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Wee-Savers and Investors Financial Literary

Introduction to Financial Literacy

Introduction to Financial Literacy

- Income
- Expenses
- Savings vs. Emergency Fund
- Budgeting

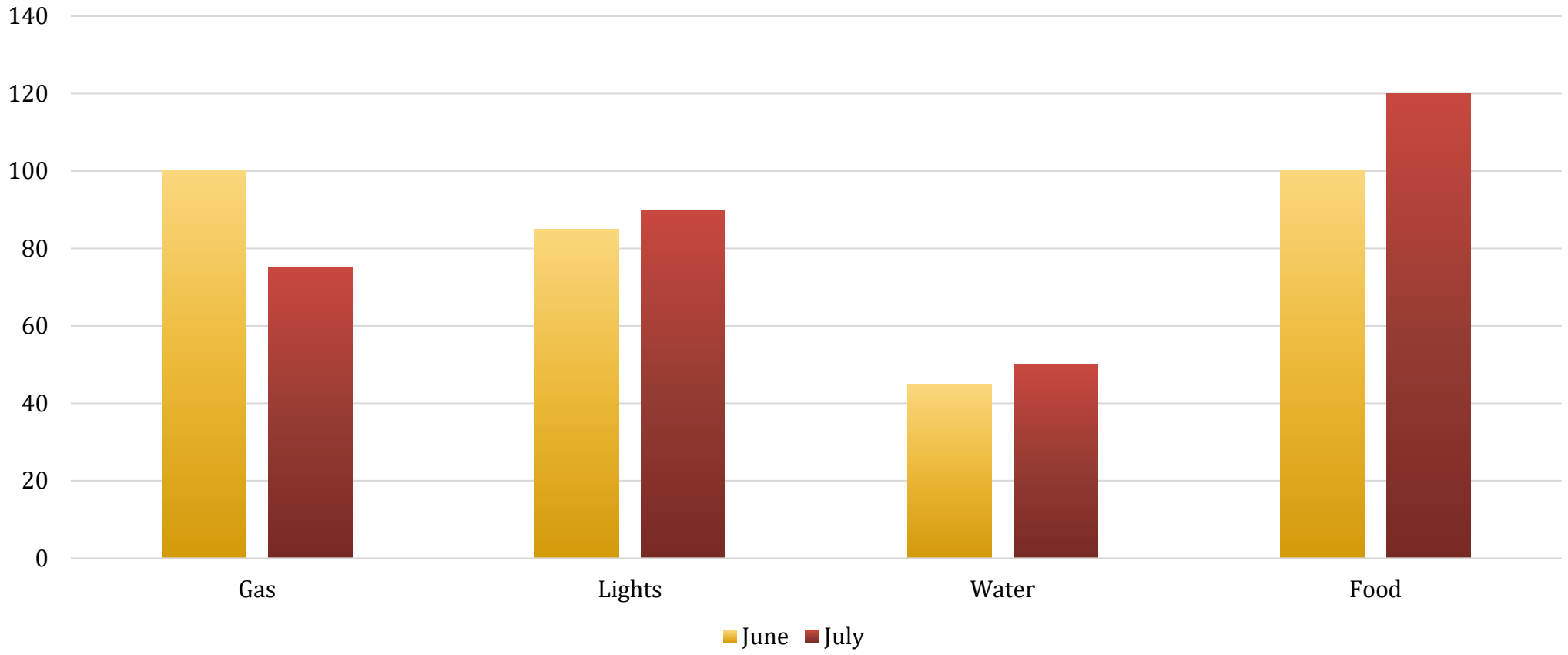
Financial Literacy - Income

- Income is the money that is received from work or investments, usually in exchange for providing a good or service or through investing capital.
- Income is not disposable income.
- Disposable income is the money left after all expenses have been paid.
- Income is used to fund day-to-day expenditures. Investments, pensions, and Social Security are primary sources of income for retirees.
- Example: A biweekly paycheck of $1200 is income and the remainder of $450 after expenses have been paid is the disposable income of the household.

Financial Literacy - Expenses

- Expenses = bills (general living expenses).
- In a normal household, expenses are the light bill, gas and water bill, groceries, rent, car note, car insurance, cable, child related and internet.
- Disposable income is the money left after all expenses have been paid.
- The expenses should never be more than the income that the household is bringing in. This creates debt in the household.
- There are Variable expenses versus fixed expenses
- Examples of variable expenses include; yard care, clothing, car maintenance, entertainment light, gas, water or dining out.
- Examples of fixed expenses include; rental payment, mortgage, car payment, or phone bill.

Variable Expenses



Financial Literacy – Savings vs. Emergency Fund

- A savings account earns interest annually or monthly depending on the terms of the banking institution.
- Savings should be put aside for a huge investment such as buying a house, car, or children's college fund.
- A savings account does not need to be a large amount each month. It can start off with just $20 a week and grow from there. The deposit amount is based on the type of income coming into the household.
- An emergency fund is money that is put aside for emergencies such as job loss, car repairs, or emergency surgery. An emergency fund account does not need to be a large amount each month. It can also start off with just $20 a week and grow from there.
- It is important for families to have **both** a savings account and an emergency fund account.

Financial Literacy - Budget

- A budget lists out all income and expenses of a household to see what is disposable after each pay period.
- A budget also allows for individuals to see where they need to cut cost or where they can cut cost.
- Simply put, budgeting helps individuals see what they can and cannot afford on a monthly basis.
- Budgeting is how one eliminates debt, create a savings fund, and prepare an emergency fund.

Financial Literacy – Monthly Budget

_____ Monthly Budget

Items	Budget Amt	Actual Amt	Difference	Notes
INCOME				
Income Total				
Other Income				
EXPENSES				
Mortgage/Rent				
Household Maintenance				
Taxes				
Insurance				
Electricity				
Water				
Sewage				
Gas				
Phone				
Trash				
Cable				
Cell Phone				
Groceries				
Entertainment				
Charity/Donations				
Fuel				
Auto Insurance				
Car Payment				
Child Care				
Credit Cards/Debt				
Loans				
Life Insurance				
Health Insurance				
Clothing				
Child Support/Alimony				
Other				
SAVINGS				
Retirement				
College				
Basic/Other				
TOTALS				

Total Income – Total Expenses $_____

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The budget lists out income, expenses, and savings and emergency fund amount. This helps individuals get a full picture of how much disposable income is left each month.

Step 1 Income

- Know how much money you are bringing home. You will be working with your net income (after taxes).
- Add additional income from any other business.

Step 2 Expenses

- List all your monthly expenses based on your budget amount versus the actual amount spent.
- Note the difference between the two and pay close attention if you exceed your budget amount.

Step 3 Savings

- Always pay yourself by putting that money into your savings account.
- Consider retirement and college funds for the future.

Step 4 Balance

- Subtract your expenses from your income.
- The balance should be zero at the end of each month.

Monthly Household Budget Worksheet Example

Monthly Household Budget Worksheet

A. Housing	Monthly Payment	
Mortgage or rent		
Second mortgage (home equity)		
Homeowners association fees		
Property taxes		
Maintenance or repairs		
Phone, incl. cell phone(s), pager, etc.		
Utilities (water, gas, electricity, etc.)		
Cable/satellite programming		
Waste removal		
Mortgage(s) on other home(s)		
Other		
Subtotal of Section A	$	

E. Transportation		
Vehicle 1 (loan payment)		
Vehicle 2 (loan payment)		
Public transportation (bus, taxi, train, etc.)		
Vehicle insurance (all vehicles)		
Licensing		
Fuel & maintenance		
Other		
Subtotal of Section E	$	

C. Other Debt		
Credit Card # 1		
Credit Card # 2		
Credit Card # 3		
Unsecured (Personal) Loan(s)		
Student Loan(s)		
Other (list)		
Subtotal of Section C	$	

D. Personal		
Entertainment (movies, music, etc.)		
Household toiletries and supplies		
Medical		
Grooming (hair, nails, etc.)		
Clothing (including dry cleaning)		
Health club or other club fees/dues		
Charitable contributions		
Pet expenses (food, medical, etc.)		
Other		
Subtotal of Section D	$	

Total of Sections A-J	$

E. Food	Monthly Payment	
Groceries		
Dining out		
Other		
Subtotal of Section E	$	

F. Family (incl. Children)		
Medical		
Clothing		
School tuition		
School supplies		
Organization dues or fees		
Child care		
Toys/games		
Other		
Subtotal of Section F	$	

G. Insurance		
Home (including Flood Insurance)		
Health (Medical, Dental, Vision, etc.)		
Life		
Other		
Subtotal of Section G	$	

H. Legal	
Attorney	
Alimony	
Payments on lien or judgment	
Other	
Subtotal of Section H	$

I. Savings or Investments		
Retirement account(s)		
Investment account(s)		
College savings		
Other		
Subtotal of Section I	$	

J. Taxes		
Federal		
State		
Local		
Other		
Subtotal of Section J	$	

Possible reductions in monthly expenses	$

1. List household income – this includes all money that is coming to the household that contribute to the monthly expenses.
2. List home expenses – this includes rent, electricity, gas, water/sewer/trash, phone, cable and internet, lawn services, home supplies, groceries, maintenance, and improvements. List any extras such as hair appointments, dry cleaning, personal supplies, and clothing.
3. List money that is being invested into savings accounts, emergency funds, and college funds.
4. List obligations such as student loans and credit card fees.
5. Always Balance – Subtract your expenses from your income.

Wee Savers and Investors Financial Literacy

Pillars of Personal Finance

Pillars of Personal Finance

Personal Finance is the financial management which an individual or a family unit performs to budget, save, and spend monetary resources over time, taking into account various financial risks and future life events. In this lesson we will discuss four major topics of personal finance:

- Banking
- College Choices
- Career Choices
- Spending Habits

Pillars of Personal Finance – Banking

Banking is an industry that handles cash, credit, and other financial transactions. Banks provide a safe place to store extra cash and credit. They offer savings accounts, certificates of deposit, and checking accounts. Banks use these deposits to make loans. These loans include home mortgages, business loans, and car loans.

Pillars of Personal Finance – Banking 101

- If you're serious about that car, college education, or other major goals, put your money where your mouth is and feed it to a **savings account**.
- Savings Account - An account that usually pays interest at a financial institution that holds money you want to keep for long-term goals or emergencies.
- Checking Account - Unlike savings accounts, checking accounts are accessible at any time. And you can access it in various ways—by depositing checks, using a debit card, or using your bank's Automated Teller Machine (ATM). It keeps your money safe while covering you in case your debit card gets stolen. The bank can deactivate it so someone else can't use it at will.

Pillars of Personal Finance – Banking 101

- **Bank statements:** help make life a little more comfortable, especially if you haven't kept consistent records of your transactions. This statement is a printed record of your account balance, including detailed lists of deposits and withdrawals. It helps to go through these with your parents in case specific terminology strikes you as odd, but these statements are straightforward and are either issued by mail or online.
- Once you have received your bank statement and read it over, take up your transaction book and check off all items that are also in the statement. Then it's time to make some additions and subtractions.
- Add interest your bank has paid you while also subtracting any fees the bank charged you and any bounced checks. If the numbers don't add up, make sure to call your bank and ask any necessary questions.

Pillars of Personal Finance – Banking Terms

- Automated Teller Machine (ATM CARD): A plastic card issued by a financial institution that gives you access to an ATM. It does not necessarily allow you to purchase items as a debit card would.
- Automated Teller FEE (ATM): A fee banks and banking networks charge when you use an ATM outside your bank's network.
- Money Market Account - You deposit money into an account, you earn interest on that account. The biggest difference is the fact that Money Market accounts earn significantly more in interest than traditional savings accounts.
- Mobile Banking - The process of accessing or using banking products and services through a mobile device. It's usually accessed through an app your financial institution provides.

Pillars of Personal Finance – Banking Terms

- Mobile Deposit - A way to deposit checks into your bank account using your mobile device. It typically requires you to take a picture of the check and send that picture to your bank through an app.
- Overdraft Fee - A fee incurred when your checking account doesn't have enough funds to cover a payment that is requested. The financial institution will pay what your account lacks, after which your account may have a negative balance.
- Overdraft protection - A service offered by financial institutions that allows you to pay for an item even though you don't have the total funds available in your account. This means your card will not be denied, but the service usually comes with a hefty fee.
- FDIC - The Federal Deposit Insurance Corporation. A government-run organization that insures customers' bank deposits up to $250,000 if the bank fails.

Pillars of Personal Finance – Banking Summary

Finances can be a blessing and a curse for young people but knowing the basics will prepare for what's to come.

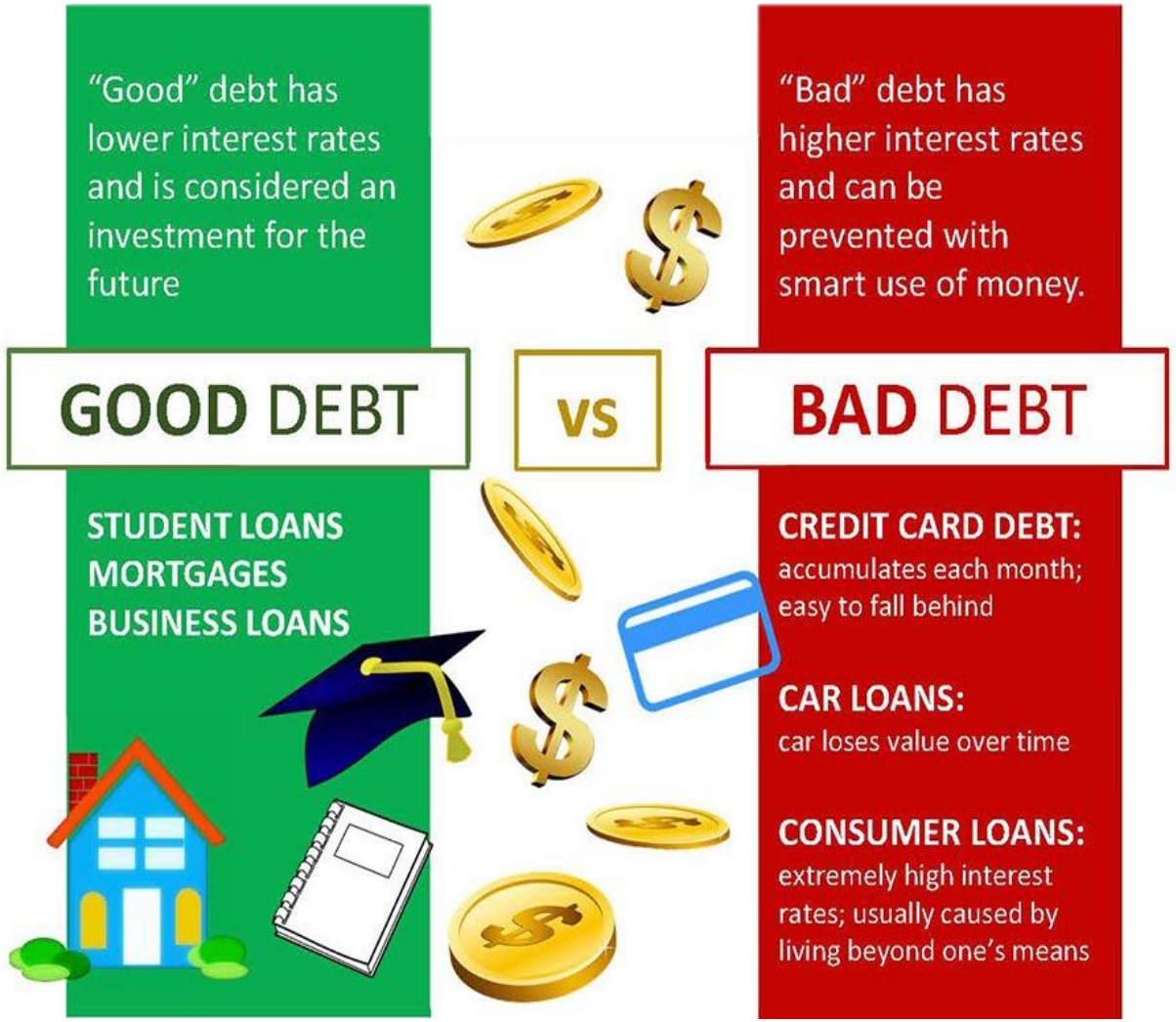
Banking gives you a chance to make a lot, even when you don't have a lot. Money can always grow over time. Once you have it saved in the right places, it'll come in handy when you need it most. Armed with this knowledge, you will fire your way to wealth you never knew you could achieve.

Pillars of Personal Finance – The Power of Credit

- Credit is really a powerful thing. When one maintains a good credit score, that means that they pay their bills on time, manages their credit card spending, and possess good debt.
- A decent credit score starts at 640
- A better credit score can lead to:
  - ✓ lower financing rates
  - ✓ more negotiating power
  - ✓ attractive mortgage and refinancing rates
  - ✓ higher credit card limits

Pillars of Personal Finance – Good Debt vs Bad Debt

- Good debt includes
  - ✓ Mortgages
  - ✓ Student loans
  - ✓ Business loans
  - ✓ Real Estate
  - ✓ Investing
- Bad debt includes
  - ✓ Credit card debt
  - ✓ Consumer loans
  - ✓ Car Loans
  - ✓ Cash Advances
  - ✓ Payday Loans



Pillars of Personal Finance – College Choices

- Find a college that is for you.
- Do not choose a scholarship because it is popular.
- Choose a college that fits what you stand for and where you will be comfortable.
- Do not be afraid of going to college out of state.

Pillars of Personal Finance – College Choices

- Look at the scholarships that are offered.
- Majority of schools offer scholarships.
- Look at the financial aid office to see what grants and scholarship they offer.
- Then look at what the colleges inside the university offer. For example, the school of business offers scholarships to business majors, the college of science offers scholarships to science majors, and etc.

Pillars of Personal Finance – Career Choices

- Find what excites you and you are good at.
- When most think of a career, they look for the ones that pay the most money.
- Careers are not based on money all the time. A career should be something that one can enjoy and make money off of.
- You want to be confident and comfortable in the career that you choose.

Pillars of Personal Finance – Career Choices

- Find a mentor that does what you like.
- Another way to gain an understanding about a career is to find a mentor.
- A mentor can be anyone that you know that is already in the career that you are interested in and can help you understand more about it.
- Mentors are also great because if you decide to take the career path of your interest, they can help get you in the door.

Pillars of Personal Finance – Spending Habits

- You're growing into a stage of your life where you will meet new friends, have eye-opening social experiences, and buy yourself things you've always wanted. But, while spending your own money for the things you dream of is a nice feeling, it can leave nightmarish effects on your financial future if mismanaged.
- Credit cards can be a gift and a curse at the same time. A credit card is a ready-made solution to help you pay for something when you're a little short on cash, but it also looks flashy. But know that you still have to pay them off, and if you aren't making a quality salary, it can be a tough task.
- If you don't need to use a card when going out, leave it at home. Credit cards are more for emergency purposes or significant purchases, not necessarily for those designer shirts or dresses you've been eyeing through shop windows.
- Having a card feels empowering, it can give you too much power, which can lead to you hanging your head in shame asking your parents for a bailout.

Pillars of Personal Finance – Spending Habits

- Necessary vs. Unnecessary Spending:
- Necessary spending includes bills and food.
- Unnecessary spending includes leisure shopping and spending excess money on fast food.
- A lot of times, we think unnecessary items are necessary.
- If we examined our unnecessary spending, then we will have the opportunity to save more and spend less.

Pillars of Personal Finance – Summary

1. Build A Buffer
2. Set Aside for Retirement
3. Get Rid of Bad Debt
4. Save For Emergencies
5. Invest What You Can
6. Create An Additional Income Steam

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CASH vs. CREDIT

How Cash Works

- Cash is King. The importance of strong cash flow is aptly stated in the common expression "cash is king." The premise of this is that having cash puts you in a positive financial position.
- Cash is the most liquid asset and can be used immediately to perform economic actions like buying, selling, or paying debt, and meeting immediate wants and needs.
- If you have more cash than you spend, you have a positive cash flow. You have a negative cash flow if you you're paying more bills, and interest than you're bringing in. Cash flow is a key indicator of **financial health**.

How Credit Works

- Credit is an agreement you have with a lender to obtain goods or services that you pay for at a later date that is specified in the contract.
- Credit comes in the form of various forms including loans and credit cards.
- Loans sometimes require money upfront, but the rest of it is given to you and you have to prove good faith by paying it back in a timely manner.
- When you use your credit card, the company loans you the money known as a credit limit and you have to pay it back.

Credit Report Basics

- A credit report provides detailed information on how you have used credit in the past. This includes how much debt you have and if you have or have not paid your bills on time. This helps lenders know if they can trust you to pay them back.
- A credit report provides your personal information, accounts (open and/or closed), and recent inquiries.
- Soft vs Hard inquiries
- 3 credit bureaus: Transunion, Equifax, and Experian
- The Fair Credit reporting Act
- Who can view your credit report
- The importance of dispute letters

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Credit Report Information

A credit report reads your personal information including social, date of birth, address(es), and employment information.

It continues to tell you what accounts are being reported on your credit report and what each bureau is reporting it as.

This is confidential information that you should review at least twice a year.

EQUIFAX 3 in 1 Sample Credit Report

Personal Information

Registration Information

Name: Stephen X. Smith
Address: 123 Main Street, Anywhere, VA 12345
Social Security Number: 022-22-2222

Identification Information

	Equifax	Experian	TransUnion
	Reported	Reported	Reported
Name:	JOHN Q PUBLIC	JOHN Q PUBLIC	JOHN Q PUBLIC
Social Security Number:	022-22-2222	022-22-2222	022-22-2222
Age or Date of Birth:	03/1958	03/1958	03/1958

Address Information

	Equifax	Experian	TransUnion
	Reported	Reported	Reported
Address:	123 MAIN ST	123 MAIN ST	123 MAIN ST
	ANYWHERE, VA 22222	ANYWHERE, VA 22222	ANYWHERE, VA 22222
Date Reported:	03/1999	01/2002	10/1999
	Reported	Reported	Reported
Address:	321 EXIT ST	321 EXIT ST	321 EXIT ST
	SOMEWHERE, VA 22222	SOMEWHERE, VA 22222	SOMEWHERE, VA 22222
Date Reported:	11/1998	12/2001	09/1999

Employment Information

	Equifax	Experian	TransUnion
	Reported	Reported	Not Reported
Employer:	ABC CORP	ABC CORP	
Address:			
Date Reported:	02/2001	02/2001	

Account Information

American Express

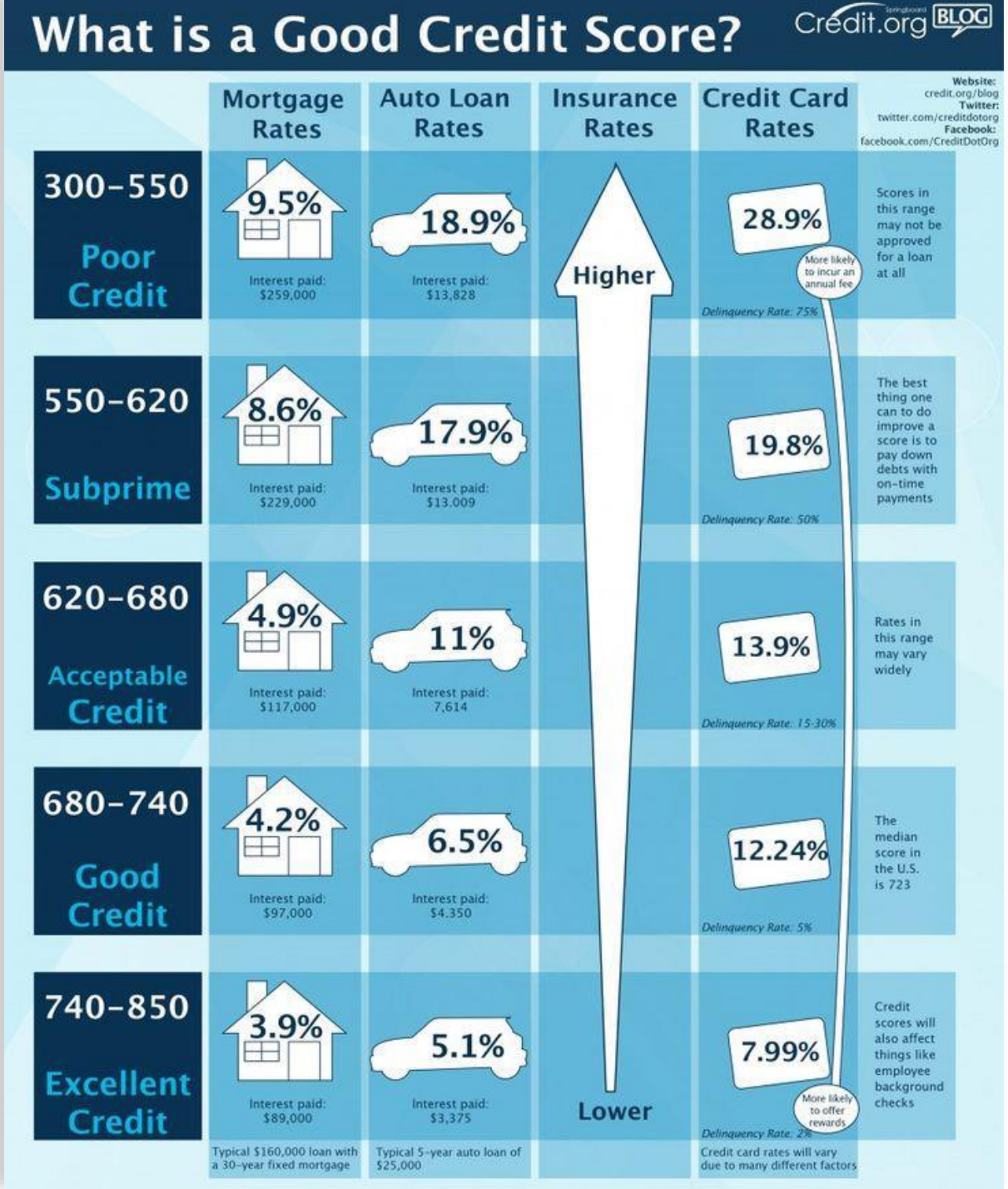
	Equifax	Experian	TransUnion
	Reported	Reported	Reported
Account Type:	REVOLVING	REVOLVING	REVOLVING
Account Number:	00726	00726	00726
Payment Responsibility:	Individual	Individual	Individual
Date Opened:	03/1991	03/1991	03/1991
Balance Date:	04/2002	04/2002	04/2002
Balance Amount:	$704	$704	$704
Monthly Payment:	$21	$21	$21
Credit Limit:	$704	$6416	$704
High Balance:			
Account Status:	AS AGREED	CURR ACCT	Paid as agreed
Past Due Amount:	$0	$0	$0
Comments:	Charge	Charge	Charge

Interest Rates and Terms

- Interest rates are based on your credit score.
- Types of interest rates:
  - ✓ auto
  - ✓ homes
  - ✓ credit card
- Term is the amount of time given to payback the debt. Ex: A term can be 6 months, 12 months, or beyond.

Credit Score Affect Your Interest Rates

- A credit score can make one pay higher interest rates in their mortgages, car loans, insurance rates, and credit cards.
- A high credit score when you apply for a mortgage could save you thousands of dollars in interest over the life of your loan.
- Your credit score represents your overall credit history. It's based on information in your credit report, which includes whether you pay your bills on time and the total debt you carry.



Wee Savers and Investors Financial Literacy

INTRODUCTION TO STOCKS AND BONDS INVESTMENT

What are Stocks?

- A stock is a piece of ownership in a publicly traded company. Owning stock in a public company can provide many financial benefits. However, investing in the stock market can involve a certain level of risk, as the prices can change pretty much at anytime, for a number of reasons. The price of oil, inflation, the world economy, and even terrorism can affect the entire United States stock market.

Stock Keywords

- Publicly traded company: a company that you can invest in on the stock market.
- Stock market: the place where you can buy and sell stocks via a broker. The 3 most popular are: The New York Stock Exchange (NYSE), the National Association of Securities Dealers Automated Quotations (NASDAQ), and the Over The Counter (OTC) market.
- Broker: “middleman” in the transaction, who charges a fee to trade your securities.
- Securities: are valuable assets in your portfolio – usually: stocks, bonds, and funds.
- Portfolio: a collection of all of your assets/life savings – usually: securities, real estate and cash.
- Long-term: holding on to a security for 10+ years in order to maximize growth.
- Dividends: money paid to you every 3 months for owning stock in a company.
- Capital gains: buying something for a low price and can selling it later for more.

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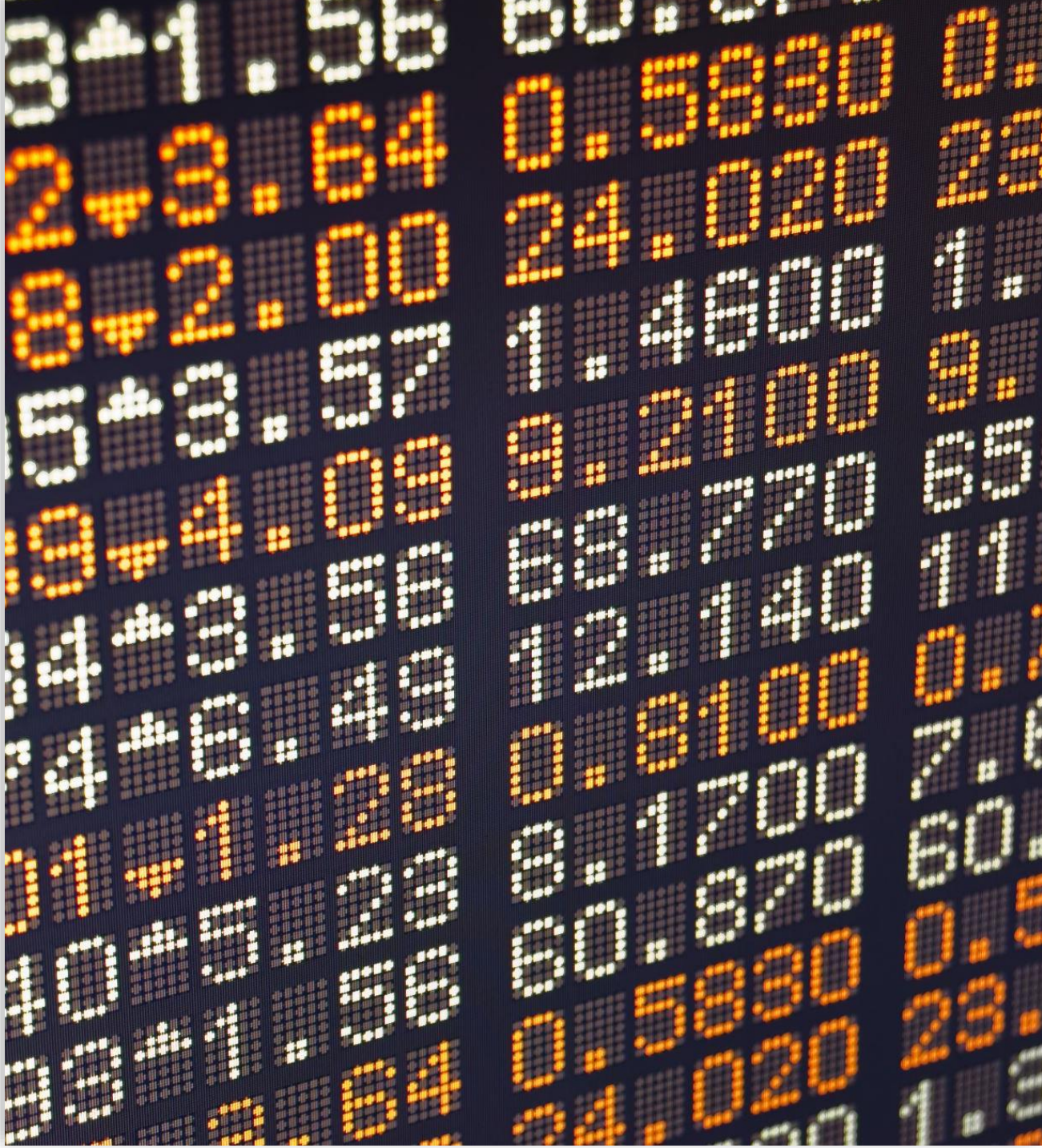
Stock Investment Example

When you invest in the stock market, the secret is to buy low and sell high. The average pair of expensive gym shoes can easily cost $200. If any of us invested $200 into NIKE, Inc. stock (NYSE: NKE) in the year 2000, we could have sold the stock in 2015 and made over $2k in capital gains and dividends…and got 4 FREE pair of expensive gym shoes out of the situation!

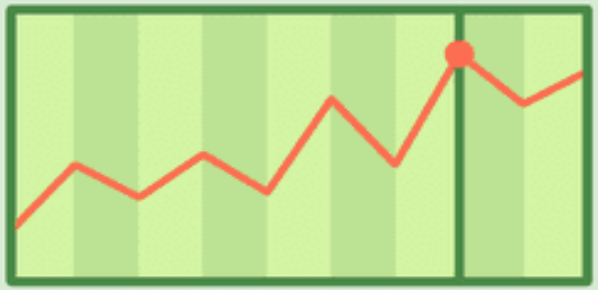
Bonds

You can invest in bonds similar to how you can invest in stocks. A bond is basically a loan. The major difference is that bonds provide fixed rates of interest. The prices don’t go up and down like stocks.



Bonds Keywords

- Loan: cash borrowed from a company or government that gets paid back with interest.
- Mature: the time it takes for you to get paid back from a loan – usually: 3 months to 30 years.
- Fixed interest: the amount of return you get on a loan – usually: 1 – 6%.
- Invest: the activity of putting your cash behind a company or project, expecting a return.
- Risk: the reality that you can lose some or all of the cash you invest – usually: 10% - 100%.
- Reward: the amount of money you expect to gain from your investment – usually: 20% - 1,000%.
- R.O.I.: Return On Investment is the amount of money you actually gained or lost.

Stocks		Bonds
	vs.	
An equity instrument carrying ownership interest.	**Meaning**	A debt instrument with a promise to pay back the money with interest.
Dividend	**Return**	Interest
No	**Return Guarantee**	Yes
Voting rights in the company.	**Additonal Benefits**	Preferential treatment when bond matures.

STOCKS/BONDS

Investment

Your investment goals are as unique as the route you take to reach them. But regardless of your course, we believe these 10 “rules of the road” can help you get where you want to be.

1. Develop your strategy. Your financial advisor gets to know you – your long-term goals, investment time frame and comfort level with risk – before recommending a strategy. The more you can outline what you are trying to achieve, the more he or she can tailor your strategy to you.

2. Understand risk. As a rule, the higher the return potential, the more risk you’ll have to accept. To determine what makes sense for you, your financial advisor will want to know:

- What is your comfort level with risk? Understanding this can help him or her determine how you may react to market ups and downs over time.
- How much risk are you able to take? The amount of time you have to invest plays an important role in determining how much risk you’re able to take.
- How much risk do you need to take? Your financial advisor will want to determine the return, and therefore the risk, that may be necessary to reach your long-term goals.

3. Diversify for a solid foundation. Your portfolio’s foundation is your asset allocation, or how your investments are diversified among stocks, bonds, cash, international and other investments. Your mix should align with your goals and comfort with risk.

Investment

4. Stick with quality. Of all the factors to consider when investing, Edward Jones believes quality is one of the most important. It's also one of the most overlooked. Although it may be tempting to buy a popular investment, it may not fit with the rest of your portfolio, and it may be riskier than you expect. If it sounds too good to be true, it probably is.

5. Invest for the long term. Despite stories of fortunes made on one or two trades, most successful individual investors make their money over time, not overnight. One of the biggest mistakes you can make is trying to "time" the markets.

6. Have realistic expectations. First, you'll need to determine the return you're trying to achieve – which should be the return you need to reach your goals. Then you can base your expectations on your asset allocation, the market environment and your investment time frame.

7. Maintain your balance.Your portfolio's mix could drift from its initial objectives from time to time. You can rebalance to reduce areas where your investments are overweight or add to areas where they are underweight. By rebalancing on a regular basis, you can help ensure your portfolio remains aligned with your objectives and on track to reach your long-term goals.

Investment

8. Prepare for the unexpected. Unforeseen events could derail what you're working so hard to achieve. By preparing for the unexpected and building a strategy to address it, you'll be better positioned to handle the inevitable bumps along the way.

9. Focus on what you can control. You can't control market fluctuations, the economy or the political environment. Instead, you should base your decisions on time-tested investment principles, which include: Diversifying your portfolio, Owning quality investments and Maintaining a long-term perspective

10. Review your strategy regularly. The one constant you can expect is change. That's why it's so important that you and your financial advisor review your strategy on a regular basis.

Think of your financial advisor as your navigator on this journey. By working together to regularly review your strategy and make the adjustments you need, you can have a clearer picture of where you stand and what you need to do to help reach your goals.

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