

Lessons *for life*

TEN CONCEPTS FOR A BETTER FINANCIAL FUTURE

John Hancock[®]
JOHN HANCOCK FUNDS

What would you be willing to do for financial success?

Luckily, you don't have to go to any extremes. For a young person just starting out, there are basic strategies that are all you need to be financially secure. In this workbook, we'll cover 10 basic lessons that can help you be more successful.

- ① Pay yourself first
- ② Start early
- ③ Make your money work
- ④ Own, loan & save
- ⑤ Owning stock
- ⑥ Don't get emotional
- ⑦ Use debt sensibly
- ⑧ Take the match
- ⑨ Don't touch the 401(k)
- ⑩ Needs vs. wants

Pay yourself first

The foundation of financial success is to spend less than you earn.

Do it and success is just a matter of time as you steadily build wealth. If you don't, financial success eludes you, no matter how much money you make.



Earn a dollar



Save 10 cents



Spend 90 cents

Financial success is in your reach.

For every dollar you make, invest 10 cents before doing anything else. It's simple, easy and effective.

Start early

The young have an incredible advantage in investing — TIME.

Three things determine how much an investment will be worth:

- **The amount invested**
- **The rate of return**
- **How long the money is invested**

That's it. Those three factors are all there is to investing. Starting early lets you invest less to reach the same goal.



Let's look at an example.

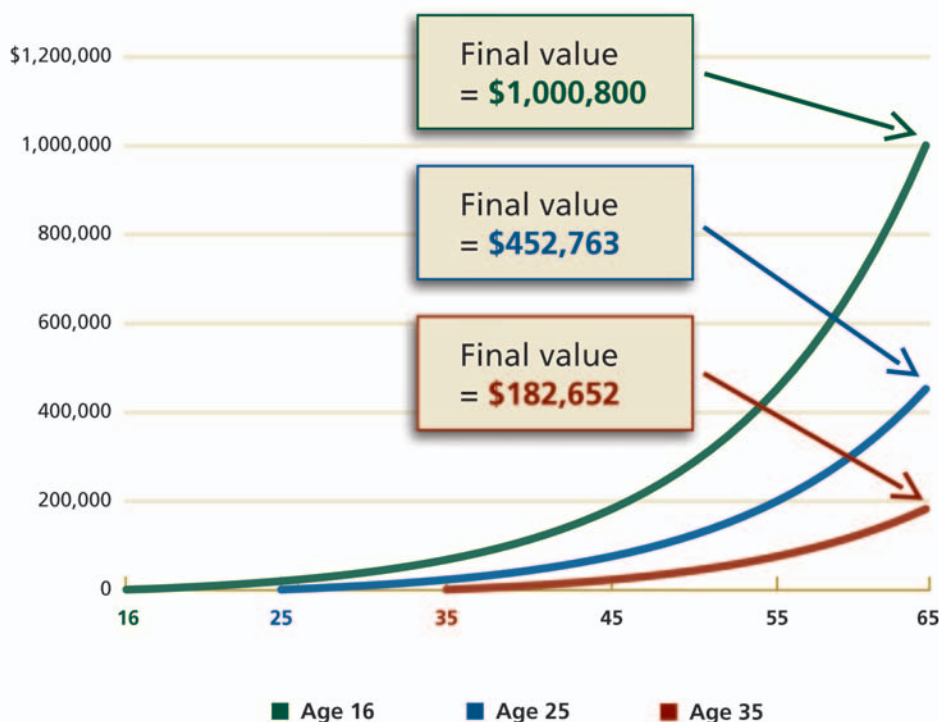
Assume you want to be a millionaire by age 65. **How much would you need to invest each month to have \$1,000,000?** We'll assume a steady 9%* return.

Starting age	Monthly investment
16	\$112
25	\$247
35	\$611
45	\$1,629
55	\$5,485

*A note on returns: We use 9% as our assumed rate of return throughout this booklet because, historically, it has been a reasonable long-term rate of return on a stock portfolio. There is no guarantee that future returns will match past returns. We also use a steady return to make the examples easier to understand (and calculate), a real investment will have positive and negative years.

With the same return and investment;
more time means more money.

The benefits of starting early



*No matter how old you are, starting
today is better than waiting.*

*This chart shows an annual investment of \$1,340 from the ages of 16, 25 and 35 until the age of 65. It assumes a steady return of 9%.

Investing in the real world

Real investments...

- do not return exactly 9% each year.
- sometimes lose money.
- surprise investors (even the professionals).

Real investors...

- do not invest exactly \$1,340 for 49 years.
- sometimes skip their contributions.
- pay fees and taxes.
- learn from their mistakes.

Lesson 3

Make your money work

Most people work hard for their money, but forget to ask their money to return the favor. If you want to be financially successful, you need your money to grow. Why?

Inflation

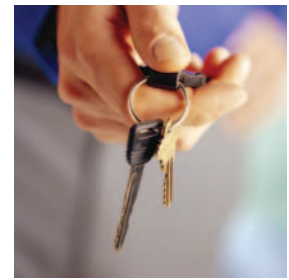
Inflation is a fancy word that means things get more expensive every year. We don't generally notice it as it happens but over the years it really adds up. Take a look at how the price of some familiar things have been affected by inflation.



Movie ticket



Disneyland



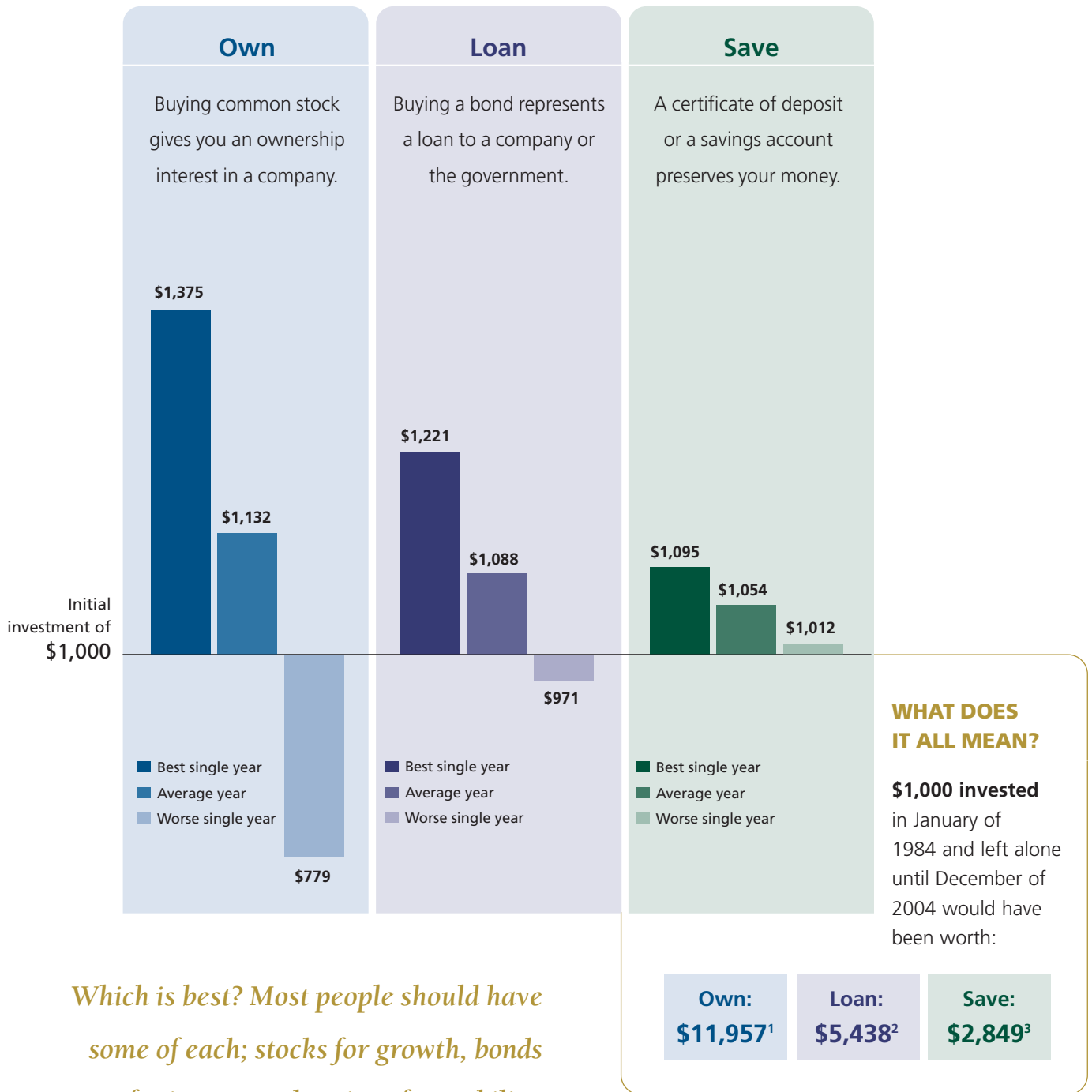
New car

20 years ago	\$3.55	\$16.50	\$11,925
15 years ago	\$4.22	\$27.50	\$15,900
10 years ago	\$4.35	\$33.00	\$20,450
Now	\$6.21	\$53.00	\$28,410

As prices rise, your money has to grow for you to keep up.

Own, loan & save

There are three ways to invest:



Which is best? Most people should have some of each; stocks for growth, bonds for income and savings for stability.

The chart covers the period of 1/1984 to 12/2004 and shows what happened to \$1,000 in the best year, an average year and the worst year for each index. It is not possible to invest directly in an index. These charts are for illustrative purposes only and are not meant to portray actual investments.

1 The S&P 500 Index with dividends reinvested. 2 Lehman Aggregate Bond Index. 3 CD Rate One Month Index.

Owning stock

Buying stock makes you an owner of the company.

Owners, also known as shareholders, vote on important decisions and any profit the company earns is used for the benefit of the owners.



Whenever your company makes money, it can do two things:

Some of that money is used to maintain and expand the business.

Some of the money may be paid to the shareholders as a dividend.

What about risk?

- Sometimes you'll sell your stock for less than you paid for it.
- Occasionally, a stock becomes worthless.
- Never invest too much of your money in a single investment.

When buying stock, think about the business you're investing in. It's what you're buying.

Don't get emotional

- It's easy to get greedy in a rising market.
- It's easy to get scared in a falling market.
- Acting on greed or fear is a bad idea.



Whenever you make an investment decision ask yourself: Am I acting on greed, fear or facts? Remember to focus on investing for the long term.

Use debt sensibly

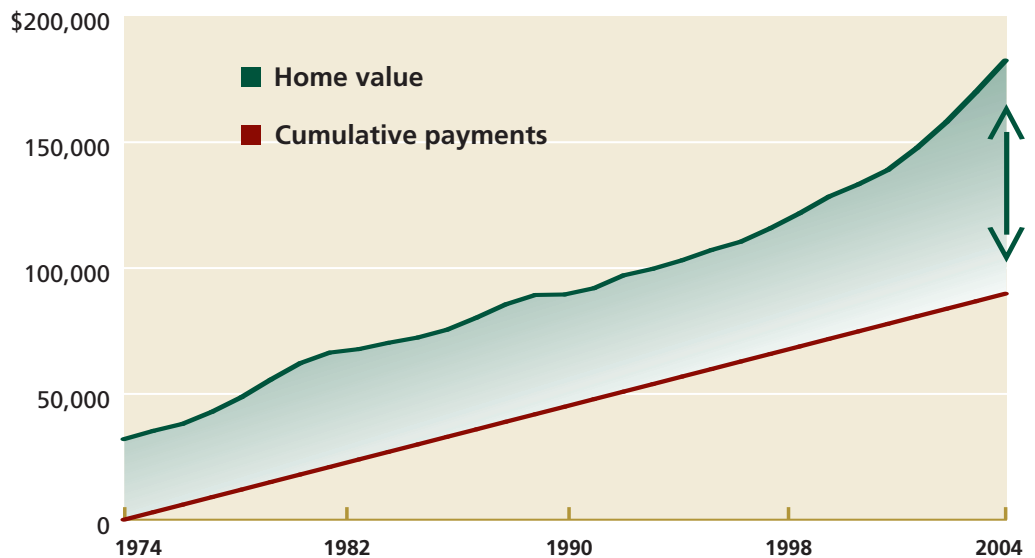
Debt is just a tool. You can use it to dig yourself into a hole or to build a better financial future. What debt does for you depends on what you purchase with that debt.

Good debts

- At the end of the loan, your total payments are **less** than the current value of the purchase.
- There are more bad debts than good.



A good debt: home mortgage



The green line shows price of the average home.¹ The red line shows the total paid. Notice that the total payments stay below the value of the home.

Another good debt is a student loan.

The average college graduate makes significantly more than the average high school graduate. The increased earning potential justifies taking out a loan to finish school.

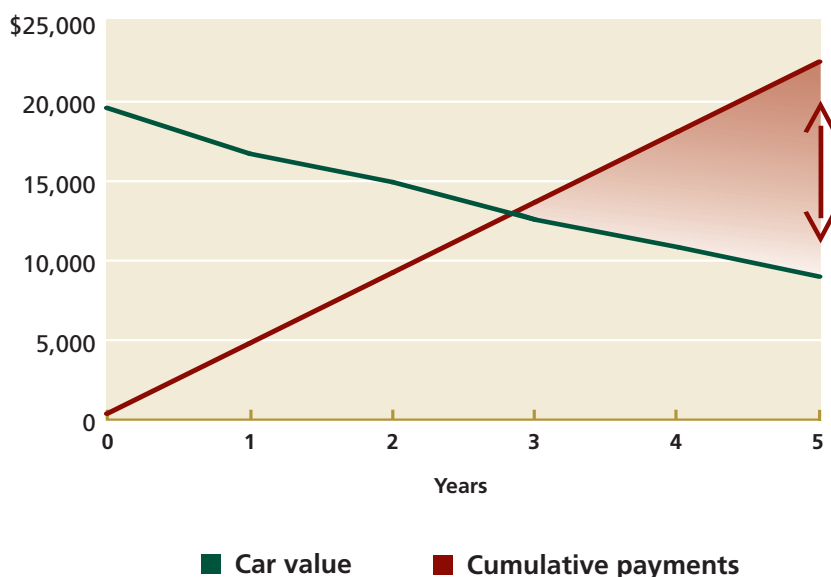


¹ The green line shows the median value of homes from 1974 to 2004 (based on sales of existing homes). Cumulative payments are based on a 30-year mortgage at 8.56% (the 30-year rate in January of 1974). Source for home prices is the National Association of Realtors.

Bad debts

- At the end of the loan, your total payments are **more** than the current value of the purchase.
- Not all bad debts are avoidable.

A bad debt: new car loan²



By the third year, you've already paid more than the car is currently worth and still have two years of payments to go!

Used properly, debt is a tool that can help you achieve financial success. But when abused, debt makes financial success almost impossible. What will it do for you?



Debt tips:

- Compare total cost, not monthly payments, for large purchases.
- Don't carry a credit card balance.
- Shorten the length of your loans.
- Ask your lender for a better interest rate.

² The green line shows the Kelly Blue Book value of a Honda Accord LX for the years 2000 to 2005 in reverse order. The red line shows the cumulative payments on a 5-year car loan at 5%.

Take the match

Extra money is good, taxes are not. At some point, you'll probably be eligible for a retirement plan such as a 401(k). When that happens, think of the two major benefits of a 401(k):

■ **Less tax**

Contributions to a 401(k) reduce your taxable income

■ **Extra money***

Most plans offer an employer match
(ex: If you put in \$1.00, your employer will put in another \$.50)

Taxes aren't fun



\$1.00 of taxable income

- \$0.25 Federal Tax
- \$0.00 to \$0.095 State Tax

= \$0.65 to \$0.75 of net income

No tax + extra money = a better retirement



\$1.00 put into your 401(k)

- \$0.00 Federal Tax
- \$0.00 State Tax
- + \$0.50 employer match

= \$1.50 of retirement savings

In most cases, you should contribute at least enough to get the full match.

* According to the Profit sharing/401(k) Council of America, 78% of profit sharing/401(k) plans have an employer match and a 50% match on the first 6% of salary is the most common fixed match. Figures based on the 2003 plan year.

Don't touch the 401(k)

The sparkling blue waters of Aruba are calling your name. You're changing jobs and have some time off. You could cash out your old 401k and head for the sun. How much will it cost?



If you paid for your vacation with a withdrawal from your 401k, all four are right.

- You pay the travel company \$5,000 for your vacation.
- But, because of taxes and penalties you have to take \$8,333¹ from your 401(k) to get \$5,000.
- If you left that money in your 401(k), that amount could grow to \$123,206 by retirement.²
- Over a 20-year retirement, it could generate \$232,596 in income.

*Remember...
your retirement accounts
are for retirement
income only.*

¹ Assuming the 25% federal tax bracket, 5% state taxes and the 10% early distribution penalty.

² \$8,333 growing at 8% for 35 years.

³ \$123,206 returning 7% annually paid out in equal installments over 20 years. All rates of return are hypothetical and not meant to represent any particular investment.

Needs vs. wants

We all have to spend money on our basic needs: transportation, housing and food. How you choose to meet those needs has a dramatic impact on the amount you can save and invest. If you're not saving enough, switch to the cheaper option in a couple of areas and invest the money you save.

Transportation



Luxury car:
\$500/mo.

Housing



Luxury apartment:
\$1,400/mo.

Food



Dining out:
\$40/person



Sensible car:
\$200/mo.



Nice apartment:
\$600/mo.



Dining in:
\$15/person

It's not that you shouldn't ever choose the expensive option; it's that you should limit your splurges to what really matters to you.

What's next?

Now it's up to you.

Knowing what you should do is only the first step.

Actually doing it is what will get you results. What would you do for financial success? Are you willing to take ten cents of every dollar you earn and invest it?



*If you forget everything else in this book,
remember this: Spend less than you earn
and invest your savings wisely.*



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