

Unique Advice for the Cash-Strapped Generation

The

Real Life Investing guide

Kenan Pollack
Eric Heighberger

How to Buy What You Want,
Save for Retirement, and
Take the Vacation of Your
Dreams **While**

You're Still Young

- Start with as Little as \$50 a Month

- Plan for Long-Term Goals and Still Have Cash Left Over

- Use the Internet to Help Make Savvy Money Decisions



The Real Life Investing Guide

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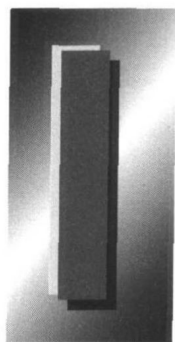
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Music, and Investing, for the Masses

“The time to rise has been engaged.” With those words, R.E.M. opened their fifth album, *Document*. The tune from which those lyrics are lifted, “Finest Worksong,” was not written about personal finance or Wall Street investing, but for a legion of young individuals facing the prospect of an uncertain future, no truer words were ever spoken. Or sung.

That said, it’s not coincidental that we decided to use the story of R.E.M., the highly influential folk-rock band from Athens, Georgia, to open our first chapter about the basics of investing. The group’s story is not only an interesting chapter in the history of alternative music in the early 1980s, but it’s analogous to that of a small company that succeeds and grows over time, rewarding its early supporters. With pop culture tales like that, and other nonfinance touches, we hope to give investing an attractive element for those perhaps not steeped in the world of stocks, bonds, and mutual funds. If that description sounds familiar, then read on.


For all too long, investing has been the domain of the older, more established and well-to-do. In days past, the younger members of



society seemed neither to care about investing nor find its concepts and terminology easy to swallow. With little concern about the financial future, there was neither the impetus nor feasibility to get started in the world of Wall Street. These days, both the playing field and the rules have changed. The result is a whole new breed of investor.

What's the catalyst behind this youth-investing movement? For one, there's the future. While our parents slept soundly, believing in company pension plans or robust entitlement programs, our generation has learned to *think otherwise*. *Much-touted surveys, such as those from the twenty-something advocacy group Third Millennium, note that today's youth have more faith in the existence of UFOs than Social Security being around by the time they retire. That shouldn't come as a huge surprise, since by some estimates, Social Security could go belly up by 2029. Other polls note that young Americans think the soap opera General Hospital will outlast the federal Medicare program. Hyped polls aside, the real issue is that this younger generation realizes that they alone will be responsible for themselves and their finances. More important, they are starting to do something about it.*

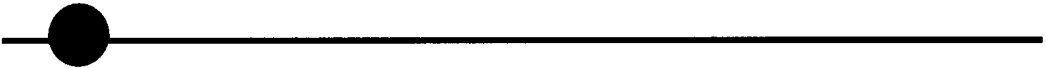
The shifts on Wall Street too have been nothing less than tectonic. With the explosion of mutual funds and discount brokers—even stock plans that allow individuals to open accounts cheaply and directly through the company—beginning investors can tap into the stock market's historic growth with just \$50. Sources of financial information have blossomed, too. With loads of magazines and journals, the Internet, and the World Wide Web, access to a bounty of financial information, ranging from real-time stock quotes to comprehensive company profiles, has never been easier. In some ways this trend is remarkable. Much of this exclusive data was once the province of high-profile investment houses and their exclusive clients. It's now become the territory of



the masses. Like kindling to the flame, this future uncertainty, coupled with the lowered barriers to entry—unprecedented in the market’s history—have helped fuel this generation’s embrace of investing.

Articles in financial publications, from *The Wall Street Journal* to *Fortune*, and surveys such as one from the Securities Industry Association have noted that thousands of younger Americans have already jumped aboard the investing bandwagon. A 1997 survey conducted for NASDAQ, a computer-based stock trading network, found that already a majority of investors, some 55 percent, are under the age of 50. Many have ventured into stocks, others into bonds, and legions more into mutual funds. Some say it’s for their long-term goals like buying a home or retirement, even their kids’ college tuition. (Not bad for individuals who not that long ago left the main quad themselves.) Others point to short-term goals like graduate school a few years down the road, or a new car. After all, when the basic savings account barely keeps pace with inflation, this generation has learned that the market is the more important place to put its hard-earned dollars.

While many have already started investing, there are millions more who are still waiting in the wings. Whether they simply lack the push or discipline to get started, they are missing out on a historic time. They are not to blame. After all, investing doesn’t carry the same appeal as a skiing weekend or camping trip. Never mind that too many sources of financial information are targeted toward users twice their age. It is for this group of young would-be investors that we created *The Real Life Investing Guide*. Dedicated to the proposition that investing *can* be interesting as well as beneficial, *The Real Life Investing Guide* provides the reader with the basics of investing in a compelling way that goes beyond stock tables and balance sheets. One recurring theme used throughout the book, for instance, is music. We opted for that



approach because the parallels to the investing world are striking. And there are definitely those people—and we’re the first to admit it—who have a much greater interest in reading up on U2 than 401(k)s.

The Real Life Investing Guide is broken into five major chapters: “Investing 101: Just the Facts,” “Maximum Securities: Stocks and Bonds,” “From Mosh Pits to Mutual Funds,” “Grad School, Travel, or New Wheels: Saving for Short-Term Goals,” and “Plaid Trousers in the Sun: Investing for Retirement.” These sections can be read individually or in any sequence, depending on the reader’s needs. For those beginning from scratch, we suggest starting with Chapter 1. From there, the book goes from the general (What is risk? What is a mutual fund?) to the specific (What are the tax issues to consider with an IRA?). Incidentally, the largest chapter in the book is on stocks and bonds. This is not because we suggest a stock-only investment strategy, but rather that these securities will most likely, directly or indirectly, constitute a bulk of a long-term portfolio holding. We strongly recommend that readers start learning now about what they are and how they work.

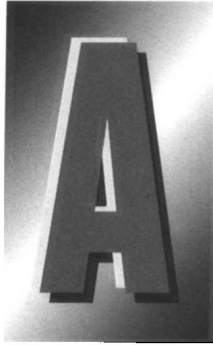
If you’re looking for some hot stocks, let us save you some time: You *won’t* find that information here. You also won’t score any get-rich-quick investing suggestions. What you *will* find is information geared directly toward the needs of beginning investors. For example, on page 92 is a list of 10 highly-rated mutual fund companies that let you open an account with just \$50. On page 18 is an expert’s opinion on handling credit card debt and investing. In addition, there are charts, graphs, and profiles of young people who are already investing. There are also quirky statistics (How many crayons does the typical 10-year-old use? Answer on page 62) to make this anything but a typical text-only financial guide. You can also find more interactive features and additional information on our web site at <http://www.rlig.com>.

Total personal finance involves comprehensive, smart money management and fiscal responsibility. This book is geared toward one element of that: investing. By using this resource, we hope that current and future investors will be able to either pursue additional information at their own pace or seek the help of professionals in the field. Either way, we would like the reader to take away from *The Real Life Investing Guide* a better understanding of how the world of investing works and pin down the basics to get started. In the case of working with professionals, we hope the book helps you to ask the right questions and simply be informed to create a long-term investment strategy for the years ahead. For when it comes to graduating to more advanced sources of information, there is simply no lack of places to turn: bookstores, newsstands, television, the Internet Our interest is providing a helpful—and enticing—first step in that direction.

Investing can be cool, but we're the first to admit that no one in his or her youth who wasn't an investing prodigy at age six wants to spend a lot of free time immersed in the topic. After all, there are great concerts to see and new CDs to hear. It's our firm belief that no one need sacrifice the youth associated with in-line skating or mosh pits just yet for the responsibility implied with owning a mutual fund.

In fact, we hope you can manage both.

Kenan Pollack
Eric Heighberger
Washington, DC
1997




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Producing a book, we quickly learned, requires nothing short of a team effort and there are dozens of people we would like to thank for their help, interest, and encouragement. To these countless masses, we'd like to extend a blanket "thank you" for your help, encouragement, and quiet toleration (i.e., harassing email) of our "we have to do book work" excuses over the past many months.

There are a few people, however, we would like to list individually for helping to make this publication possible. They date back to the early days when the book was just a notion, way back in that cramped—but always clean, mind you—Washington, DC, apartment. They are:

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To each and every one of you, thanks again for all your help.

And now our feature presentation...

Kenan Pollack
Eric Heighberger
Washington, DC

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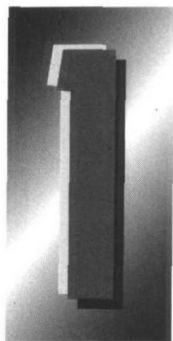
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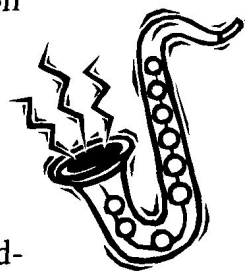


Investing 101: Just the Facts

There's only one way of life and that's your own.
—The Levellers*


When Bands Are Like Companies

Step back to the year 1981. Ronald Reagan has just taken office in January. Two months later, he will be wounded during an assassination attempt by John Hinckley, Jr. outside the Washington Hilton in the nation's capital. NASA's Space Shuttle program will take its maiden orbital flight when Columbia is launched in April. The Rubik's Cube is all the rage, and the hot new TV show is *The Greatest American Hero*. That same year a new band named R.E.M., formed a year earlier in Athens, Georgia, releases a couple of seven-inch singles, including "Radio Free Europe" on the tiny hometown Hib-Tone label. Suppose you were a big music fan back then and happened to buy the two singles on the advice of a friend for three dollars each.



"One Way," Written by Marcella Levy and Billy Hughes. Copyright © 1991 Island Music, Ltd. Used by Permission. All rights reserved.





The following year R.E.M. signs with the college-band label IRS Records and releases its first mini-album, *Chronic Town*, to wide critical acclaim. In 1983, when the band puts out its first full-length album, *Murmur*, the music critics and college radio stations give it a major thumbs up. The song “Radio Free Europe,” previously released on *Chronic Town* and also on *Murmur*, becomes an instant classic.

The next year the band comes out with *Reckoning* and the year after that *Fables of the Reconstruction*. Both albums increase the popularity and following of the band nationwide. By the time R.E.M.’s fourth album, *Life’s Rich Pageant*, comes out in 1986, the group is only heading in one direction: up. In a 1987 cover story, *Rolling Stone* magazine dubs R.E.M. America’s best band. Their next album, *Document*, contains the band’s first big hit, “The One I Love,” and it helps take the album to the top 10 charts. At this point the band, once denizens of small clubs and theaters, is selling out major arenas everywhere. There’s little doubt: R.E.M. is huge.

By 1987, six years after you purchased those singles for just a few dollars, their value has exploded. Used record stores are offering up to 10 times what you paid for them back in 1981. Two factors combined to boost the value of what were simply singles from a no-name band on a no-name label. First, the band’s incredible success prompted huge demand for virtually everything about them from old T-shirts and posters to bootleg recordings. Second, the introduction of the CD—and the subsequent decline in the production of vinyl albums—further boosted the value of these hard-to-find items to collector’s status. By the time you eventually sell the Hib-Tone singles at a used record store—after trading in your turntable for a CD player, the three dollars you *invested* in the singles fetches a \$30 price tag, a 500 percent profit over the original purchase price. Not bad, you note, as you quietly thank Michael, Peter, Mike, and Bill.

The point here isn't about the success of R.E.M., the music Mecca that was Athens, Georgia or even whether early R.E.M. fans are bitter that the band got so popular. It's simply a story about harnessing the growth and power of a small group that makes it big. Indeed, replace the name R.E.M. with that of a company like Microsoft or Intel, and swap that 1981 small Hib-Tone label record purchase with the procurement of company stock and the parallels to the world of investing become clearer.

Music aside, instances of investing abound in everyday life and may date back to our childhood. For instance, did you ever collect and trade baseball cards? Or perhaps obscure Barbie dolls, like that limited-edition Disco Dater Barbie? Or old *Star Wars* figures? The flashback session ends here, but the investing parallels do not. Many of the most basic and fundamental investing concepts explained in the pages ahead follow the same lines as those action figures and trading cards. Along the way you may encounter descriptions of terms new to you. But as for the absolute fundamental: putting money into something and watching it grow, you're probably already a proponent of that practice. If so, congratulations and welcome to the world of investing.

Investing: What's Up?

Thinking about investing, might trigger memories of the ultraslick finance mogul Gordon Gekko brokering massive stock transactions in the movie *Wall Street*. Other images come from investment firm television commercials showing a retired couple enjoying their golden years. The voice-over lets us know they're financially carefree now because they were wise enough to start and maintain their investing program with the professional advice of this particular firm. While such visual metaphors

Investing: Putting money into securities such as stocks, bonds, or mutual funds with the hope that it will grow in value.