



PERSONAL FINANCE

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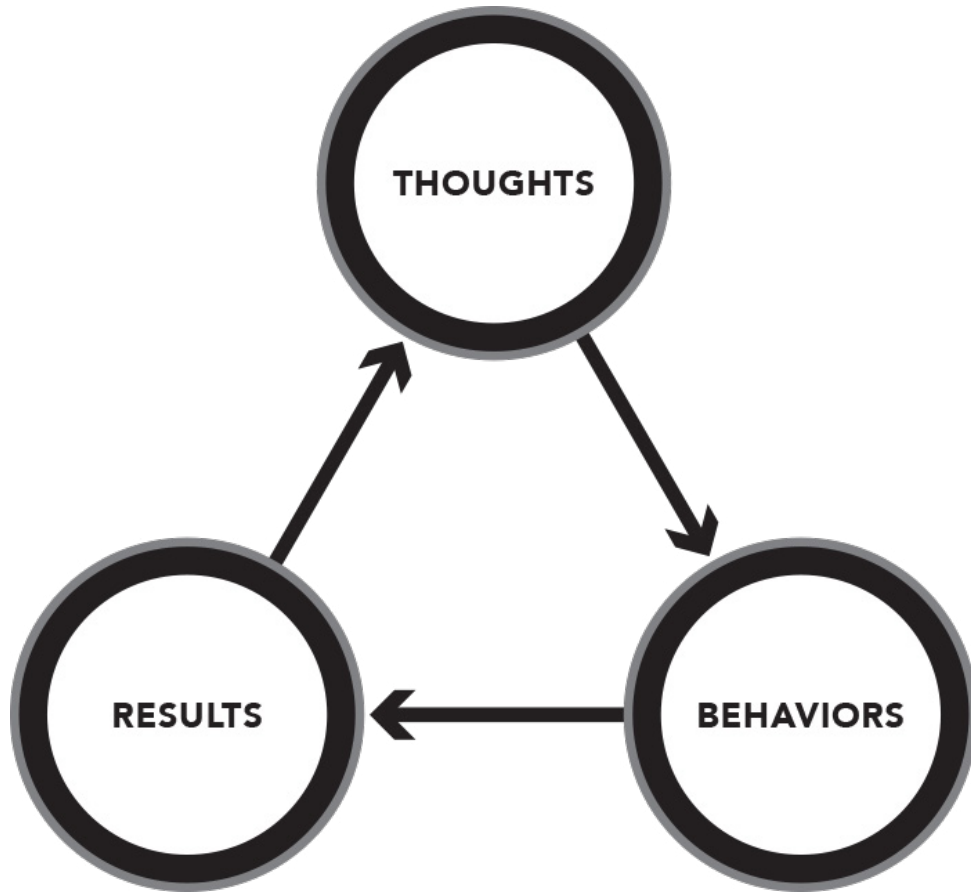
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INTRODUCTION

fig. 1



CHAPTER 1

Believe

fig. 2

LIFE MILESTONE	AM Average Mindset	BWM Building Wealth Mindset
Earning an income	This is what my profession makes.	I'll negotiate, improve my skills, and demonstrate true value.
Buying a car	I'll research a few new, mid-priced cars to see which features I want, and then I'll lease or finance one.	I'll purchase a used vehicle that can get me from place to place. I'll only finance my purchase at a low interest rate.
Buying a home	I'll purchase the home I want at the maximum of what a bank will lend to me.	I'll purchase less than I can afford, so I have money for other endeavors.
Getting married	I guess this is what weddings cost.	I'll creatively celebrate this milestone on a budget.
Having kids	My kids need a lot. They need clothes. They need activities. They need camps. I need childcare. There's nothing I can do about it. Kids are expensive.	There are trade-offs between all the things I want for my children. I will evaluate what will best serve our family within the confines of our income.
Funding retirement	I'll save a bit and the state will take care of the rest.	I'll save what I need and not rely on others to provide for me.

fig. 3

CIRCUMSTANCE		THOUGHTS	FEELINGS
HAVING A BUDGET	☺	A budget will help me know where my money goes and, in turn, will help me be more deliberate with my finances.	capable, organized
	☹	A budget is restrictive and makes me feel suffocated.	uncomfortable, deprived
SAVINGS	☺	I know if I try, I can save more money.	determined, excited
	☹	No matter what I do, I can't seem to save. I shouldn't bother at all.	worthless, helpless
POTENTIAL EARLY DEMISE	☺	While it's unlikely that I will die young, it's important for me to think about how much my family would need if I did.	prepared
	☹	That won't happen to me (and therefore I won't take action).	overwhelmed, fearful
POTENTIAL DISABILITY	☺	Disability is scary, but as with life insurance, I want to make sure my family and I are protected in case something happens.	secure
	☹	It's too expensive! That won't happen to me (therefore I won't take action).	angry, fearful
INVESTING	☺	Investing over a long period of time will help my savings grow and help me reach my financial goals.	confident
	☹	Markets are unreliable and therefore I'm better off staying in cash or trying to time them.	worried, anxious
DEBT	☺	I've racked up debt, but I want to make changes in my life and pay it off.	decisive
	☹	I've racked up debt and it's so much that I can't even think about it or deal with it.	regretful, hopeless

CIRCUMSTANCE		THOUGHTS	FEELINGS
BUSINESS OWNERSHIP	☺	I've always wanted to start my own business; I don't know how but I like a good challenge.	determined, powerful
	☹	I don't know how to start a business.	insecure, frustrated
TAXES	☺	Living in America is my choice, I like it here and therefore I pay my taxes (though I mitigate when possible).	content
	☹	I hate taxes so much, I make all my financial decisions around them.	threatened
FUTURE RETIREMENT	☺	Retirement seems far away, but planning for it now will give me flexibility and options later.	organized, resolute
	☹	Retirement is so far away, I don't need to plan now.	overwhelmed, uneasy
ESTATE PLANNING	☺	I want to protect my family. Working with a trusted attorney feels like the right thing to do.	able, supported
	☹	My family can deal with papers after I die.	anxious, avoidant

CHAPTER 3

Deliberate Saving and Spending

fig. 4

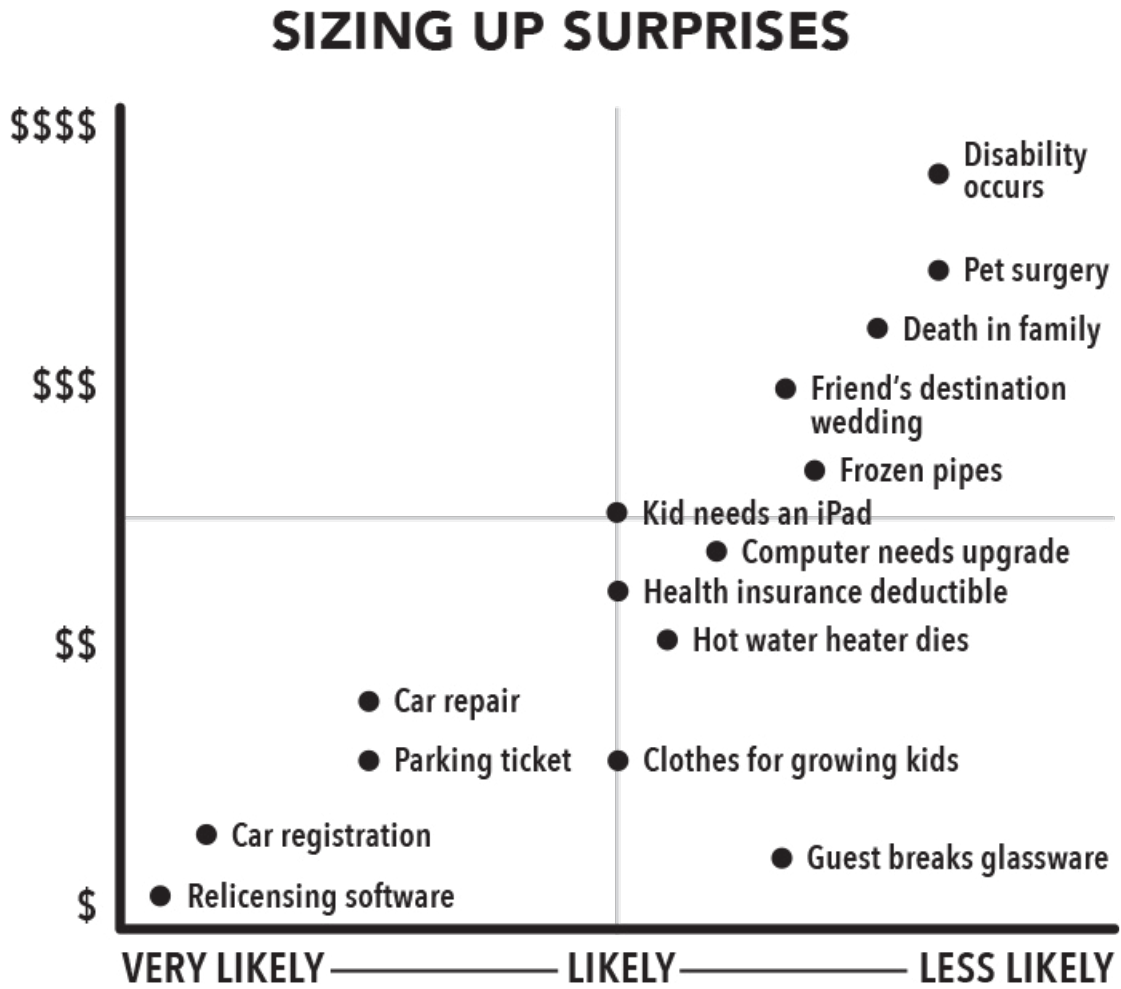


fig. 5

SPENDING		SAVINGS/DEBT REPAYMENT		UNEXPECTED EVENTS			
Rent	\$13,464.00	401(k) contribution	\$3,000.00	Unforeseen car trouble	\$580.00		
Utilities	\$812.00	Debt repayment	\$8,000.00	Surprise medical bill	\$705.00		
Cell phone	\$1,296.00			Wedding gift and travel	\$435.00		
Groceries	\$8,215.00			Cat ate a marble	\$365.00		
Car	\$3,180.00			Kids ruined the fence	\$1,000		
Insurance	\$538.00			New air conditioner	\$685.00		
Dining out	\$2,550.00			Last-minute concert tickets	\$230.00		
Clothing	\$1,140.00			Leftover savings	\$400.00		
Vacation	\$2,905.00						
Kids' activities	\$1,200.00						
Personal care	\$1,320.00						
Gym	\$480.00						
Housecleaner	\$1,400.00						
Gifts	\$1,000.00						
TOTAL	\$39,500			TOTAL	\$11,000	TOTAL	\$4,400

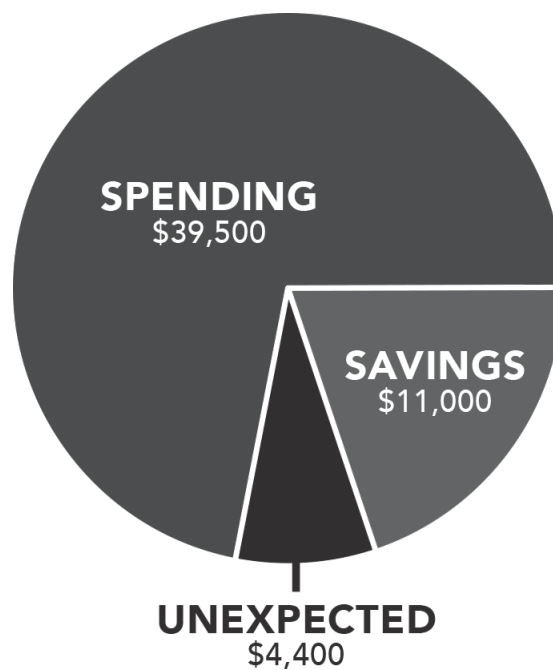


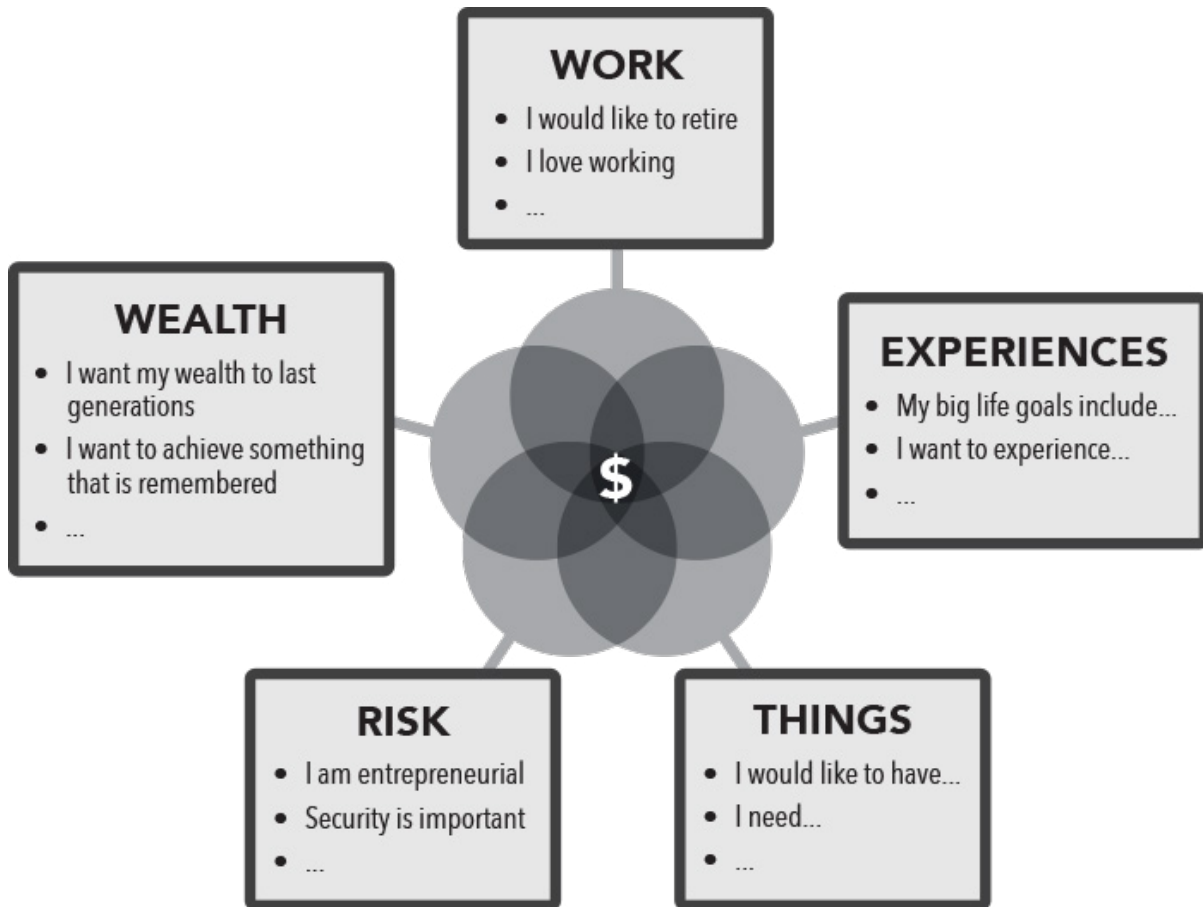
fig. 6

Cell phone	\$89/month
Internet	\$49/month
Spotify	\$15/month
Netflix	\$9/month
Hulu	\$6/month
PBS Kids	\$5/month
ESPN	\$5/month
Dollar Shave Club	\$3/month
Makeup subscription	\$12/month
Gym	\$42/month
<i>Wall Street Journal</i>	\$43/month
Wine club	\$35/month
TOTAL	\$313/mo or \$3,756/yr (nearly 7% of your after-tax income)

CHAPTER 4

The Basics of Wealth

fig. 7



CHAPTER 5

Net Worth: A Helpful Measure

fig. 8

STATEMENT OF NET WORTH WILLIAM AND ELIZABETH DARCY - JANUARY 1, 2020				
ASSETS				
NON-QUALIFIED ASSETS:	William	Elizabeth	Joint	Total
<i>Cash & Equivalents</i>				
William's Checking	\$3,334	--	--	\$3,334
William's Savings	\$17,435	--	--	\$17,435
Joint Checking Account	--	--	\$8,675	\$8,675
Elizabeth's Checking	--	\$1,708	--	\$1,708
Elizabeth's Savings	--	\$2,430	--	\$2,430
William's Business Account	\$18,483	--	--	\$18,483
<i>Taxable Investments</i>				
William's Trading Account	\$3,477	--	--	\$3,477
Joint Investment Account	--	--	\$175,678	\$175,678
Bitcoin			\$8,153	\$8,153
TOTAL NON-QUALIFIED ASSETS	\$42,729	\$4,138	\$192,506	\$239,373

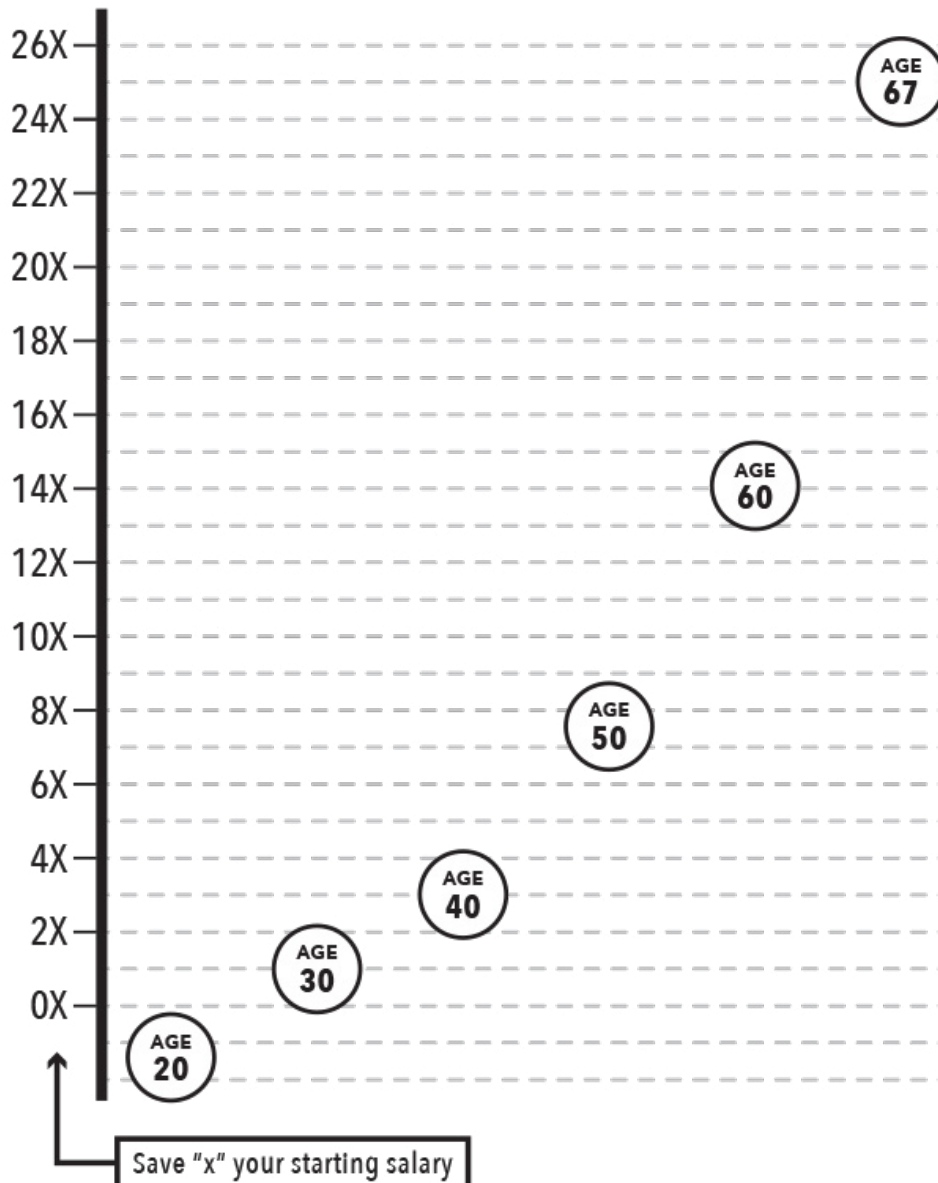
ASSETS (continued)				
RETIREMENT ASSETS:	William	Elizabeth	Joint	Total
<i>Qualified Retirement</i>				
William's 403b	\$252,988	--	--	\$252,988
William's 457 Plan	\$76,981	--	--	\$76,981
William's Solo 401(k)	\$38,752	--	--	\$38,752
Elizabeth's 401(k)	--	\$80,153	--	\$80,153
TOTAL RETIREMENT ASSETS	\$368,721	\$80,153	\$0	\$488,874
TOTAL LIQUID ASSETS	\$411,450	\$84,291	\$192,506	\$728,247
PERSONAL ASSETS:				
House			\$585,000	\$585,000
Honda		\$18,500		\$18,500
Audi	\$38,000			\$38,000
Elizabeth's Engagement Ring	--	--	\$15,000	\$15,000
TOTAL PERSONAL ASSETS	\$38,000	\$18,500	\$600,000	\$656,500
TOTAL ASSETS	\$449,450	\$102,791	\$792,506	\$1,384,747
LIABILITIES				
SHORT-TERM LIABILITIES:	William	Elizabeth	Joint	Total
William's AMEX	(\$3,867)	--	--	(\$3,867)
Elizabeth's Visa	--	(\$2,765)	--	(\$2,765)
TOTAL SHORT-TERM LIABILITIES	(\$3,867)	(\$2,765)	\$0	(\$6,632)
LONG-TERM LIABILITIES:				
William's Student Loans	(\$124,784)	--	--	(\$124,784)
Elizabeth's Student Loans	--	(\$38,765)	--	(\$38,765)
Honda Loan	--	(\$16,453)	--	(\$16,453)
Audi Loan	(\$36,759)	--	--	(\$36,759)
Home Mortgage	--	--	(\$465,000)	(\$465,000)
TOTAL LONG-TERM LIABILITIES	(\$161,543)	(\$55,218)	(\$465,000)	(\$681,761)
TOTAL LIABILITIES	(\$165,410)	(\$57,983)	(\$465,000)	(\$688,393)
NET WORTH	\$284,040	\$44,808	\$327,506	\$696,354

fig. 9

NET WORTH IN AMERICA	
HOUSEHOLD AGE RANGE	MEDIAN NET WORTH
Under 35 years	\$11,000
35 – 44 years	\$60,000
45 – 54 years	\$124,000
55 – 64 years	\$187,000
Retirement years	\$224,000

fig. 10

SAVINGS FACTORS TO HELP ON YOUR JOURNEY TO RETIREMENT



CHAPTER 6

Prepare to Invest

fig. 11

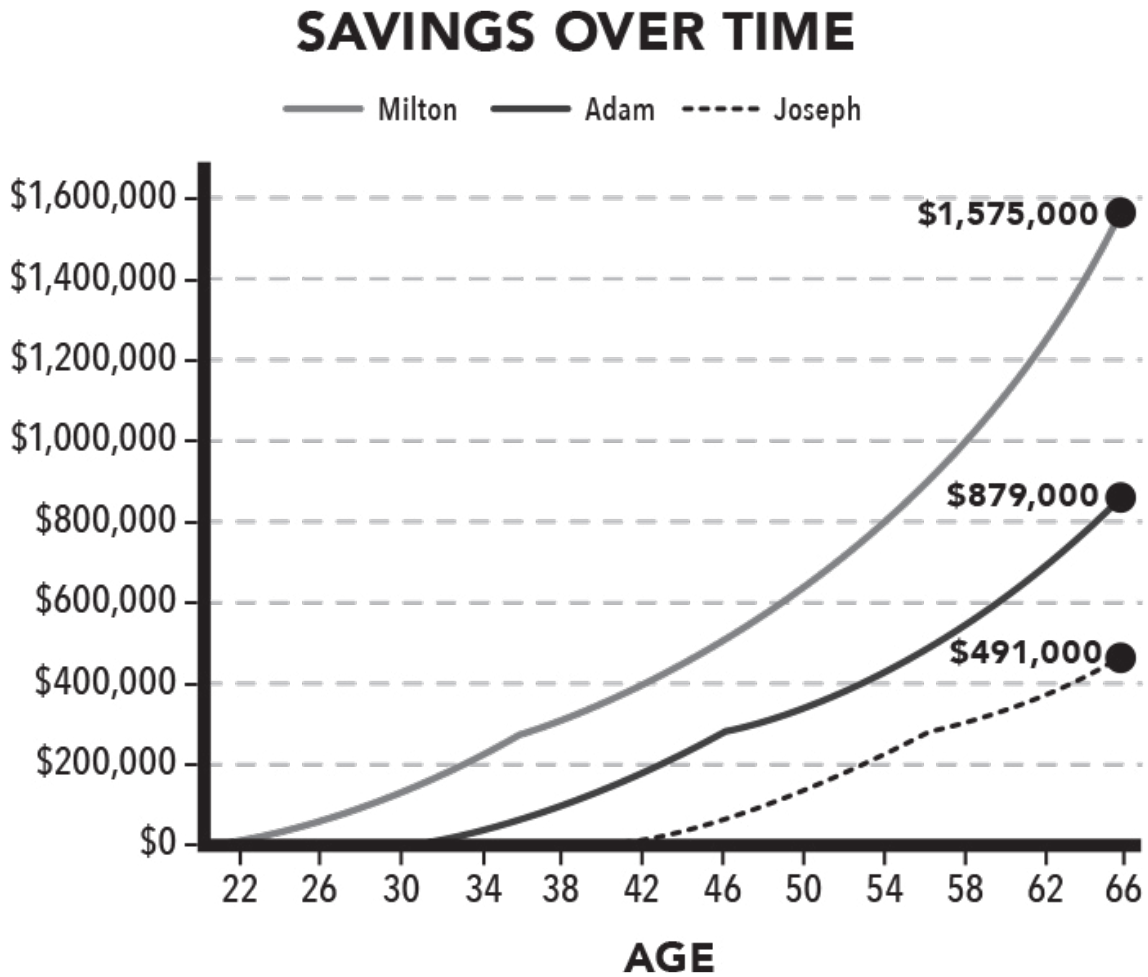


fig. 12

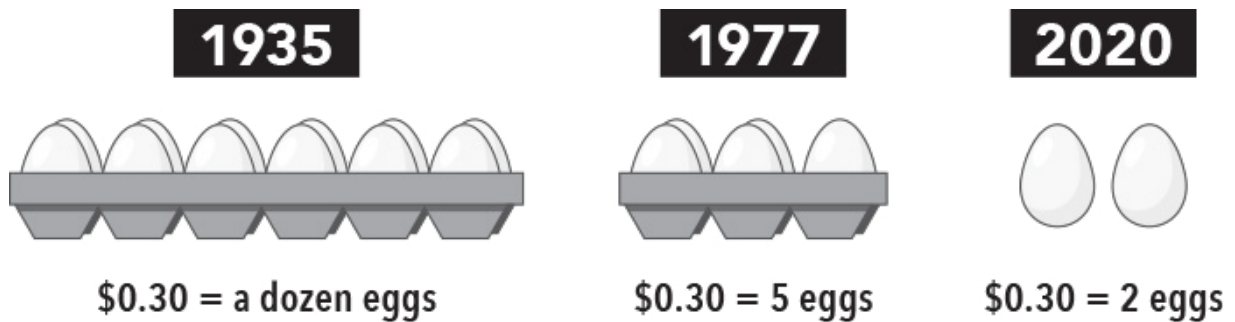
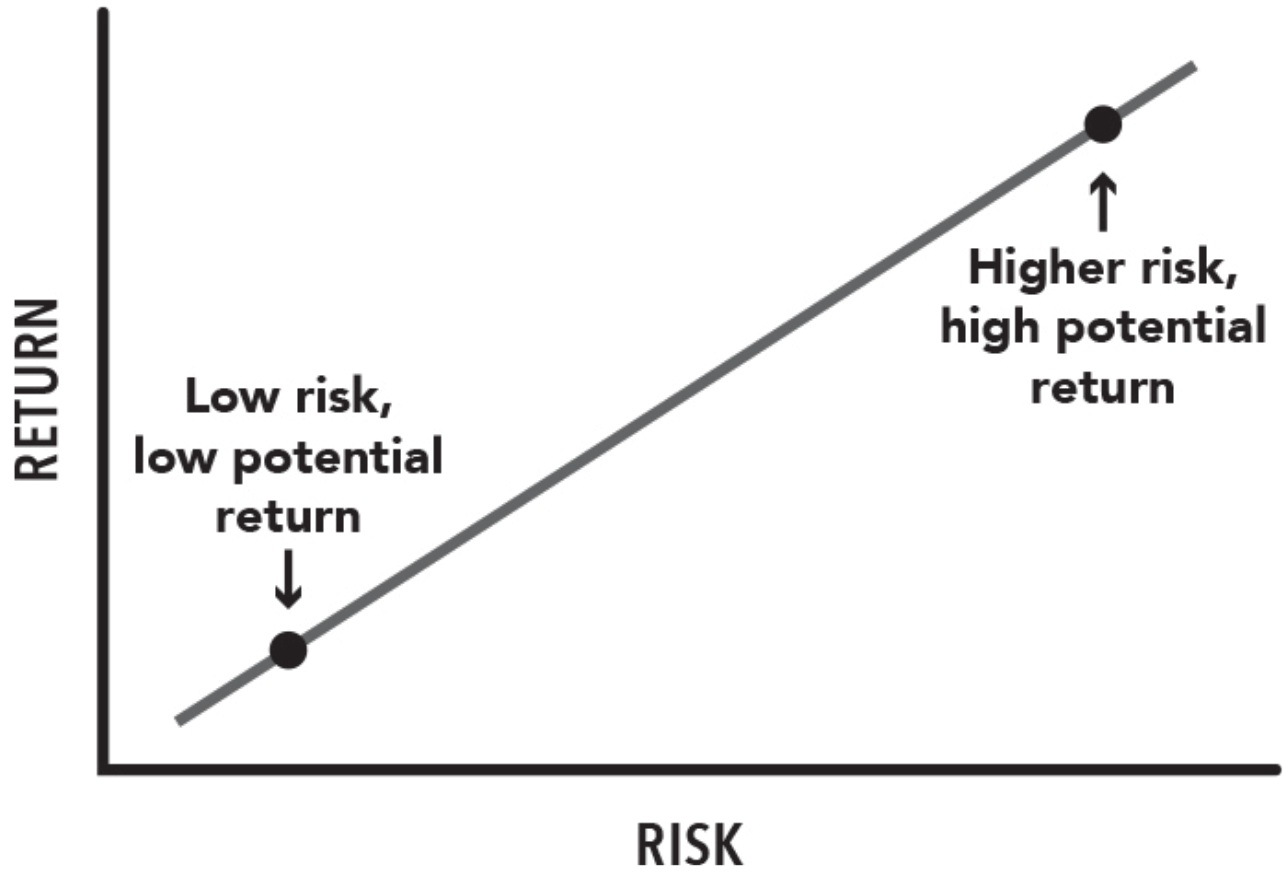


fig. 13

RISK/RETURN TRADE-OFF



CHAPTER 7

Asset Allocation

fig. 14

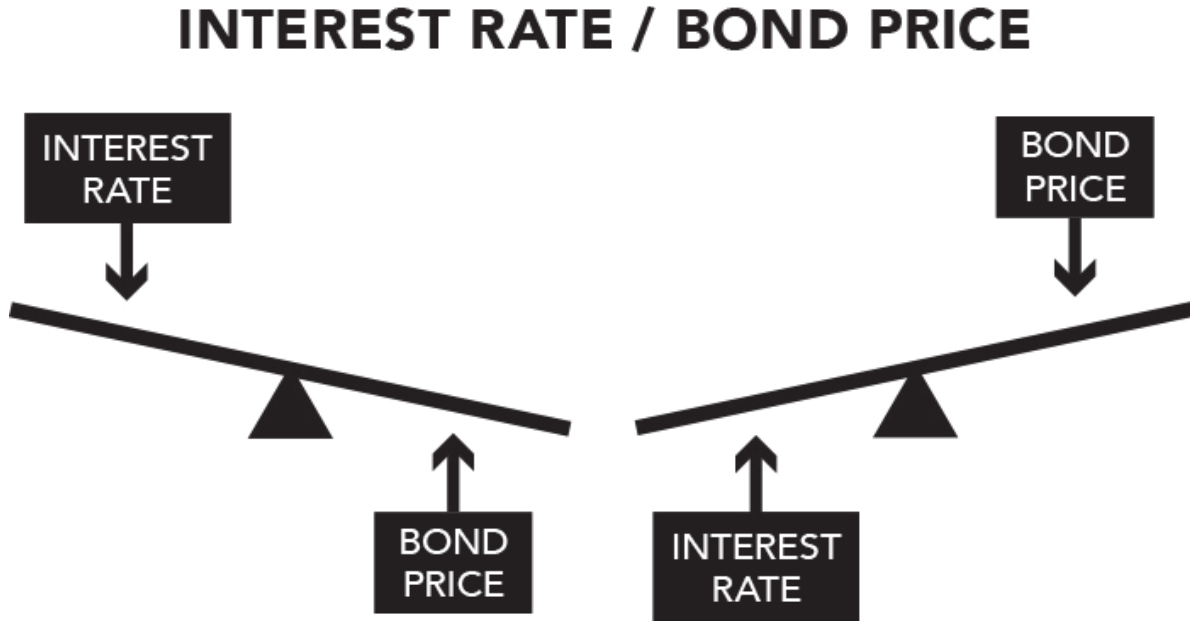


fig. 15

S&P	MOODY'S	GRADE	MEANING
AAA	Aaa	Investment	Risk is almost zero
AA	Aa	Investment	Low risk
A	A	Investment	Risk if economy declines
BBB	Baa	Investment	Some risk; more if economy declines
BB	Ba	Speculative	Risky
B	B	Speculative	Risky; expected to get worse
CCC	Caa	Speculative	Probable bankruptcy
CC	Ca	Speculative	Probable bankruptcy
C	C	Speculative	In bankruptcy or default

fig. 16

GROWTH OF A DOLLAR, 1926 – 2018 (COMPOUNDED MONTHLY)

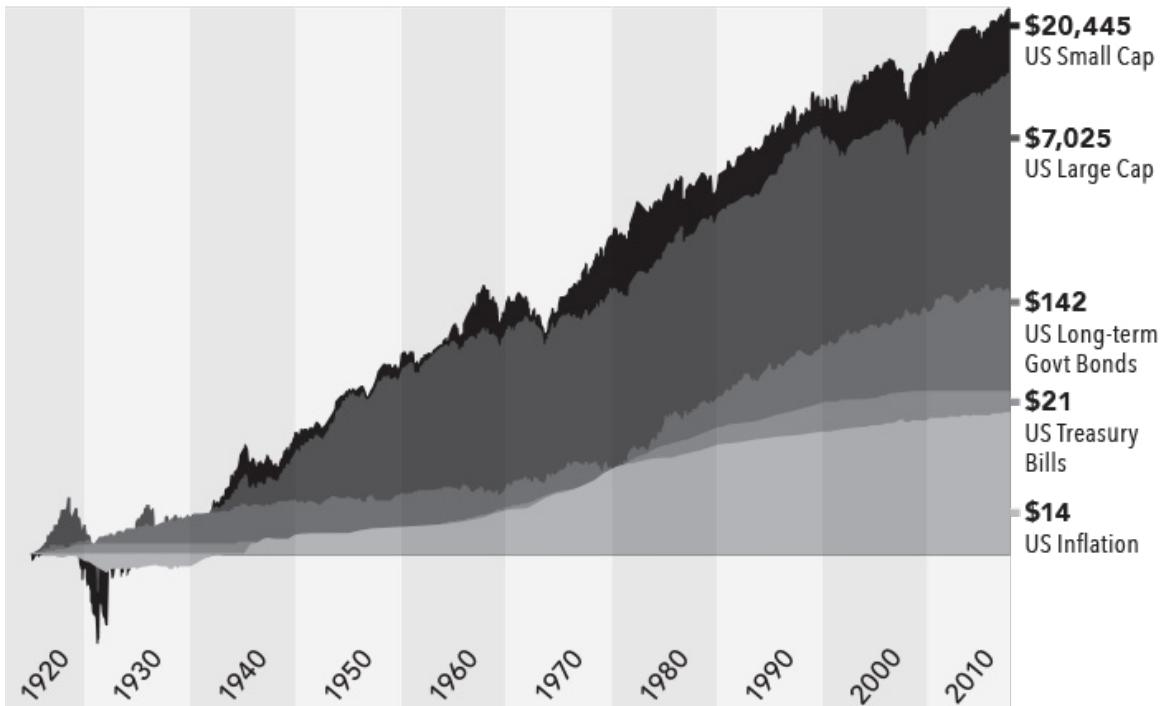


fig. 17

SIZE AND VALUE EFFECTS

1973 – 2018

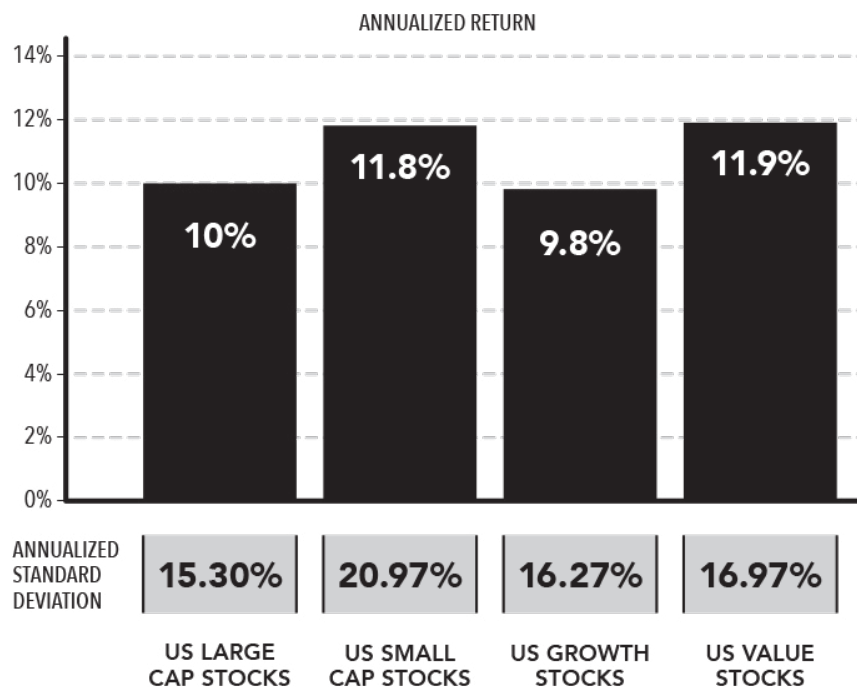


fig. 18

A BIRD'S EYE VIEW OF THE GLOBAL STOCK MARKET

● DEVELOPED MARKETS ○ EMERGING MARKETS

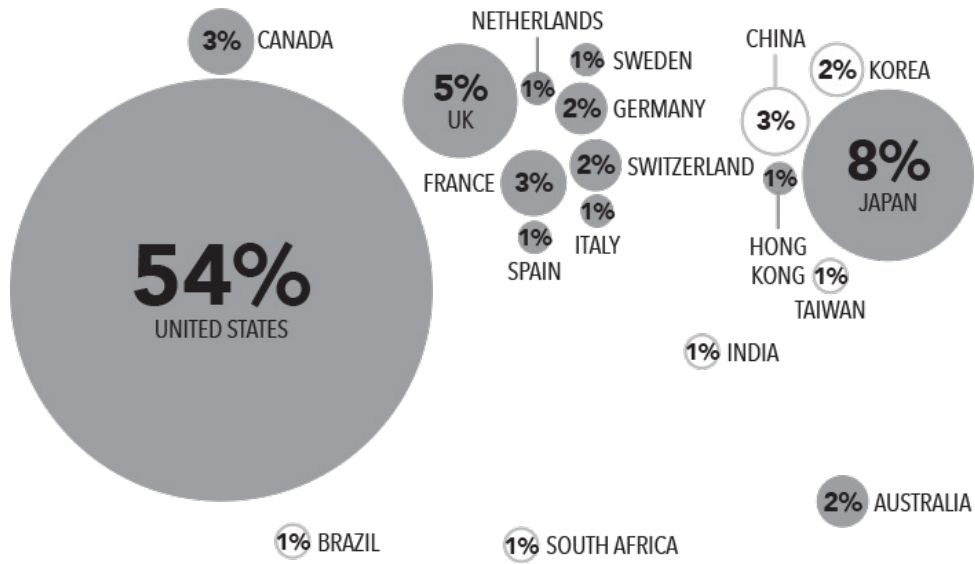


fig. 19

A BIRD'S EYE VIEW OF THE GLOBAL BOND MARKET

● GOVERNMENT ● CORPORATE

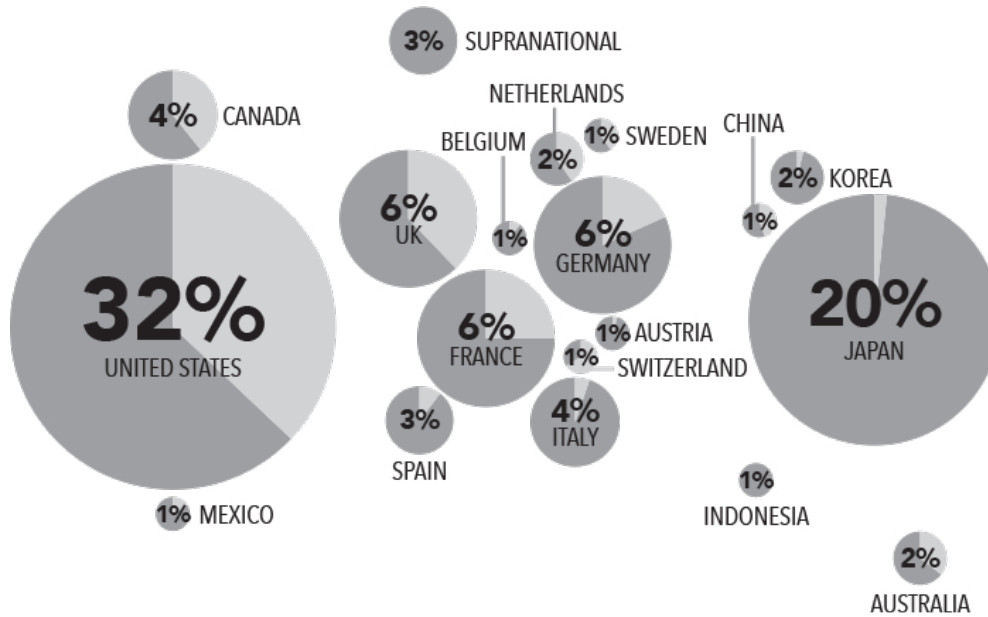


fig. 20

STOCK STYLE BOX

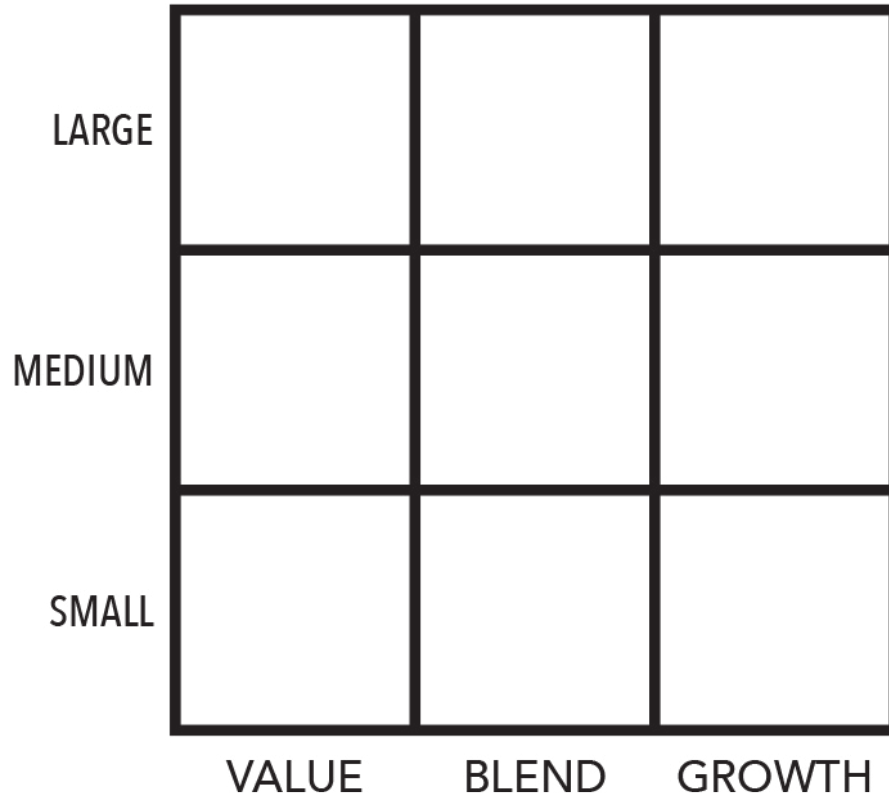


fig. 21

BOND STYLE BOX

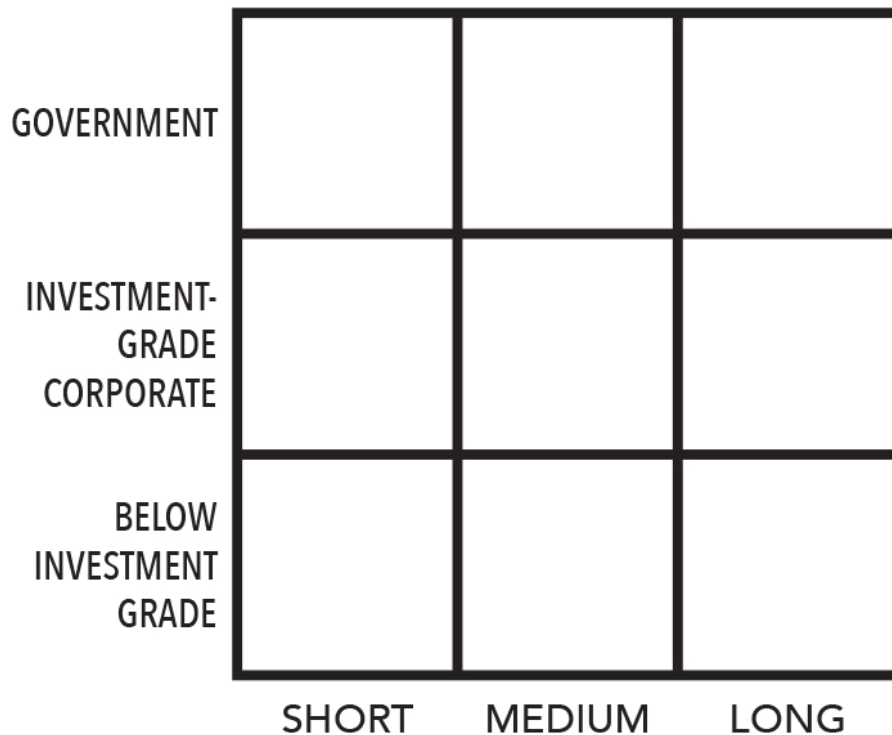


fig. 22

BEATING THE MARKET IS CHALLENGING

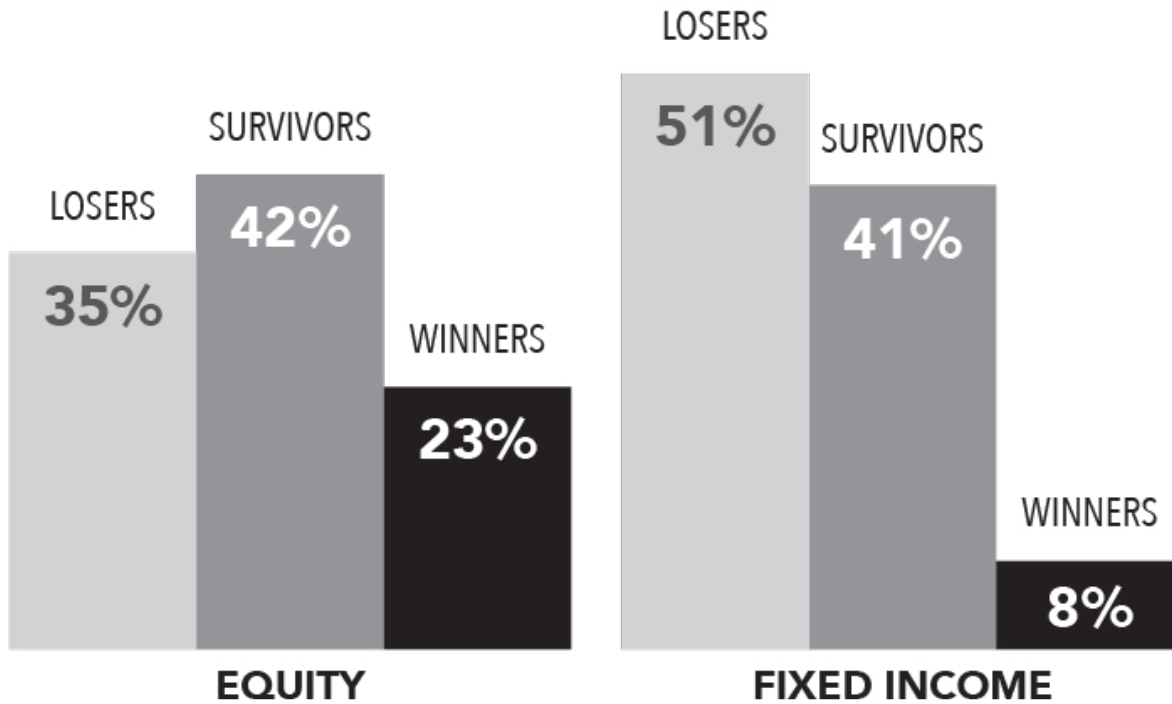


fig. 23

TOP 10 S&P 500 STOCKS			
#	COMPANY	SYMBOL	WEIGHT
1	Apple Inc.	AAPL	6.4%
2	Microsoft Corp.	MSFT	5.4%
3	Amazon.com Inc.	AMZN	4.5%
4	Facebook Inc. Class A	FB	2.2%
5	Alphabet Inc. Class A	GOOGL	1.8%
6	Alphabet Inc. Class C	GOOG	1.7%
7	Berkshire Hathaway Inc. Class B	BRK.B	1.5%
8	Johnson & Johnson	JNJ	1.3%
9	JPMorgan Chase & Co.	JPM	1.2%
10	Visa Inc. Class A	V	1.2%

fig. 24

HOW AN EMPLOYEE STOCK OPTION WORKS

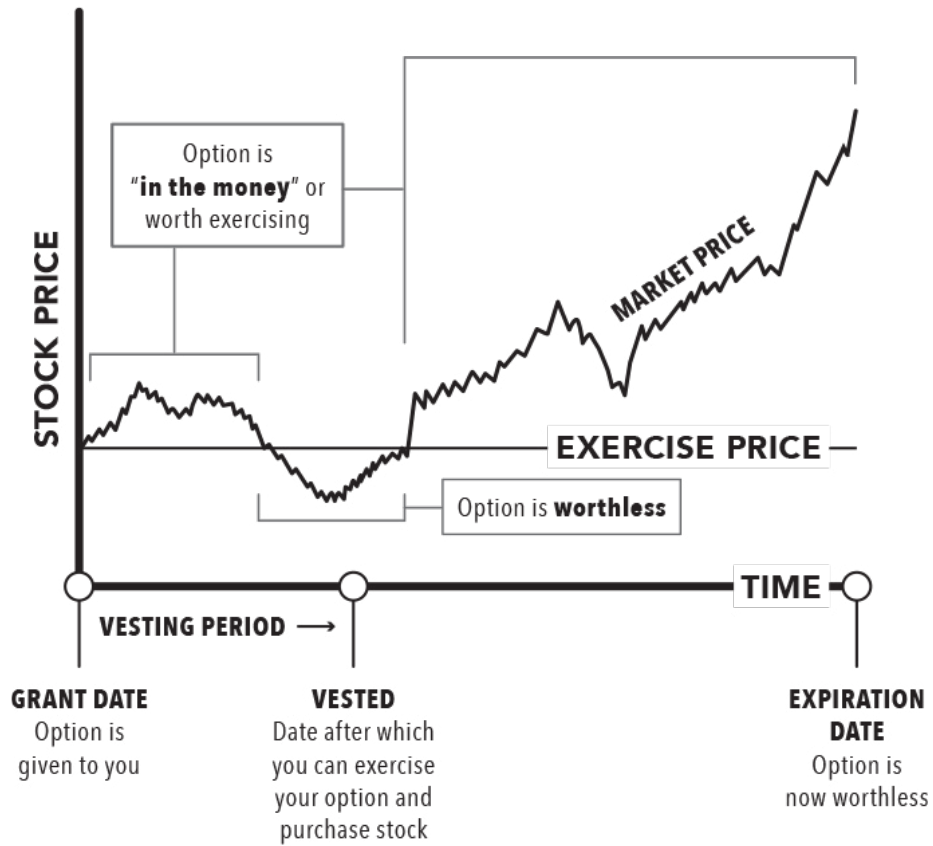


fig. 25

ASSET TYPE	VOLATILITY LEVEL	TIME HORIZON
STOCKS	High	Long Term
HIGH-QUALITY, SHORT- TO MID-TERM BONDS	Low	Short Term
HIGH-QUALITY, LONG-TERM BONDS	Medium	Mid to Long Term
LOW-QUALITY BONDS	Medium to High	Mid to Long Term
REITS	High	Long Term
GOLD	High	Long Term
BITCOIN	High	Long Term
CASH	Lowest	Very Short

fig. 26

%		ASSET CLASS	
15%		US Large-Cap Stocks	60% STOCKS (High Risk)
10%		US Mid-Cap Stocks	
10%		US Small-Cap Stocks	
12%		International Developed Stocks	
3%		Emerging Stocks	
8%		REITs	
2%		Bitcoin	
30%		Short- & Mid-Term High-Quality Bonds	40% BONDS (Low Risk)
10%		Long-Term High-Quality Bonds	

CHAPTER 8

Managing Debt

fig. 27

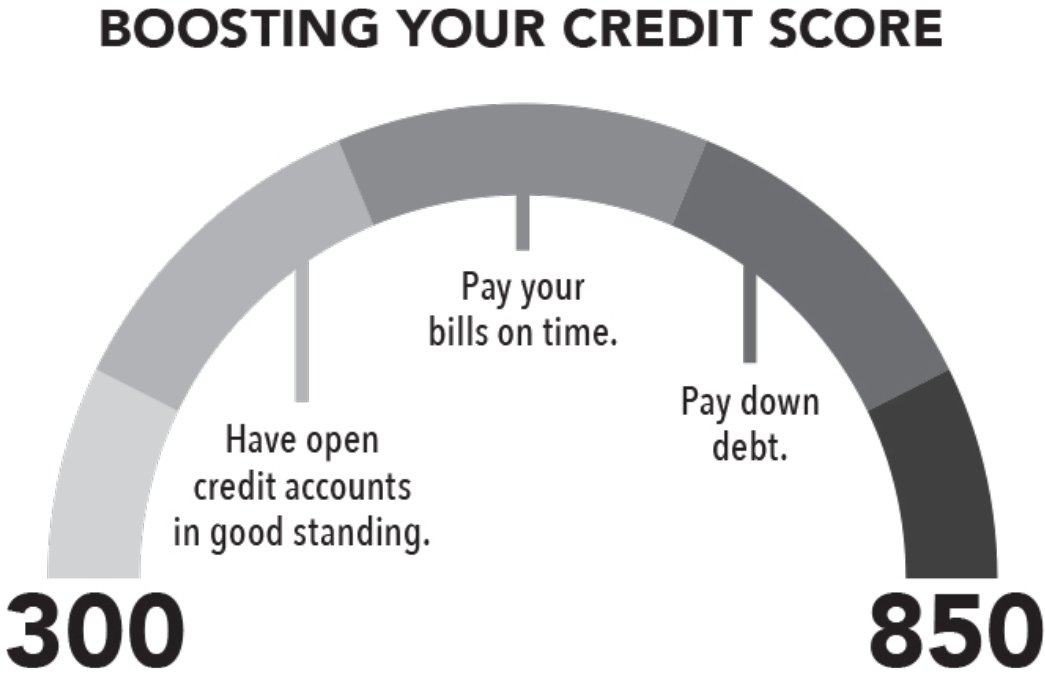
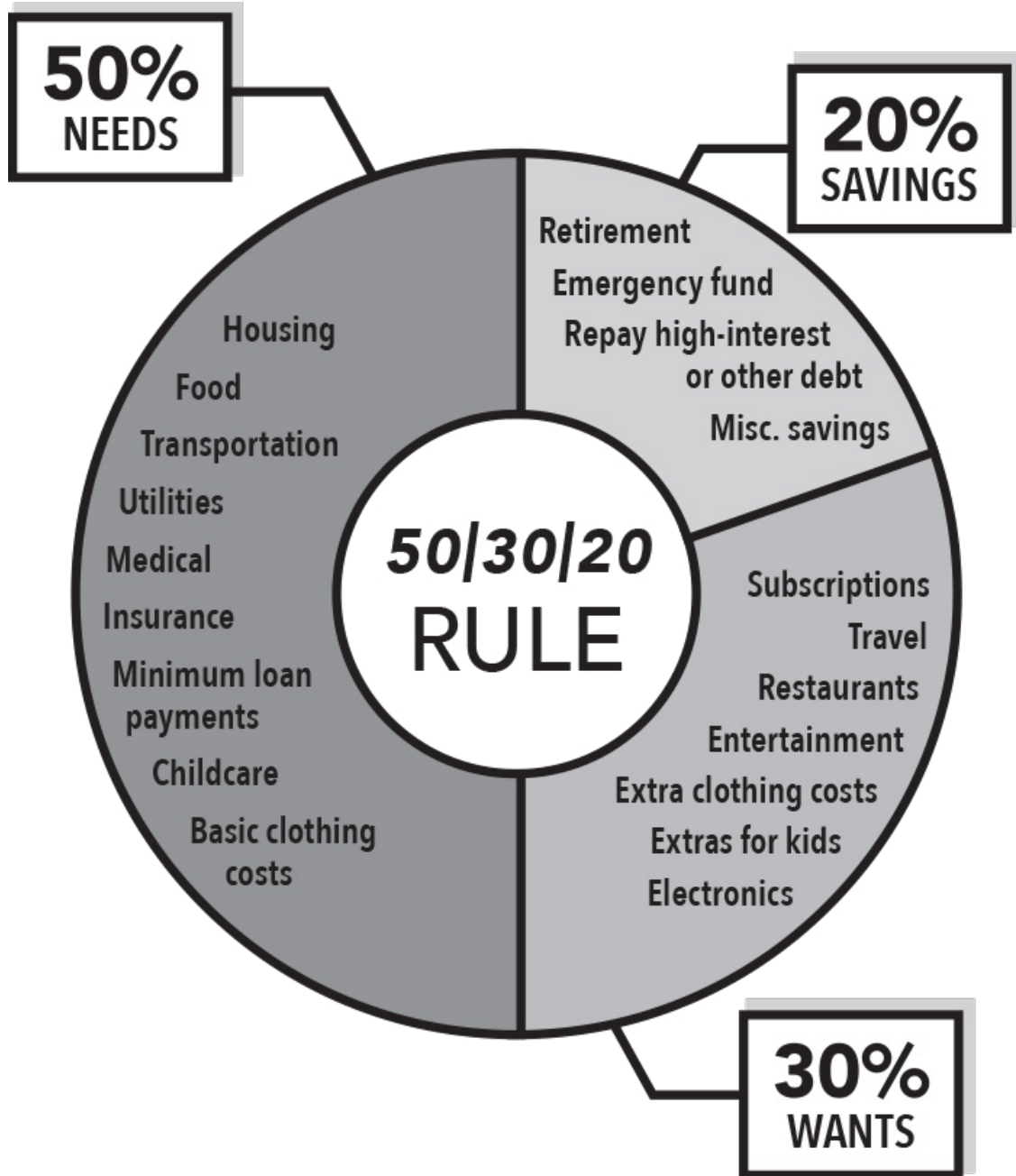


fig. 28

CATEGORY	AMOUNT
Taxes	\$8,200
Healthy Savings	\$8,300
Student Loans	\$4,200
Rent	\$15,000
Utilities	\$800
Cell Phone	\$800
Groceries and Household Items	\$4,200
Car, Gas, and Insurance	\$4,500
TOTAL	\$46,000

fig. 29

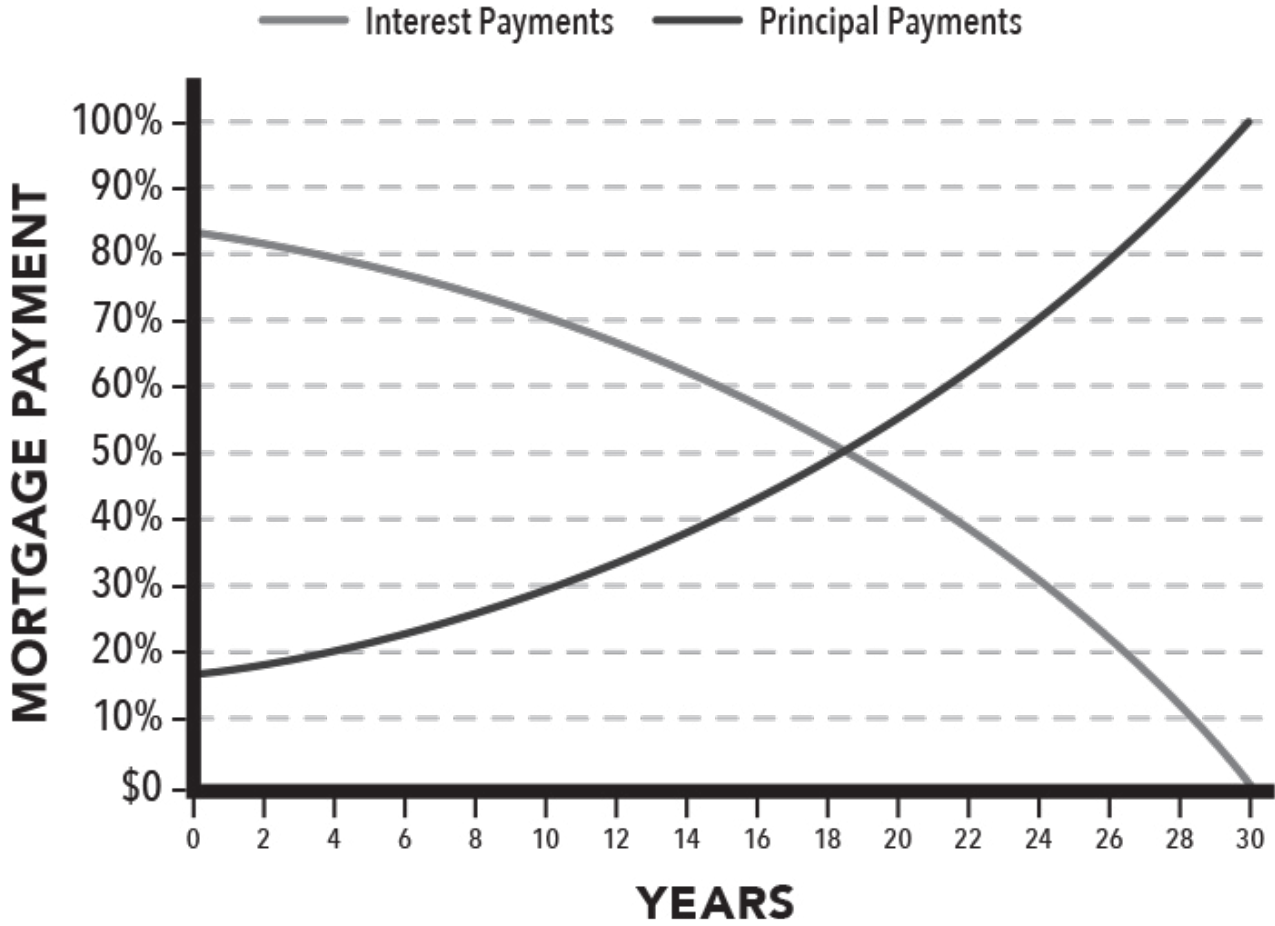


CHAPTER 9

Buying a Home

fig. 30

MONTHLY PRINCIPAL AND INTEREST REPAYMENTS ON A 30-YEAR FIXED-RATE MORTGAGE



CHAPTER 10

Insurance

fig. 31

NEEDS ANALYSIS FOR LIFE INSURANCE:			
JIM		STEPH	
EXPENSE	AMOUNT	EXPENSE	AMOUNT
Funeral	\$10,000.00	Funeral	\$10,000.00
Present Value of Future Income Needs	\$1,103,136.14	Present Value of Future Income Needs	\$882,508.91
Present Value of Retirement Needs	\$260,210.44	Present Value of Retirement Needs	\$260,210.44
Present Value of Children's College	\$421,960.55	Present Value of Children's College	\$421,960.55
Present Value of Down Payment	\$103,655.46	Present Value of Down Payment	\$103,655.46
EXPENSE TOTAL: \$1,898,962.59		EXPENSE TOTAL: \$1,678,335.36	
INCOME OR ASSETS	AMOUNT	INCOME OR ASSETS	AMOUNT
Less: Joint Checking	\$35,000.00	Less: Joint Checking	\$35,000.00
Less: Retirement Accounts	\$65,000.00	Less: Retirement Accounts	\$65,000.00
Less: Down Payment Funds	\$80,000.00	Less: Down Payment Funds	\$80,000.00
INCOME/ASSETS TOTAL: \$180,000.00		INCOME/ASSETS TOTAL: \$180,000.00	
Total Life Insurance Need \$1,718,962.59		Total Life Insurance Need \$1,498,335.36	

fig. 32

NEEDS ANALYSIS FOR LIFE INSURANCE:			
HENRY		RACHEL	
EXPENSE	AMOUNT	EXPENSE	AMOUNT
Funeral	\$10,000.00	Funeral	\$10,000.00
Present Value of Future Income Needs	\$1,439,586.25	Present Value of Future Income Needs	\$833,444.67
Present Value of Retirement Needs	\$2,233,579.11	Present Value of Retirement Needs	\$2,233,579.11
Present Value of 3-month Vacation	\$46,043.49	Present Value of 3-month Vacation	\$46,043.49
EXPENSE TOTAL: \$3,729,208.85		EXPENSE TOTAL: \$3,123,067.27	
INCOME OR ASSETS	AMOUNT	INCOME OR ASSETS	AMOUNT
Less: Joint Checking	\$2,500,000.00	Less: Joint Checking	\$2,500,000.00
INCOME/ASSETS TOTAL: \$2,500,000.00		INCOME/ASSETS TOTAL: \$2,500,000.00	
Total Life Insurance Need \$1,229,208.85		Total Life Insurance Need \$623,067.27	

fig. 33

NEEDS ANALYSIS FOR LIFE INSURANCE:	
PENELOPE	
EXPENSE	AMOUNT
Funeral	\$10,000.00
Present Value of Future Income Needs	\$707,693.74
Present Value of Parents' Health Costs	\$97,330.75
Present Value of Children's School Funds	\$534,922.00
EXPENSE TOTAL: \$1,349,946.49	
INCOME OR ASSETS	AMOUNT
Less: Savings	\$85,000.00
INCOME/ASSETS TOTAL: \$85,000.00	
Total Life Insurance Need \$1,264,946.49	

CHAPTER 11

Taxes

fig. 34

2020 FEDERAL INCOME TAX BRACKETS		
TAX RATE	SINGLE	MARRIED, FILING JOINTLY
10%	\$0 to \$9,875	\$0 to \$19,750
12%	\$9,876 to \$40,125	\$19,751 to \$80,250
22%	\$40,126 to \$85,525	\$80,251 to \$171,050
24%	\$85,526 to \$163,300	\$171,051 to \$326,600
32%	\$163,301 to \$207,350	\$326,601 to \$414,700
35%	\$207,351 to \$518,400	\$414,701 to \$622,050
37%	\$518,401 or more	\$622,051 or more

fig. 35

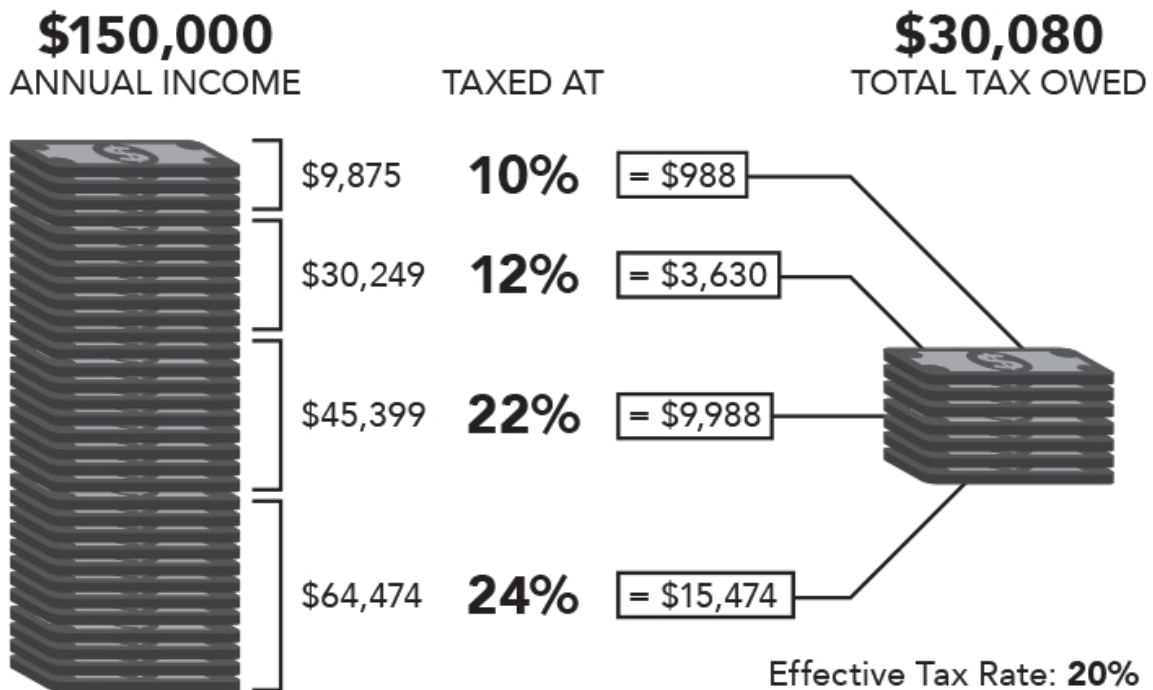


fig. 36

ACCOUNT	2020
401(k), 403(b), 457 Elective Deferral Limit	\$19,500
401(k), 403(b), 457 Catch-up Contribution Limit	\$6,500
IRA Contribution Limit	\$6,000
IRA Catch-up Contributions	\$1,000

fig. 37

2020 IRA Deduction Limits IF YOU ARE COVERED BY A RETIREMENT PLAN AT WORK		
FILING STATUS	MODIFIED AGI	DEDUCTION
Single or head of household	\$65,000 or less	Full deduction up to the amount of your contribution limit
	More than \$65,000 but less than \$75,000	Partial deduction
	\$75,000 or more	No deduction
Married filing jointly or qualifying widow(er)	\$104,000 or less	Full deduction up to the amount of your contribution limit
	More than \$104,000 but less than \$124,000	Partial deduction
	\$124,000 or more	No deduction
Married filing separately	Less than \$10,000	Partial deduction
	\$10,000 or more	No deduction

fig. 38

TYPE OF INCOME	TAXATION RATE
W-2 Income (your paycheck)	Ordinary Income + Payroll Taxes
Schedule C Business Income	Ordinary Income + Self-Employment Taxes
Interest from Bonds or Savings Account	Ordinary Income
Ordinary Dividends	Ordinary Income
Qualified Dividends	Qualified Dividends + Capital Gains
Short-Term Capital Gains	Ordinary Income
Long-Term Capital Gains	Qualified Dividends + Capital Gains

CHAPTER 12

Retirement and Saving for It

fig. 39

DATE	TOTAL ASSET VALUE	4 PERCENT SAFE WITHDRAWAL IN NEXT YEAR
12/31/2019	\$1,000,000	\$40,000
12/31/2020	\$1,100,000	\$44,000
12/31/2021	\$980,000	\$39,000
12/31/2022	\$880,000	\$35,000
12/31/2023	\$1,000,000	\$40,000

fig. 40

ROTH IRA INCOME AND CONTRIBUTION LIMITS FOR 2020		
FILING STATUS	MAXIMUM INCOME	MAXIMUM ANNUAL CONTRIBUTION
Single, head of household or married filing separately (if you didn't live with spouse during year)	Less than \$124,000	\$6,000 (\$7,000 if 50 or older)
	\$124,000 up to \$139,000	Contribution is reduced
	\$139,000 or more	No contribution allowed
Married filing jointly or qualifying widow(er)	Less than \$196,000	\$6,000 (\$7,000 if 50 or older)
	\$196,000 up to \$206,000	Contribution is reduced
	\$206,000 or more	No contribution allowed

CHAPTER 13

Weddings and Family

fig. 41

OPTIONS FOR COMBINING FINANCES		
TYPE	ACCOUNTS	HOW TO
SEPARATE FINANCES	<ul style="list-style-type: none"> • Keep all assets separate • Open one joint checking account 	<ul style="list-style-type: none"> • Leave everything as is • Use the joint checking account to pay joint expenses and deposit gifts • Adjust direct deposit at work to send funds directly to the joint account to cover rent/mortgage and utilities, as well as any other joint expenses • Or send funds to the spouse that covers the bills • Have the remainder deposited into personal accounts; excess savings is separate
PARTIAL COMBINATION	<ul style="list-style-type: none"> • Keep all current assets separate • Open one joint checking account and joint credit card • Open one joint savings account • Open one joint brokerage account 	<ul style="list-style-type: none"> • Leave all current accounts as is • Use the joint checking account to pay joint expenses and deposit gifts • Calculate and send joint expenses to the joint checking, via direct deposit, ACH or QuickPay • Start using the joint credit card to pay joint expenses • Pay personal expenses separately • Decide how much (if any) should go toward personal savings
FULL COMBINATION	<ul style="list-style-type: none"> • Rename all/most accounts to be joint accounts • Improve credit score by keeping personal credit cards • Open one joint checking and joint credit card • Open one joint savings account 	<ul style="list-style-type: none"> • Change accounts to become Joint tenancy with rights of survivorship (JTWROS) • All family income goes into the joint account • All expenses, family or personal, get paid from the joint account • All savings and investments are jointly held

fig. 42

WHAT IS AGE APPROPRIATE?		
<p>KIDS AGED 3–5 CAN:</p>	<ul style="list-style-type: none"> • Learn to wait for things they want • Understand we need money to buy things • Grasp that one or both parents work to earn a living • Learn the difference between wants (candy) and needs (water) • Associate “no” with spending 	<p>PARENTS OF KIDS AGED 3–10 CAN:</p> <ul style="list-style-type: none"> • Have honest discussions about money with your children • Set guidelines on how to receive the allowance • Set goals with your kids • Introduce budgeting and saving for something in the future • Teach responsibility regarding money • Help your kids to understand their why—help them believe in what they’re doing or why they are saving • Praise your kids when they accomplish their goals • Trust your kids to manage their money; let them lose it, spend it, and give it away—all good lessons! (And not your problem)
<p>KIDS AGED 6–10 CAN:</p>	<ul style="list-style-type: none"> • Receive an allowance • Say or draw what they want to be when they grow up • Talk about money with the family • Have a savings account and piggy bank • Compare prices of items they want • Understand why they shouldn’t share certain information online 	

WHAT IS AGE APPROPRIATE?		
<p>KIDS AGED 11–13 CAN:</p>	<ul style="list-style-type: none"> • Save a dime for each dollar they earn • Protect themselves against advertising • Learn about credit vs debit cards • Demonstrate wise purchases • Understand compounding interest • Learn that saving earlier is better for long-term growth • Interact with the stock market (age 13) 	<p>PARENTS OF KIDS AGED 11–18 CAN:</p> <ul style="list-style-type: none"> • Demonstrate self-care without spending money • Teach the importance of emergency savings • Explain jobs vs careers • Engage your children in honest discussions about the family’s finances • Show your kids your own responsible spending • Teach your kids about credit scores, how they work, why we need them • Explain student loans and credit card debt • Help your kids understand the long-term effects of their choices • Discuss how scams work and how to avoid them • Give your kids space and privacy with respect to money • Stop buying them “stuff”—they will learn to budget for extras
<p>KIDS AGED 14–18+ CAN:</p>	<ul style="list-style-type: none"> • Get a job • Open a checking account • Learn that taxes come out of their pay • Compare prices of different colleges • Learn whether they need a degree for their career choices • Save and invest in a Roth IRA • Find balance in their lives 	

fig. 43

COLLEGE SAVINGS AND WITHDRAWAL TABLE					
YEAR	DEDICATED ASSETS (Beg. of Year)	GROWTH	DEDICATED SAVINGS	DEDICATED WITHDRAWALS	DEDICATED ASSETS (End of Year)
2020	\$0	\$0	\$20,850	\$0	\$20,850
2021	\$20,850	\$1,195	\$20,850	\$0	\$42,895
2022	\$42,895	\$2,458	\$20,850	\$0	\$66,203
2023	\$66,203	\$3,793	\$20,850	\$0	\$90,846
2024	\$90,846	\$5,205	\$20,850	\$0	\$116,901
2025	\$116,901	\$6,698	\$20,850	\$0	\$144,450
2026	\$144,450	\$8,277	\$20,850	\$0	\$173,577
2027	\$173,577	\$9,946	\$20,850	\$0	\$204,373
2028	\$204,373	\$11,711	\$20,850	\$0	\$236,933
2029	\$236,933	\$13,576	\$20,850	\$0	\$271,360
2030	\$271,360	\$15,549	\$20,850	\$0	\$307,759
2031	\$307,759	\$14,465	\$20,850	\$0	\$343,073
2032	\$343,073	\$16,124	\$20,850	\$0	\$380,048
2033	\$380,048	\$17,862	\$20,850	\$0	\$418,760
2034	\$418,760	\$19,682	\$20,850	\$0	\$459,292
2035	\$459,000	\$21,587	\$20,850	\$0	\$501,728
2036	\$501,728	\$23,581	\$20,850	\$0	\$546,160
2037	\$546,160	\$25,670	\$0	\$72,402	\$499,427
2038	\$499,427	\$23,473	\$0	\$150,597	\$372,302
2039	\$372,302	\$17,498	\$0	\$156,621	\$233,180
2040	\$233,180	\$10,959	\$0	\$162,886	\$81,253
2041	\$81,253	\$3,819	\$0	\$84,701	\$371

GLOSSARY

Amortization schedule

The payment schedule for a loan, such as when paying off a mortgage through monthly combined principal and interest payments.

Annual gift tax exclusion

The maximum amount of money one can gift to an individual without paying any gift tax (\$15,000 per person in 2020).

Asset allocation

The process of determining the ideal mix of stocks, bonds, and other investments in a portfolio.

Assets

Items owned by an individual that have value, including real estate, vehicles, investment securities, commodities, jewelry, and cash.

Bankruptcy

A court order declaring that an individual or company can no longer pay outstanding debt, generally followed by a liquidation of assets to pay creditors.

Bankruptcy Protection

The process of reorganizing a business's or individual's assets and liabilities in a last attempt to avoid bankruptcy.

Budget

A fixed amount of money available to cover monthly expenses, to complete a specific project, or to run a business.

Capital

Assets of value, such as a business's plants and equipment or an individual's investment securities.

Capital gains

Profits from the sale of investment securities or assets when the price received is greater than the price paid.

Cost-of-living allowance (COLA)

An increase in pay or benefits to keep pace with the increase in prices for food, housing, fuel, clothing, and other common living expenses.

Credit utilization rate

A measurement of how much credit an individual is using compared to how much credit is available to them.

Debt

Money owed to a lender by a borrower.

Derivative

A type of investment security, such as an option or futures contract, whose value is derived from another investment, like a stock, bond, index, or exchange-traded fund.

Diminishing returns

A situation when the rate of profits or benefits does not increase proportionally with added investment, such as when additional equipment added to a production process does not result in a corresponding increase in revenue.

Dividend

Profits from a company or investment security that are paid to shareholders.

Dollar cost averaging

An investment strategy that involves making regular weekly, monthly, or quarterly payments to a mutual fund or other security regardless of the market price of the investment at the time.

Donor-advised funds (DAFs)

A special tax-advantaged fund used by individuals, families, or organizations who want to make donations to charity—the owner of the fund relinquishes ownership of all moneys contributed but may advise the fund on how to distribute money to various charities.

Exercise

When the holder of an option or other derivative requests that the other party fulfill the terms of the contract, as when the holder of an equity put option contractually obligates the other party to take delivery of shares.

Fiduciary

A person, attorney, or organization that manages investments or assets on behalf of another individual, organization, or estate and does so by putting their clients' interests ahead of their own.

Fractional reserve banking

The most common form of banking practiced worldwide, whereby banks are permitted to lend out more money than they have on deposit.

Grant date

The date when ownership is transferred from one party to another, such as when a company stock option is awarded to an employee.

Incentive stock option (ISO)

A type of company option program that gives an employee the right to buy shares of company stock at a discounted price, with special tax advantages because the profit is taxed as capital gains rather than ordinary income.

Inflationary risk

The potential that savings and other low-yielding investments will lose value over time due to general price increases in food, rent, and other living expenses.

Interest

The profit received from savings accounts, certificates of deposit, or bonds—the amount paid to borrow money—expressed as a percentage.

Irrevocable trust

A type of trust that cannot be changed or modified without permission from the beneficiaries.

Liability

Money that is owed on debt such as mortgages, car loans, credit cards, personal loans, and lines of credit.

Liquid assets

Investment securities, bank accounts, and other assets that can easily be converted into cash.

Market capitalization

A company's share price multiplied by its total number of shares outstanding, used to evaluate the size and total market value of a company.

Margin

A brokerage term referring to trading or investing with borrowed money.

Maturity

The point in time when a bondholder receives a final payment equal to the par, or face value, of the bond.

Mortgage

A type of loan offered to home buyers that requires monthly payments that are applied to both the principal and interest of the loan.

Mutual fund

A pool of funds from a multitude of investors that is used to purchase investable assets.

Net asset value (NAV)

The value of a mutual fund or exchange-traded fund share when total liabilities of the fund are subtracted from assets.

Net investment income tax

A tax imposed on certain investment gains of higher income earners.

Net worth

The total value of an individual's assets after subtracting liabilities.

Non-qualified stock options (NQSOs)

A method of compensating employees, but, in contrast to incentive stock options, with no special tax treatment and fewer restrictions.

Paid time off (PTO)

A company's policy regarding paying wages or salaries when an employee takes time off from work for vacations or to tend to personal matters.

Per stirpes

Latin for "by roots," an option available to estate planners whereby one's assets may be passed to a beneficiary's children in the event that the beneficiary is dead or otherwise incapable of receiving the assets.

Principal

When applied to debt securities, the amount of money that a bond issuer receives from the investor when the bond is issued and the amount the investor receives from the bond issuer when the bond matures.

Principal risk

The risk that a bond's face value may decline in secondary markets due to the issuance of higher-yield bonds backed by the same entity.

Private mortgage insurance (PMI)

A borrower-funded insurance product that protects lenders in the event of defaults on mortgage loans—required for some mortgages when the borrower makes a down payment of less than 20 percent.

Probate

The establishment, in a legal sense, of the validity of a will.

Prospectus

A document from a mutual fund company that must be delivered to prospective investors, outlining the mutual fund's fees, objectives, and performance history.

Required minimum distributions (RMDs)

The amount of money that must be withdrawn from qualified retirement plans when the retiree reaches a certain age.

Restricted stock unit

Employee compensation in the form of company shares.

Revocable trust

A tool used in estate planning that can help beneficiaries avoid probate court and streamline the transfer of assets upon the death of the grantor—also named because provisions may be altered or cancelled by the grantor.

Spread

The difference between the interest rate a bank charges to its borrowers and the interest rate it pays out to its depositors—the spread allows the bank to make money.

Strike price

Also known as the exercise price, the price at which a security changes hands if the holder of an options contract or other derivative requests fulfillment of the contract.

Structured settlement

A type of legal award that consists of regular payments, usually to an injured party or victim of an injustice.

Tax-loss harvesting

The process of selling an investment at a loss to reduce taxes owed.

Testament

The section of a will that focuses on an individual's personal property.

Testamentary trust

A trust created in a will (there may be several testamentary trusts attached to one will) with stipulations for how the trust is to be managed upon the grantor's death.

Trust

A legal vehicle managed by a person or entity, known as the trustee, that holds assets or property for the benefit of one or more beneficiaries.

Vesting period

The amount of time that an employee must work for a company before being entitled to stock ownership or option grants.

Volatility

The statistical measure of the distribution of returns of an investment security or market.

Wash sale rule

A regulation that prohibits investors from selling an investment and repurchasing an identical security within thirty days.

Will and testament

A legally binding document used in estate planning to express the wishes of a person who has passed away.

Withdrawal rate

Generally expressed as a percentage, the withdrawal rate is the amount of money taken out of retirement plans, pensions, and other savings accounts on a regular monthly or annual basis.