Personal Finance
To Barb, my partner and my love—
for showing me happiness that money can’t buy
About the Author

Arthur J. Keown is the R. B. Pamplin Professor of Finance at Virginia Polytechnic Institute and State University. He received his bachelor’s degree from Ohio Wesleyan University, his M.B.A. from the University of Michigan, and his doctorate from Indiana University. An award-winning teacher, he is a member of the Academy of Teaching Excellence at Virginia Tech, has received five Certificates of Teaching Excellence, the W. E. Wine Award for Teaching Excellence, and the Alumni Teaching Excellence Award, and in 1999 received the Outstanding Faculty Award from the State of Virginia. Professor Keown is widely published in academic journals. His work has appeared in The Journal of Finance, the Journal of Financial Economics, the Journal of Financial and Quantitative Analysis, The Journal of Financial Research, the Journal of Banking and Finance, Financial Management, the Journal of Portfolio Management, and many others. Two of his books are widely used in college finance classes all over the country—Financial Management and Foundations of Finance: The Logic and Practice of Financial Management. Professor Keown is Fellow of Decision Sciences Institute and former head of the finance department. In addition, he has served as the co-editor of The Journal of Financial Research, and has served the Financial Management Association’s Survey and Synthesis Series. He was recently inducted into Ohio Wesleyan’s Athletic Hall of Fame and lives with his wife and two children in Blacksburg, Virginia, where he collects original art from Mad Magazine.
Brief Contents

Preface xxiii

Part 1  Financial Planning
1  The Financial Planning Process  2
2  Measuring Your Financial Health and Making a Plan  28
3  Understanding the Time Value of Money  58
4  Tax Planning and Strategies  88

Part 2  Managing Your Money
5  Cash or Liquid Asset Management  134
6  Using Credit Cards: The Role of Open Credit  164
7  Using Consumer Loans: The Role of Planned Borrowing  194
8  The Home and Automobile Decision  224

Part 3  Protecting Yourself with Insurance
9  Life and Health Insurance  270
10  Property and Liability Insurance  318

Part 4  Managing Your Investments
11  Investment Basics  348
12  Securities Markets  378
13  Investing in Stocks  410
14  Investing in Bonds and Other Alternatives  442
15  Mutual Funds: An Easy Way to Diversify  476

Part 5  Life Cycle Issues
16  Retirement Planning  514
17  Estate Planning: Saving Your Heirs Money and Headaches  552
18  Fitting the Pieces Together  580

Appendix A: Compound Sum of $1  618
Appendix B: Present Value of $1  620
Appendix C: Compound Sum of an Annuity of $1 for n Periods  622
Appendix D: Present Value of an Annuity of $1 for n Periods  624
Appendix E: Monthly Installment Loan Tables  626
Index  629
4 Tax Planning and Strategies 88

Taxes Then, Taxes Now 90

The Federal Income Tax Structure 91
Marginal Versus Average Rates 93
Effective Marginal Tax Rate 94
Capital Gains and Dividend Income 94
Filing Status 95
Cost of Living Increases in Tax Brackets, Exemptions, and Deductions 96
Paying Your Income Taxes 96

Other Taxes 97
Other Income-Based Taxes 97
Non-Income-Based Taxes 97

Calculating Your Taxes 98
Step 1: Determining Gross or Total Income 98
Step 2: Calculating Adjusted Gross Income (AGI) 99
Step 3: Subtracting Deductions 101
Step 4: Claiming Your Exemptions 104
Step 5: Calculating Your Taxable Income, and, from that, Calculating Your Base Income Tax 105
Step 6: Subtract Your Credits and Determine Your Taxes Due 106

Other Filing Considerations 110
Choosing a Tax Form 110
Electronic Filing 111
Filing Late and Amended Returns 112
Being Audited 113
Help in Preparing Taxes 113

Model Taxpayers: The Taylors File Their 2004 Return 114
Determining Gross or Total Income (line 22) 115
Subtracting Adjustments to Gross or Total Income and Calculating Adjusted Gross Income (line 36) 116
Subtracting Deductions (line 39) 118
Claiming Exemptions (line 41) 119
Calculating Total Tax (line 62) 119

Tax Strategies to Lower Your Taxes 119
Maximize Deductions 120
Look to Capital Gains and Dividend Income 122
Shift Income to Family Members in Lower Tax Brackets 123
Receive Tax-Exempt Income 123
Defer Taxes to the Future 123

Summary 124
Review Questions 125
Problems and Activities 125
Suggested Projects 126
Do Not Go Gently into that Tax Return 128

Part 2 Managing Your Money 134

5 Cash or Liquid Asset Management 134
Managing Liquid Assets 136
Automating Savings: Pay Yourself First 136
Financial Institutions 137
“Banks” or Deposit-Type Financial Institutions 137
Nondeposit-Type Financial Institutions 139
What to Look for in a Financial Institution 139
Cash Management Alternatives 140
  Checking Accounts 140
  Savings Accounts 141
  Money Market Deposit Account 143
  Certificates of Deposit 143
  Money Market Mutual Funds 144
  Asset Management Account 144
  U.S. Treasury Bills, or T-Bills 145
  U.S. Series EE Bonds 145

Comparing Cash Management Alternatives 146
  Comparable Interest Rates 146
  Tax Considerations 148
  Safety 149

Establishing and Using a Checking Account 149
  Choosing a Financial Institution 150
  The Cost Factor 150
  Convenience Factor 151
  Consideration Factor 152
  Balancing Your Checking Account 152
  The Check Clearing Act for the 21st Century or Check 21 154
  Other Types of Checks 155

Electronic Funds Transfers 155
  Automated Teller Machines 156
  Debit Cards 157
  Smart Cards 157
  Stored Value Cards—Another Way to Carry Cash 158
  Fixing Mistakes—Theirs, Not Yours 158

Summary 158
Review Questions 159
Problems and Activities 159
Suggested Projects 160
Check It Out 161

6 Using Credit Cards: The Role of Open Credit 164

A First Look at Credit Cards and Open Credit 166
  Interest Rates 166
  Calculating the Balance Owed 167
  Buying Money: The Cash Advance 169
  Grace Period 169
  Annual Fee 169
  Additional Fees 170

The Pros and Cons of Credit Cards 170
  The Advantages of Credit Cards 171
  The Drawbacks of Credit Cards 171

Choosing a Source of Open Credit 172
  Bank Credit Cards 173
  Bank Card Variations 173
  Travel and Entertainment Cards 174
  Single-Purpose Cards 174
  Traditional Charge Account 175
  The Choice: What’s Best for You 175

Getting a Credit Card 176
  Credit Evaluation: The Five C’s of Credit 176

The Key To Getting Credit: Your Credit Score 177
  Determining Creditworthiness 177
  Your Credit Score 178
Contents

Summary 219
Review Questions 219
Problems and Activities 220
Suggested Projects 221
And Now, A Few Words From The “Loan Ranger” 223

8 The Home and Automobile Decision 224

Smart Buying 226
Step 1: Differentiate Want from Need 226
Step 2: Do Your Homework 226
Step 3: Make Your Purchase 226
Step 4: Maintain Your Purchase 227

Smart Buying in Action: Buying a Vehicle 227
Step 1: Differentiate Want from Need 229
Step 2: Do Your Homework 229
Step 3: Make Your Purchase 231
Step 4: Maintain Your Purchase 234

Smart Buying in Action: Housing 236
Your Housing Options 237
Step 1: Differentiate Want from Need 238
Step 2: Do Your Homework 238
Renting Versus Buying 242
Determining What You Can Afford 243
Financing the Purchase—The Mortgage 247
Conventional and Government-Backed Mortgages 248
Fixed-Rate Mortgages 249
Adjustable-Rate Mortgages 249
Other Mortgage Loan Options 251
Adjustable-Rate Versus Fixed-Rate Mortgages 253
Mortgage Decisions: Term of the Loan 254
Coming Up with the Down Payment 256
Prequalifying 256
Step 3: Make Your Purchase 256
Step 4: Maintain Your Purchase 259

Summary 261
Review Questions 262
Problems and Activities 263
Suggested Projects 264
Home Sweet Home 266
Part II: Managing Your Money 267

Part 3 Protecting Yourself with Insurance 270

9 Life and Health Insurance 270

The Logic Behind Insurance: Risk Management 272
Determining Your Life Insurance Needs 273
Do You Need Life Insurance? 273
How Much Life Insurance Do You Need? 274

Major Types of Life Insurance 277
Term Insurance and Its Features 278
Cash-Value Insurance and Its Features 281
Term Versus Cash-Value Life Insurance 284

Fine-Tuning Your Policy: Contract Clauses and Riders 285
Beneficiary Provision 285
Coverage Grace Period 285
Part 4  Managing Your Investments  348

11  Investment Basics  348

Before You Invest  350
- Investing Versus Speculating  350
- Setting Investment Goals  351
- Fitting Taxes into Investing  352
- Financial Reality Check  352
- Starting Your Investment Program  352
- Investment Choices  353
- The Returns from Investing  355

Market Interest Rates  356
- Nominal and Real Rates of Return  356
- Historical Interest Rates  356
- What Makes Up Interest Rate Risk?  357
- Determinants of the Quoted, or Nominal, Interest Rate  358
- How Interest Rates Affect Returns on Other Investments  359

A Look at Risk–Return Trade-Offs  359
- Historical Levels of Risk and Return  359
- Sources of Risk in the Risk–Return Trade-Off  359
- Diversification  361
- Understanding Your Tolerance for Risk  363

The Time Dimension of Investing and Asset Allocation  364
- How to Measure the Ultimate Risk on Your Portfolio  365
- Asset Allocation  367

What You Should Know About Efficient Markets  371
- Beating the Market  371
  - Summary  373
  - Review Questions  374
  - Problems and Activities  374
  - Suggested Projects  375
  - Know Thyself  377

12  Securities Markets  378

Security Markets  380
- The Primary Markets  380
- Secondary Markets—Stocks  382
- Secondary Markets—Bonds  385
- International Markets  386
- Regulation of the Securities Markets  386

How Securities Are Traded  388
- The Role of the Specialist  388
- Order Characteristics  389
- Types of Orders  389
- Short Selling  390

Dealing with Brokers  392
- Brokerage Accounts  392
- Types of Brokers  392
- Cash Versus Margin Accounts  393
- Registration: Street Name or Your Name  395
- Joint Accounts  395
- Brokers and the Individual Investor  396
Choosing a Broker 396
The Cost of Trading 396
Online Trading 398

Sources of Investment Information 399
Corporate Sources 400
Brokerage Firm Reports 400
The Press 400
Investment Advisory Services 401
Internet Sources 401
Investment Clubs 401
Summary 403
Review Questions 404
Problems and Activities 405
Suggested Projects 406
Terms of Enrichment 408

13 Investing in Stocks 410
Why Consider Stocks? 412
The Language of Common Stocks 414
Limited Liability 414
Claim on Income 414
Claims on Assets 414
Voting Rights 415
Stock Splits 415
Stock Repurchases 415
Book Value 415
Earnings Per Share 416
Dividend Yield 416
Market-to-Book or Price-to-Book Ratio 416
Stock Indexes: Measuring the Movements in the Market 417
The Dow 417
The S&P 500 and Other Indexes 417
Market Movements 417
Reading Stock Quotes in the Newspaper 419
General Classifications of Common Stock 420
Valuation of Common Stock 421
The Technical Analysis Approach 421
The Price/Earnings Ratio Approach 422
The Discounted Dividends Valuation Model 422
Why Stocks Fluctuate in Value 424
Stock Investment Strategies 426
Dollar Cost Averaging 426
Buy-and-Hold Strategy 428
Dividend Reinvestment Plans (DRIPs) 428
Risks Associated with Common Stocks 430
Principle 1: The Risk–Return Trade-Off 430
Principle 3: Diversification Reduces Risk 430
Principle 4: Diversification and Risk—All Risk Is Not Equal 431
Principle 11: The Time Dimension of Investing 431
Understanding the Concept of Leverage 434
Summary 435
Review Questions 436
Problems and Activities 437
Suggested Projects 438
A Fool and His Money 440
14 Investing in Bonds and Other Alternatives 442

Why Consider Bonds? 444

Basic Bond Terminology and Features 444

Par Value 445
Coupon Interest Rate 445
Indenture 445
Call Provision 445
Sinking Fund 446

Types of Bonds 446

Corporate Bonds 446
Treasury and Agency Bonds 447
Municipal Bonds 449
Special Situation Bonds 450

Evaluating Bonds 451

Bond Yield 451
Bond Ratings—A Measure of Riskiness 455
Reading Corporate Bond Quotes in the Wall Street Journal 456
Reading Treasury Quotes in the Wall Street Journal 456
Valuation Principles 456
Bond Valuation 456
Why Bonds Fluctuate in Value 462
What Bond Valuation Relationships Mean to the Investor 464

Preferred Stock—An Alternative to Bonds 465

Features and Characteristics of Preferred Stock 465
Valuation of Preferred Stock 466
Risks Associated with Preferred Stock 467

Investing in Real Estate 467

Direct Investments in Real Estate 468
Indirect Investments in Real Estate 468
Investing in Real Estate: The Bottom Line 469

Investing—Speculating—in Gold, Silver, Gems, and Collectibles 469

Summary 470
Review Questions 471
Problems and Activities 471
Suggested Projects 472

A Bonding Experience 474

15 Mutual Funds: An Easy Way to Diversify 476

Why Invest in Mutual Funds? 478

Advantages of Mutual Fund Investing 478
Disadvantages of Mutual Fund Investing 480
Mutual Fund-Amentals 481

Investment Companies 482

Open-End Investment Companies or Mutual Funds 482
Closed-End Investment Companies or Mutual Funds 483
Unit Investment Trusts 483
Real Estate Investment Trusts (REITs) 484

The Costs of Mutual Funds 484

Load Versus No-Load Funds 484
Management Fees and Expenses 485
12b-1 Fees 486

Types and Objectives of Mutual Funds 487

Money Market Mutual Funds 487
Stock Mutual Funds 488
<table>
<thead>
<tr>
<th>Contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balanced Mutual Funds</td>
<td>490</td>
</tr>
<tr>
<td>Asset Allocation Funds</td>
<td>491</td>
</tr>
<tr>
<td>Life Cycle and Target Retirement Funds</td>
<td>491</td>
</tr>
<tr>
<td>Bond Funds</td>
<td>491</td>
</tr>
<tr>
<td>ETFs or Exchange Traded Funds</td>
<td>493</td>
</tr>
<tr>
<td>Mutual Funds Services</td>
<td>495</td>
</tr>
<tr>
<td>Buying a Mutual Fund</td>
<td>496</td>
</tr>
<tr>
<td>Step 1: Determining Your Goals</td>
<td>497</td>
</tr>
<tr>
<td>Step 2: Meeting Your Objectives</td>
<td>497</td>
</tr>
<tr>
<td>Step 3: Evaluating the Fund</td>
<td>500</td>
</tr>
<tr>
<td>Sources of Information</td>
<td>501</td>
</tr>
<tr>
<td>Calculating Fund Returns</td>
<td>502</td>
</tr>
<tr>
<td>Making the Purchase</td>
<td>504</td>
</tr>
<tr>
<td>Summary</td>
<td>505</td>
</tr>
<tr>
<td>Review Questions</td>
<td>506</td>
</tr>
<tr>
<td>Problems and Activities</td>
<td>507</td>
</tr>
<tr>
<td>Suggested Projects</td>
<td>508</td>
</tr>
<tr>
<td>The Feeling is Mutual</td>
<td>510</td>
</tr>
</tbody>
</table>

**Part 5**  
**Life Cycle Issues**  

<table>
<thead>
<tr>
<th>16  Retirement Planning</th>
<th>514</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>516</td>
</tr>
<tr>
<td>Financing Social Security</td>
<td>516</td>
</tr>
<tr>
<td>Eligibility</td>
<td>517</td>
</tr>
<tr>
<td>Retirement Benefits</td>
<td>517</td>
</tr>
<tr>
<td>Disability and Survivor Benefits</td>
<td>519</td>
</tr>
<tr>
<td>Employer-Funded Pensions</td>
<td>519</td>
</tr>
<tr>
<td>Defined-Benefit Plans</td>
<td>519</td>
</tr>
<tr>
<td>Cash-Balance Plans: The Latest Twist in Defined-Benefit Plans</td>
<td>521</td>
</tr>
<tr>
<td>Plan Now, Retire Later</td>
<td>521</td>
</tr>
<tr>
<td>Step 1: Set Goals</td>
<td>522</td>
</tr>
<tr>
<td>Step 2: Estimate How Much You Will Need</td>
<td>523</td>
</tr>
<tr>
<td>Step 3: Estimate Income at Retirement</td>
<td>524</td>
</tr>
<tr>
<td>Step 4: Calculate the Inflation-Adjusted Shortfall</td>
<td>526</td>
</tr>
<tr>
<td>Step 5: Calculate How Much You Need to Cover This Shortfall</td>
<td>527</td>
</tr>
<tr>
<td>Step 6: Determine How Much You Must Save Annually Between</td>
<td></td>
</tr>
<tr>
<td>Now and Retirement</td>
<td>528</td>
</tr>
<tr>
<td>Step 7: Put the Plan in Play and Save</td>
<td>528</td>
</tr>
<tr>
<td>What Plan Is Best For You?</td>
<td>529</td>
</tr>
<tr>
<td>Employer-Sponsored Retirement Plans</td>
<td>530</td>
</tr>
<tr>
<td>Defined-Contributions Plans</td>
<td>530</td>
</tr>
<tr>
<td>401(k) Plans</td>
<td>531</td>
</tr>
<tr>
<td>Retirement Plans for the Self-Employed and Small Business Employees</td>
<td>533</td>
</tr>
<tr>
<td>Keogh Plan or Self-Employed Retirement Plan</td>
<td>533</td>
</tr>
<tr>
<td>Simplified Employee Pension Plan</td>
<td>534</td>
</tr>
<tr>
<td>Savings Incentive Match Plan for Employees</td>
<td>534</td>
</tr>
<tr>
<td>Individual Retirement Arrangements (IRAs)</td>
<td>534</td>
</tr>
<tr>
<td>Traditional IRAs</td>
<td>534</td>
</tr>
<tr>
<td>The Roth IRA</td>
<td>537</td>
</tr>
<tr>
<td>Traditional Versus Roth IRA: Which Is Best for You?</td>
<td>538</td>
</tr>
<tr>
<td>Saving for College: The Cloverdell Education Savings</td>
<td>538</td>
</tr>
<tr>
<td>Accounts or ESA</td>
<td>538</td>
</tr>
<tr>
<td>Saving for College: 529 Plans</td>
<td>539</td>
</tr>
</tbody>
</table>
Facing Retirement—The Payout 540
  An Annuity, or Lifetime Payments 541
  A Lump-Sum Payment 542
  Tax Treatment of Distributions 543
Putting a Plan Together and Monitoring It 544
  Saving for Retirement—Let’s Postpone Starting for One Year 544

Summary 546
Review Questions 546
Problems and Activities 547
Suggested Projects 548
Retire Right 550

17 Estate Planning: Saving Your Heirs Money and Headaches 552
The Estate Planning Process 554
  Step 1: Determine the Value of Your Estate 554
  Step 2: Choose Your Heirs and Decide What They Receive 555
  Step 3: Determine the Cash Needs of the Estate 555
  Step 4: Select and Implement Your Estate Planning Techniques 555
Understanding and Avoiding Estate Taxes 556
  Gift Taxes 556
  Unlimited Marital Deduction 557
  The Generation-Skipping Transfer Tax 558
  Calculating Estate Taxes 558
Wills 560
  Wills and Probate 560
  Wills and Estate Planning 560
  Writing a Will 561
  Updating or Changing a Will—The Codicil 562
  Letter of Last Instructions 562
  Selecting an Executor 563
  Other Estate Planning Documents 563
Avoiding Probate 563
  Joint Ownership 564
  Gifts 565
  Naming Beneficiaries in Contracts 566
  Trusts 566
  Living Trusts 567
  Testamentary Trusts 569
A Last Word on Estate Planning 571
  Summary 572
  Review Questions 573
  Problems and Activities 574
  Suggested Projects 575
  All in the Family 576

18 Fitting the Pieces Together 580
The Ingredients of Success 582
The Financial Life Cycle 582
Women and Personal Finance 583
Financial Life Events 584
  Life Event 1: Getting Started 584
  Life Event 2: Marriage 586
  Life Event 3: Buying a Home 589
  Life Event 4: Having a Child 589
  Life Event 5: Inheritances, Bonuses, or Unexpected Money 592
Personal Finance: Turning Money into Wealth, Fourth Edition empowers the student, through the presentation of the 15 fundamental principles of personal finance, to successfully make and carry out a plan for their financial future.

For many students, this course is their initial and only exposure to personal finance, so it is important that the material is presented in a way that leaves a lasting impression. This text will introduce the student to the concepts, tools, and applications of personal finance and investments, but it also assumes little or no prior knowledge of the subject matter and focuses on helping the student understand the process of financial planning and the logic that drives it. Tools, techniques, and equations are easily forgotten, but the logic and fundamental principles that drive their use, once understood, will stay and will become part of a student’s “financial personality.” Throughout the rest of their lives, students will have the ability to drawn upon these principles to help them effectively deal with an ever-changing financial environment. For this reason, the presentation is centered around 15 fundamental principles of personal finance, which are introduced in Chapter 1 and then reappear in every chapter throughout the book.

To help students prepare for their financial future, Personal Finance: Turning Money Into Wealth, Fourth Edition:

- Reinforces the 15 Principles of Personal Finance—each chapter of the text touches back on the 15 principles outline in Chapter 1 and how to apply those principles to particular situations.

- Highlights easy-to-follow advice—the proactive checklists, which appear throughout the text, serve as a useful learning tool for students. These boxes identify areas of concern and questions to be asked when buying a car, getting insurance, investing in mutual funds, and performing other personal finance tasks.

- Provides opportunity to work through many of their own personal finance decisions—each new copy of the text is accompanied by a Personal Finance Workbook, free of charge. These workbooks contain tear-out worksheets to provide a step-by-step analysis of many of the personal finance decisions examined in the book. They can be used for homework assignments or to guide students through actual decisions. The workbook includes a section on how to use a financial calculator. Text references to the worksheets appear in the margin at the appropriate point.

Other Points of Distinction

“In the News” Boxes featuring Jonathan Clements   The “In The News” boxes with excerpts from the Wall Street Journal continue, but in this edition there are over 30 boxes from the Wall Street Journal, with 23 of them featuring the work of Jonathan Clements, the famous Wall Street Journal reporter.
Learning Objectives  Each chapter opens with a set of action-oriented learning objectives. As these objectives are covered in the text, an identifying icon appears in the margin.

Stop and Think  These short boxes provide the student with insights as to what the material actually means—implications and the big picture.

Finance Matters  Boxes at the end of each chapter written by Marcy Furney, CFP, provide checklists of things to do—in effect, free advice from a certified financial planner.

Mini Cases  Each chapter closes with a set of two mini cases that provide students with real-life problems that tie together the chapter topics and need a practical financial decision.

Continuing Case—Cory and Tisha Dumont  At the end of each part in the book, a continuing case provides an opportunity to synthesize and integrate the many different financial concepts presented in the book. It gives the student a chance to construct financial statements, analyze a changing financial situation, calculate taxes, measure risk exposure, and develop a financial plan.

New to the Fourth Edition

Complete Coverage of Credit Scoring  The importance of your credit score cannot be overstated. In Chapter 6, there is extensive coverage of credit scoring, focusing on the importance of your FICO credit score, how it is computed, and how to manage it. In addition, your insurance credit score is examined in Chapter 10.

Ties Together the Different Personal Finance Topics Through the Use of 10 “Financial Life Events”  The 10 “Financial Life Events” serve to tie together the concepts and tools in the book, providing the reader with a perspective on the whole of personal finance based upon different “Financial Life Events.” In the course of your lifetime you will experience many events that will change your goals, affect your financial resources, and create new financial obligations or opportunities for you. While there is an almost unlimited number of these type of life events, we focus on 10 of the most common, and with each one we present a comprehensive step by step discussion of how you should respond to them—pulling material from throughout the book and tying it together into a step by step action plan. These financial life events include:

- Life Event 1: Getting Started
- Life Event 2: Marriage
- Life Event 3: Buying a Home
- Life Event 4: Having a Child
- Life Event 5: Inheritances, Bonuses, or Unexpected Money
- Life Event 6: A Major Illness
- Life Event 7: Caring for an Elderly Parent.
- Life Event 8: Retiring
- Life Event 9: Death of a Spouse
- Life Event 10: Divorce
Content Update

In response to continuing developments in personal finance and reviewer comments, the text has been revised and updated. Some of these changes include:

**Chapter 1** This chapter was updated and revised reflecting the growing importance of the Internet in personal finance decisions. In addition, this chapter now includes expanded coverage of securing a job including a table listing common interview questions.

**Chapter 2** The discussion dealing with choosing and how to pay a financial planner was updated and strengthened. In addition, there is a new “In the News” box by Jonathan Clements that deals with the importance of beginning to save as early as possible.

**Chapter 3** The time value of money chapter has been extensively revised, simplified, and streamlined so that it is accessible to any student regardless of his or her math skills. The emphasis is on understanding the power of compounding and the importance of starting a saving program early in life. To make the time value of money material more accessible to math phobic students, calculations are also presented in a simple step by step manner using a financial calculator, with a financial calculator for their use provided on the web.

**Chapter 4** The tax chapter was updated to reflect all the changes in the tax laws since the previous edition. In addition, a new “In the News” box by Jonathan Clements titled “With the Tax Code Up for Grabs, Here Are Five Principles to Invest By” was also added.

**Chapter 5** Includes sections on card blocking, stored value cards, and the Check Clearing Act for the 21st Century or Check 21. Also two new “In the News” boxes from the *Wall Street Journal* titled “Credit-Card Offers You Should Refuse” and “Credit Unions Offer More” were added.

**Chapter 6** An extensive discussion of credit scoring now appears in this chapter. This discussion focuses on the importance of your FICO credit score, how it is determined, and how to manage it. Discussion centers on determining creditworthiness, credit scoring, why having a good credit score (FICO score) is important, how your credit score is computed, what’s in your credit report, the five factors that determine your credit score, information not considered when calculating your FICO score, managing your credit score, and the Fair and Accurate Credit Transactions Act (FACT Act). In addition, the coverage of credit cards has been updated and revised, with increased attention given to the problems students can get into using credit cards.

**Chapter 7** The new bankruptcy law is discussed, focusing on the implications for individuals. Also a new “In the News” box from the *Wall Street Journal* titled “Being a Co-Signer Can Backfire” was added.

**Chapter 8** This chapter has been thoroughly revised and updated, with an emphasis on using the Internet to help in making more knowledgeable major financial decisions. In particular, more Internet sources are provided to help you in buying a car, along with a new checklist for those buying or selling a house. In addition, there is new discussion of interest only mortgages.

**Chapter 9** A discussion of Medicare reform is presented in this chapter. Beginning in 2006, the Medicare Modernization Act (MMA) will change the Medicare system by
adding a new voluntary drug benefit. There are new sections on the Drug Benefit, the new Medigap Plans, and Medicare Advantage. In addition, Health Savings Accounts (HSAs) are now discussed. Finally, a new “In the News” box by Jonathan Clements titled “Your Money or Your Life: Insurance With Cash Value Isn’t Always a Mistake” was added.

Chapter 10  There is now a discussion of your insurance credit score in this chapter, which includes sections on “Keeping Your Costs Down—Insurance Credit Scoring.” In addition, a new “In the News” box by Jonathan Clements titled “Dare to Live Dangerously: Why Ditching Some of Your Insurance Can Pay Off” was added. Finally, this chapter has been totally updated and revised to reflect changes in property and liability insurance.

Chapter 11  This chapter is updated to reflect what has happened in investments since the last edition. In addition, coverage of behavioral finance and investing was added with two new “In the News” boxes from the Wall Street Journal titled “Behavioral Finance and Investing: Examine Your Finances—Or Your Head”—Parts I and II were added.

Chapter 12  Again, this chapter was updated to reflect the changing nature of the stock market. In addition, a new “In the News” box by Jonathan Clements titled “What Is That 1% Fee Buying You?” was added.

Chapter 13  This chapter was updated to reflect the changing nature of the stock market. In addition, two new “In the News” box by Jonathan Clements titled “Look Beyond the Headlines”—Part I and Part II were added.

Chapter 14  This chapter updated to reflect the changing nature of the bond market and the reintroduction of the 30 year treasury bond. In addition, easy to follow, step-by-step calculator calculations for determining a bond’s yield to maturity and value were added.

Chapter 15  This chapter now includes a complete discussion of ETFs along with their advantages and disadvantages. In addition, two new “In the News” boxes by Jonathan Clements titled “Dispelling Mutual-Fund Myths” and “Why Brokers Want You to Buy ‘B Shares’” were added.

Chapter 16  This chapter now includes the latest on corporate pension funds. In addition, it also includes a “A Retirement Checklist for the Ages,” which goes through all age brackets and discussion of what you should be doing to plan for retirement regardless of your present age. In addition, two new “In the News” boxes by Jonathan Clements titled “Seven Steps to a Golden Retirement”—Part I and Part II were added.

Chapter 17  This chapter now includes a discussion of the cost of postponing when you begin to save for retirement by just one year. In addition, a new “In the News” box by Jonathan Clements titled “Avoid Leaving Heirs with a Headache” was added.

Chapter 18  This chapter provides the discussion of financial life events mentioned in the “New to Fourth Edition” section above. In addition, two new “In the News” boxes from the Wall Street Journal were added. One is by Jonathan Clements titled “Getting Going: Post-Graduate Assignment: Start Saving” and the second is titled “Starting Out: Nursing a Debt Hangover from College.”
For Instructors

The following supplements are available to adopting instructors. For detailed descriptions, please visit: www.prenhall.com/keown

Instructor’s Resource Center  Register. Redeem. Login.  www.prenhall.com/irc is where instructors can access a variety of print, media, and presentation resources available with this text in downloadable, digital format. For most texts, resources are also available for course management platforms such as Blackboard, WebCT, and Course Compass.

It gets better.  Once you register, you will not have additional forms to fill out, or multiple usernames and passwords to remember to access new titles and/or editions. As a registered faculty member, you can log in directly to download resource files, and receive immediate access and instructions for installing Course Management content to your campus server.

Need help?  Our dedicated Technical Support team is ready to assist instructors with questions about the media supplements that accompany this text. Visit: http://247.prenhall.com/ for answers to frequently asked questions and toll-free user support phone numbers. The following supplements are available to adopting instructors. Detailed descriptions of the following supplements are provided on the Instructor’s Resource Center:

- Instructor’s Manual
- Test Item File
- TestGen test generating software
- Instructor PowerPoint slides

For Students

- Personal Finance Workbook. The first section of this workbook contains step-by-step calculator keystrokes to help you calculate important personal finance formulas. The second section is made up of a set of worksheets that provide you with the opportunity to develop and implement your own financial plan. Many of these worksheets are taken directly from figures and checklists in the text.

- Companion Website  www.prenhall.com/keown contains valuable online resources for both students and professors, including:
  - Interactive Study Guide
  - Internet Exercises
  - Case Problems
  - Excel Worksheets
  - Dinkytown Calculators
  - Time Value of Money Calculator
  - Personal Finance Planner
Acknowledgments

I gratefully acknowledge the assistance, support, and encouragement of those individuals who have contributed to Personal Finance: Turning Money into Wealth. Specifically, I wish to recognize the very helpful insights provided by many of my colleagues. For their careful comments and helpful reviews of the text, I am indebted to:

Mike Barry, Boston College
Karin Bonding, University of Virginia
Craig Bythewood, Florida Southern College
Stephen Chambers, Johnson County Community College
Lynda S. Clark, Maple Woods Community College
Bobbie D. Corbett, Northern Virginia Community College
Charles P. Corcoran, University of Wisconsin–River Falls
Kathy J. Daruty, Los Angeles Pierce College
Richard A. Deus, Sacramento City College
Beverly Fuller, Portland State University
Caroline S. Fulmer, University of Alabama
Michael Gordinier, Washington University in St. Louis
Ramon Griffin, Metropolitan State College of Denver
Jack Griggs, Abilene Christian University
Carolyn M. Hair, Wake Tech. Community College
Marilynn E. Hood, Texas A&M University
Joe Howell, Salt Lake Community College
Robert Jensen, Metropolitan Community Colleges
Karen Korins, University of Northern Colorado
Ernest W. King, University of Southern Mississippi
Edward Krohn, Miami-Dade Community College
Karen Lahey, University of Akron
Fran Lawrence, Louisiana State University
Frances Cogle Lawrence, Louisiana State University
K.T. Magnusson, Salt Lake Community College
James E. Mallett, Stetson University
Abbas Mamoozadeh, Slippery Rock University of Pennsylvania
Manouchehr Mokhtari, University of Maryland–College Park
Mitch Mokhtari, The University of Maryland
Dianne R. Morrison, University of Wisconsin–LaCrosse
Frederick H. Mull, Fort Lewis College
David W. Murphy, Madisonville Community College
David Overbye, Keller School of Management
Eve Pentecost, University of Alabama
Ted Pilger, Southern Illinois University
I would like to thank a wonderful group of people at Prentice Hall. My editor, David Alexander, has been great to work with. Under David’s guidance, I believe we have produced the finest possible textbook and supplements package. David is truly creative, insightful, and demanding—never settling for anything but the best. I must also thank Francesca Calogero who served as the project manager on this revision. Francesca was nothing short of wonderful. She continuously offered insights and direction, often serving as a sounding board for revisions and new ideas—it is simply impossible to say enough good things about her. Even more, she is a great person and was fun to work with. For her marketing prowess, I owe Sharon Koch, my marketing manager, a debt of gratitude—she has an amazing understanding of the market, coupled with an intuitive understanding of what the market is looking for. To Carol Samet, the production editor, I express a very special thank you for seeing the book through a complex production process and keeping it all on schedule while maintaining extremely high quality. This is the fourth edition of this text that Carol has worked on and it continues to be a joy to work with her. Sincere thanks also go to Amy Whitaker who served as the Developmental Editor for this edition. Amy was simply outstanding, and made this a much better book.

Finally, I should also thank Paul Donnelly and David Cohen. Paul is a past editor and good friend, without whom this project would never have been started. Dave served as the developmental editor and helped mold this book into a text that is fun to read.

My appreciation to the people at Prentice Hall would be incomplete without mention of the highly professional Prentice Hall field sales staff and their managers. In my opinion, they are the best in the business, and I am honored to work with them. In particular, I must single out Bill Beville, the regional acquisitions editor. He is one of the most dogged and delightful people I have ever met. Bill pursued me relentlessly until I agreed to do this book. I will always owe Bill a debt of gratitude. Bill, I’m glad you’re on my side.

My most sincere thanks, along with a profound debt of gratitude goes to Ruth Lytton, for her outstanding work on cases and end-of-chapter material. She is always professional and perfectionist, and as a result, her efforts result in a pedagogy that works. If credit were given as it is deserved, Ruth Lytton’s name would appear as a co-author. She is the consummate teacher, and also a perfectionist in reviewing chapters and writing problems and cases. In working with Ruth, I was constantly in awe of her effortless grasp of the many aspects of personal finance and of her ability to make complex concepts accessible to any student—she is truly one of the “gifted ones.” Her suggestions and insights made a profound impact on the book, from start to finish, and greatly added to its value. In short, this is our book.
I also owe a huge debt of gratitude to John Grable of Kansas State. John worked on the outstanding cases and problems in the first two editions, and contributed far more than I had ever anticipated. Indeed, Kansas State is extremely lucky to have John. A salute goes also to Marcy Furney for her exceptional work on the “Money Matters” boxes. She also read and reviewed the manuscript, and provided insights and comments that materially improved the book. I also thank Glenn Furney formerly at Texas Instruments for his help in bringing to life the use of calculators in the teaching of personal finance. Given the contributions of Ruth, Derek, Marcy, and John, I think it is only fitting to provide a short biography of each. I thank you all.

Ruth H. Lytton is Associate Professor of Financial Resource Management and the director for the Certified Financial Planner™ Board of Standards, Inc. registered program at Virginia Tech. She has been recognized with university and national awards for her teaching, research, and work as a career advisor. Ruth currently serves as an Advisory Editor for the Social Science Research Network’s (SSRN), Behavioral & Experimental Finance journal and also serves on the Board of Directors of the International Association of Registered Financial Consultants. Ruth has over 20 years of experience teaching financial management. Her personal finance course is a popular elective for students throughout the campus, and attracts approximately 400 students annually.

Derek D. Klock is an instructor of business at both Hollins University and in the Pamplin College of Business at Virginia Tech. His teaching areas include personal and corporate finance, investments, and insurance. Derek has both his BS and MBA from Virginia Tech, where as a graduate student he was a R.B. Pamplin Fellow and a member of Beta Gamma Sigma. Before working as an educator and independent financial advisor and consultant, Derek held several National Association of Security Dealers (NASD) registrations and his life and health insurance license. Derek serves on the Board of Directors of the International Association of Registered Financial Consultants. His real-world client experience and a long history of tracking and analyzing investments enables him to bring a unique perspective to the cases and problems developed for this text.

Ruth and Derek worked on the Instructor’s Manual, which includes the solutions to all the end of chapter material in the text, completely revised and updated the Companion Website Internet quizzes for each chapter, and created all new Internet Case Problems for the Personal Finance Navigator text site. They also developed the Personal Financial Planner program.

Marcy Furney, Chartered Financial Consultant and Certified Financial Planner™, is a Registered Representative and Financial Planner with INVEST Financial Corporation. She lives in Dallas, where she is a founding associate of Milestone Planning Partners, LP. With 20 years in the financial services industry, she has worked extensively in insurance, executive deferred compensation plans, small business benefits, and personal financial planning. Marcy graduated summa cum laude with a Bachelor of Arts degree from Texas Tech University and attended graduate school at the University of Texas.

John E. Grable received his undergraduate degree in economics and business from the University of Nevada, an MBA from Clarkson University, and a Ph.D. from Virginia Tech. He is the Certified Financial Planner™ Program Director at
Kansas State University. He is also the Director of the Institute of Personal Financial Planning in the School of Family Studies and Human Services at Kansas State University. His research interests include financial risk-tolerance assessment, financial planning help-seeking behavior, and financial wellness assessment. He serves on the Board of Directors of the International Association of Registered Financial Consultants as an academic advisor.

As a final word, I express my sincere thanks to those using *Personal Finance: Turning Money into Wealth* in the classroom. I thank you for making me a part of your team.

Arthur J. Keown