Personal Finance

Investing

Begin by making

Lifetime Projections of:

- **Career choice**
- **Expected income throughout career**
- **Family plans**
  - ✓ Married or single
  - ✓ Number of children
  - ✓ College enrollment
  - ✓ Retirement age
- **Amount of planned savings**
- **Projected living expenses**

Create a Personal Income Statement

such as this one for the year ended __/__/__

Income:		
Summer Job	**$4,500.00**	
Help From Parents	**2,400.00**	
Total Income		**$6,900.00**
Expenses:		
Giving	**450.00**	
Saving	**450.00**	
Automobile	**1,500.00**	
Food	**1,000.00**	
School Expenses	**1,000.00**	
Total Expenses		**4,400.00**
Net Income:		**$2,500.00**

Beginning Income Statement

- **Complete a projected income statement for the current calendar year.**
- **List assumptions that are made:**
  - After tax income
  - Ignore inflation
  - Still in school

Investing

- **Becomes relevant only if saving occurs**
- **When a younger person learns to save – greater the potential benefit**
- **Reason - time value of money - the sooner you save, the sooner your $$ start to work for you**

One Out of Every 125 Americans Is Now a Millionaire

Homeowners vs Renters

- **Average renter in 2001 had net worth of $4,800**
- **Average homeowner had net worth of $171,700**

Suggested Allocation Of Disposable Income

- **10 percent to give**
- **10 percent to save**
- **70 percent to live on**
- **10 percent for discretionary spending**

Application Of Economics

- **Allocation of scarce resources among unlimited wants**
- **No person ever has enough money to afford everything that can be bought**
- **Choices must be made**

Factors Affecting Time Value Of Money

(Growth of Savings)

- **Size of deposits**
- **Rate of return**
- **Length of time**

Effect of: Deposit Size

(25 year old - 8 percent account)

Deposit Size	Total Deposit	Balance Age 65
$100	$ 48,000	$ 349,100
200	96,000	698,200
300	144,000	1,047,300
400	192,000	1,396,400
500	240,000	1,745,500

Effect of: Rate Of Return

(25 year old - $150 monthly deposits)

Rate of Return	Total Deposit	Balance at 65
5.0%	$72,000	$ 228,903
7.5	72,000	453,573
10.0	72,000	948,612
12.5	72,000	2,068,186

Effect of: Time

($150 monthly deposit – 8% rate of return)

Beginning Age	Total Deposit	Balance at 65
55	$18,000	$ 27,441.90
45	36,000	88,353.06
35	54,000	223,553.91
25	72,000	523,651.17

Time Value of Money Illustration

- **Person One**
  - ✓**Starts saving age 25**
  - ✓**Deposits $1,000 per year**
  - ✓**10 years and stop**
  - ✓**Total deposit $10,000**
  - ✓**Leave deposit until 65**
  - ✓**8 percent**
  - ✓**Balance @ 65 $145,772.45**

- **Person Two**
  - ✓**Saves nothing until age 35**
  - ✓**Deposits $1,000 per year**
  - ✓**30 years**
  - ✓**Total deposits $30,000**
  - ✓**Leave deposit until 65**
  - ✓**8 percent**
  - ✓**Balance @ 65 $113,283.21**
  - ✓**Never catches up with person one**

Factors Affecting Time Value of Money

- **Size of Deposits**
- **Rate of Return**
- **Length of Time**

Never Invest In Anything You Do Not Understand

<u>Portfolio</u> – Group or listing of investments

<u>Risk</u> – Possibility that something other than intended outcome will occur

Diversification

- **Investing in variety of things**
- **Not likely adversely affected by same factors**
- **Best method of risk reduction**

Random Walk Theory

- **Short term securities prices move randomly**
- **Impossible to predict**
- **Active trading does not pay**

Dollar Cost Averaging

- **Invest equal amounts of money at regular time intervals**
- **Usually pay lower average price than those buying at "right time"**
- **Choose investments for long-term potential**

Types Of Securities

- **Debt**
- **Equity**

Debt Securities

- **Securities arising from a loan**
- **Examples: Bonds & Bank CDs**
- **Earnings - Interest**
- **Low level of risk if held to maturity**
- **Predictable results**
- **Moderate rate of return**

Equity Securities

- **Securities arising from ownership**
- **Example: Common stock - owning a part of a company**
- **Two ways to make money**
  - ✓Increase in value
  - ✓Distribution of earnings - Dividends
- **Higher level of risk**
- **Less predictable results**
- **Average higher long term rate of return**