month 6	$150.00	$150.00
Month 7	$150.00	$150.00
Month 8	$150.00	$150.00
Month 9	$150.00	$150.00
Month 10	$150.00	$150.00
Month 11	$150.00	$150.00
Month 12	$150.00	$150.00
Total	$1,800.00	$1,800.00
Grand Total	$3,600.00	

Exercise: Watch your account balance grow (from page 66)

Using the above chart, answer the following questions:

1. If you save $40 per week for 20 years, how much will your account be worth?

   $90,294

2. If you save $10 per week for 40 years, how much will your account be worth?

   $113,742

Questions about Famous Dave's (from page 75):

1. **Does this company have a good future?**

   Yes, it looks that way.

2. **Is this company growing?**

   Yes.

3. **Is it well managed?**

   Yes, it looks that way. May need to do more research to be sure.

4. **Does it have a strong product line?**

   Yes.

5. **Would you invest in Famous Dave's Restaurant? Why or Why not?**

   Yes, but I would do a little more research to see how the stock has been trading.

Exercise: Reading the stock quotes in the newspaper (from page 83)

1. What is the highest price the stock traded for that day?

   $27.17

2. Did this stock go up or down since the last newspaper listing? By how much?

   Up 25¢

Exercise: How stocks perform in the long run (from page 88)

1. If you bought shares in an S & P 500 index fund in 1980, and sold these shares in 2001, would you have made money __✓__ or lost money ______?

2. If you bought shares in a S & P 500 index fund in 2000, and sold these shares in 2003, would you have made money ______ or lost money __✓__?

Exercise: Reviewing U.S. Treasury securities (from page 118)

Jennifer has saved $1,000 since putting her money into a savings account. She knows she can earn more money in interest if she invests in a U.S. Treasury security. She is still saving money to someday open her quilting business. She doesn't know the exact timeline for opening her business, but she hopes it will be in about five years.

Review the comparison chart of U.S. Treasury securities and then answer the questions below.

1. Which types of securities should Jennifer avoid? Why?

   Jennifer should avoid any Treasury security with a maturity of more than five years since she will need the money to start her business which she plans to do in that time.

2. Which types of securities should Jennifer seriously consider? Why?

   Jennifer should consider a 5-year Treasury note, TIPS, or an I Bond. Each is liquid in five years without penalty.

Exercise: Kenny gets his youth fund payment (from page 148)

Kenny just turned 18, and as a member of the Ceeherok tribe[1] he is eligible for a Youth Fund payment of $35,000. His tribe has a successful oil and gas business, and their casino has been earning a lot of money as well. The tribe has set aside money from their businesses in a Youth Fund, and invested this fund in the stock market, and the fund has done very well the last few years. Every tribal member receives a youth fund payment upon their 18th birthday, as long as they finish high school.

Kenny has been dreaming about buying a new Ford Expedition SUV, and he has also had his eye on a big screen TV. The day after he receives his check, he heads over to the Ford dealer in the next county and pays cash for his truck. He also drives to the closest city and purchases a big screen TV, one that barely fits in his SUV that he uses to get it home.

Fast forward three years: Kenny got into an accident on the Interstate last year, but fortunately he walked away with only a few bruises. He didn't have money to fix his car though, and didn't have insurance, and his car was totaled. He is now hitching a ride with his sister to get to work. He is thinking about going to college, and has made an appointment to talk to the tribe's education counselor about tribal college scholarships.

Questions:

1. What do you think about how Kenny spent his Youth Fund payment? Would you do the same? Why or why not?

   Kenny should have saved and/or invested a portion of his Youth Fund payment. He also would have benefitted from having proper insurance on his SUV.

2. If Kenny had invested $20,000 of his $35,000 Youth Fund payment, and got a 6% annual percentage yield, how much would it have been worth ten years later? (Use the chart on page 40, session 2).

   $35,816

[1]This is a fictional name for a tribe.

About this Workbook

Investing for the Future is part of the ongoing efforts of First Nations Development Institute to recognize and develop the assets, talents and abilities of people in Indian Country. This project is supported by the NASD Investor Education Foundation, and written primarily by Gelvin Stevenson. The advisory board, listed at the beginning, was extremely helpful and supportive throughout. Sarah Dewees, Director of Research at First Nations, had overall project responsibility.

First Nations Development Institute

Through a three-pronged strategy of education, advocacy, and capitalization, First Nations Development Institute is working to restore Native control and culturally-compatible stewardship of the assets they own—be they land, human potential, cultural heritage, or natural resources—and to establish new assets for ensuring the long-term vitality of Native communities. 2005 marked First Nations Development Institute's 25th Anniversary. Visit www.firstnations.org for more information.

NASD Investor Education Foundation

The NASD Investor Education Foundation's mission is to provide investors with high-quality, easily accessible information and tools to better understand investing and the markets. The Foundation was established in December 2003 in response to both the current environment in the markets and a survey conducted by NASD that showed that investors still have a number of fundamental questions and misunderstandings about important investment issues. The Foundation awards grants to fund educational programs and research aimed at segments of the investing public who could benefit from additional resources. For more information, visit www.nasdfoundation.org.

About the author

Gelvin Stevenson is Western Cherokee. He has a Ph.D. in economics, has been a business and financial writer at Business Week and elsewhere, worked as a stock-broker for a brief interlude, and served as Director of Investment Responsibility for the New York City pension funds. He currently works mostly with renewable energy companies. Gelvin is on the board of directors of the First Nations Development Institute, the Cherokee National Historical Society, and the Environmental Research Foundation. Married with two grown children, he lives in New York City, where he teaches environmental economics, runs, and weaves string figures.

The Commemorative Quilt of the National Museum of the American Indian, 1997. This commemorative quilt was made by 20 Native artists in honor of the exhibit, "To Honor and Comfort: Native Quilting Traditions." The purchase of the quilt by the National Museum of the American Indian was made possible by a major grant from the Metropolitan Life Foundation. Native quilters from North America and Hawaii were asked to submit a block of their own design to this unique quilt. Ina McNeil (Hunkpapa Lakota) and Margot Cohen assembled and quilted the blocks.

Each row is numbered from left to right starting with the top left corner.

1. Paula White, Chippewa
2. Mary Bighorse, Osage
3. Ina McNeil, Hunkpapa Lakota
4. Margaret Wood, Navajo/Seminole
5. Anastasia Cooke Hoffman, Yup'ik
6. Gussie Bento, Native Hawaiian
7. Judy Toppings, Ojibwe
8. Share Bonaparte, Akwesasne Mohawk
9. Lula Red Cloud, Oglala Lakota
10. Conrad House, Dinéh/Oneida
11. Nancy Naranjo, Eastern Cherokee
12. Harriet Soong, Hawaiian
13. Shirley Grady, Mandan/Hidatsa/Sioux/Crow
14. J. Carole Stewart, Creek
15. Alice Olsen Williams, Anishinaabe
16. Rita Corbiere, Ojibwe
17. Marlene Sekaquatewa, Hopi
18. Ollie Napesni, Lakota Sioux
19. Virginia Osceola, Seminole
20. Bernyce (B.K.) Courtney, Wasco/Tlingit

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