



Tips for Your Twenties

If you're in your twenties, now's the time to start saving for your future and learning how to be a smart borrower. Get started with these four tips.

Make your saving automatic. If you haven't already, sign up for direct deposit and payroll deduction at your credit union. With direct deposit your paycheck is automatically put into your credit union account. With payroll deduction an amount is transferred regularly from your paycheck to build your savings account or to pay off a loan.

Make your investing routine, too, by taking advantage of employer-sponsored retirement plans and any automatic investment plans.

Jumpstart your retirement fund. Getting an early start is one of the easiest ways to build your nest egg because you've got time and compound growth on your side. Even small amounts saved now will add up to big bucks down the road.

For example, if you invest \$150 a month starting at age 25 in a tax-free Roth IRA that earns a 7% average annual return, at age 65 you'll have accumulated a total of \$393,722. Compare this to if you had waited to begin saving until age 35 -- your nest egg would total only \$182,995.

That \$18,000 you didn't save between the ages of 25 and 35 ends up costing you more than \$200,000*.

Prepare for the unexpected. Make it a priority to review your health, disability, life, vehicle, homeowners, and personal liability insurance policies to make sure you have adequate coverage.

If you're a renter, make sure you have tenants insurance since your landlord's insurance only covers the building itself, not your possessions, and its personal liability protection doesn't extend to you. Tenants insurance is relatively inexpensive, so there's no reason to go without it.

Also make it a priority to build an emergency fund equal to three to six months' living expenses. Keep this money where its readily accessible, such as in a savings or money market account, and resist the temptation to dip into it for anything but true emergencies, such as illness or unemployment. If you do, replace withdrawals as soon as possible.

Build a solid credit history. Now's the time to make a spending plan, limit your debt, and pay your bills on time. If you don't have an established or strong credit history, check with your credit union for information about share-secured loans or credit cards.

With this type of credit, you open a savings account with a specified balance and your account serves as collateral. You can't use the money in the savings account, but it usually earns interest while you build your credit history by making prompt monthly loan payments.

Keep your debt under control. You'll never get ahead if you get buried in debt now. As a general rule, limit your consumer debt payments (excluding your mortgage) to no more than 10% to 15% of your monthly take-home pay.

To see where you stand, run your monthly loan payments through a debt level software program or online calculator. From there, figure out how to pay down your debt with the least amount of interest using a debt reduction software program or online calculator.

*This is a hypothetical example used for illustrative purposes and does not represent a purchase in any particular investment. This example does not reflect any fees or charges associated with investing, which would lower an investment's overall performance.

The Market's Ups and Downs



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When investing your retirement savings, it's essential to expect the stock market to go down as well as up. Here's a summary of the market's past fluctuations and how to prepare for future downturns.

Corrections & bear markets

According to Crandall, Pierce & Company, there have been 21 corrections and nine bear markets since 1945, as measured by the Standard & Poor's 500 Index of large-company stocks.

Corrections, defined as a decline of between 10% and 20%, ranged from a drop of 10% from September 23, 1998 to October 8, 1998, to a drop of 19.92% from July 16, 1990 to October 11, 1990. Corrections lasted from about two weeks to about a year and a half.

Bear markets, defined as a decline of at least 20%, ranged from a drop of 21.63% from August 2, 1956 to October 22, 1957, to the more recent drop of 49.15% from March 24, 2000 to October 9, 2002. Bear markets lasted from about three months to about three years.

On average, corrections occurred once every 2.8 years and bear markets occurred once every 6.4 years. Once a rebound began it took an average of about eight months after a correction for the market to regain its pre-slump high, and about three years after a bear market to return to its peak. Since 1946 the longest it took for the market to regain its pre-slump high was 7½ years, after the 1973-1974 bear market.

Riding out the downturns

The key to riding out the down years: Maintain a diversified investment portfolio and think long term. Also keep a reserve of cash for emergencies and major purchases. That way you won't have to dip into your retirement savings and sell your investments at a loss when they're down.

Although history can't predict the future, despite the downturns the market has always recovered. In fact, large-company stocks, as measured by the Standard & Poor's 500 Index, have outperformed all other types of investments since 1926, returning an annual average gain of about 10%.

Furthermore, as measured by the Standard & Poor's 500 Index, bull markets have lasted longer than bear markets on average. Bull markets have also generated greater advances than bear market losses. The shortest bull market lasted two years, from October 1966 to November 1968, and returned 48%. The longest bull market lasted twelve years, from December 1987 to March 2000, and returned a record-breaking 582%.

What's more, time has been a stock investor's ally. In fact, out of the 70 rolling ten-year periods since 1926, there have only been two in which large and small company stock returns have been negative – and those were the years that included the Great Depression.

No guarantees

Although time has eventually smoothed out the ups and downs over the long haul, investment returns varied greatly from year to year and decade to decade. Moreover, there's no guarantee that stocks will outperform in the future. And even if they do, you shouldn't count on the unprecedented double-digit returns of the 1990s.

For instance, from 1970 to 1979 the S & P 500 Index of large-company stocks returned only 5.9% a year – a negative real return since inflation was running at 7.4%. Likewise, the Standard & Poor's Index went almost 12 years between 1963 and 1974 without a permanent gain. The Index did move up in those years, but it fell back to where it started before heading upward again.

For more information on investing please call a Centra Financial Services registered rep today!