



# Principles of Personal Finance

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## Some stats...

• **84%**

• **34%**

70% of Americans are unable to answer three basic money management questions

Two-thirds of Americans would struggle to come up with \$1,000 in an emergency

35 percent of adults have debt in collections reported in their credit files

Only 24 percent of millennials demonstrate basic financial literacy,

Only 16% of US high school students are required to take a course on personal finance

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## #1: Don't Get Overwhelmed

- You're not alone
- Don't panic
- It's never too late
- Help along the way

## #2: Budget

- Plan
- Prioritize
- Execute
- Track



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## #3: Live Below Your Means

- Spend less than you earn
- Distinguish needs from wants
- Create a budget and spending plan
- Automate savings so money isn't spent



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## How do you create a budget?

- What is your monthly income?
- What are your monthly expenses?
  - Fixed
  - Variable
- Track 3 months of data
- What is left at the end of each month?

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## Needs versus Wants

- Candy Bar
- Smart Phone
  - Beer
  - Socks
- Laptop Computer
- Bottled Water
  - Sneakers
- Spring Vacation Trip
- Auto Insurance

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## #4: Set Goals

- Goals provide a “why” for saving
- Use goals to develop action plans
- Break goals into benchmarks
- Make your goals SMART
  - Specific
  - Measurable
  - Attainable
  - Realistic
  - Time-Related



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## #5: Pay Yourself First

- Saving is necessary to accumulate the capital needed to produce wealth.
- This is just as true for individuals as for nations.
- The most effective way to begin saving is by identifying and eliminating some **discretionary spending** and by **AUTOMATING YOUR SAVINGS**

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## #6: Create an Emergency Fund

- Life is full of surprises, and they're usually expensive!
- The surprise is only in the timing...So it **IS** possible to plan for these surprises!
- Purchase "peace of mind" by building a cushion...Make this a regular and mandatory expense!

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## #7: Use Credit Cards Carefully

- Proper use can help establish good credit rating
- Conveniently accepted across United States and abroad
- Emergency buying power
- Additional form of identification
- Record of purchases on bill statement
- Often required to hold a reservation
- Discount and reward programs



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## #8: Avoid Credit Card Debt

- Damage credit rating
- Impulsive buying and overspending
- Debt trap when used unwisely
- Expensive -- high interest rates
- Less to spend in the future
- Hidden fees & surcharges
- Potential for identity theft



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### *The World's Most Expensive Vacation*

- Sean charges \$1,500 for a trip to the Bahamas.
- He pays the minimum payment (\$26.63 at 8% interest) each month.
- **10 YEARS LATER** this trip has cost Sean \$3,195.40, and all he has left are faded photos.

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## #9: Get Rid of Debt

- Don't use your cards!
- Focus on one card at a time
- Smallest balance or highest APR?
- Math vs. Psychology



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# Debt Repayment

TOTAL OUTSTANDING DEBT						
Creditor	Total Debt	Finance Rate %	Minimum Monthly Payment	Suggested Monthly Payment		
Master Card	1,500.00	29.95%	65.00	464.00		
Macy's	250.00	22.30%	15.00	15.00		
Home Depot	500.00	22.00%	20.00	20.00		
AMEX Blue	1,000.00	19.80%	55.00	55.00		
Visa	1,500.00	18.70%	35.00	35.00		
Barns & Noble	250.00	10.90%	10.00	10.00		
Credit Union	1,000.00	9.70%	51.00	51.00		
<b>Total</b>	<b>6,000.00</b>		<b>251.00</b>	<b>650.00</b>		
Amount Available for Debt Repayment			<b>650.00</b>			
It will take 4 months to pay off Master Card. Then the process should be repeated with the next highest Finance Rate Creditor.						

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# #10: Borrowing can be OK to Buy a Long Lasting Asset



What goods and services can you pay for while you use them?

- homes
- automobiles (depending on lifespan)
- education

Some assets even generate income or further service even after you finish paying for them...these can enhance your net worth!!!

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## #11: Invest in Stocks with a Long Term Objective in Mind

- Stocks historically generate good long term returns, but can be very volatile in the short run
- Avoid selling off stocks when the market is at a low point
- The future price of a stock is driven by unforeseeable events. Since we can only see the present, it is difficult to “beat the market”
- As need for money approaches, increase the proportion of your investments in bonds



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## #12: Use Time As Your Friend

- **Take the long view**
- **Power of compound interest**
- **If you invest \$500 at 5% interest**
  - **What is the balance after 5 years?**

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## #13: Don't Put All your Eggs in One Basket



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- ✓ There are many types of risk that come with investing:
  - Market risk
  - Inflation risk
  - Financial risk
  - Fraud risk
- ✓ **Diversification**, the practice of holding a large number of unrelated assets, helps to reduce some of these risks

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## #14: Invest In Your Brain

- Get a solid education
  - For career satisfaction
  - For better health
  - For higher lifetime earnings
- It's OK to borrow for education
  - There is an opportunity cost to taking too long to earn degree
  - Student loans are better than credit cards



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## #15: Understand Your Credit Score

- Credit score is your profile's information summarized as a number on scale of 300 to 850.
- Experts say you can use your score to improve your creditworthiness and negotiate best possible terms and rates
- FICO Score is use by banks, lenders and mortgage companies – myfico.com



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## QUESTIONS?



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