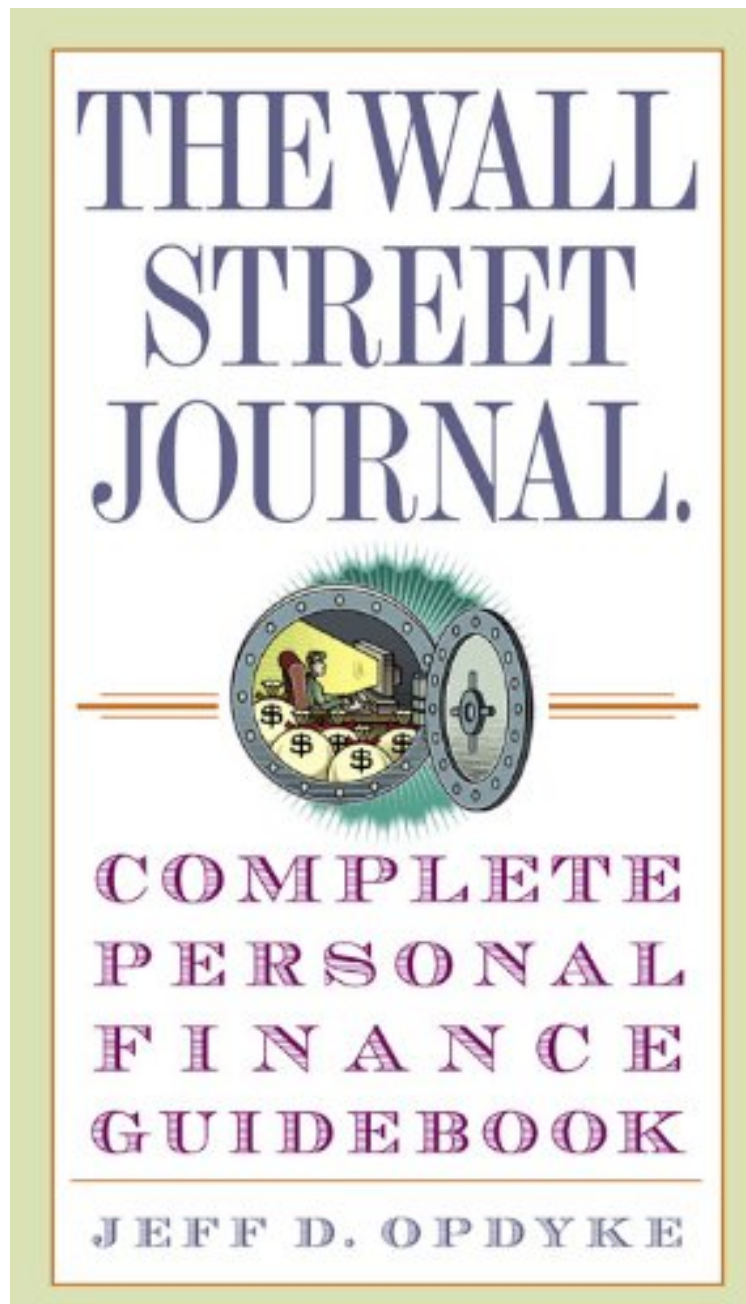


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From Americasquos most authoritative source: the quintessential primer on understanding and managing your moneyMoney courses through just about every corner of our lives and has an impact on the way we live today and how wersquoll be able to live in the future. Understanding your money, and getting it to work for you, has never been more important than it is today, as more and more of us are called upon to manage every aspect of our financial lives, from managing day-to-day living expenses to planning a college savings fund and, ultimately, retirement. From The Wall Street Journal, the most trusted name in financial and money matters, this indispensable book takes the mystery out of personal finance. Start with the basics, learn how they work, and yoursquoll become a better steward of your own money, today and in the future. Consider The Wall Street Journal Complete Personal Finance Guidebook your cheat sheet to the finances of your life. This book will help you:bull; Understand the nuts and bolts of managing your money: banking, investing, borrowing, insurance, credit cards, taxes, and morebull; Establish realistic budgets and savings plansbull; Develop an investment strategy that makes sense for youbull; Make the right financial decisions about real estatebull; Plan for retirement intelligentlyAlso availablemdash;the companion to this guidebook: The Wall Street Journal Personal Finance Workbook, by Jeff D. OpdykeGet your financial life in order with help from The Wall Street Journal. Look for:bull; The Wall Street Journal Complete Money and Investing Guidebook bull; The Wall Street Journal Complete Identity Theft Guidebookbull; The Wall Street Journal Complete Real Estate Investing Guidebook From the Trade Paperback edition.

About the AuthorJeff D. Opdyke is a financial reporter who has covered investing and personal finance for The Wall Street Journal for the past twelve years. He is the author of Love and Money: A Life Guide to Financial Success. He lives in Baton Rouge, Louisiana, with his wife, Amy, and their two kids.Excerpt. copy; Reprinted by permission. All rights reserved.nbsp;CHAPTER 1 Banking Banks donrsquo;t come in thirty-one flavors, but numerous varieties exist for what consumers call ldquo;banksrdquo;: nationally and state chartered, commercial, community, federal, merchant, thrifts, savings and loans, building and loans, bank and trusts, credit unionsmdash;the list goes on. Whatever theirsquore called, the basic business of banking is universal: Banks take in your deposits and, in return, pay you some rate of interest. They then turn around and take the very same money you deposited, combine it with deposits from other folks, and lend the money to your neighbor, charging that borrower a higher rate of interest than the bank charges you. The difference between those two interest ratesmdash;the so-called spreadmdash;is where banks generally make their money. Businesses deal with commercial banks; consumers deal with retail banks, though in practice many banks service both clients. In 2005 the nationrsquo;s largest bank was New Yorkndash;based Citigroup Inc., which provides both commercial and retail banking services and which had total assets of nearly \$1.5 trillion. Seattle-based Washington Mutual Inc. was the largest thrift, a consumer operation, with \$308 billion in assets, three times larger than its nearest competitor. Retail banks exist to provide an assortment of products that represent some of the first and most basic personal finance tools for consumers. In the past, savers could stop by just about any local bank and sign up for services that werenrsquo;t terribly different from the bank down the street. Today, the savviest consumers shop aroundmdash;both locally and onlinemdash;since all banks offer different rates and fees for the various savings, lending and credit products they offer. Not every bank peddles the same line-up of products, while

others, though they might feature some particular service, aren't trying to make a big business in that arena and, thus, price the service so that it's not particularly attractive to most consumers. Savings Accounts Think back on childhood: A savings account, aside from a piggy bank, was likely your first encounter with real personal finance, and it probably came with a little passbook in which the bank teller recorded your meager deposits. Mom and Dad, maybe your grandparents, opened a savings account for you and stuck a few dollars in there, probably taking the opportunity to tell you about compounding interest, which, at that age, likely generated about as much excitement as Brussels sprouts. Savings accounts are the most basic banking accounts—a place to park your cash and draw interest. Minimum account balances are typically low, sometimes just \$5, and the interest rate is equally low, often the lowest among all savings products. But the accounts are FDIC insured and, therefore, "safe"—meaning the full faith and credit of the United States government protects your account against the loss of even a single penny, up to the federal limit of \$100,000. Savings accounts, in their various forms, are where you want to park money if you expect to need it relatively soon—like when buying a house—or when you cannot afford to risk losing any of the cash. Aside from the basic passbook account—yes, old-fashioned as they are they still exist at some banks—other types of savings accounts include certificates of deposit and money-market accounts; more on both of these in a moment. Typically, the best interest rates are found online by searching Web sites such as www.bankrate.com. MONEY MARKET ACCOUNTS Think of these as savings accounts on mild steroids. Your money is invested in what is literally known as the "money market"—a vast market of ultra-short-term, highly rated debt obligations issued by various government agencies, corporations, and financial institutions that trade among large institutional investors in very large quantities. Basically, these are IOUs that come due usually within a year, and often within a few weeks or a few months. Because these pieces of paper are highly rated by various credit-rating agencies, such as Standard Poor's and Moody's Investors Service, the debt is considered safe, meaning there is a negligible risk that the bonds will not be repaid. Money-market accounts are FDIC protected and pay slightly higher interest rates than standard savings accounts, but the rate is still relatively low. Minimum balances, however, are often relatively high—\$2,500 or more. And if the monthly balance slips below that, you'll typically pay a service charge—usually around \$10 or so—for every month the account stays below the minimum. Again, some of the best rates are found online rather than at your local bank. A good resource is www.banx.com. You'll have to register, but it's free, and you'll gain access to a broad listing of banks offering the best rates. But a warning: While you can deposit money into these accounts as often as you like, withdrawals are usually limited to no more than three to six per month. And because many money-market accounts come with check-writing privileges, a trait not usually associated with a savings product, it's easy to just start writing checks on this account when you need the cash. Banks will cut you some slack the first time you exceed the limit, but beyond that they'll start imposing fees for each transaction over the limit. And if the breaches are persistent, a bank can unilaterally close your account, cutting you a check for whatever balance you have minus any fees the bank might impose. First, though, they'll often send a warning letter. A better approach is to withdraw the money in person or go online and transfer the cash from your money-market account to your savings; those types of withdrawals usually don't count toward the monthly maximum. Don't confuse money-market accounts with money-market mutual funds. Though related, these two are very different, but more on that later in the Investing section. CERTIFICATES OF DEPOSIT CDs, as certificates of deposit are commonly called, are time deposits. That is, you deposit your money with a bank and promise not to touch the cash for a certain period of time. In return for that promise, the bank gives you what are usually the best interest rates it offers on savings products. Banks do this because they know you won't demand this money for several months to several years, which gives them a chance to lend the money and earn a bit of profit on your deposit. CDs generally span uniform periods of time: three months, six months, nine months, one year, two years, and five years. In practice, there are a variety of other contract periods as well, such as 21D2 years, three years, seven years, and ten, among others. When the period ends, a CD is said to have "matured." Three-month CDs carry the lowest rates, often only marginally better than a money-market account. That's because the bank doesn't have a lot of time to make money off your deposit and must invest it only for the short term. Five-year CDs provide far better rates, usually several percentage points higher than savings accounts, because banks have a much longer period to earn money from your cash. But don't dive into longer term CDs just to chase a high interest rate. CDs generally impose early withdrawal penalties if you reclaim your money before the contract's stated time period expires. The penalties vary, but you typically lose a meaningful amount of interest that has already accrued in your account. So carefully evaluate your near-term cash needs before opting to lock up your money for a long period. Long-term CDs can be a fine way to boost the overall return on your money, but not if you ultimately think there is a chance you might need to break the contract before the CD matures. One caveat: In some situations, investing in a longer term CD instead of a short-term contract can be a savvy choice even if you break the CD before it matures. The long-term rate may be high enough and the penalty small enough that the overall interest you receive exceeds what you otherwise would have earned in the shorter-term certificate. Banks aren't going to advertise that, so it's up to you to do the math. [. page 000] CHECKING ACCOUNTS "I can't be out of money. I still have checks." That has been a popular bumper sticker for years, and it

points to the ubiquity of checking accounts, the cornerstone of personal finance whether it's your own individual checking account or a joint account with a spouse, a partner, or even a parent. Checking accounts are known as demand-deposit accounts because account holders—those who own a checkbook—can write a check that gives the person you paid the right to “demand” money from your account upon presenting that check to your bank. In the early days of check-writing, that is exactly what folks did; they'd show up at a particular bank in town with a chit signed by a customer of that bank and demand cash in return. Of course, these days the pizza parlor owner to whom you wrote a check for \$19.36 for a large thin-crust with pepperoni and pineapple doesn't need to appear physically at your bank to claim the money. The owner just deposits your check at her own bank, and dozens more like it, all drawn on different banks—some local, some out of town—and all the money she's due ends up in her account within days. This happens because checks carry a variety of oddly rectilinear numbers along the bottom that serve as a bread crumb trail of sorts to help each check find its way home through the national banking system. The nine digits farthest to the left are the ABA routing numbers that specify which branch of what particular banking company this check is drawn on. The sequence of...