HOW WILL YOU DO ON MY FINANCIAL QUIZ?

THE MONEY MARATHON BY ED DOUGLAS CFP®

I thought I would change my column this month by asking readers questions to see how knowledgeable they are on financial topics. See how many out of seven you answer correctly. (Answers and scoring below) If you get 6 or 7 correct email me at ed@eddouglas.com and I will print your name in next month's column.

Question #1: If inflation is 3% per year going forward how long will it be before your money is worth half as much (assuming it doesn't grow).

A) 10 years B) 16 years C) 24 years D) 30 years

Question #2: If you buy a 30 Treasury bond today and tomorrow interest rates increase by 1%, how much will your bond be worth after the increase in rates?

A) 1% more B) 5% less C) the bond will not change in value D) 12% less

Question #3: What has been the approximate historic compound rate of return for large capitalization stocks since 1926?

A) 10% B) 8% C) 6% D) 12%

Question #4: According to Aon Hewitt (Human Resource Company) what multiple of ending annual salary at age 65 should a worker have in order to meet his basic needs in retirement?

A) 5 times salary B)11 times salary C) 15 times salary D) 20 times salary

Question #5: On average, what percentage of a 50 year olds retirement account should be in stocks?

A) To be safe, 0% B) 100% C) 50% to 70% D) 80% to 90

Question #6: How much of a person's salary should be kept in an emergency fund to be safe?

A) One year's salary B) Three month's salary C) Six month's salary D) $1000

Question #7: What is the national average annual cost for a private room at a nursing home?

A) $95,000 B) $84,000 C) $70,000 D) $52,000

Answers: Question 1: C) Using the rule of 72, you can divide the interest rate into 72 to decide how quickly money will double (in this case a person’s buying power gets cut in half) 3 divides into 72, 24 times which means $1 in 24 years will be worth 50 cents with 3% inflation. Question 2: D) A 1% increase in interest rates would drop the value of a 30 year bond 12%. Question 3: A) Large stocks have compound at a 10% rate. Small stocks have compounded at a 12% rate. Question 4: B) Aon Hewitt feels that a basic retirement requires 11 times ending salary. So a $50,000 salary would require $550,000 in retirement. This assumes a person lives to age 92 and also has Social Security to supplement retirement savings. If you didn’t count Social Security give yourself credit for answer D. Question 5: C) The Rules of Thumb for this are either the more conservative Rule of 100 or the more aggressive Rule of 120. Subtract your age from these numbers to figure how much should be owned in stocks. Answer would be 50% to 70% based on the Rules of Thumb. Question 6: (A, B or C) Give yourself credit for any of the first three answers. Most advisors would say 3 to 6 months but since the last downturn many are saying one year.   An emergency fund is used to pay for emergencies rather than borrowing.   Question 7: B) The national average is $84,000. Fortunately, we are lower than the national average in our area.

If you answered all 7 correctly you are a top rate financial advisor. 6 correct, you are also very good. 5 correct, gets you a passing grade. 4 or 3 means you need to read my articles a little closer.   2 or below---Help!

Remember that every investor’s situation is unique and that it is important to review your specific situation with a financial professional.

Ed Douglas is a Certified Financial Planner CFP®/Consultant, Chairman Emeritus of Citizens Bancshares, and author of three books: *Making a Million With Only $2000-Every Young Person Can Do It, The Money Marathon: 7 Simple Steps to Financial Freedom* and *25 Truths: Life Principles of the Happiest and Most Successful Among Us*, available at www.eddouglas.com and on Amazon. Ed may be contacted for financial planning services or seminars based on his books at ed@eddouglas.com or at his office at 660-646-2066