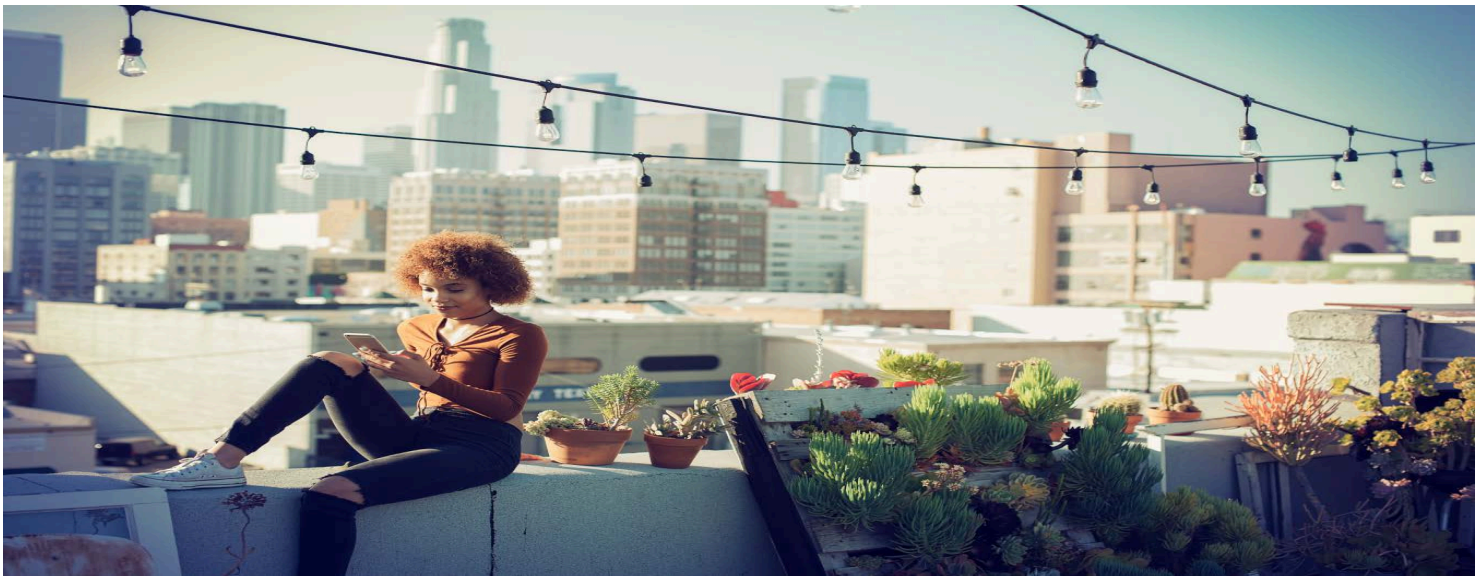

The Four Foundations of Financial Literacy

August 14 is Financial Awareness Day. It's a good time to brush up on the principles of financial planning—budgeting, managing debt, saving and investing.

Being financially literate means you have the wherewithal to make financial decisions with confidence. There are many resources—web sites, magazines, books and more—that dispense financial knowledge for your learning pleasure. But like most things, the best way to get more financially literate is through practice.

You can build financial literacy by focusing on these financial planning principles:

1) Budgeting. Understanding how money flows in and out of your bank account is the first step toward building your financial literacy. A budget helps you see how you spend your income monthly on essential expenses such as rent or mortgage, utilities, food and more, as well as how much you spend on non-essential or "fun" purchases. Seeing your budget in detail can help you better control your spending and find money to save.

2) Managing Debt. Debt can be a blessing and a curse. Most people cannot buy homes or vehicles without assuming some debt. And there are others who carry student debt burdens into their working lives and juggle competing financial priorities as they try to pay down this

The key to managing this trade-off is having enough income to pay down what you borrow. If your earnings aren't sufficient, you run the risk of falling behind and being overwhelmed by your debt burden. Your can either increase your income by working more (something most people aren't able or don't want to do) or take on less debt. The latter option is best for nearly everyone.

3) Saving. This is a habit that's good to develop as early as possible. If you place a priority of saving over spending, you can build a ready-made pool of money that's available to you whenever you need it. And it's very likely you'll need to tap your savings for unplanned or emergency expenses, such as medical bills, car or appliance repairs or income if you are unemployed for a short period.

4) Investing. The money you save has the potential to grow over time, and you can invest it in different ways that earn you a rate of return. Different types of investments offer different potential for return. They also come with different risks to the value of your savings. Learning how to invest comes down to finding a balance between risk and return that's comfortable for you.