

Personal Management

Bank Accounts

- **Checking**
 - Keeps money in safe place
 - Used to pay bills and other expenses
 - Debit cards
- **Savings**
 - Keeps money in safe place
 - Earns interest

Savings vs. Investing

- Savings
 - Keeps money in safe place to be used for a future near term purchase or for emergencies
 - Earns interest
 - Not substantial – usually less than the inflation rate, but better than keeping at home
- Investing
 - Objective: to make more money

Inflation

- Rising cost for same goods
 - Example: candy bar used to cost 5 cents, now 25 cents; haircut was \$1, now \$15
- Inflation rate in the US is about 3%
 - Means that if you have a dollar in January, you'll need \$1.03 the next January to buy the same good or service
- If you save money, you want to have some way of getting 3% interest during the year just to “stay even”

Savings vs. Investing

- Savings
 - Short term goals
- Investing
 - Long term goals
 - College
 - Retirement
 - Higher risk
 - Greater risk = higher potential return (\$\$) on your investment

Types of Investments

- Financial
 - Stock market
- Time and Labor
 - Example: invest in a lawn mower so you can mow lawns during the summer and earn money.
- You!
 - Invest in yourself through education so you can obtain a better job and earn more income.
 - *VERY IMPORTANT!!*

Financial Investments

- Long-term
 - Stocks, Bonds, Real Estate
 - Higher risk
 - It's not guaranteed that you will earn more than the amount you invest.

Financial Investments – Two Types

- Loaned Investments
 - You loan money to a company or the government in return for its promise to repay the principal plus interest
 - Money market funds, certificates of deposits (CDs), U.S. government bonds
 - Generally low-risk and low return
- Owned investment
 - You own part of the company or part of the real estate
 - You share in any profits or losses
 - Making money is not guaranteed and is higher risk

Financial Investments

- Owned investment
 - You can also make money buy selling your stock in the company
 - “Buy low and sell high”
 - Buy at \$40 per share and sell at \$60 per share
 - If you buy, then sell, 100 shares at these prices you will make \$2000!

What are Stocks?

- If you own stock, you own part of the company.
- Example
 - Someone has a great idea for making widgets, but the widget making machine costs \$1 million, but he’s convinced that everyone will buy widgets so he starts a widget business.
 - But, he has a little problem. He doesn’t have the \$1 million that he needs to buy the machine. He needs \$1 million, but only has \$500,000 of his own money.
 - So he issues 1 million shares of stock for \$1 each
 - He buys 500,000 shares himself for \$500,000, and sells the other 500,000 to anyone who will buy them
 - People who believe that the widget idea is good buy the shares of stock
 - So, in the end, our guy has his \$1M and buys the machine to start producing widgets. However, he doesn’t own the company. The shareholders do. (Our entrepreneur owns half the stock, so he owns $\frac{1}{2}$ of the company)
 - So now he is in business. He starts producing widgets and making money.

Stock Example

- When the company makes money it can either:
 - Keep the money to expand (say that widgets are selling well and he could double the number made and still sell them all, so he buys another machine with \$1 million in profit)
 - Or, the company could divide the profit up among the shareholders. Example: the company makes \$500,000, which works out to 50 cents per share. So, it could pay a dividend of 50 cents per share.
- In the first example, the company is growing – spending all of its profit for expansion. This would be called a **growth stock**
- In the second example, the company is not growing, but is making good money. This is called an **income stock**.
- Note that in both cases, the shareholders each still own 1/1,000,000 of the company per share.

Stock Example

- If people think that the widget business is really going places they might be willing to pay a shareholder for his piece of the company. Remember, each share originally cost \$1. After that, it's worth whatever anyone will pay for it. If people believe that the company will continue to grow and make money, they will pay more than \$1 for the share. If not, less than \$1.
 - Example: Let's say someone bought an original share for \$1, but can sell it for \$2. They have doubled their investment.
 - Alternate Example: Widgets are a bust. Nobody buys them. The company goes out of business. Everybody that bought a share loses \$1. (Remember the guy with the idea put up \$500,000 – he loses all of it)
- If you understand this example, you now understand the stock market.

Financial Investments

- Risk
 - The possibility of permanently losing some or all of your initial investment
- Return on Investment (ROI)
 - The profit you make, expressed as a % of your original investment
 - Invest \$500, Return = \$600
 - $ROI = (\$600 - \$500) / \$500 = \$100 / \$500 = 20\%$
- *The higher the potential ROI, the greater the risk*

Financial Investments

- Common stocks
 - Buying stocks from individual companies (i.e. IBM, Microsoft, Pfizer)
 - *Advantages:*
 - *Dividends*
 - *Buy low, sell high*
 - *Disadvantages:*
 - *If the company(s) don't make a profit, you don't make a profit*

Financial Investments

- Mutual Fund
 - A company that invests on behalf of customers, such as you.
 - The company pools the money it collects and buys shares of stocks in many companies
 - *Advantages: lower risk than common stock investments*
 - *Disadvantage: generally lower ROI (due to the lower risk involved)*

Financial Investments

- Life Insurance
 - Financial protection for those who rely on your paycheck
 - Do you need to purchase life insurance at your age?

Financial Investments

- Certificate of Deposit (CD)
 - Insured deposits that pay a fixed or variable interest rate
 - Low risk and low ROI
 - Your money stays invested for a fixed period
 - Advantages
 - Low risk, higher ROI than savings account
 - Disadvantage
 - Lower ROI, than most other types of investment
 - Money must remain in the bank for a fixed period of time

Financial Investments

- U.S. Savings Bonds
 - Series EE now called Patriot Bonds
 - Safe and low risk
 - Purchased at ½ their value (\$12.50 for a \$25 bond)
 - Advantages:
 - Can purchase as low as \$25 bonds (and up to \$10,000 bonds)
 - Great gifts to kids from parents/relatives
 - Interest is tax free
 - Disadvantages
 - Generally low interest rate
 - Must leave untouched for at least 5 years
 - Can only purchase a limited amount per year

DIV OR DIVIDEND:
Refers to the current dollar amount of the dividend per share. The dividend is the annual income paid to shareholders.

YLD%:
Shows the value of the stock's dividend as a percentage of the stock's price, which is calculated by dividing the Dividend by the day's closing price.

PE, OR PRICE-TO-EARNINGS RATIO:
The price-to-earnings ratio shows the stock's price in relation to the company's earnings. Investors use this figure to get an idea of the stock's value and whether it is a good investment. To determine the price-to-earnings ratio, divide the company's current stock price per share by its earnings per share (EPS) for the past four quarters.

VOL:
Represents a stock's trading volume for that day, often listed in hundreds of shares, or round lots. For example, if the trading volume is 1026, it means 102,600 shares were traded that day.

NET CHG OR CHANGE:
Is the amount the closing price moved, higher or lower, from the previous day's closing price.

YTD % CHG:
The percentage change in the stock price since January 1 of the current year.

HIGH OR HI:
Indicates the stock's highest price over the last 52 weeks.

LOW OR LO:
Indicates the stock's lowest price over the last 52 weeks.

CLOSE OR LAST:
Indicates the price of each share at the end of the trading day. That's what your stock is worth, at least for that day.

YTD % CHG	52-WEEK HI	52-WEEK LO	STOCK (SYM)	DIV	YLD %	PE	VOL 100s	CLOSE	NET CHG
24.0	7.50	5.35	•Dimon DMM	30	4.0	13	1792	7.44	0.14
26.3	21.55	13.48	Disney DIS	21	1.0	39	121919	20.60	0.02
8.2	27.48	23.70	Disney&Corts KJJa	172	6.4	--	21	27	-0.18
27.8	13.05	7.50	Dist&Srv ADS DYS	21e	1.6	--	635	12.78	0.08
i 248.4	11.70	2.70	•Orthopedics DJO	--	64	2250	1310	1.40	
60.7	19.95	9.50	•Genl DG	14	7	23	20111	19.20	0.27
-2.2	26.60	14.35	•DrTherly DTG	--	15	1567	20.68	1.03	
i 26.9	27.30	17.55	•DomRes&War DOM	256e	9.3	--	279	27.47	0.42
15.1	66.15	35.40	•DominRes D	258	4.1	13	11423	63.21	-0.22
10.8	35	36.77	•Demin un	438	8.1	--	879	53.80	-0.10
7.2	11.73	8.60	•Dontar DTC	179e	--	--	456	10.78	-0.17
i 29.9	46.14	29.91	•Donaldson DCI	36	8	23	1285	46.76	0.75
24.1	28.40	16.94	•Donnelly DNY	1.00	3.7	24	6381	27.02	0.19
65.0	47.79	21.01	•Doralfnl DRLs	56	1.2	15	3462	47.18	0.49
8.4	34.70	22.85	•DoverCo DOV	54	1.7	35	7956	31.61	0.28
12.2	13	7.41	•DoverPwms DOE	20	2.0	13	304	10.20	0.12
-1.1	5.55	3.07	•Dover Motor DVD	04	9	cc	240	4.60	0.01
5.1	34.19	24.10	•DowChem DOW	1.34	4.3	4d	36249	31.20	-0.05

Information on the stock market

- Year to date change: how much the stock has gone up or down in the past year as a percentage
 - A stock goes up because investors believe it is growing or gaining value
- 52 week high and low – the highest and lowest price of the stock over the past year
 - Shows how much the stock is going up or down over the past year
 - Also an indication of "volatility"
 - If a stock is trading near its lowest point for the year then clearly people believe that is worth less (perhaps problems in the company, lower sales)
 - If a stock is trading near its high point for the year the people have confidence in the company and believe that it will continue to grow and produce higher earnings
- Yield – dividend as a percent of the stock's price
 - High dividend indicates that the stock is paying a large percentage of its profit to shareholders
- Volume – number of shares traded that day (in round lots)
 - There's a reason for high volume – have to do more research to find out why
- Closing price – price of the last trade of the day
- Change – change from previous closing price
 - Indication of how the stock is perceived by investors

Compound Interest – the power of investing

- **If there's anything that you learn from this merit badge, let it be the power of compound interest.** You seldom get rich quick, but you can certainly get rich slowly over a long period of time.
- When you save and invest, the interest you earn then earns interest on itself
 - Example in the book (p 39)
 - Initial investment of \$100 at 10%
 - At the end of 1 year you have your initial investment (\$100) plus interest (\$10) for a total value of \$110. By year 10 it's worth \$259.39.
- At the beginning of this class I told you that I would tell you how to become a millionaire.
 - Let's say you want to start saving for retirement now and decide that you can afford \$100 per month and you want to retire at age 60. Assuming you make 11% interest – average for the stock market as a whole – by age 60 you would have \$1,508,644.04. This is overly simplistic, but gives you an idea of the power of compounding. By the way, by age 60, you would have put in \$54,000 (\$100 x 540 months).

Compounding

Year	Spend earnings	Reinvest earnings
1	\$ 10	\$ 10.00
2	\$ 10	\$ 11.00
3	\$ 10	\$ 12.10
4	\$ 10	\$ 13.31
5	\$ 10	\$ 14.64
6	\$ 10	\$ 16.11
7	\$ 10	\$ 17.72
8	\$ 10	\$ 19.49
9	\$ 10	\$ 21.44
10	\$ 10	\$ 23.58
Total earnings	\$100	\$159.39

Compound interest draws the best return because it pays interest on the initial deposit and on the interest your money earned.

For next session...

- \$1000 play money exercise
 - Read requirement 6 and fill out the worksheet.
- Fill out stock worksheet
- Readings: Borrowing money (p 40 - 43)