



Wealth Management 101 New Year's Resolution

Before we start the tedious task of listing our New Year's Resolution, imagine the following scenarios and answer the corresponding questions. No need to drag out the calculator or break out a pencil and paper, this exercise is designed to get you thinking.

"Suppose you owe \$1,000 on your credit card and the interest rate is 20% per year compounded annually. If you didn't pay anything off at this interest rate, how many years would it take for the amount you owe to double?"*

"Imagine you owe \$3,000 on your credit card. You pay a minimum payment of \$30 each month. At an Annual Percentage Rate of 12% (1% per month), how many years would it take to eliminate your credit card debt if you made no additional charges?"*

This is the time of year when we all make resolutions to stop smoking, stop overeating, lose weight, and to eliminate any number of other bad habits we all have acquired through life. Most of us will not keep our proposed resolutions! Instead of falling back into our comfortable bad habits by mid-January, let us all commit to putting our own financial house in order, and really do it. Just think what it would do to the economy if everyone committed to saving more, paying all bills on time, and teaching our children the importance of building wealth.

One thing we learned from the Great Recession of 2008/2009 is that unlike the Universe, the economy does not constantly expand. Wall Street may have been the starting point, but consumer lack of financial literacy and inadequate financial planning contributed to the greatest financial disaster that the United States has experienced since the Great Depression. This is why our New Year's Resolution to get our financial houses in order is so important.

The answer to the first scenario above is that your debt would double in less than 5 years. The answer to the second question is NEVER; you are only paying interest and will never repay the debt! These two questions involve basic interest calculations, however less than 36% out of a sample of 1,000 individuals got the right answers. The real shocker is the group with the lowest score; people older than 65. Knowing the fundamental concepts related to debt is as important as understanding the fundamentals of your retirement plan. If you got the answer(s) wrong and would like additional free professional, confidential money management information and counseling, go to the BALANCE web site at www.balancepro.net or call **888.456.2227**. BALANCE is a financial education resource Main Street Financial FCU provides to you, our members, for free.

If you need help with any of your wealth building plans remember that your Credit Union, Main Street Financial, is here to help you achieve your dreams. Stop in or call today to visit with one of our wealth professionals. Visit www.msfinancialfcu.org for branch locations and hours of operation.

*"Debt Literacy, Financial Experiences, and Overindebtedness" by Annamaria Lusardi – Dartmouth College & NBER and Peter Tufano – Harvard Business School & NBR.

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