JTD

Financial Services, LLC

The Five Basics of Financial Literacy

CREDIT AND DEBT

Understanding the ways credit and debt work for and against you are some of the first steps toward understanding personal finance. While it’s not useful to be scared of credit and debt and avoid it entirely, there are some things to look out for.

Debt

Debt is like any tool: when used correctly, it can be quite useful. When used incorrectly, debt can easily spiral out of control. Missing payments may negatively affect your credit score, and that can take years to recover from. Missed payments, for example, can stay on your credit report for seven years.1

Credit Score

Your credit score is one of the factors lenders use to judge your trustworthiness and qualification for mortgages, auto loans, and other lending. Landlords and employers may also check your credit before renting to you or offering you a job.

INTEREST

Interest can work against you, but it can work for you, too. When you take out a loan with an interest rate, it’s working against you, but when you invest early and take advantage of compound interest, it’s working for you.

Compound Interest

When you’ve got an account that’s accruing interest, the interest earned gets added to the principal. Then, interest is earned on the new, larger principal, and the cycle repeats. That’s compound interest, baby!

THE VALUE OF TIME

It's never too early to start saving. In fact, the earlier you start, the better your result. By getting started with retirement savings sooner rather than later, you can leverage the value of time to your advantage.

Cindy vs. Charlie

Consider the case of Cindy and Charlie, who will each invest a total of $100,000. Cindy starts right away, depositing $10,000 a year at a hypothetical 6% rate of return. After 10 years, Cindy stops making deposits. Charlie, on the other hand, waits 10 years before starting to invest. He also puts $10,000 a year away for 10 years, at the same hypothetical rate as Cindy. After 20 years, who has more money? Shockingly, Cindy's balance is nearly twice as big as Charlie's, thanks to the extra time her investment returns had to compound.2

INFLATION

Inflation has the potential to eat away the purchasing power of your money. That means, with inflation, the dollar you earn today may not be worth a dollar in the future. Here some things to keep in mind when thinking about inflation.

Cash in a Mattress

Keeping all your cash under a mattress is not only unsafe, it literally costs you money. Assuming the rate of inflation is a hypothetical 2%, every dollar you squirrel away will shrink in value to just $.98 next year.

Rate of Return

Because inflation erodes the purchasing power of your money, any returns you earn on your accounts may not be the “real” rate of return. If your account earned a hypothetical 6% rate of return over the last year, but inflation was 1.5%, your real rate of return was 4.5%.3

IDENTITY THEFT AND SAFETY

In the modern world, identity theft is one of the biggest threats to financial and personal safety. A cracked password or misplaced Social Security number can have big consequences on your current and future finances.

Consider using a password manager

The common wisdom is to use a unique password for each site and service you use. A password manager can make this easier by generating and storing strong passwords until you need to use them.

1. Experian, 2020
2. This is a hypothetical example of mathematical compounding. It’s used for comparison purposes only and is not intended to represent the past or future performance of any investment. Taxes and investment costs were not considered in this example. The results are not a guarantee of performance or specific investment advice. The rate of return on investments will vary over time,

particularly for longer-term investments. Investments that offer the potential for high returns also carry a high degree of risk. Actual returns will fluctuate. The types of securities and strategies illustrated may not be suitable for everyone.
[3.] This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments. Past performance does not guarantee future results.