Virtual Learning Event: June 3-5

Money Behavior: *How People Make Financial Decisions*

- June 3, 11 a.m. ET: *Mental Health & Financial Management*. 2 CEUs
- June 4, 11 a.m. ET: *Heuristics, Anchoring & Narrowing Choice*. 2 CEUs
- June 5, 11 a.m. ET: *The Culture of Personal Finance*. 2 CEUs
- June 5, 1:30 p.m. ET: Panel Discussion - *What Young Adults Need to Know About Money*. 1.5 CEUs

http://www.extension.org/pages/70421/mfln-personal-finance-virtual-learning-event#.U2k4sK1dVPJ

Welcome to the Military Families Learning Network Webinar: **20 Steps to 7 Figures**

A few days after the presentation, we will send an evaluation and links to an archive and resources.

We appreciate your feedback. To receive these emails, please enter your email address in the chat box before we start the recording.

Once we start the recording, all chat will be recorded and archived.

This material is based upon work supported by the National Institute of Food and Agriculture, U.S. Department of Agriculture, and the Office of Family Policy, Children and Youth, U.S. Department of Defense under Award No. 2010-48869-20685.

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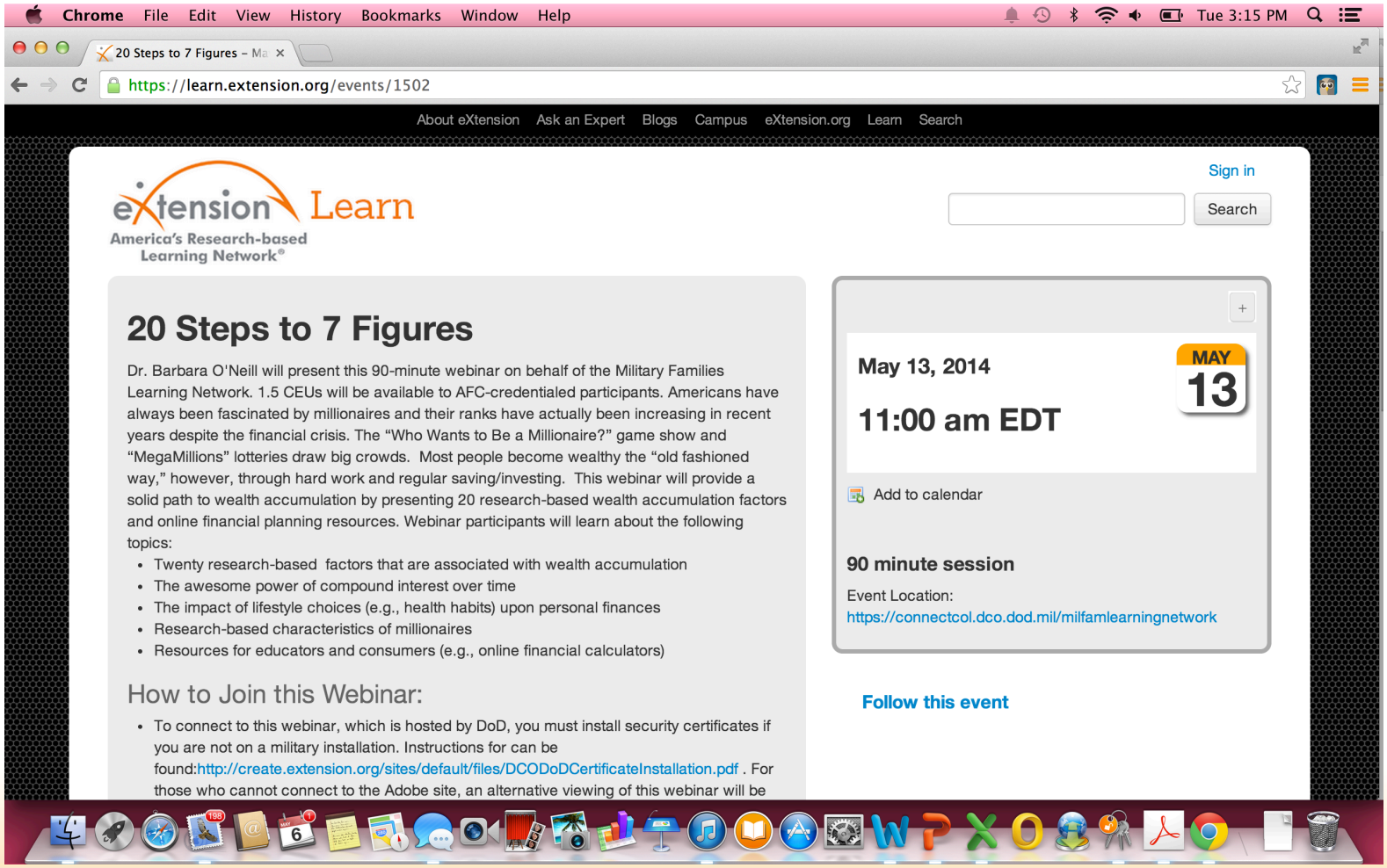
Additional Resources Available

https://learn.extension.org/events/1502



Today's Speaker

Dr. Barbara O'Neill, financial resource management specialist for Rutgers Cooperative Extension, has been a professor, financial educator, and author for 35 years. She has written over 1,500 consumer newspaper articles and over 125 articles for academic journals, conference proceedings, and other professional publications. She is a certified financial planner (CFPO), chartered retirement planning counselor (CRPCO), accredited financial counselor (AFC), certified housing counselor (CHC), and certified financial educator (CFEd).

Continue the Conversation

- Find the Personal Finance Team online
  - » Facebook: PersonalFinance4PFMs
  - » Twitter: #MFLN
  - » LinkedIn: Military Personal Finance Managers Group

Twenty Steps to Seven Figures

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Rutgers Cooperative Extension
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Webinar Objectives

- Discuss statistics about millionaires
- Discuss 20 research-based strategies to accumulate wealth over time
  - **10 investment strategies**
  - **10 lifestyle and planning strategies**

- Discuss resources for financial education

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Question #1

Do you personally know any millionaires?

If yes, how did they become wealthy?

Please reply in the chat box.

Millionaires Are In The News!

- Game shows and reality shows (prizes)
- Best-selling books
- Millionaires are relatively rare: 5.1 million U.S. households have net worth of at least $1 million (almost 8%) vs. 15.1% of Americans in poverty
  - http://moneyland.time.com/2012/06/05/number-of-millionaires-in-u-s-decreases-but-spikes-worldwide/
  - http://www.nclej.org/poverty-in-the-us.php
- Median U.S. household net worth is $77,300 (2010) vs. $126,400 in 2007

Top Percentage Income and Asset Thresholds

Household Annual Income

Top 1%: $521,411

Top 5%: $208,810

Top 10%: $148,688

Top 20%: $107,628

Household Net Worth

Top 1%: $6,816,200

Top 5%: $1,863,800

Top 10%: $952,200

Top 20%: $415,700

Source:
http://online.wsj.com/news/articles/SB10001424127887323300404578205502185873348

Millionaire Facts: *Money* (8/12)

- http://money.cnn.com/pf/how-to-make-a-million/
- Paths to prosperity: hard work (95%), education (89%), smart investing (81%), frugality (79%), luck (42%), and family connections (9%)
- 40% of the world's millionaires live in the U.S. followed by Japan (13%), China (11%), U.K. (3.3%)
- Nearly 8% of U.S. households are millionaires
- 47% are 60-69, 25% age 50-59; 20% age 70+, and 8% under age 50

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More Millionaire Facts

- U.S. states with the most millionaires: http://www.cnbc.com/id/101338309

MD, NJ, CT, HI, Alaska, MA, VA, NH, DE, DC

- State with fastest growth in millionaires: ND

http://online.wsj.com/news/articles/SB20001424052702304603704579324742378235008

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Wealth Accumulation Takes Time

- Average age of millionaires: late 50s to 60s
- Compound interest over time, especially in tax-deferred or tax-exempt investments
- Many millionaires have been investing for 30 years
- *Money* magazine's Five Millionaire Tracks (8/12 issue): real estate, stock investing, "climbing the ladder", owning a business, and "power saving"
- The first million is the hardest (Rule of 72)

The Rule of 72

- Calculates the number of years it takes for principal to double.
  - Years = 72 divided by interest rate.
  - **Example:** 72 divided by 8% = 9 years

- Calculates the interest rate it takes for principal to double.
  - Interest rate = 72 divided by number of years
  - **Example:** 72 divided by 10 years = 7.2%

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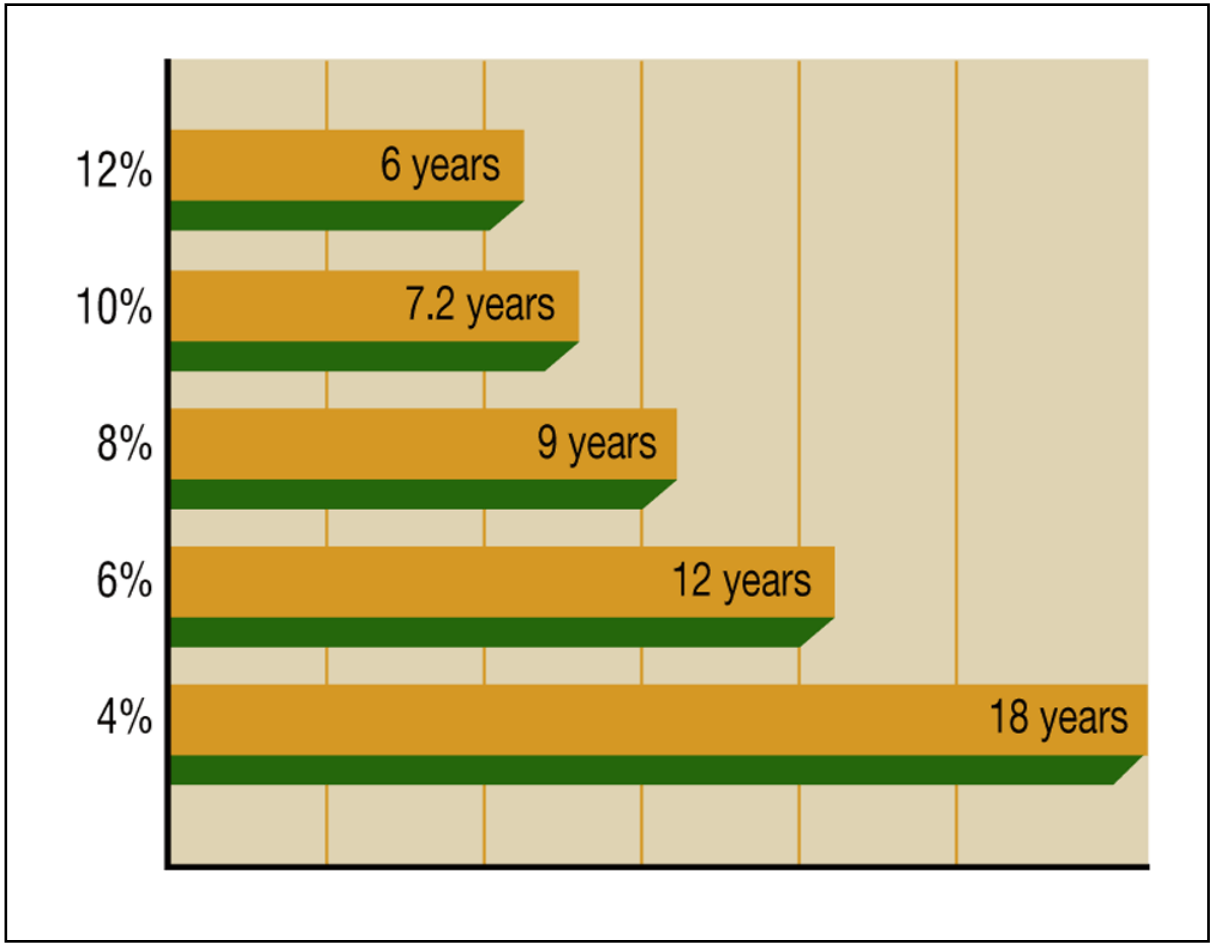
The Rule of 72 in Pictures



Source: *Personal Finance* by Garman & Forgue, Houghton-Mifflin

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Some "How to" Millionaire Books

- *Eight Steps to Seven Figures* (Carlson)
- *Getting Rich in America* (Lee & McKenzie)
- *Rags to Riches* (Liberman & Lavine)
- *The Millionaire Mind* (Stanley)
- *The Millionaire Next Door* (Stanley & Danko)
- Who's Afraid to Be a Millionaire (Boston)
- The Automatic Millionaire (Bach)

Question #2

Can you recommend any other good publications about millionaires?

Please reply in the chat box.

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Step 1: Set Measurable Financial Goals

- Without goals, saving/investing is hard to sustain
- Have a “why” to invest (whatever it is)
- A goal should be personally meaningful
- Break a big goal into “mini” goals:
  - $1 million by age 65
  - $500,000 by age 57
  - $250,000 by age 50

Make Your Goals SMART

- Specific: who, what, where, when, why?
- Measurable (e.g., progress benchmarks)
- Attainable (within your ability to achieve)
- Realistic (goals that “fit” lifestyle)
- Tangible (visualization = motivation)

http://www.extension.org/pages/11099/smart-financial-goal-setting#.Ux9joE2YaM8

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Financial Goal-Setting Worksheet

http://njaes.rutgers.edu/money/pdfs/goalsettingworksheet.pdf

1 Goals	2 Approximate Amount Needed	3 Month & Year Needed	4 Number of Months to Save	5 Date to Start Saving	6 Monthly Amount to Save (2-4)
Short-Term (under 3 years)					
Medium Term (3-10 years)					
Long-Term (10 or more years)					

Step 2: “Pay Yourself First” Now

- Time is an investor’s biggest ally
- Compound interest is awesome
- To accumulate $1 million:
  - 20 year olds must invest $67/month
  - 30 year olds must invest $202/month
  - 40 year olds must invest $629/month
  - 50 year olds must invest $2,180/month
- For every decade an investor delays, the required investment amount approximately triples

The Most Important Dollar You Invest is the One Invested Today

- There are plenty of low-cost investments:
  - Employer salary reduction plans
  - DRIPs (stock purchases)
  - Low-minimum mutual funds
  - Treasury securities and U.S. savings bonds

- “Automate” your investment deposits
- Compound interest is NOT retroactive!!

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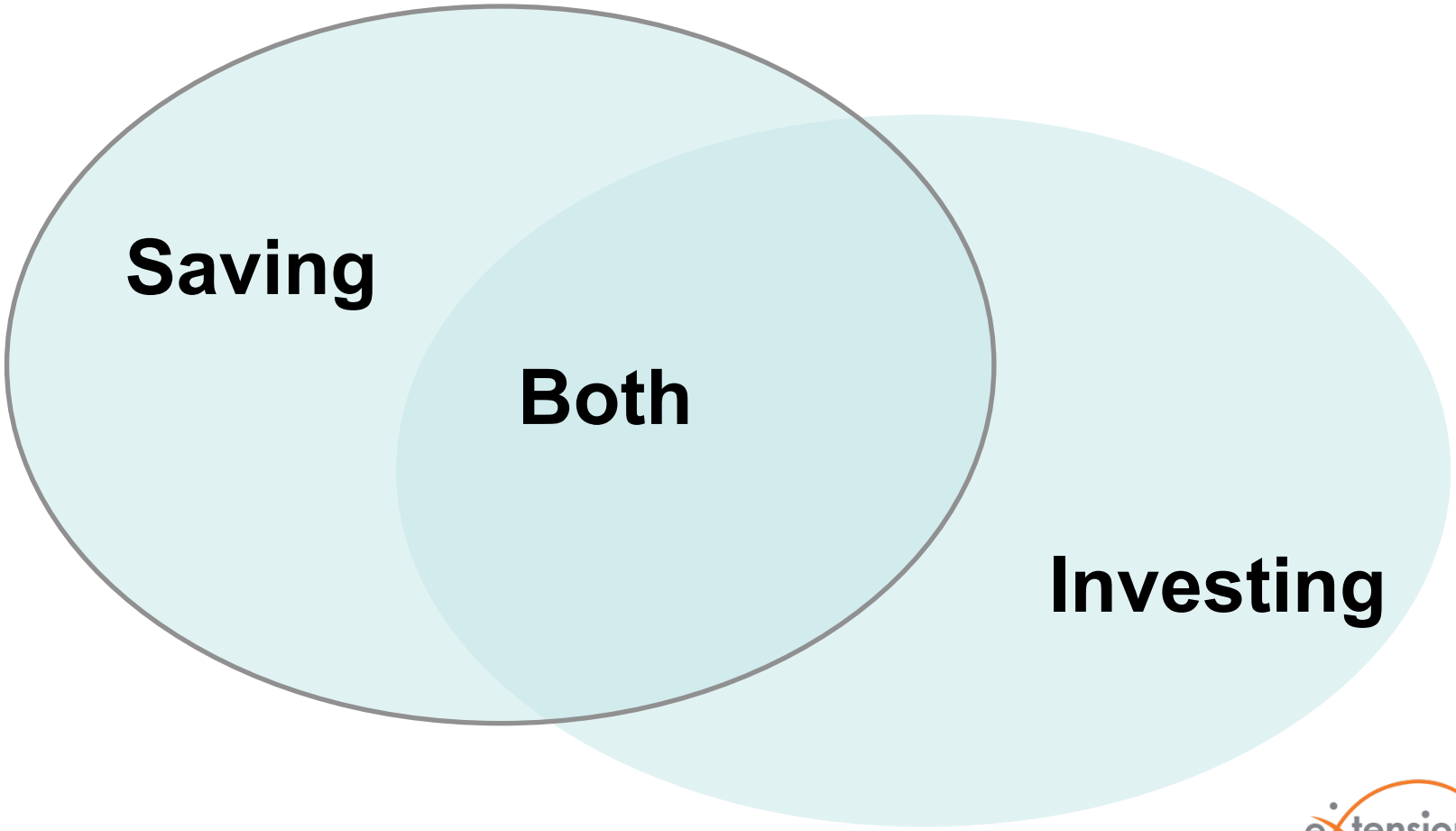
The Difference Between Saving and Investing



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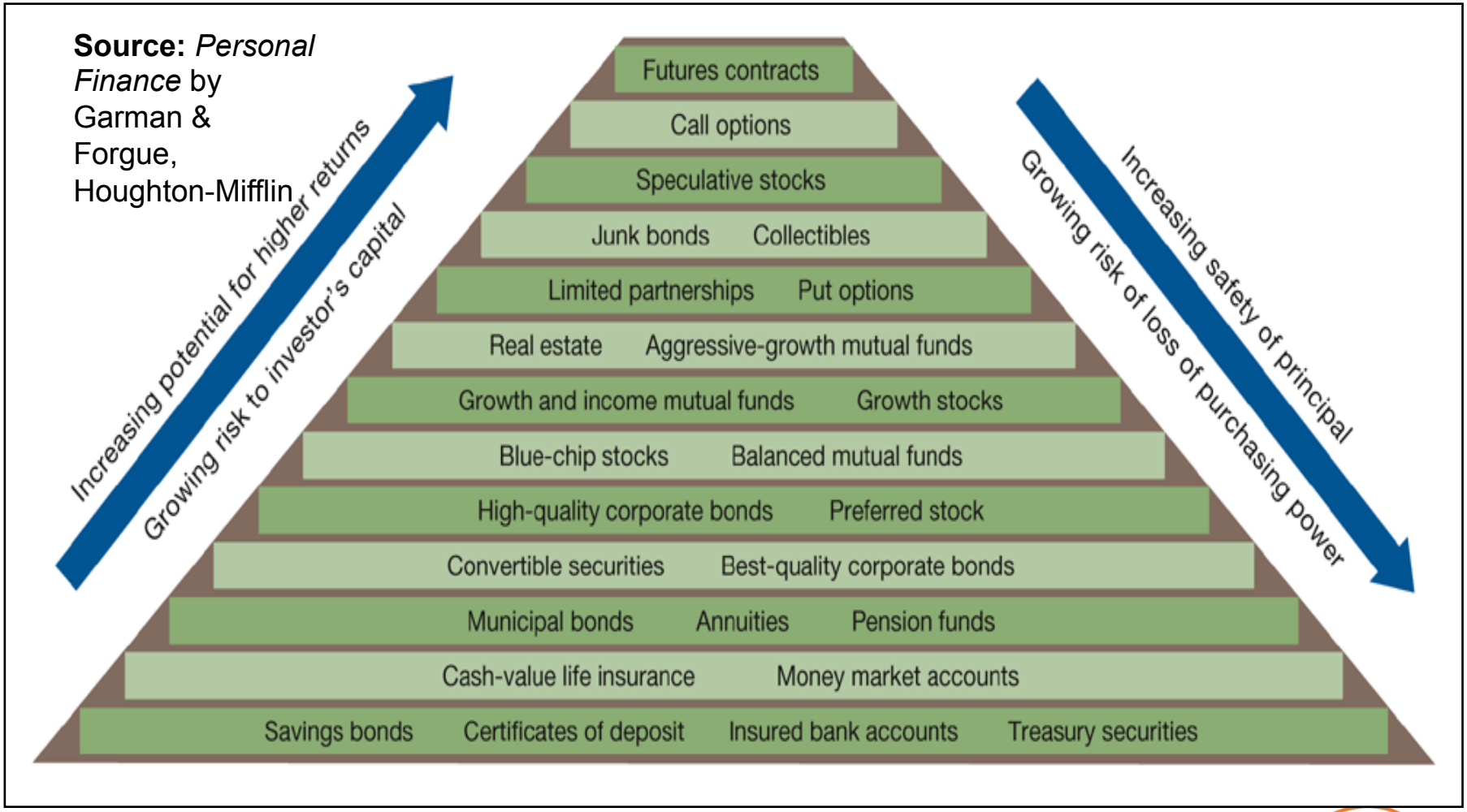
Step 3: Diversify Your Investment Portfolio

- Diversification reduces- but does not eliminate- investment risk
- Select different asset classes and different investments within each class (e.g., stocks)
- Mutual funds and exchange-traded funds (ETFs) are already diversified
- Keep investing: up or down markets

The Risk-Reward Trade-Off



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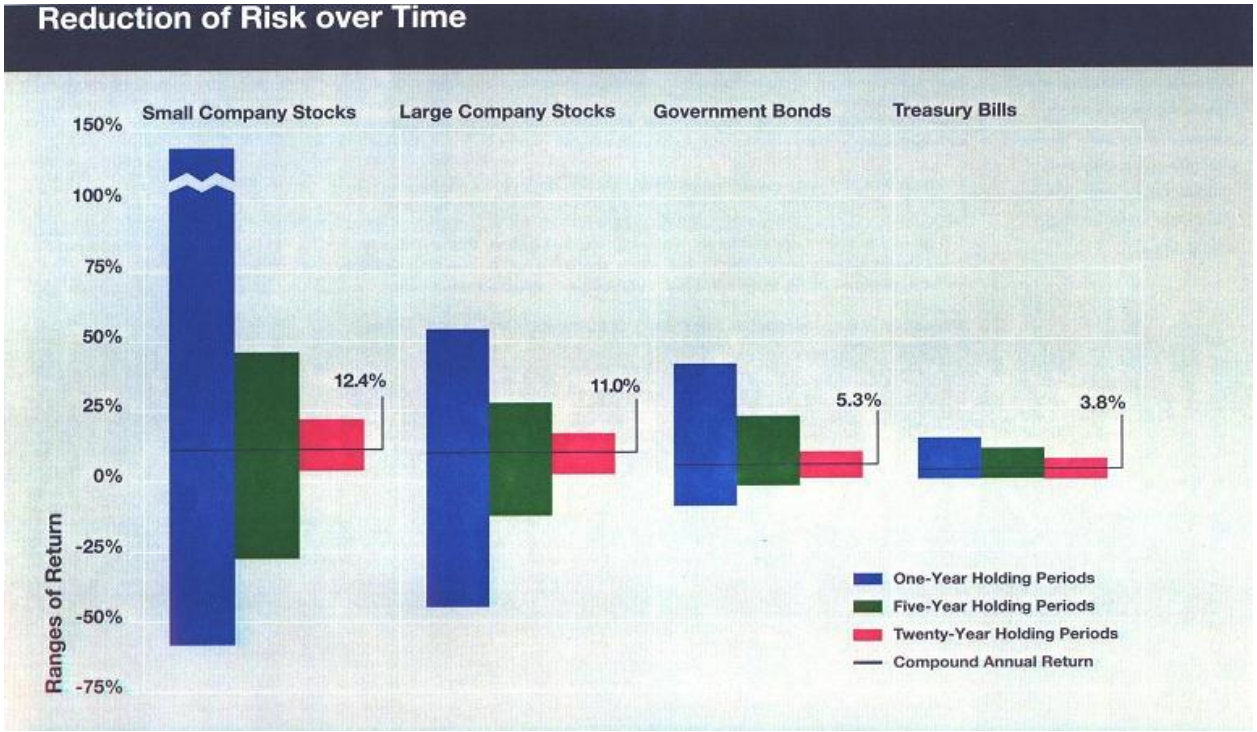
Time Diversification

The risk of volatility (i.e., ups and downs) in investment value is reduced as an investor's holding period increases



Source: Ibbotson Associates

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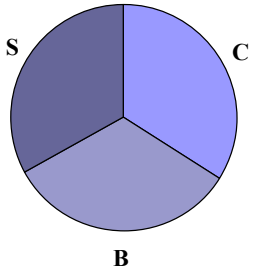
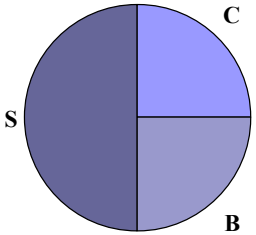
Asset Allocation

- Percentage of portfolio in different asset classes
- The more stock in portfolio, the more aggressive the asset allocation
  - One guideline: 110 – age = % of portfolio in stock
  - Conservative portfolio: less stock in portfolio

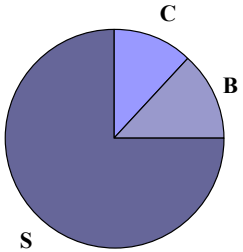
Conservative



Moderate



Aggressive



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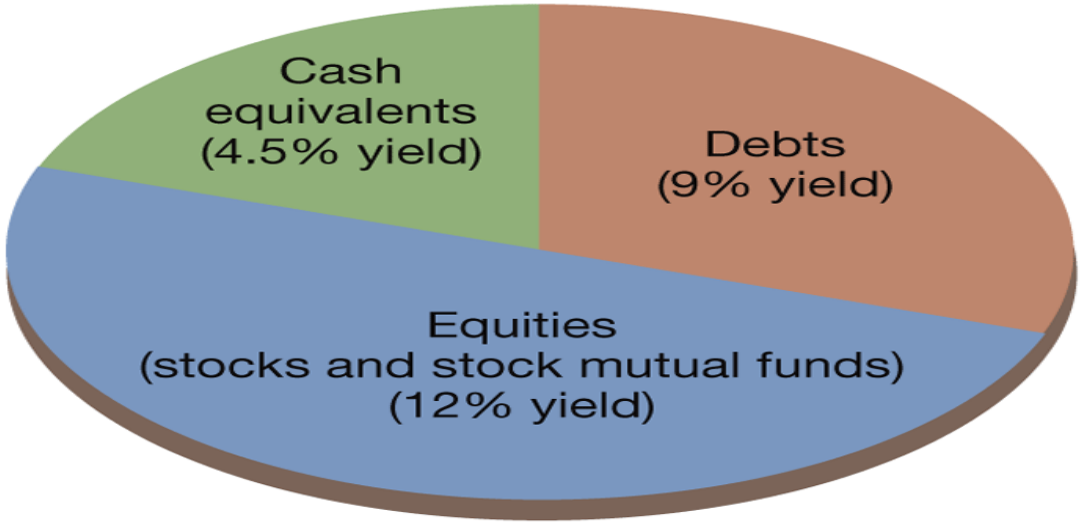
Asset Allocation: A Weighted Average



50%	of portfolio earning 12%	(50 x 0.12)	=	6.0%
30%	of portfolio earning 9%	(30 x 0.09)	=	2.7%
20%	of portfolio earning 4.5%	(20 x 0.045)	=	0.9%
100%	of portfolio earning		=	9.6%

Source: *Garman/Forgue, PERSONAL FINANCE, Fifth Edition*

Step 4: Invest Regularly by Dollar-Cost Averaging

- Takes the emotion out of investing: forces you to buy during market dips
- Make regular deposits at regular intervals, regardless of market levels
  - Buy more shares when market is down
  - Buy fewer shares when market is high
- Invest what you can afford (e.g., $100 per month)

http://www.investopedia.com/terms/d/dollarcostaveraging.asp

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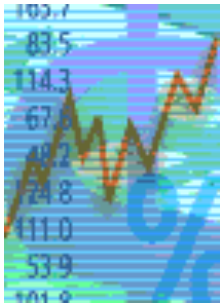
Dollar-Cost Averaging Example

	January (Market High)	**February**	**March**	**April (Market Low)**
Amount Invested	$200	$200	$200	$200
Share Price	$35	$28	$24	$20
Number of Shares Purchased	5.7	7.15	8.3	10

Total Number of Shares: 31.15 shares and **Average Share Cost:** $25.68/share ($800 ÷ 31.15)

Step 5: Buy & Hold Quality Stocks or Stock Funds

- Carlson survey: 75% of millionaires surveyed held stock for more than 5 years
- Frequent trading is expensive: commissions, short-term capital gains & reinvestment risk
- There aren't that many good ideas: financial markets are efficient (i.e., stock prices reflect company value)



Follow “The Rule of Three”

Fund Characteristic	Fund #1	Fund #2	Fund #3
Objective			
Performance			
Expense Ratio			
Required Deposit			
Investment Policies			

Step 6: Take Prudent Investment Risks

- Prudent risks have real potential to increase your return (e.g., quality blue-chip stocks)
- Biggest risk: avoiding risk entirely (portfolio of 100% cash and/or bonds)
- Low-maintenance strategy: “Buy the market” with index funds or exchange traded funds

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Other Prudent Investing Strategies

- Add to investments consistently
- Don’t get greedy for unrealistic returns
- Avoid the urge to check daily returns
- Use discount or online brokerage firms and no-load stocks and mutual funds
- Start investing today: don’t wait for a “perfect” market

Step 7: Choose Quality Investments

- Usually better to get steady 8% to 10% average return per year than very volatile returns
- 8% to 10% returns double money every 7 to 9 years (Rule of 72)
- Quality companies dominate their industries and have consistent profits
- Quality mutual funds match or exceed their index benchmarks

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Step 8: Minimize Investment Expenses

- Use DRIPs and “no-load stocks” (DPPs) to bypass brokers (watch their fees)

- Use discount or online brokers
- Maximize payroll investment deductions (no cost)
- Buy no-load mutual funds without up-front loads
- Avoid mutual funds with 12(b)1 marketing fees
- Look for low mutual fund expense ratios
- Consider low-cost index funds

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Investment Expenses Matter!

- $50,000 in an average stock mutual fund with a 1.5% expense ratio: $50,000 x .015= $750 (annual expenses)
- $50,000 in an index mutual fund with a 0.20% expense ratio: $50,000 x .0020= $100 (annual expenses)
- Over time, this difference is greatly magnified

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Question #3

What is your best investment advice for clients?

Please reply in the chat box.

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Step 9: Take Advantage of Tax Laws

Research: millionaires maximize tax breaks

- Long-term capital gains rate on investments held for 12 months or more
- 401(k) & 403(b) plan contributions with pre-tax dollars (i.e., no federal tax on invested money): $5,000 contribution actually costs $3,600 (28% marginal tax bracket investor) $5,000 x .28 = $1,400
- Roth and/or Traditional IRAs
- Business expenses
- Itemized deductions and tax credits

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Tax-Advantaged Investing

- Earnings on tax-deferred accounts continue to grow
- The longer you defer paying tax, the more you can accumulate
- Money contributed to a Roth IRA grows tax-deferred and earnings can be withdrawn tax free at age 59 ½
- Roth IRAs: no mandatory withdrawals at age 70 ½ and can continue contributing if earn income
- Roth IRAs: can leave tax-free income to heirs (estate-planning tool)

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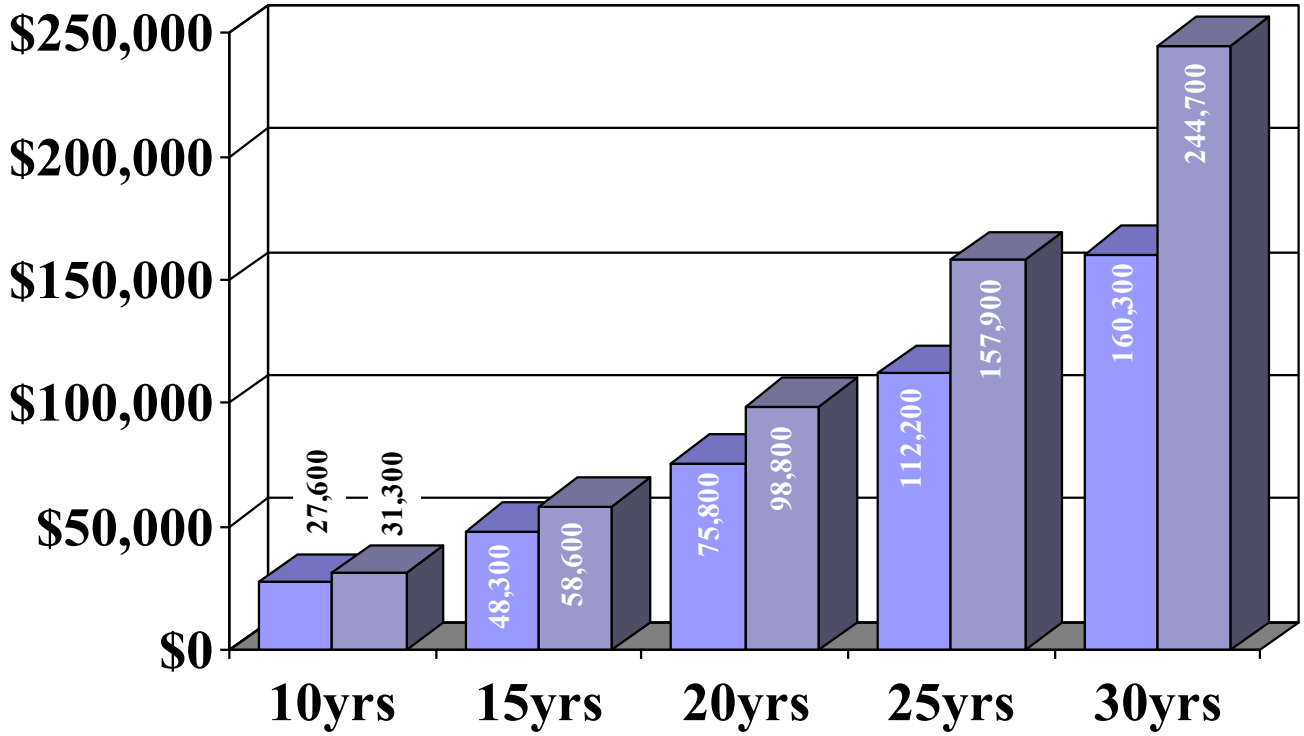
Taxable vs. Tax-Deferred Investing



*Garman/Forgue, PERSONAL FINANCE, Fifth Edition, Tax-Sheltered Returns are Greater than Taxable Returns (Illustration: **8%** Annual Return and **$2,000** Annual Contribution)*

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Question #4

What is your best tax advice for clients?

Please reply in the chat box.

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Step 10: Invest Cash Windfalls

- Income tax refunds
- Retroactive pay
- Bonuses
- Prizes, awards, and gambling proceeds
- Inheritances and gifts
- Divorce and insurance settlements
- Other???

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Keep Lump Sum Distributions Tax-Deferred

- Many workers with a lump sum distribution do not roll it over into a tax-deferred account
- Small lump sums are most likely to be spent
- Small amounts add up:
  - $5,000 distribution at ages 25, 35, 45, & 55

  - 8% annual return
  - Worker would have almost $200,000 at age 65 if distributions are invested
  - Only about $84,000 if age 25 sum is spent

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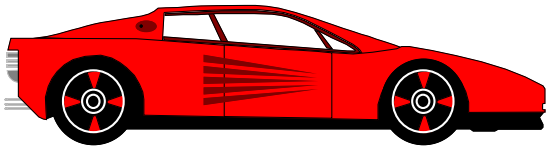
Step 11: Live Below Your Means and Invest the Difference

- Spend less than you earn
- Distinguish needs from wants
- “Step Down Principle” (i.e., different spending levels for the same item)
- Buy cars “new-used”



- Automate investments so money is not spent

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Step 12: Develop a Spending Plan

- Track income and expenses for 1+ months
- List fixed, variable, periodic expenses
- Include savings required to fund goals and for emergency fund
- Treat periodic expenses as monthly expenses

Worksheet:
http://njaes.rutgers.edu/money/pdfs/fs421worksheet.pdf

Expenses + Savings = Income

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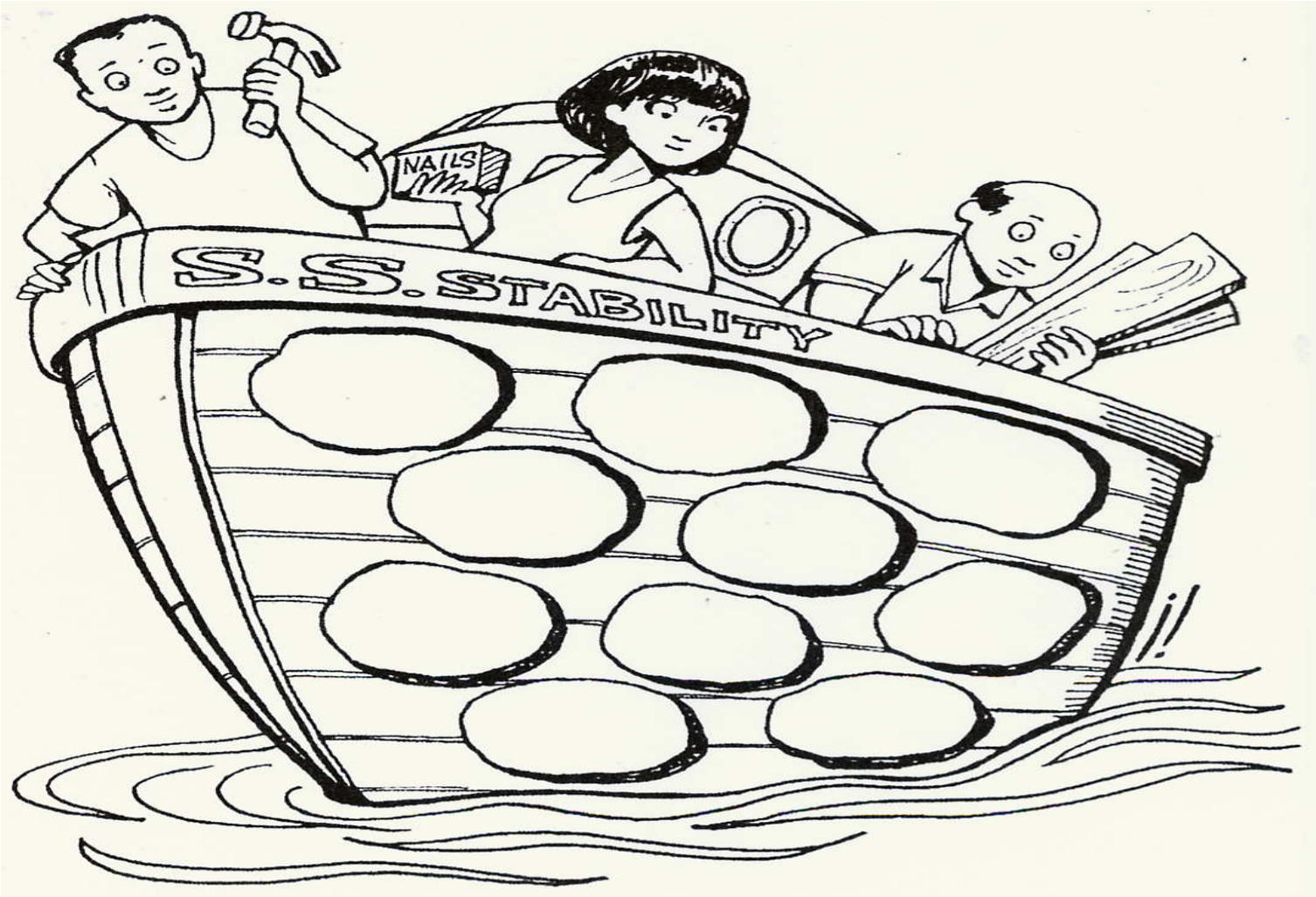
Spending Plan Leaks



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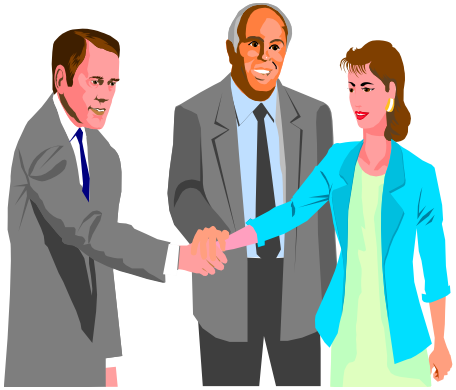
Step 13: Work Hard

- Organize your life with the future in mind
- Set realistic life goals and steps to achieve them
- Expect “seasons of hard work”
- Follow your passions
- Take calculated risks
- Search out opportunities and network



Step 14: Increase Human Capital

- Education and income are strongly related
- Learn skills that are in demand by employers
- Never consider your education finished
- Protect your human capital with good health habits and disability insurance

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Question #5

What are some ways that you have increased your human capital?

Please reply in the chat box.

Step 15: Grow Your Net Worth

- Increase assets
- Reduce debts
- Aim for a 5% annual increase (e.g., $200,000 net worth x .05 = + $10,000 increase)
- 10% (or more) increase is even better!
- Calculate net worth annually to measure progress
- Worksheet: http://njaes.rutgers.edu/money/pdfs/networthcalcworksheet.pdf

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Step 16: Practice Stability

- Interruptions = wealth loss (rob portfolio of time and compound interest)
  - Divorce (cost of lawyer, division of assets)
  - Job hopping (e.g., reduced pension vesting, 401(k) enrollment delays, spending lump sums)
  - Frequent moves (cost of van, closing costs, volatile home values)
- Carlson research: millionaire investors had three different jobs during career

Step 17: Take Care of Yourself

- Health care costs are another financial “shock”
- Exercise, eat right, get enough rest, reduce stress
- Healthy people are more productive; likely to get promoted, and earn more
- Make sure health insurance is adequate

- Longer life: better ROI on FICA tax (Social Security)

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Step 18: Believe in Yourself

- Develop qualities like discipline and focus
- Identify and address obstacles
- Maintain a positive attitude (optimism)
- Shed negative baggage:
  - “I’ll never save enough money”
  - “Investing is too complicated”
  - “It’s too late to start”
- “If it is to be, it is up to me”

Step 19: Pass the "Wealth Test"

- Source: *The Millionaire Next Door*
- Multiply age by realized pre-tax income (excluding inheritances)

- Divide by 10
- Result is what net worth (assets – debts) should be for age and income
- Example: age 35 with $40,000 income
  - 35 x $40,000 = $1,400,000
  - $1,400,000/10 = $140,000 minimum net worth

Wealth Test Worksheet

Your net worth (assets minus debts) _____

Your annual household income (from all sources (excluding income from inherited wealth) _____

Your age (if both spouse work, average your ages) _____

Multiply your income by your age _____

Divide line 4 by the number 10 to get expected net worth for someone with your age and income _____

Divide your net worth (line 1 by line 5) to get your final score. _____

Interpretation of your Score

2.0 or higher, you rank in the top 25% of wealth builders called PAWs (prodigious accumulators of wealth)

1 to 1.99, you rank in the top half of Americans in your wealth building prowess.

0.51 to 0.99, you're a below average generator of wealth for your age and income level.

0.50 or lower, you are one of Stanley and Danko's UAWs (under accumulators of wealth)

Adapted from http://www.bauer.uh.edu/drude/Net.Worth.Worksheet.pdf.

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Step 20: Be Patient

- Ordinary people do become millionaires…
- BUT…accumulating $1 million could take several decades

- Like the *Who Wants To Be a Millionaire?* game show, greatest gains are at the end (e.g., $250,000 to $500,000 to $1,000,000)
- Get started today: compound interest is not retroactive!

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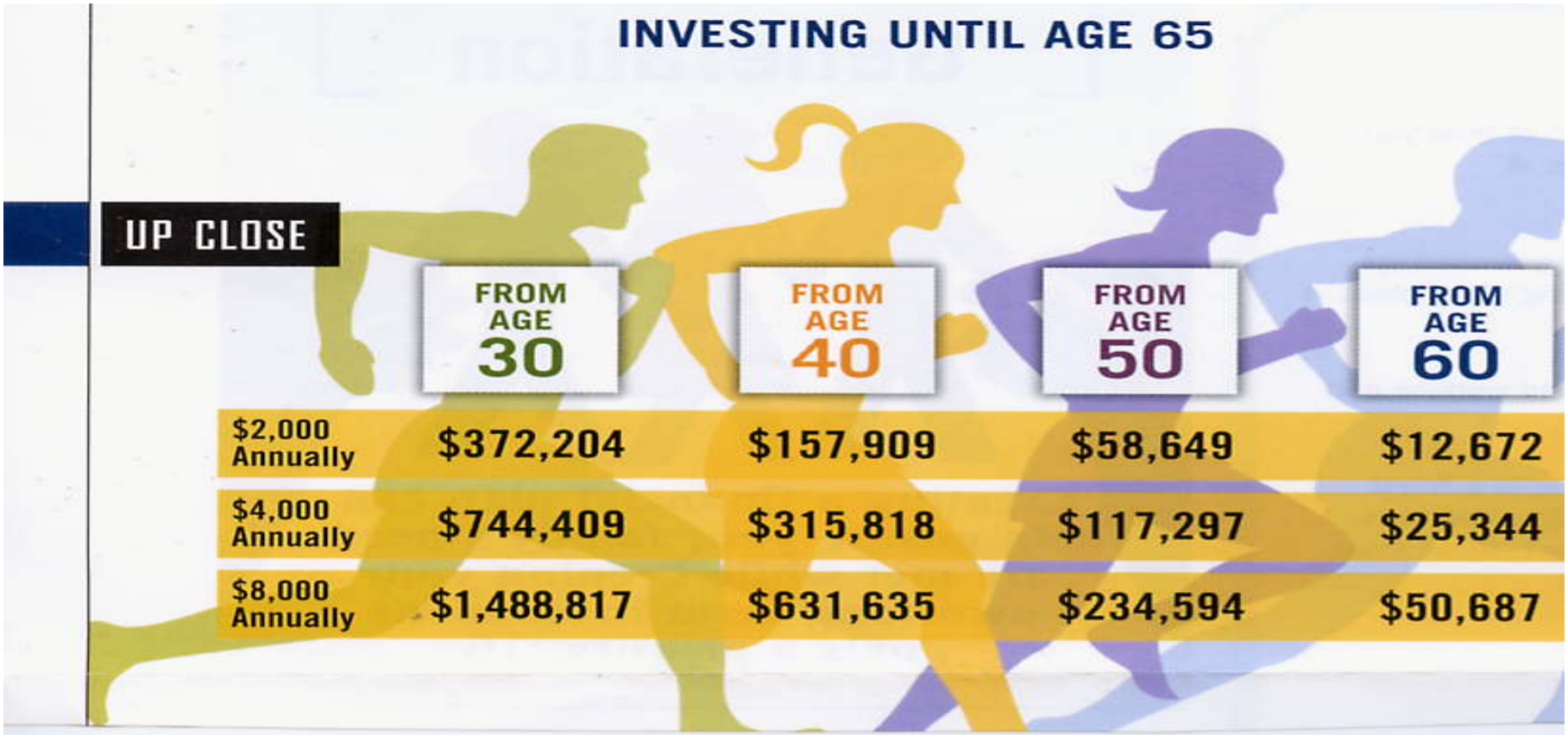
Time + Money = “Magic”



	FROM AGE 30	FROM AGE 40	FROM AGE 50	FROM AGE 60
$2,000 Annually	$372,204	$157,909	$58,649	$12,672
$4,000 Annually	$744,409	$315,818	$117,297	$25,344
$8,000 Annually	$1,488,817	$631,635	$234,594	$50,687

Source: TIAA-CREF; Illustration assumes an 8% average annual return

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The Millionaire Game:

A Perfect Metaphor For Compound Interest

15	$1 Million
14	$500,0
13	$250,0
12	$125,0
11	$64,00
10	$32,00
9	$16,00
8	$8,000
7	$4,000
6	$2,000
5	$1,000
4	$500
3	$300
2	$200
1	$100

50:50

A: Answer A

B: Answer B

C: Answer C

D: Answer D


YOU WIN $1
MILLION DOLLARS!

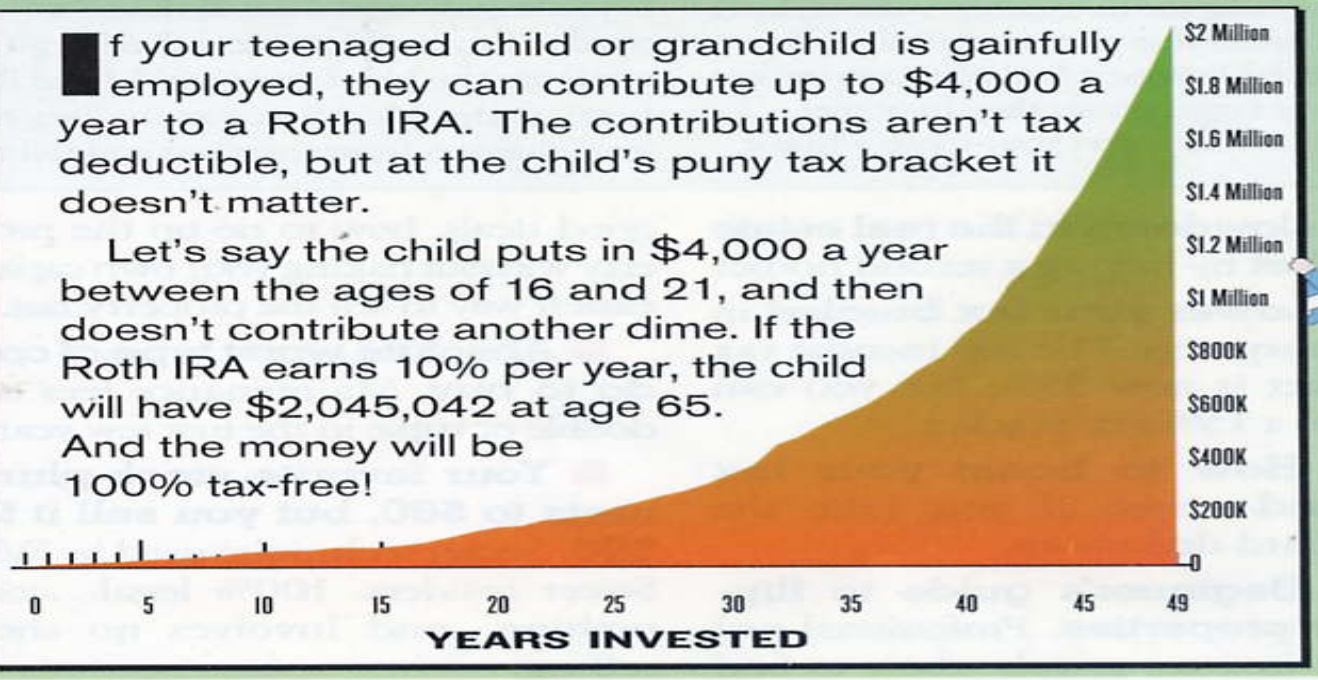
Something to Think About

SMART MONEY TIP

Make Your Grandchild a TAX-FREE Millionaire!

If your teenaged child or grandchild is gainfully employed, they can contribute up to $4,000 a year to a Roth IRA. The contributions aren't tax deductible, but at the child's puny tax bracket it doesn't matter.

Let's say the child puts in $4,000 a year between the ages of 16 and 21, and then doesn't contribute another dime. If the Roth IRA earns 10% per year, the child will have $2,045,042 at age 65. And the money will be 100% tax-free!



Bottom Line PERSONAL

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Will You Be a Millionaire?

Check out these calculators:

- http://cgi.money.cnn.com/tools/millionaire/millionaire.html (CNNMoney)
- http://www.bankrate.com/calculators/savings/saving-million-dollars.aspx (Bankrate.com)
- http://www.youngmoney.com/millionaire-calculator/ (Young Money)
- http://www.dollartimes.com/calculators/millionaire-calculator.htm (Dollar Times)

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Other “Millionaire” Teaching Resources

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Financial Fitness for Life Activity (Council for Economic Education)

Exercise 1.1: The Millionaire Game

http://fffl.councilforeconed.org/book-overview.php?gradeLevel=9-12

http://fffl.councilforeconed.org/lessons.php?gradeLevel=9-12&lid=68287

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The Millionaire Game

a. Most millionaires are college graduates.

b. Most millionaires work fewer than 40 hours a week.

c. More than half of all millionaires never inherited money.

d. Most millionaires attended private schools.

e. Most millionaires drive expensive new cars.

f. Most millionaires work in glamorous jobs, such as sports, entertainment, or high tech.

g. Most millionaires work for very large public companies.

h. Many poor people become millionaires by winning the lottery.

i. A college graduate earns almost double the annual income of a high school graduate.

j. If a high school graduate invests the difference between his or her earnings and the earnings of a high school dropout, from age 18 until age 67, at 8 percent interest, the high school graduate would have over $5,500,000 more than the high school dropout at age 67.

k. Investors who buy and hold stocks for the long-term have better long-term stock returns than those who buy and sell stock more frequently.

l. Millionaires tend to avoid the stock market.

m. At age 18, you decide not to drink soda from the vending machine and save $1.50 a day. You invest this $1.50 a day at 8 percent interest until you are 67. At age 67, your savings from not buying soda from the vending machine are almost $300,000.

n. If you save $2,000 a year from age 22 to age 65 at 8 percent interest, your savings will be more than $700,000 at age 65.

o. Millionaires tend to be single rather than married.

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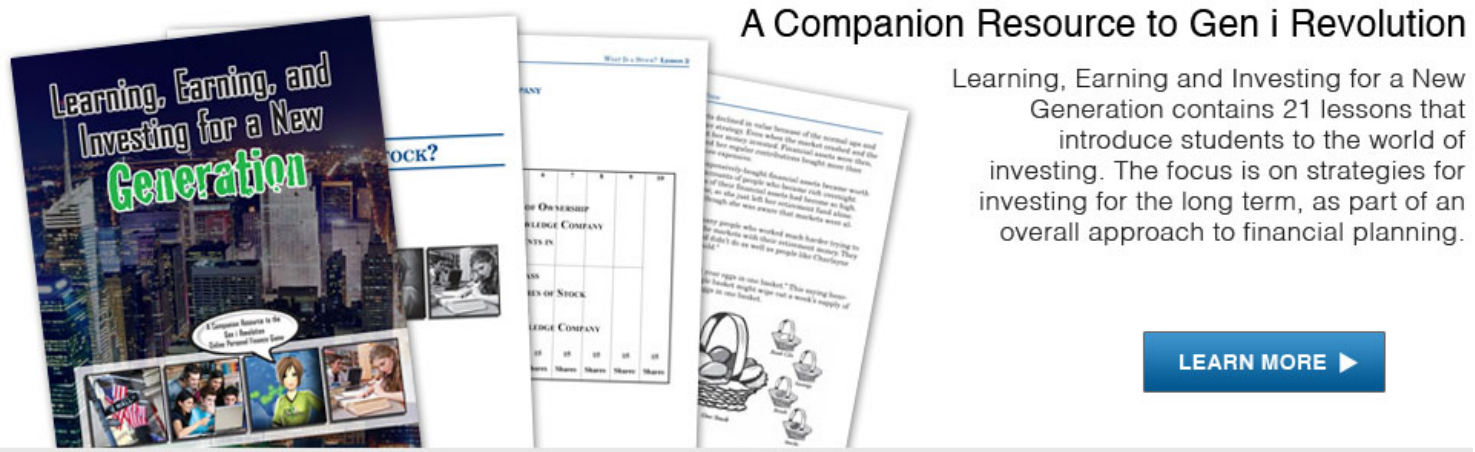
Learning, Earning, and Investing
(Council for Economic Education)

Lesson 9: Building Wealth Over Time

http://lei.councilforeconed.org/

http://lei.councilforeconed.org/lessons.php?lid=68406



4-H Build a Million Club

- http://www.extension.org/pages/61531/4-h-build-a-million#.Ux9bWk2YaM8

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Question #6

Are there any other good resources to teach people to become wealthy over time?

Please reply in the chat box.

Final Thoughts

- Building wealth is possible for average earners but it generally takes time (decades)
- Most people cannot become millionaires from their salaries alone; they need help from time, compound interest, tax breaks, etc.
- Long-term investing is a key component of wealth accumulation
- People with a savings plan are more successful than those without one: http://www.consumerfed.org/news/752

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Recommended Action Steps

- Create/update net worth statement, cash flow statement, and spending plan
- Take the "Wealth Test" (from *The Millionaire Next Door*)
- Try an online "millionaire" financial calculator
- Kick your current savings rate up a notch
- Dollar-cost average investment deposits
- Identify ways to live below your means
- Identify ways to increase your human capital
- Learn more about investing and wealth accumulation

Questions and Comments?

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Virtual Learning Event: June 3-5

Money Behavior: *How People Make Financial Decisions*

- June 3, 11 a.m. ET: *Mental Health & Financial Management*. 2 CEUs
- June 4, 11 a.m. ET: *Heuristics, Anchoring & Narrowing Choice*. 2 CEUs
- June 5, 11 a.m. ET: *The Culture of Personal Finance*. 2 CEUs
- June 5, 1:30 p.m. ET: Panel Discussion - *What Young Adults Need to Know About Money*. 1.5 CEUs

http://www.extension.org/pages/70421/mfln-personal-finance-virtual-learning-event#.U2k4sK1dVPJ

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