

MONEY MATTERS 101

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Financial Management Made Simple

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DISCLAIMER

- ▶ THIS IS A GENERAL INTRODUCTION TO FINANCIAL PLANNING AND MANAGEMENT
- ▶ IT IS NOT A SUBSTITUTE FOR PERSONALIZED FINANCIAL PLANNING OR CREDIT COUNSELLING
- ▶ EACH INDIVIDUAL'S SITUATION VARIES, PLEASE TALK WITH AN APPROPRIATE FINANCIAL EXPERT BEFORE MAKING CRITICAL FINANCIAL DECISIONS

AGENDA

- 1) GET MONEY (acquire wealth)
- 2) USE IT (manage wealth), AND
- 3) PASS IT ON (will, estate planning)

WHAT IS MONEY?

- A) an end
- B) a servant
- C) a devil
- D) an angel
- E) a master

ANSWER

B. Money is a servant.

▶ It is a tool/servant/means of exchange/magnifier of character.

- Accounting is the universal language of business used for recording financial transactions and for communicating and evaluating financial performances.
- Wealth is one of many factors used to measure success.

TRUE OR FALSE

- ▶ **MONEY IS THE ROOT OF ALL EVIL.**

ANSWER

FALSE

- THE LOVE OF MONEY IS THE ROOT OF ALL EVIL.
- Excessive love of money will make a person do anything for money.
- Good wealth is from legal & ethical sources and is used for good purposes.

THE RIGHT WAY TO GET MONEY

- ▶ **BY PROVIDING VALUABLE GOODS OR SERVICES TO OTHERS.**
- ▶ Adam Smith in his famous work “The Wealth of Nations” noted that in a capitalist system, in order for people to acquire money they will be led by an invisible hand to provide what others need.
- ▶ Zig Zigler, the great American salesman, stated that to make a lot of money you have to satisfy the need of a lot of people. For example, NBA players, reputable Hollywood actors & CEOs of major corporations.

ORGANIZATIONS TO MAKE MONEY

▶ GENERALLY, THERE ARE THREE TYPES OF ORGANIZATIONS USED TO MAKE MONEY.

1. INDIVIDUALS OR SOLE TRADER

2. PARTNERSHIP

3. CORPORATIONS

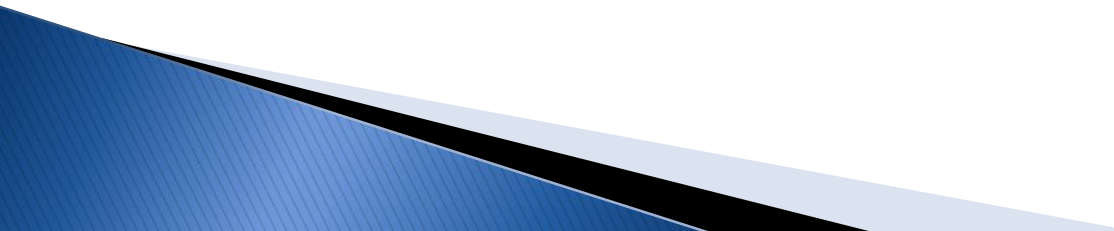
EACH HAS ITS OWN PROS AND CONS.



MARRIAGE & FINANCE


- ❑ WE NEED TO APPRECIATE THAT MARRIAGE IS A CRITICAL PARTNERSHIP
- ❑ THE PARTNERS HAVE TO ALIGN THEIR GOALS
- ❑ LOVE FOR ONE ANOTHER HAS TO BE STRONGER THAN LOVE FOR MONEY
- ❑ A COUPLE SHOULD HAVE HONEST AND MUTUALLY AGREED FINANCIAL GOAL(S)

RESOURCES TO GET MONEY

- PHYSICAL STRENGTH
 - KNOWLEDGE / SKILLS
 - CHARISMA / PERSONALITY
 - A COMBINATION OF THESE RESOURCES
 - REMEMBER, LIFE IS A MARATHON
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YOUR BEST RESOURCE FOR MONEY

▶ **YOURSELF**

- ▶ **NOURISH YOUR BODY, MIND AND SPIRIT VERY WELL. LOVE YOUR WORK AND ENJOY SOME RECREATION ACTIVITIES.**
 - ▶ **WRITE DOWN YOUR PERSONAL GOAL(S) AND REVIEW AS NEEDED.**
 - ▶ **SUCCESS MEANS YOU ATTAIN YOUR GOAL(S).**
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WISDOM FROM FAITH

- ▶ **DO NOT BURY YOUR TALENT**
- ▶ Meaning: Develop yourself and make your money work for you.
- ▶ **SEARCH FOR KNOWLEDGE EVEN TO CHINA**
- ▶ Meaning: Seek knowledge continuously.
- ▶ **BEST AMONG MANKIND ARE THOSE WHO BRING BENEFITS TO OTHERS**
- ▶ Create value for others and be charitable.
- ▶ **GIVE ONTO CEASER WHAT IS CEASER'S**
- ▶ Pay your taxes when due, as a good citizen.

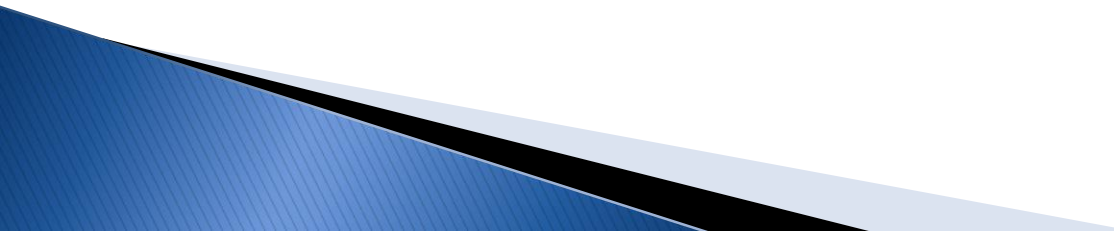
WHAT IS CREDIT ?

- CREDIT IS A FORM OF MONEY THAT COULD BE USED MORE EASILY TO MAKE MORE MONEY OR LOOSE MORE MONEY.
- IF ONE USES CREDIT WISELY ONE CAN CREATE MONEY FOR HIMSELF/HERSELF. (e.g. Buy an item on credit sell it for cash with profit, keep the profit and repay the cost – good credit usage)
- IF ONE USES CREDIT FOOLISHLY FOR PURE CONSUMPTION OR SHOW-OFF, THE PERSON WILL WORK IN FUTURE TO REPAY THE DEBT WITH ADDITIONAL INTEREST (bad credit usage)

FOUNDATION OF CREDIT

- ▶ CREDIT IS A FORM OF MONEY CREATED WHEN THE SELLER OF A GOOD OR SERVICE TRUST THAT THE BUYER WILL PAY IN FUTURE.
- ▶ THEREFORE, A BAD NAME OR BAD CREDIT IS NOT ONLY UNDESIRABLE, IT CAN ACTUALLY LEAD TO LACK OF MONEY OR CREDIT.
- ▶ THE BANKING SYTEM IS THEREFORE VERY IMPORTANT BECAUSE IT CREATES CREDIT/MONEY AND ALLOCATES IT.
- ▶ THE FINANCIAL PROSPECT OF A COUNTRY IS LARGELY CONTROLLED BY ITS BANKING SYSTEM.

BUDGET FOR FINANCIAL SUCCESS

- ▶ THE BEGINNING OF FINANCIAL SUCCESS IS BUDGETING.
 - ▶ A SIMPLE MONTHLY BUDGET SHOWS ALL YOUR EXPECTED INCOME AND EXPENSES FOR EACH MONTH.
 - ▶ IF YOUR INCOME IS MORE THAN YOUR EXPENSES YOU HAVE SURPLUS MONEY WHICH YOU CAN SAVE FOR FUTURE USE OR FOR INVESTMENT.
 - ▶ IF YOUR EXPENSES IS MORE THAN YOUR INCOME YOU HAVE DEFICIT WHICH YOU CAN CURE EITHER BY GETTING MORE JOB OR BY ELIMINATING SOME OF YOUR EXPENSES.
 - ▶ IT IS GOOD TO SAVE AT LEAST 10 PERCENT OF YOUR MONTHLY INCOME REGULARLY.
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START BUILDING CREDIT

- ▶ THE BEST WAY TO START BUILDING CREDIT IS THROUGH SMALL SAVINGS AT A BANK OR CREDIT UNION.
- ▶ THEN USE PART OF YOUR SAVINGS TO OBTAIN A SECURE CREDIT CARD AS LITTLE AS \$300.
- ▶ USE THIS CREDIT CARD TO MAKE YOUR NORMAL MONTHLY PURCHASES AND PAY OFF THE BALANCE EVERY MONTH.

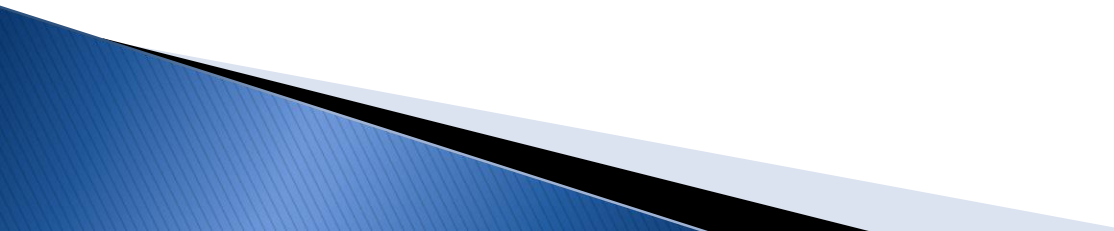
MANAGING YOUR CREDIT

- ▶ KEEP BALANCE ON EACH CREDIT CARD LESS THAN 40 PERCENT OF YOUR CREDIT LIMIT
- ▶ DO NOT HAVE MORE THAN THREE CREDIT CARDS AND NOT MORE THAN TWO STORE CARDS FOR EFFECTIVE CONTROL.
- ▶ PAY YOUR BILLS ON TIME AND ALWAYS PAY MORE THAN MINIMUM DUE ON CREDIT CARDS.
- ▶ BE PROACTIVE WITH YOUR CREDITORS, IF YOU HAVE DIFFICULTY PAYING CALL THEM BEFORE DUE DATE TO WORKOUT AN AGREEMENT.

YOUR CREDIT SCORE

- ▶ CREDIT SCORES NORMALLY RANGE BETWEEN 350 TO 850; THE BEST IS 850.
- ▶ IT IS A REFLECTION OF YOUR CREDIT HISTORY TO DATE.
- ▶ 35 PERCENT OF THE FIGURE SHOWS PAYMENT HISTORY, LEVEL OF DEBT IS 30 PERCENT, DURATION OF CREDIT HISTORY IS 15 PERCENT, INQUIRIES AND MIX OF CREDIT CONSTITUTE 10 PERCENT EACH.

MONEY FOR ESSENTIALS I

- ▶ **TRANSPORTATION IS AN ESSENTIAL.**
 - ▶ **IF AVAILABLE, USE PUBLIC TRANSIT.**
 - ▶ **YOU MAY BUY A RELIABLE USED CAR TO DRIVE TO WORK AND RUN ERRANDS.**
 - ▶ **IF YOU DECIDE TO FINANCE A USED CAR, MAKE SURE THE RATE OF INTEREST IS REASONABLE AND THAT YOU CAN PAY OFF THE DEBT BEFORE THE END OF THE USEFUL LIFE OF THE VEHICLE.**
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ESSENTIALS II-ACCOMODATION

- ▶ WHEN YOU RENT AN APARTMENT THINK SAFETY, ACCESSIBILITY TO YOUR JOB, AND AFFORDABILITY.
- ▶ ALWAYS PAY YOUR RENT AND UTILITY BILLS ON TIME TO ENHANCE YOUR CREDIT SCORE AND FACILITATE FUTURE HOME OWNERSHIP.
- ▶ BUY A STARTER HOME AND BUILD EQUITY TOWARDS A MORE SUITABLE HOME.
- ▶ WHEN BUYING HOME THINK SAFETY, AMENITIES, ACCESSIBILITY, KIDS EDUCATION AND FUTURE PROPERTY VALUE.

SELF MAINTENANCE & DEVELOPMENT

- ▶ REMEMBER YOU ARE YOUR BEST RESOURCE TO MAKE MONEY.
- ▶ ALWAYS KEEP UP YOUR APPEARANCE, HAVE REGULAR HEALTH AND DENTAL CARE
- ▶ CONSTANT SELF DEVELOPMENT IS A MUST, BUT MAKE SURE THE PROJECTED RETURN IS MORE THAN THE COST.
- ▶ DO NOT OVERLOOK PROFESSIONAL CERTIFICATIONS, USUALLY THEY ARE AFFORDABLE AND GIVE HIGH RETURNS.
- ▶ IF YOU COSIGN A LOAN IT MAY AFFECT YOUR CREDIT AND YOU MAY BE ULTIMATELY RESPONSIBLE FOR THE DEBT.

OUR KIDS

- ▶ IT IS CHEAPER FOR US TO DEVOTE TIME TO SUPPORT OUR KIDS NOW THAN TO PAY LATER.
- ▶ GOOD EDUCATION WILL FACILITATE THEIR SUCCESS.
- ▶ PLAN AND SAVE AHEAD FOR THEIR COLLEGE EDUCATION
- ▶ LET THEM USE GRANTS, COMMUNITY COLLEGES, SCHOLARSHIPS, WORK-STUDY AND REASONABLE AMOUNT OF LOAN
- ▶ IT IS ADVISABLE THAT A CHILD'S LOAN AMOUNT SHOULD BE LESS THAN \$5,000 PER YEAR OF POST SECONDARY EDUCATION.

INVESTMENTS

- ▶ TO BE ABLE TO INVEST YOU FIRST NEED TO SAVE, NO CREDITOR WILL TAKE YOU SERIOUS IF YOU DO NOT HAVE EQUITY IN YOUR BUSINESS.
- ▶ INVEST ONLY IN PROFITABLE VENTURES YOU UNDERSTAND AND KEEP THE CONTROL OVER YOUR INVESTMENT.
- ▶ FRANCHISE INVESTMENT IS ADVISABLE ONLY WHEN REALIZABLE REVENUE IS MORE THAN THE FRANCHISE FEES AND OTHER CHARGES.
- ▶ STOCK AND BOND INVESTMENT IS MOST SUITABLE FOR LONGTERM INVESTMENT WITH TAX BENEFITS OR PROFESSIONAL INVESTORS
- ▶ READ AND UNDERSTAND EVERY DOCUMENT BEFORE YOU SIGN, NO MATTER THE PRESSURE ON YOU. DO NOT BE GREEDY.

RETIREMENT PLANNING

- ▶ WITHOUT ACCIDENTAL DEATH, MANY U.S. RESIDENTS WILL LIVE TO 90 YEARS, THEREFORE, WE NEED TO PLAN FOR OUR OLD AGE.
- ▶ WHERE ARE YOU GOING TO LIVE IN OLD AGE? WHAT AGE ARE YOU GOING TO RETIRE OR BE SEMI-RETIRED?
- ▶ FOR NOW, CONTRIBUTE AS MUCH AS POSSIBLE TO A RETIREMENT FUND AND MAKE SURE YOU RECEIVE MAXIMUM MATCHING POSSIBLE FROM YOUR EMPLOYER. ALSO, EXPLOIT THE NEW TAX INCENTIVES.
- ▶ IF YOU LEAVE AN EMPLOYER, DO NOT CASH YOUR RETIREMENT FUND BALANCE, INSTEAD TRANSFER IT TO A PERSONAL IRA WITH A REPUTABLE BROKER.
- ▶ ARE YOU CONTRIBUTING TO SOCIAL SECURITY? ARE YOU SAVING AND PLANNING TO AUGMENT YOUR SOCIAL SECURITY BENEFITS IN FUTURE?
- ▶ A ROTH IRA IS VERY ATTRACTIVE FOR RETIREMENT PLANNING.

OTHER ISSUES

- ▶ YOUR HOME IS A MAJOR ASSET, MAINTAIN IT PROPERLY TO ENHANCE ITS VALUE AND MAKE SURE YOU HAVE THE ABILITY TO REPAY ANY LOAN ON IT AND THAT THE LOAN TERMS ARE FAIR.
- ▶ BEFORE YOU REFINANCE ENSURE THAT THE LOAN COST IS REASONABLE, THE TOTAL LOAN ON THE PROPERTY IS NOT MORE THAN 90 PERCENT OF THE PROPERTY VALUE, AND YOU CAN REPAY THE LOAN.
- ▶ MAINTAIN GOOD CREDIT SCORE, BUY BOTH CAR AND HOMEOWNERS INSURANCE FROM ONE REPUTABLE COMPANY AFTER SHOPPING RATES, AND INCREASE YOUR DEDUCTIBLE TO ABOUT \$1,000 TO REDUCE PREMIUM.
- ▶ IF YOU HAVE FINANCIAL DIFFICULTY DO NOT RUN AWAY, NEGOTIATE WITH YOUR CREDITORS. IF THIS FAILS AND THE DEBTS ARE OVERWHELMING, IT SHOULD NOT BE END OF LIFE. FILE BANKRUPTCY AND CALMLY START OVER AND DO IT BETTER.
- ▶ REMEMBER, WHERE THERE IS LIFE, THERE IS HOPE.

PEACE OF MIND

- ▶ BUYING AND MAINTAINING A LIFE INSURANCE POLICY WITH A REPUTABLE COMPANY WILL ENSURE THAT OUR FAMILY WILL BE FINANCIALLY SUPPORTED AFTER OUR DEATH.
- ▶ THERE ARE DIFFERENT TYPES OF LIFE AND TERM INSURANCES, AND SOME OF THEM CAN BE USED FOR BOTH RETIREMENT AND DEATH PLANNING.
- ▶ ALWAYS SPECIFY THE BENEFICIARY OF YOUR INSURANCE POLICY TO KEEP GOVERNMENT'S HAND AWAY FROM ITS PROCEED.

PASS IT ON

- ▶ IT IS SMART TO START A PROJECT WITH THE END IN MIND.
- ▶ THEREFORE, EACH ONE OF US SHOULD MAINTAIN A WILL TO DECIDE WHO RECEIVES HIS/HER NET ASSETS AFTER DEATH OR ELSE MOST OF THE ASSETS WILL GO TO GOVERNMENT AND OTHER UNKNOWN OR UNINTENDED PERSONS.
- ▶ YOU CAN MAKE A SIMPLE WILL BY YOURSELF, USING INTERNET FORMS OR STANDARD FORMS FROM STATIONERY STORES.
- ▶ ESTATE PLANNING IS NOT ONLY FOR THE RICH. IT IS GOOD TO HAVE LIVING TRUST TO DECIDE WHO SERVES AS GUARDIAN IF ONE BECOMES IMPAIRED.

APPRECIATION

- ▶ **MANY THANKS.**
- ▶ Please send any review or comments to:
- ▶ TiamiyuO@hssu.edu or owolabit@gmail.com

(Dr. T.)

