Personal Finance

Investing

Financial Plan Assignment

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**

Personal Income Statement
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**

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**

Portfolio – **Group or listing of investments**

Risk – **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

Best Way To Make A Small Fortune Investing

- Start With A Big Fortune
- Trade A Lot

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**
- **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**