

# Money 2000

## Dollar cost averaging: Investing through market ups and downs

The past year was painfully difficult for many investors. After several years of extraordinary gains, most markets experienced significant losses over the past 12 months.

If you are a fairly new investor, this may have been the first time you saw the value of your accounts actually go down from one quarter to the next.

Downturns in the market are a normal part of investing — and a reminder that investing is a long-term process. Generally, money you invest should be money you will not need for **at least 5 years**.

One strategy to deal with the ups and downs of the market is called **dollar cost averaging**. This is a systematic process of investing a fixed amount each month regardless of the price of the investment. As a result, you purchase more shares when the price is low, and fewer shares when the price is high.

### Example of dollar cost averaging, investing \$100 each month:

	Amount invested	Share price	Shares purchased	Total shares owned
Jan.	\$100	\$20.00	5.00	5.00
Feb.	100	22.00	4.54	9.54
March	100	21.00	4.76	14.30
April	100	18.00	5.55	19.85
May	100	16.50	6.06	25.91
June	100	18.00	5.55	31.46
July	100	20.00	5.00	36.46

Average cost per share = \$19.20

### Dollar cost averaging has two advantages:

- First, this strategy **reduces the average cost of your investment** over a period of time — increasing the likelihood of profit.
- Second, it **provides discipline to your investing**. By making regular monthly purchases, you are continuously adding to your position without having to worry about how the market is doing.

When you sign up to make monthly contributions to a retirement plan through your employer — 401(k), 403(b) or deferred compensation plan — you are using dollar cost averaging. You can also use this strategy by setting up an automatic investment plan with a mutual fund company.

**NEWS**

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**Dollar cost averaging:**

**Buying more shares when prices are low, fewer shares when prices are high.**



**Having an emergency fund is the foundation of financial security.**

## Emergency fund helps cushion unexpected expenses

Are you prepared to handle a financial emergency? A sudden layoff, a medical bill, car repair or other unexpected expense can cause serious financial stress without an emergency savings fund.

Most financial experts recommend having enough savings to cover 2 to 3 months living expenses. This can also cover deductibles on car or health insurance.

**Without an emergency fund**, many people turn to credit cards to help them through a financial emergency. But using credit cards to supplement your income can create a vicious cycle of more debt and no savings.

Likewise, borrowing from your 401(k) or other employer-sponsored retirement plan can lead to problems. If you lose your job or leave before you repay the loan, it is considered a distribution. You will pay a 10 percent penalty plus taxes on the amount borrowed.

**Having an emergency fund** is the foundation of financial security. But where do you park this cash reserve?

The typical savings account pays a meager 1 to 2 percent interest.

Certificates of deposit offer higher interest rates, but tie up your money for a fixed period. If you need your money sooner, you forfeit all or part of your interest as an early withdrawal penalty.

**Money market deposit accounts** at your financial institution offer higher rates, but usually require a \$10,000 balance for the best rate.

**Money market mutual funds** generally have a \$1,000 required minimum, but with careful shopping you can find funds with lower minimums. While not federally insured, money market mutual funds are considered quite safe because they invest in short-term debt securities.

Find more information about selecting a money market mutual fund, check for funds with lower required minimums, and compare current rates at:

[www.ibcdata.com/mfs/index.htm](http://www.ibcdata.com/mfs/index.htm)

[www.imoney.net.com](http://www.imoney.net.com)

## Is your credit card balance going up?

If so, that means you are spending more than you are earning — a formula for financial distress down the road.

The average credit card debt for cardholders who carry a monthly balance is about \$3,000. At 18 percent interest, **that family must pay nearly \$300 a month to pay off those debts within a year.**

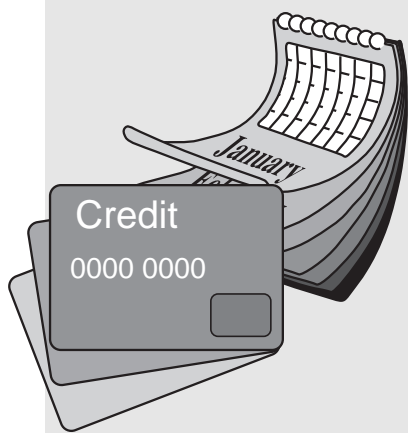
Paying \$100 a month, it takes nearly 3½ years — **plus \$1,000 in interest** — to pay them off.

Suppose that over a period of 5 years, a family gradually accumulates credit card debt of \$15,000 (at 18%). **That means**

**they've been spending \$3,000 more than they earned every year — that's \$250 more each month.**

At some point, they realize they've been overspending, so they stop using their credit cards. But they still have to pay the bills. After years of spending **more** than they earned, this family must now spend **much less** than they earn to get out of debt.

With payments of \$300 per month on those credit cards, it will take nearly **8 years to get out of debt.** They will spend nearly **\$13,000 in interest**, on top of the original \$15,000. By the time



# High-cost loans—danger zones

Not all loans or lenders are created equal. The cost of doing business with **non-traditional lenders** such as check cashing outlets, payday loan companies, rent-to-own stores, sub-prime lenders, title loan companies, pawn shops, and second mortgage companies can be high — even abusive.

For example, certain home equity lenders target elderly or low income homeowners with credit problems— and then take advantage of them by using deceptive practices.

If you borrow from an unscrupulous lender, especially one who offers you a high-cost loan based on the equity you have built up in your home, you are putting yourself in a danger zone. You could lose your home and your money.

## Specific lending practices to watch for:

- **Payday loans** generally charge fees that seem small. But when figured as the annual percentage interest rate (APR), the **\$40 you pay for the average \$200 two-week loan comes to 521 percent!**

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**Credit card debt**, *continued from page 2*  
they've paid off the bills, what they bought on credit will be worn out, used up or gone.

**If you are looking for a way to pay down your debt**, contact your county UW-Extension office and ask about "Power Pay." This free computer analysis will help you see how best to approach paying off loans — which to pay first, and how much you will gain by paying extra on your debts. You can also request companion publication *Using Power Payments to Pay Off Debt* B3709-4.

- **High loan-to-value home equity loans** — When you put up the equity in your home as collateral on a loan, it is important that you know your home would be at risk if you are ever unable to make the loan payments. It is particularly risky when the lender allows the loan to exceed the value of your home. What's more, when the loan amount exceeds the value of the home, the interest is no longer tax-deductible.
- **Advance fee loan scams** are advertised in newspapers or on the Internet, offering financial help. When consumers contact the toll-free number, they are asked to provide personal information, such as Social Security number, driver's license number, bank account number, employee number and pay stubs, on the promise that they will receive a loan.

Once the personal information is submitted, the consumer receives a call that he or she has been approved for a loan amount, usually \$5,000 to \$25,000. However, before the money can be deposited, the consumer is told to send a certified check or money order for several hundred to several thousand dollars.

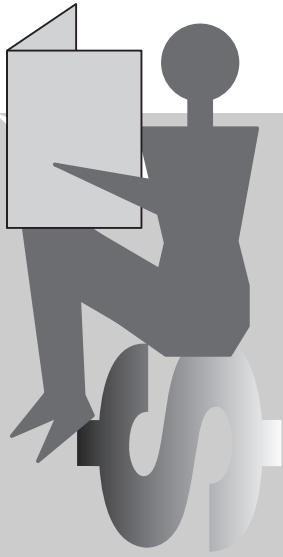
But the promised loan never arrives; the consumer is victim of a scam. Not only have they lost the money they sent, but they have also disclosed important personal information, putting them at risk of identity theft.

You will find more information at this

Web site:

[www.consumer.gov/ncpw/index.html](http://www.consumer.gov/ncpw/index.html)





**Internet access is available at many public libraries or other public places in your community.**

## Checked your credit report lately?

Even if you have an excellent credit history, there's always the possibility that inaccurate information could sneak onto your credit report. The January 2001 *Consumer Reports* quotes a 1999 study by PIRG (Public Interest Research Group), which showed **70 percent of credit reports contain at least one mistake.**

Reviewing your credit report annually and correcting any errors protects you against problems caused by mistakes or fraud.

To obtain a copy of your credit report, contact one of these three national credit reporting agencies. This copy may be free; at most, it will cost \$8.50.

Equifax: (800) 685-1111

Experian: (888) 397-3742

**www.experian.com** — Select United States and order your credit report.

TransUnion: (800) 916-8800

Check your report:

- Several months before seeking a loan.
- Several times after losing your wallet.

For more information, ask your county UW-Extension office for the publication *Your Credit Report* NCR-606-3

(also in Spanish), or call toll-free: (877) WIS-PUBS

*Money 2000 and Beyond*

**www.uwex.edu/ces/money2000**

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