PERSONAL FINANCE

SPENDING, SAVING, & INVESTING

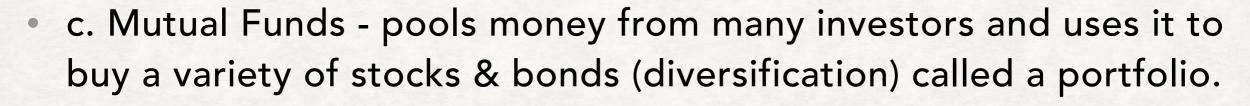
I. RATIONAL DECISIONS & FINANCIAL PLANNING

- A. Marginal Benefits vs. Marginal Costs
- B. Needs & Wants
- C. Delayed vs. Instant Gratification
- D. Financial Institutions For Savings Lower Interest Rates & Low Risk; insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000.
 - 1. Banks a corporation that stores deposits & makes loans in order to earn a profit.
 - 2. Certificates of Deposits (CD) a promise to leave money in the bank for a certain amount of time (time deposit) in exchange for a higher interest rate
 - 3. Savings & Loan Associations savings from consumers & loans to homebuyers

- E. Financial Institutions For Investments Higher Interest Rates & High Risk
 - 1. When you "invest" money either with a business or government, you do so for a specified amount of time in return for interest, a share of the profits (profit-sharing), and/or part ownership in the company (shares or stocks)
 - 2. The greater the risk you take, the higher the potential rewards.
 - 3. The three most important types of investment are: bonds, stocks, & mutual funds.

- a. Bonds you are lending money to a corporation (corporate bond) or government (government bond); in return you periodically are paid interest until the bond "matures." Bonds earn a higher interest rate than savings accounts & CD's
 - (1) governments issue bonds to pay debts or pay for public projects
 - (2) corporations issue bonds to raise capital (money) funds for investment & expansion

- b. Stocks highest potential reward on investment...but the riskiest
 - (1) Stocks are shares of a corporation, you are paid dividends (preferred stock) every quarter based on the profits the corporation earns.
 - (2) Stocks earn you money if you "buy low; sell high." This happens when there is a "bull market." You can also earn mown from "short-selling" stock by purchasing at a higher price and selling at a lower price (I know, sounds weird, but it works); this can occur during a "bear market."
 - (3) The profit you earn from stocks is called capital gains
 - (4) If a company goes out of business or loses money, so do you.



• (1) a comprise between low & high-risk investments

USING CREDIT

I. LOANS & CREDIT CARDS

- A. The U.S. economy runs on credit. Credit is the ability to buy goods now, and pay for them later.
 - 1. Bank loans major purchases such as a car, house, & college.
 - a. Fixed-rate loans
 - b. Adjustable-rate loans (ARMS)
 - 2. Credit cards minor purchases such as food, clothing, & gas.
 - a. Installment plan
 - b. Revolving balance
 - c. Grace period
 - d. Annual percentage rate (APR)
 - e. Annual fee
 - Pros & Cons

II. CREDITWORTHY

- A. Before you receive a loan you apply for, banks decide whether you are "creditworthy."
 - 1. Are you able to pay back the money?
 - 2. Are you likely to pay it back or "default" on the loan?
 - 3. Do you have collateral?
 - a. Collateral is something the bank can take if you default on the loan.
- B. To decide creditworthiness, banks look at your employment history, and your credit history.
 - 1. Credit bureaus Equifax, Experian, & Tranunion
 - 2. FICO score

III. CREDIT DECISIONS

- A. Based on budget, how expensive credit is.
- B. Fixed vs. Variable expenses.
- C. Design a budget

IV. INTEREST RATES THE COST OF BORROWING MONEY

- A. Interest is the COST of using credit.
 - a. The lender earns interest; the borrower pays the interest
- B. To compare the cost of credit you need to know the following:
 - 1. Is the interest rate annual? IOW, are you charged per year or per month?
 - 2. Is it fixed or variable?
 - 3. Is the interest calculated as simple or compound?
 - a. Simple interest means you are charged only on the original amount you borrowed called the principal (ex: bank loan for a house)
 - b. Compound interest means you are charged interest on the balance each month which includes interest charges from previous months (ex. credit cards)

TYPES OF INSURANCE

I. HOW INSURANCE WORKS

- A. When you buy insurance you receive an insurance policy. This is an agreement between you & the insurance company. It explains:
 - 1. the losses the IC will cover (claims)
 - 2. how much they will pay out on those losses
 - 3. how much you must pay for this protection (deductible & premiums)
 - a. The deductible is the amount you must pay BEFORE your insurance kicks in.
 - b. The premium is what you pay monthly, quarterly, or yearly in order to guarantee your coverage. Premiums can differ based on many factors such as: type of insurance, amount of coverage, amount of deductible, your age, marital status, where you live, how old you are, your health, and your credit history.

II. TYPES OF INSURANCE

- A. Car insurance all states require drivers to carry minimum coverage in case of an accident. This is called liability insurance. If you want your car covered for damages, this is called collusion.
- B. Health insurance pays your medical bills
- C. Disability insurance covers your monthly income if you cannot work due to an injury or illness
- D. Life insurance beneficiary is who gets the money when you die
 - 1. Term cheaper; pays a higher benefit; only covers a limited amount of time; premiums increase as you age; has no cash value
 - 2. Whole more expensive; pays a lower benefit; covers your whole life; premiums never increase; has cash value