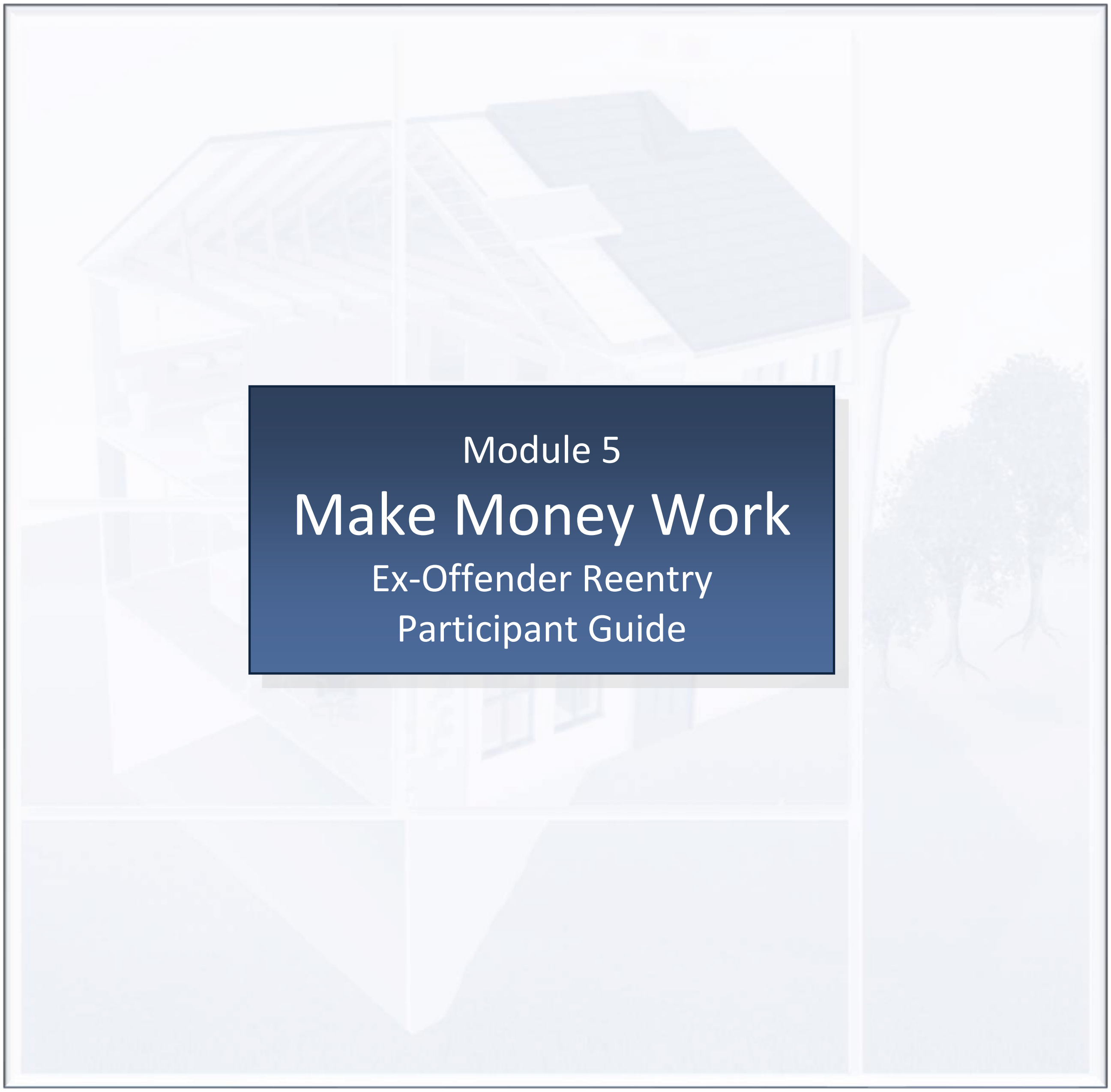
Building Your Financial House

Set the Foundation of Your Future



Module 5

Make Money Work

Ex-Offender Reentry

Participant Guide

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Self-Assessment and Track Your Progress

ID________________________

Congratulations! You are on your way to Building Your Financial House! Use this form to identify key ideas, practices, and the progress you have made to *Make Money Work*.

Current Practices *(check all that apply)*

- ☐ I save money on a regular basis.
- ☐ I understand the difference between insured deposit accounts and non-guaranteed investments.
- ☐ I know my net worth (assets-debts).

Prior to Incarceration *(check all that apply)*

- ☐ I saved money on a regular basis.
- ☐ I contributed to a retirement savings plan.
- ☐ I talked to a professional (at work, bank, credit union, etc.) about investing.

Post-Session Progress

☐ I set a goal to *make my money work.*

I want to____ by: *(when)* ______________

because: *(impact)* ____

I need to: *(how)* ____

My roadblocks are: *(if any)* ____

which I can overcome by: *(how)* ____

Worksheets *(check if completed)*

- ☐ Stash Your Cash Comparison *(page 10)*
- ☐ Risk Tolerance Quiz (*(page 21 & 22)*
- ☐ Assessing Your Assets *(page 25)*
- ☐ Just for Fun - What Would You Do? *(page 27)*
- ☐ Net Worth - Where Do You Stand? *(page 28)*

Actions Taken *(check all that apply)*

- ☐ I pay myself first.
- ☐ I have identified the assets I will need upon my release.
- ☐ I have a plan to acquire the assets I need and to build for the future.
- ☐ I have assessed entrepreneurship as a serious option for me upon release.
- ☐ I learned more from the additional resources.
- ☐ I shared this information with others.

Please share any additional comments you may have:

Introduction and Objectives

Welcome back to Building Your Financial House! Remember that each module will introduce money concepts (knowledge) and then the actions you can take to prepare for reentry with this knowledge. As a result of Make Money Work,

You will know:	Actions to take:
• The differences between working and wealth, as well as, saving and investing • The power of compounding and time in growing money • The different type of assets, their uses, risks, potential rewards, and costs • Net worth as a measure of wealth	• Pay yourself first • Review current savings options and make appropriate choices if necessary • Identify assets necessary for successful reentry • Establish a plan to save and invest to acquire assets needed for a secure future • Calculate net worth

Forging your path to financial stability and success upon reentry will be hard, *very hard*, but achievable if you are willing to make the commitment. Keep the following in mind as you begin your reentry journey today.

Path to Successful Reentry

By now, you know it is time to create your path to becoming a successful ex-offender. It starts with making the commitment to becoming a productive member of society, securing gainful and meaningful employment, and living your success. Will you make that commitment?

Remember also that no one can change the past, but you can direct your future. You can choose to do whatever it takes, including getting right with yourself and being in the right place with the right people. Review the key areas of which to pay attention so you can stay on the right path to successful reentry.

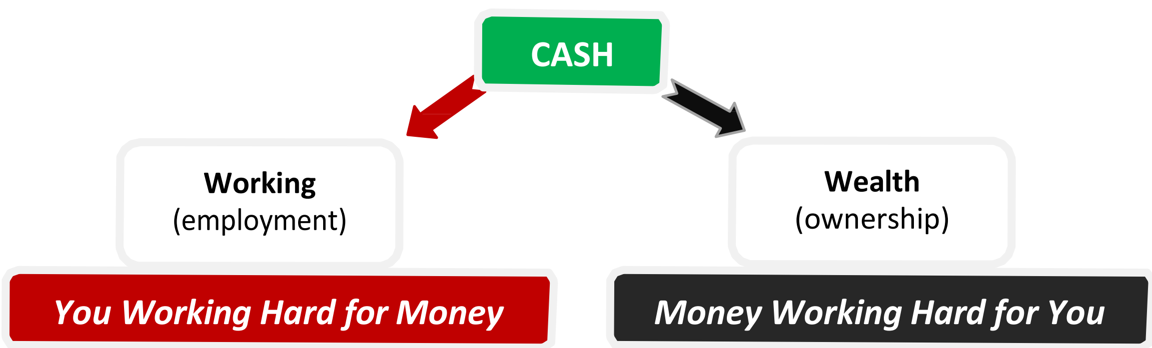
Source: Adapted from *New Directions-Reentry Guide* (WA State Employment Security Department)

Working vs. Wealth

What do you think it mean to be wealthy? Some people see wealth as living in a big house in a good neighborhood, driving an expensive car, and wearing designer clothing. Some see it as having a prestigious career or a high position. Yet others see it as having time and means to do all of the things they love, like travel, spend time with family, and hobbies. In summary, wealth means different things to different people.

From a basic financial definition, wealth is owning assets, or things of lasting value, that can provide you income now or in the future. You may be surprised to learn that your wealth is far more important than your income. How is that possible? To explain, let's look at working versus wealth.

For most of us, **we work hard** at our jobs to provide the **cash** we need to live and do what we want in life. However, what happens when we don't work any longer, for example when we retire? Cash will have to come from our wealth or the assets we own, such retirement savings, a pension, and maybe even our homes. Wealth is our **money working hard**.



Still not convinced?

What do Mark Twain, MC Hammer, Mike Tyson, Abraham Lincoln, and Mozart all have in common? They had good incomes from working hard*, and yet* they all filed for bankruptcy. Why? They owed more than they owned. They spent their income on things that did not work hard for them to support their lifestyles.

Spending our income sensibly to buy assets that will support our future is how financial stability is achieved and prosperity realized.

Save and Invest to Make Money Work

In the *Spend Sensibly* module, you created your own money map. A money map is the path to help you take control of your money; it gives you the power to tell your money *where* it's going to take you. Now, you need to figure out *how* you are going to get there.

Start your journey by **walking** along the path, meaning work hard and **save** your money. Since your feet will only let you walk so far, finish the trip by using your saved money to **buy** a car, meaning **invest** in an **asset** that will **drive** you to where you want to be. Walking and driving, or saving and investing, are both vital to reaching your financial destination.

What is the difference between saving and investing?

To Save: Set aside cash for a future use.	**To Invest:** Use saved cash to buy assets that build wealth and future income.
 Saving is: **STASHING YOUR CASH**	 Investing is: **BUILDING** (buying) **ASSETS**
• Can be used immediately • Liquid, meaning it can be turned into cash quickly • Hold money while earning modest interest • Safe; no loss of principal	• Can be used in the future (two years or longer) • Less liquid; it cannot be turned into cash quickly • Buy something of value (asset) expected to bring income or profit in the future • Some risks; may lose principal

Source: Adapted from PHFA's *Financial Education Boot Camp* and *Right on the Money* (Penn State Extension)

Making the Commitment to Save

The first step in setting aside money for savings is deciding that it's possible to do so.

Far too many people think they just can't save money. If you are someone who never seems to have anything left from your paycheck after paying bills and living expenses, consider these steps.

Step One: Think of **saving as a necessity**. Saving should be listed on your money map just like any other necessary household expense that you may have.

Step Two: *'**Pay yourself first.**'* When you collect your paycheck, the first expense to 'pay' is savings, each and every time. That's all there is to it—and it works!

Step Three: Remember, **no amount is too small to save**. It's perfectly okay to start small, say $5 or $10 per week. You will be amazed how quickly your money grows.

Here are more ideas to make saving as easy as possible:

- If possible, have your employer deduct money from your paycheck and deposit it directly into a savings account. What you don't see, you won't miss. *You will be amazed how **effortlessly** your money grows.*
- Have your bank or credit union automatically transfer a set amount from your checking account to your savings account each month. *You will be amazed how **easily** your money grows.*
- Save spending leaks. *You will be **surprised** how quickly your money adds up.*
- Try putting $1 a day, plus pocket change into a large envelope or jar. At the end of the month, deposit the dollars and coins into your savings account. *You will **see** how quickly your money builds up.*
- After paying off a loan, put the same amount each month into savings (if the money isn't being used to pay off another loan). *You will be **happy** how quickly your money grows.*

Where to Stash Your Cash

Place	Pros	Cons
Under the Mattress	• Easily accessible	• Does not earn interest • Easily accessible to ANYONE • Not replaceable if lost in a fire
Banks and Thrifts FDIC	• Accept deposits from customer and use those deposits to make loans and offer other financial services • Deposits guaranteed by the Federal Deposit Insurance Corporation (FDIC). If the bank fails, the FDIC would return your money, up to the current limit of $250,000 per depositor, per insurance bank, per ownership category • Deposits are secure; only you have access	• Account and service fees can be expensive if not used properly • Low interest paid on deposits
Credit Unions NCUA	• Not-for-profit financial institution owned by people who have something in common • Accept deposits, make loans and provide other financial services • The deposit insurance rules are the same as FDIC-insured banks • Deposits are secure; only you have access	• Have to be a member to keep your money there • Account and service fees can be expensive if not used properly • Low interest paid on deposits
Types of Accounts	**Pros**	**Cons**
Savings Account	• Simplest way to save • Easily accessible • May be protected by the FDIC or the NCUA *(ask to be certain)*	• Low interest paid on deposits. • May require a minimum balance to open or maintain the account
Money Market *Deposit* Account	• Higher interest rates than savings accounts. • Easily accessible through checks, like a checking account.	• Higher minimum balance required • Limited check writing privileges
Certificate of Deposit (CD)	• Usually higher interest rate than other cash management tools • Timed deposit: you choose how long to leave you money in the account	• Timed deposit; penalty if money is withdrawn before the maturity date

Source: Adapted from *Money Smart's Bank on It* (FDIC, 2010) and *Right on the Money* (Penn State Extension)

Stash Your Cash Comparison

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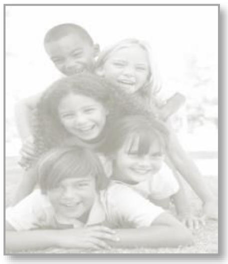
Use the following checklist when looking for a bank or credit union* that offers savings products that are right for you.

	Financial Institution (1)	Financial Institution (2)
Savings Account		
Name of account		
Amount required to open an account	$	$
Minimum balance to maintain account	$	$
Penalty if balance falls below minimum	$	$
Interest Rate	%	%
Other		
Money Market *Deposit* Account		
Amount required to open an account	$	$
Minimum balance to maintain account	$	$
Penalty if balance falls below minimum	$	$
Interest Rate	%	%
Check writing privileges/limitations		
Other		
Certificate of Deposit (CD)		
Amount required to open an account	$	$
Number of months to maturity		
Penalty if withdrawn before maturity	$	$
Interest Rate	%	%
Other		

*(*Check out membership eligibility requirements.)*

Rules for Building Assets



Start early.
Give money time to grow. Take advantage of the *Time Value of Money.*

Stay invested.
Commit to keeping your money invested. Take advantage of *Compound Interest* (compounding).

Diversify
Don't put all your eggs in one basket. *Mix it up* and use your money to build different types of assets for stability now and in the future.

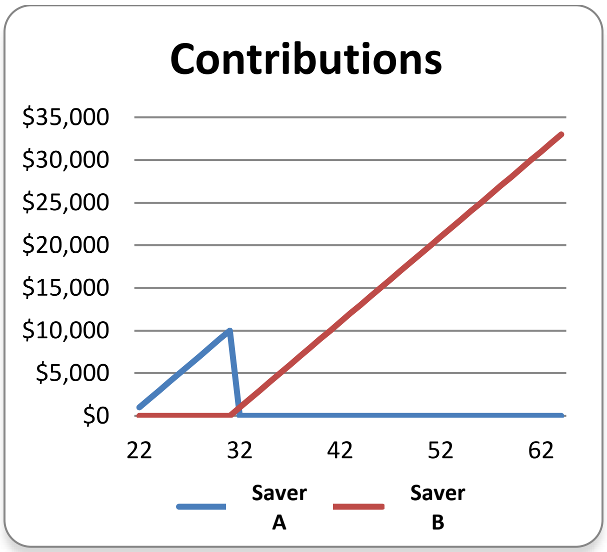
Source: Adapted from *Earning, Learning, and Investing* (NCEE)

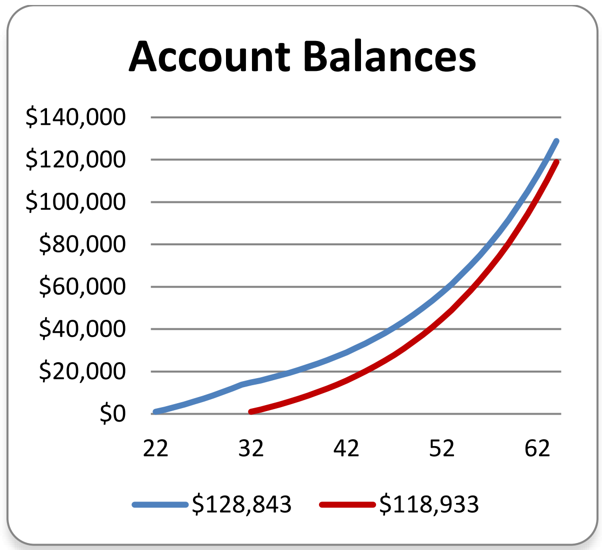
Start Saving Early. It Pays!

Here's a dramatic example of compound interest and the time value of money.

Saver "A" started saving $1000 per year beginning at the age of 22. She **stopped** putting money away at age 31 and kept the money in the account to compound until retirement age. Saver "A" only saved a total of **$10,000** but has accumulated **$128,843*** at age 65.

Saver "B" waited until he was 32 to starts saving. He too put away $1,000 per year but didn't stop until he reached retirement age. Saver "B" saved a total of **$33,000** and has only accumulated **$118,933*** at age 65.





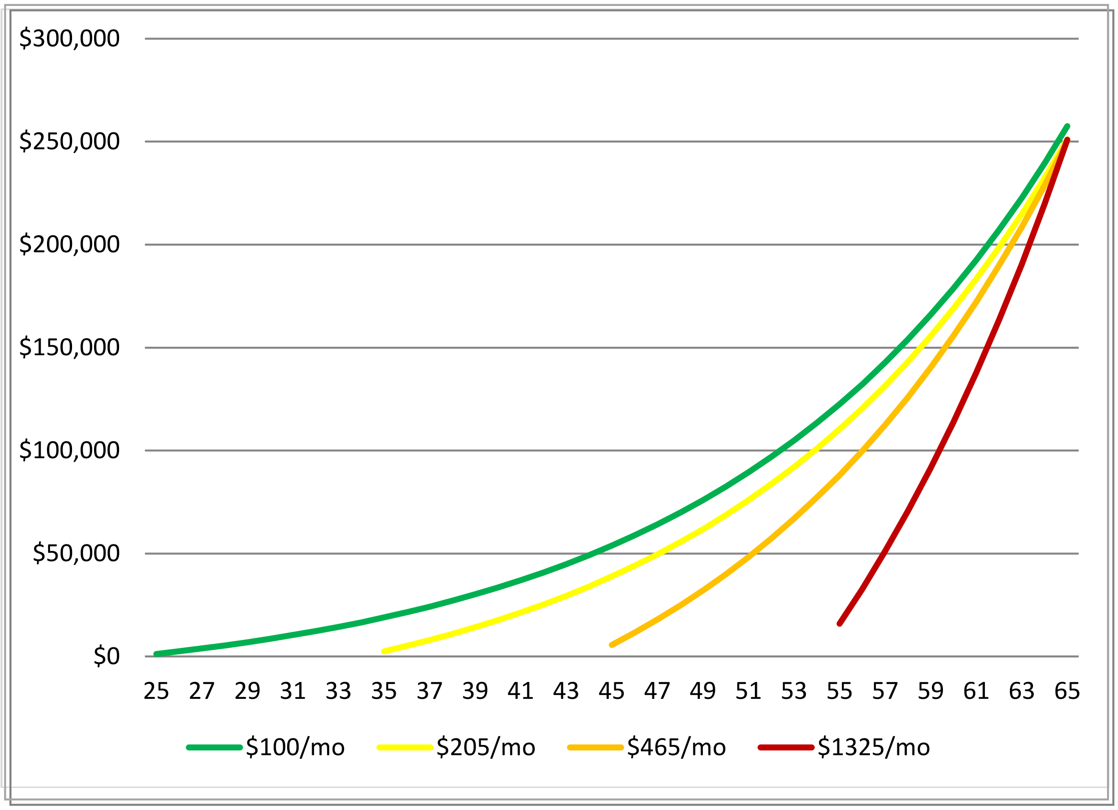
*This assumes a 7% annual rate of return.

Saver A's money is working hard for her. **Saver B is working hard** for his money.

Source: Adapted from *Your Spending, Your Savings and Your Future* (NEFE)

The Cost of Waiting

Another way to look at the time value of money is the *opportunity cost of waiting.* Each of the four savers below has a goal of accumulating $250,000 by the time they are 65. Look at the difference in the amount they must save monthly to reach this goal based on their current ages.*



**This illustration assumes a 7% annual rate of return*.

To accumulate $250,000 at age 65, the:

> 25 year old green saver only has to save $100 per month.
> 35 year old yellow saver has to save $205 per month.
> 45 year old orange saver has to save $465 per month.
> 55 year old red saver has to save $1325 per month.

In summary, the longer you wait to start saving, the more it will **cost** you to reach your goal. You are losing out on the **opportunity** to have compound interest work for you over the long term.

Stay Invested

By staying invested, we can take advantage of compounding interest or simply put, *earning interest on interest earned*. To demonstrate the concept, let's look at the similarity to propagating trees. Say you buy one tree and plant it in an open space. In the first year, your tree grows strong, spreads its seeds, and from those seeds, produces a new tree. Now you have two trees! In the second year, your two trees each go on to spread their seeds and produce a new tree. Now you have four trees! The next year, your four trees each spread their seeds and produce new trees, and so on. With each tree going on to produce another new tree, you can create an entire forest…by planting just one tree!

One Tree Forest		Compound Interest
1 Tree + 1 Seed = **2** Trees	1st Year	$1000+10%= **$1100**
2 Trees + 2 Seeds = **4** Trees	2nd Year	$1100 + 10% = **$1210**
4 Trees + 4 Seeds = **8** Trees	3rd Year	$1210 +10% = **$1331**
8 Trees + 8 Seeds = **16** Trees	4th Year	$1331 + 10% = **$1464**

Compounding interest operates the same way. Start out with $1,000 that earns 10% interest ($100) the first year. Now you have $1100. In the second year, that $1100 earns 10% interest ($110). Now you have $1210. In the third year, the $1210 earns 10% interest ($121). Now you have $1331. Continuing the pattern to year four, you earn $133 and then have $1464, and so on and so forth. With compounding interest, or "earning interest on interest earned," your money grows faster. This effect of compounding is like magic when you let it work over time. The more time your money has to compound, the more your money grows.

Mix It Up

What would happen if you only fed your kids cheese? What would happen if you only fed them bread, broccoli or strawberries? Cheese, bread, broccoli and strawberries are all good foods, but eating only one is not enough to keep your kids healthy and grow. **It's exactly the same with building assets.** You need to mix up the types of assets, or things of lasting value, you buy in order to get financially healthy and grow.

Recall important personal assets from the *Invest in Yourself* module: education, skills, talents, personality and connections. In *Make Money Work*, we're talking about assets of *measurable* dollar value, meaning you could sell them for cash. Here are some common types of assets of measurable dollar value.

Financial assets

Cash

Stocks, bonds, and mutual funds

Real property

House

Land

A Small Business

Catering

Carpentry

Personal property

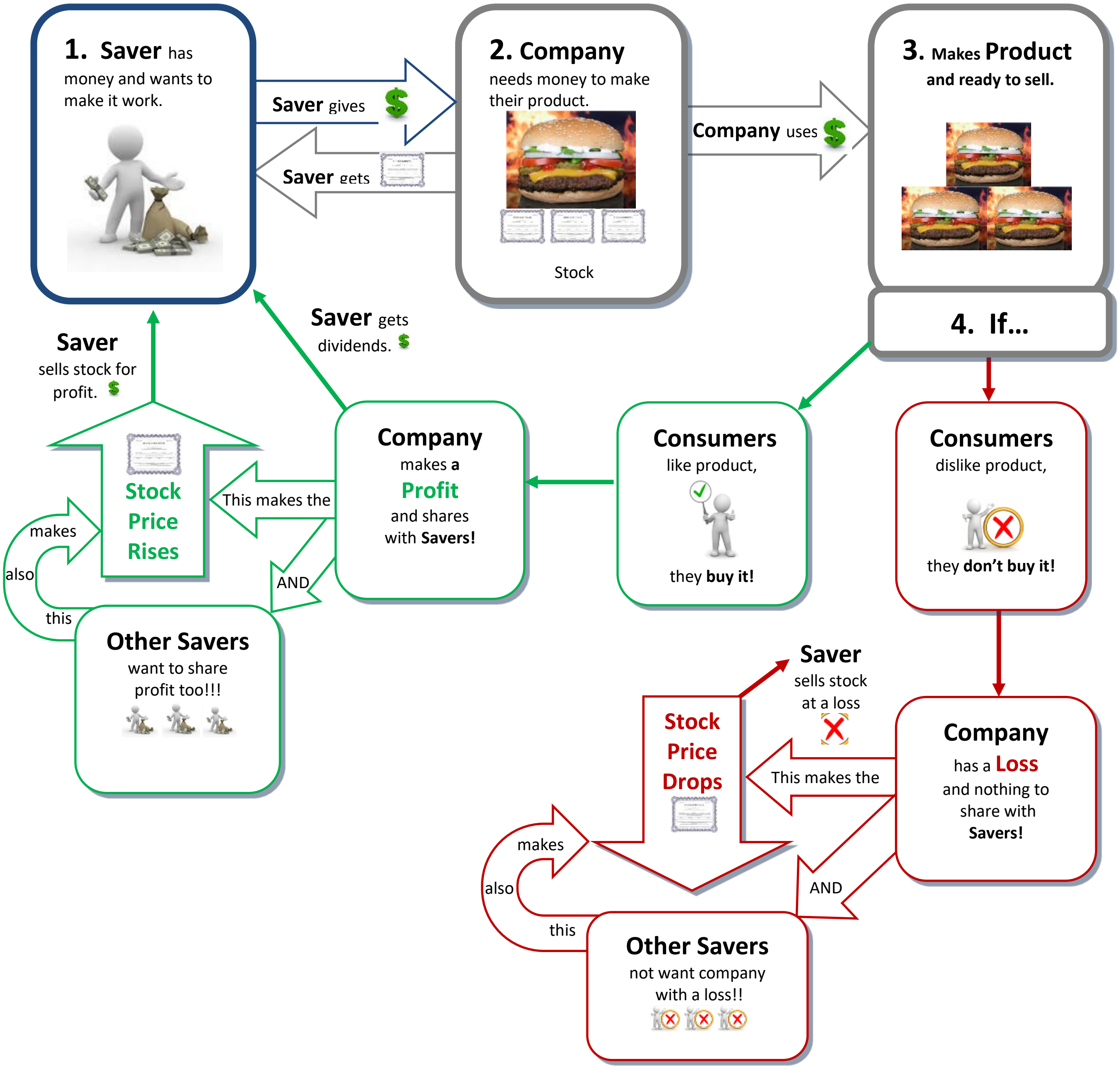
Cars

Jewelry

Collectibles

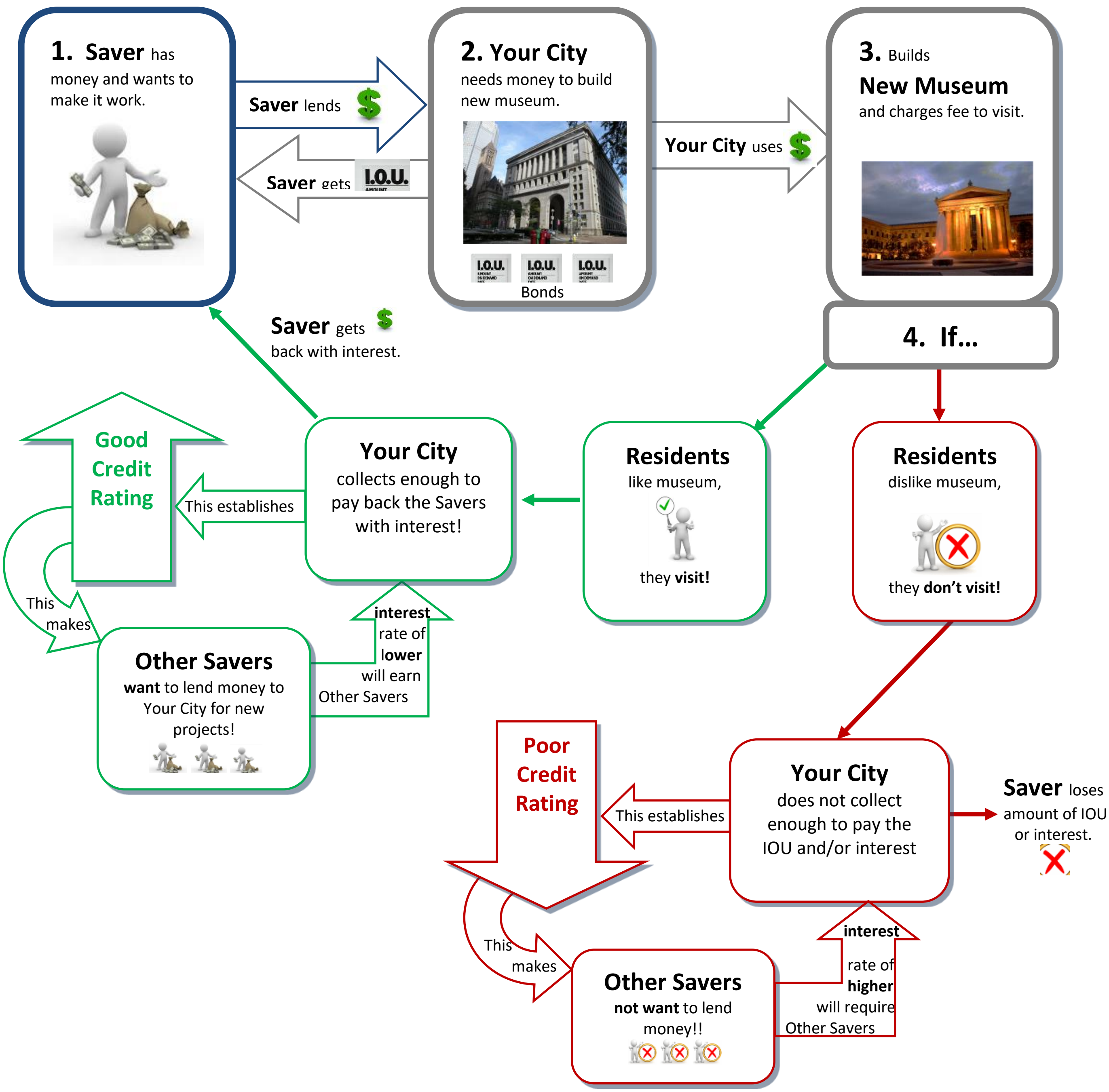
Taking the Fear Out of Financial Assets - Stocks

A **stock** represents owning part of a company. When you buy a stock, you have the chance to share in the company's profits *and losses*. In the flow chart below, first follow the numbers and then the colored arrows (red or green) to see how a stock works.



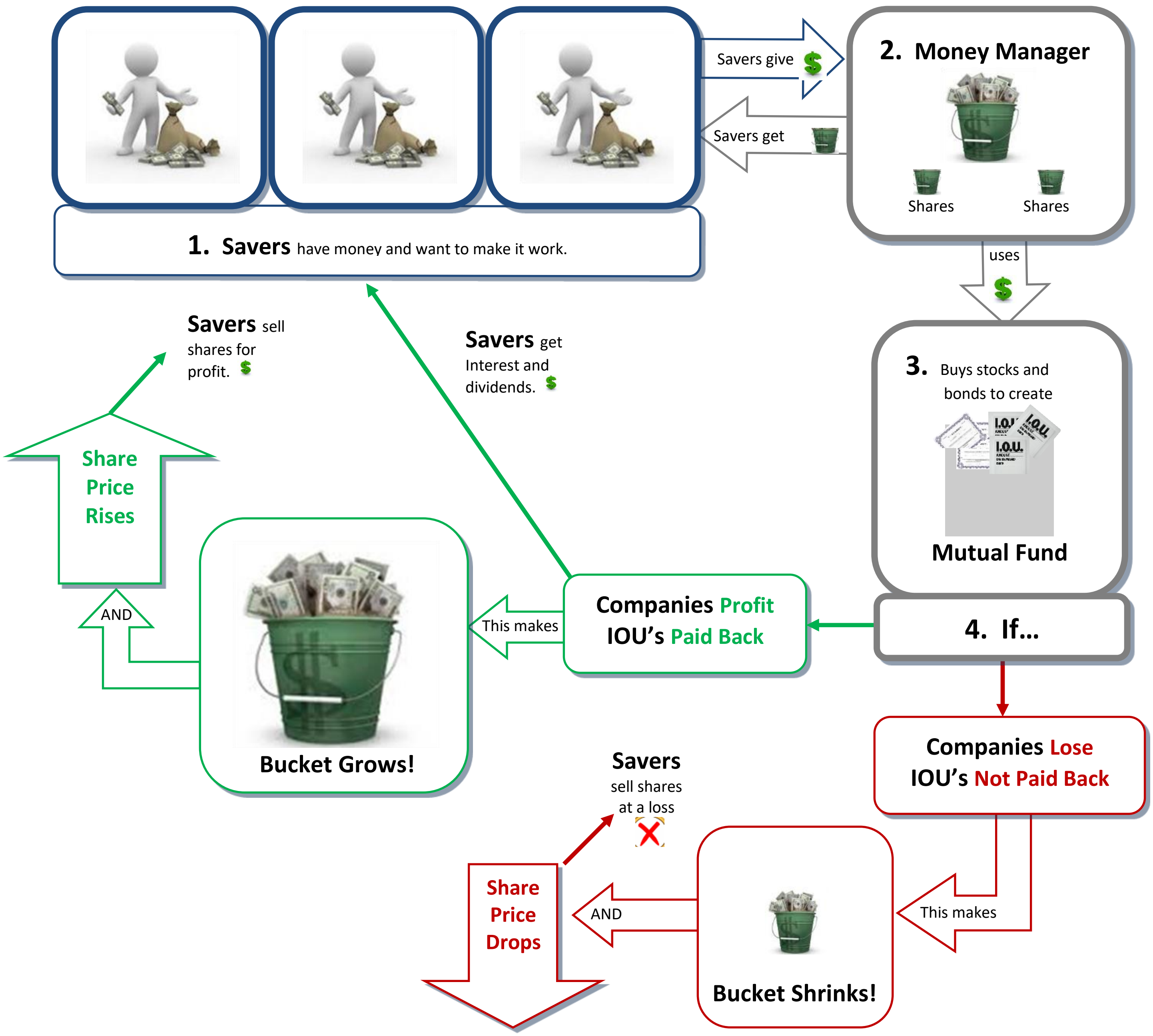
Taking the Fear Out of Financial Assets - Bonds

A **bond** is an IOU. When you 'buy a bond,' you are actually lending your money to a company, municipality, state, or the federal government. They agree to pay you back with interest, at some specified date in the future. In the flow chart below, first follow the numbers and then the colored arrows (red or green) to see how a bond works.



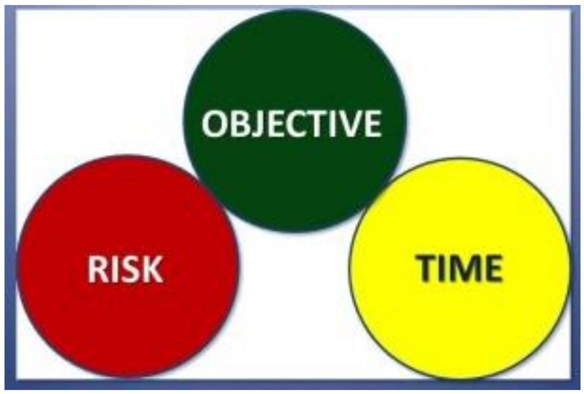
Taking the Fear Out of Financial Assets – Mutual Funds

A **mutual fund** is a "bucket" of money filled by savers that want to buy a lot of different stocks and/or bonds (and other investments) but don't want to or can't buy them on their own. A money manager (the mutual fund investment company), is in charge of the bucket and buys stocks and/or bonds with the money. Each saver gets to share in the profits and losses of assets in the pot. In the flow chart below, first follow the numbers and then the colored arrows (red or green) to see how a mutual fund works.



Choosing the Right Assets

Now that you know how basic financial assets work, the next step is learning how to choose the right assets for your situation. Again, eeny, meeny, miny, moe is not the best way, nor is a dart board or drawing from a hat. Having an investment strategy is essential to making the right choices. There are three things to consider in developing an investing strategy: objective, time, and risk



Objective: What is it that you expect from making the investment? Of course, you want to be rewarded financially, but specifically how? Here are some examples of basics investment expectations:

- Guarantee of principal (preserving cash/capital)
- Liquid (and accessible)
- Regular cash payments (income)
- Sell for a profit (growth)

Time: How long will it be until you need the money? (In other words, when will you need to turn it to cash?) Keep in mind that as you get closer to needing the money, your choice of investments may need to change.

- Short-term: less than one year
- Medium-term: between two and five years
- Long-term: longer than five years

Continue to the next page where we will discuss risk.

Risk and Risk Tolerance

How much money are you willing to put at risk or in other words, willing to lose? Your "risk tolerance" is a very important factor when choosing an investment, but let's first look at the types of risk that can cause an investment loss.

Market Risk is the chance that the value of your asset will go down because of a decline in "the market." (The market also refers to a place where investments are bought and sold.) If other assets of the same kind decline in value, chances are yours will too.

Company Risk is also known as "one bad apple." This means that a specific company may be risky because of its products, business practices, or even management team. For example, if a company's products are tainted with or found to be defective, causing harm and injury, the share price will most likely reflect this. It may not be a reflection of the industry, just that one bad apple. Same goes for the management team. An unscrupulous management team can bring down an entire company.

Liquidity Risk is the chance you may not be able to "liquidate" or sell the asset to get cash when you need it. Liquidity can also be thought of as how easily something can be turned into cash. Money in a savings account is very liquid; you can go to the bank or ATM and simply withdraw it. Money invested in a house is not liquid. It's much more difficult to sell your house or get a home-equity loan for cash.

Inflation Risk is the chance that the money you have saved will not keep up with the cost of living. If you keep $100 under your mattress, ten years from now it will still only be $100. However, ten years from now, food, rent, health care costs will all have increased. That $100 dollars under the mattress won't buy as much in ten years as it does today, because of inflation.

Back to risk tolerance, no one *wants to* lose money but some are willing to take a higher risk for the potential of a higher reward. How much risk should you take? That really depends on your goals, age, income, and financial obligations. A younger person who anticipates their pay to rise steadily and has few family responsibilities can afford to take more chances than a couple approaching retirement. The bottom line is that you should be comfortable with an investment and the potential risk to lose money factored in with the potential reward.

Conservative investors make safeguarding assets they already have, their highest priority. They are cautious and aren't willing or able to put any principal at risk. Conservative investors are not concerned about outpacing inflation and settle for modest returns.

Moderate investors may not be risk takers by nature but seek a middle course between protecting the assets they already have and growing assets over the long-term. They are willing and able to accept some risk of principal and are concerned about inflation. Moderate investors expect moderate growth but want some income from their investments as well.

Aggressive investors focus on investments that have a high potential for significant growth and can tolerate sharp, short-term fluctuations in the value of their investments. They have the patience to follow through on long-term strategies and expect returns that outpace inflation.

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Risk Tolerance Quiz

Below is a risk tolerance quiz which will help you to get an idea of your risk tolerance- one of the basic issues to consider when planning your investment strategy. Circle the response that best describes you and enter the appropriate point value (x) in the last column. Total the points and see your corresponding tolerance level. Remember — there are no "right" or "wrong" answers.

Question	Choices	Points
1. In general, how would your best friend describe you as a risk taker?	a. A real gambler (4) b. Willing to take risks after adequate research (3) c. Cautious (2) d. A real risk avoider (1)	
2. You are on a TV game show and can choose one of the following. Which would you take?	a. $1,000 in cash (1) b. A 50% chance at winning $5,000 (2) c. A 25% chance at winning $10,000 (3) d. A 5% chance at winning $100,000 (4)	
3. You have just finished saving for a "once-in-a-lifetime" vacation. Three weeks before you plan to leave, you lose your job. You would:	a. cancel the vacation (1) b. take a much more modest vacation (2) c. go as scheduled, reasoning that you need the time to prepare for a job search (3) d. extend your vacation, because this might be your last chance to go first-class (4)	
4. If you unexpectedly received $20,000 what would you do?	a. Deposit it in a bank account, money market account, or an insured CD (1) b. Invest it in safe high quality bonds or bond mutual funds (2) c. Invest it in stocks or stock mutual funds (3)	
5. In terms of experience, how comfortable are you investing in stocks or stock mutual funds?	a. Not at all comfortable (1) b. Somewhat comfortable (2) c. Very comfortable (3)	
6. When you think of the word "risk" which of the following words comes to mind first?	a. Loss (1) b. Uncertainty (2) c. Opportunity (3) d. Thrill (4)	
7. Some experts predict prices of (hard) assets such as gold, jewels, collectibles and real estate will increase in value. They also agree that government bonds are relatively safe. Most of your money is in high interest government bonds. What would you do?	a. Hold the bonds (1) b. Sell the bonds, put half of the money into money market accounts, and half into hard assets (2) c. Sell the bonds and put all of the money into hard assets (3) d. Sell the bonds, put all the money into hard assets, and borrow money to buy more (4)	
8. Given the best and worst case returns of the four investment choices, which would you prefer?	a. $200 gain best case; $0 gain/loss worst case (1) b. $800 gain best case; $200 loss worst case (2) c. $2,600 gain best case; $800 loss worst case (3) d. $4,800 gain best case; $2,400 loss worst case (4)	
	Add Score (Side 1):	0

9. In addition to whatever you own, you have been given $1,000. You are now asked to choose between:	a. a sure gain of $500 (1) b. a 50% chance to gain $1,000 and a 50% chance to gain nothing (3)	
10. In addition to whatever you own, you have been given $2,000. You are now asked to choose between:	a. a sure gain of $500 (1) b. a 50% chance to gain $1,000 and a 50% chance to gain nothing (3)	
11. Suppose a relative left you an inheritance of $100,000, stipulating in the will that you invest ALL the money in ONE of the following choices. Which one would you select?	a. A savings account or money market fund (1) b. A mutual fund that owns stocks and bonds (2) c. A portfolio of 15 common stocks (3) d. Commodities like gold, silver, and oil (4)	
12. If you had to invest $20,000, which of the following investment choices would you find most appealing?	a. 60% in low-risk investments 30% in medium-risk investments 10% in high-risk investments (1) b. 30% in low-risk investments 40% in medium-risk investments 30% in high-risk investments (2) c. 10% in low-risk investments 40% in medium-risk investments 50% in high-risk investments (3)	
13. Your trusted friend and neighbor, an experienced geologist, is putting together a group of investors to fund an exploratory gold mining venture. The venture could pay back 50 to 100 times the investment if successful. If the mine is a bust, the entire investment is worthless. Your friend estimates the chance of success is only 20%. If you had the money, how much would you invest?	a. Nothing (1) b. One month's salary (2) c. Three month's salary (3) d. Six month's salary (4)	
	Add Score (Side 2):	0
	Score from Side 1:	0
	Total Risk Tolerance Quiz Score:	0

Risk Tolerance Score key:

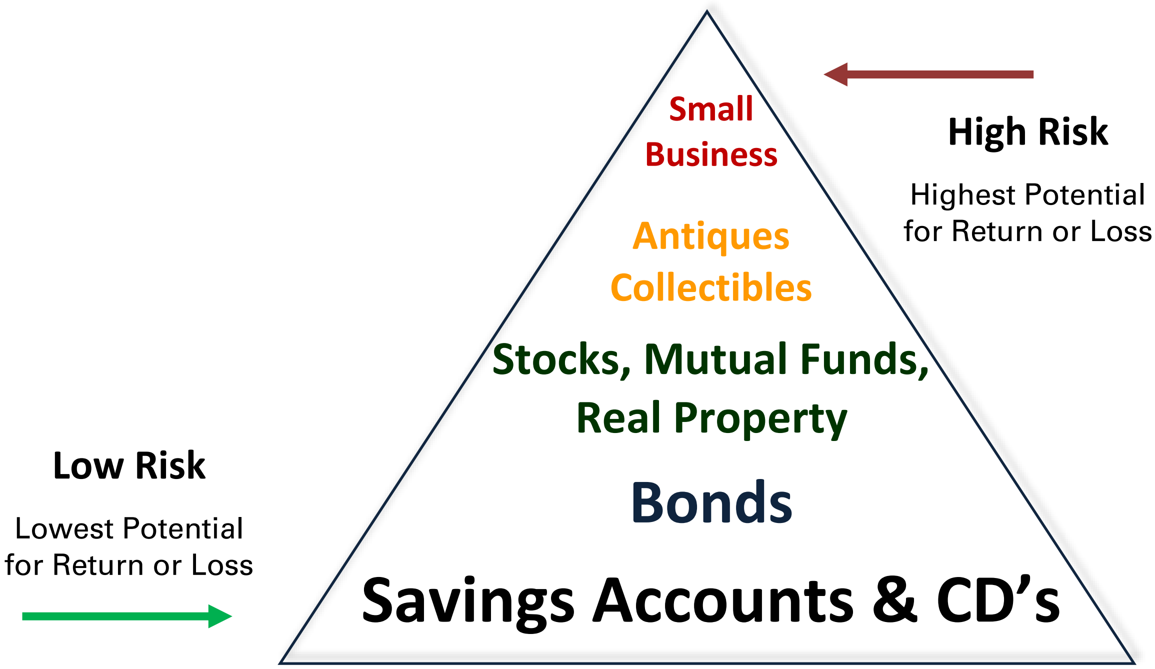
0-18 Low tolerance for risk
19-22 Below-average tolerance for risk
23-28 Average/moderate tolerance for risk
29-32 Above average tolerance for risk
33-47 High tolerance for risk

Now that you know your risk tolerance score, you can to use this information to help you make investment decisions.

Source: Adapted from Grable, J. E. at Kansas State & Lytton, R. H. at Virginia Tech (1999), *Financial risk tolerance revisited.*

Risk and Reward

Below is a traditional illustration of the relationship between assets risk and the potential reward of various assets.



- The bottom of the pyramid is the most stable in terms of a dollar in and get a dollar out and very little beyond that. You sacrifice interest (or return) for that guarantee. A savings account is a perfect example.

- Moving up the pyramid, bonds become riskier as credit of the 'borrower' (company, government) becomes an issue. Stocks are even riskier, as market and company risk issues take hold.

- Further up are antiques and collectibles because there is no predictable way to know if you will ever find an interested buyer for this stuff. Items move in and out of favor (beanie babies, coins, and art), and it seems everyone is on the lookout for the one in a million treasure hidden at a yard sale or flea market.

- The most risky asset is small business. Not only the money invested is at risk, but income, health insurance, and retirement benefits, etc., all depend upon the success of the business.

Investment Strategies

Using objective, time, and risk, here is a summary of common investment strategies as they are referred to in the financial industry. Remember that there are other assets, besides financial assets, that can be included as part of the strategy. Think diversification!

Strategy	Expectations	Time	Risk	Assets
Capital Preservation	Guaranteed dollar value; liquid; accessible	Immediate; short-term	Low, but may not keep up with inflation	- Savings/checking - CD's - Money market deposit account
Income	Regular cash payments	Short, medium, and long-term	Low to high, depending on credit rating of borrower, tenant, or profitability of company	- Bonds - Stocks that pay dividends - Rental real estate
Growth	Worth more than paid; buy low, sell high for a profit	Medium to long-term	Medium to high, depending on profitability of company or market	- Stocks - Real estate
Growth and Income	Regular cash payments and worth more than paid	Medium to long-term	Medium to high, depending on credit rating, profitability of company or market	- Stocks - Real estate
Value	Worth more than paid; buying undervalued or out of favor assets	Short, medium, and long-term	Medium to high, depending on credit rating, profitability of company or market	- Bonds - Stocks - Real estate - Collectibles
Hedging	Worth more than paid; minimize loss against other investments	Short, medium, and long-term	High; uses speculative investment practices; must be an accredited investor	- Stock options and short selling - Precious metals and futures - Leverage (borrowing to increase returns)

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Assessing Your Assets

How do you decide which types of assets might be good for you and your family? Besides knowing the type of asset, it's important to assess how it will be used, what you expect financially from it, and the pros and cons of owning it. Look at the assets you have right now and what they mean for you and your family, both now and in the future. Then, review the types of assets that you may not have and do the same assessment. See the guide on the next page to help get you started.

Asset	Uses	Expectations	Pros	Cons
For Example: Savings Account	- Stash for down payment on car - Emergencies	- Will not lose value - There if needed	- Easily accessible - Guarantee dollar value	- Low interest rates on deposits - Might want to use for other spending
Cash/Cash-like: (savings/ checking accounts, CD's, etc)				
Financial: (stocks, bonds, mutual funds, etc.)				
Retirement Accounts: (401(k)'s, IRA's, etc.)				
Small Business:				
Real Property: (house, land)				
Personal Property: (cars, appliances, clothing, etc.)				
Other: (antiques, jewelry, collectibles, etc.)				

Assessing Your Assests - Guide

Asset	Uses	Expectations	Pros	Cons
Cash/Cash-like:	- Accepted for most purchases - Emergencies - Manage cash	- Guaranteed - Liquid	- Easily accessible - Safe/secure if FDIC or NCUA insured - Guarantee dollar value	- Low interest rates on deposits - Loss in value due to inflation - Easily accessible
Financial:	- Income from interest or dividends - Sell in the future for profit	- Income - Growth - Value	- Chance for higher interest rate or return - Readily available	- Chance of loss; risk - Confusing language - Less liquid
Retirement Accounts:	- Future income when no longer want or able to work	- Income	- Save directly from pay - Tax advantages	- Choosing the investments inside the account
Small Business:	- Chance to use personal assets - Pass to family - Sell in the future for profit	- Income - Growth	- Greatest potential for financial success	- Expensive to start - High risk in both time and money
Real Property:	- Shelter - Permanency for kids	- Growth - Value	- Stable housing costs - Part of a community	- High upfront costs - High ongoing costs - Responsibility
Personal Property:	- Meet basic needs - Status - Entertainment	- Value	- Basic needs met - Comfort	- Debt problems in not limited - Decrease in value as used
Other:	- Family heirlooms - Gifts - Hobbies	- Growth	- Personal interests fulfilled - Relationships strengthened	- Unpredictable future value and liquidity - storage

Source: Adapted from *Your Money, Your Goals* (CFPB)

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Just for Fun – What Would You Do?

Do you ever wonder what it would be like to win the lottery or inherit money from a long, lost relative? Imagine that you just came into $100,000, with the condition that **it must be used to build assets.** Using your knowledge of saving and investing, allocate the money among the types of assets, provide a brief description, and explain how the asset will help your family's financial stability.

Type of Asset	Description	Amount	How
Example: *Car*	*Used car, 2011 or older*	*$10,000*	*A reliable car will ensure that I get to work safely and on time.*
Cash/Cash-like			
Financial			
Retirement Accounts			
Small Business			
Real Property			
Personal Property			
Other:			

$ 0

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Net Worth – Where Do You Stand?

How can you keep track of your asset building efforts? Measuring your **'net worth'** is a simple way to do this. Net worth is simply how much cash you would have left over if you sold all of your assets and paid all of your debts. It is calculated by adding up the total value of "what you own" (assets) and subtracting the total amount of "what you owe" (debts or liabilities). Net worth can be positive or negative; it's possible to owe more than you own.

Net Worth Worksheet

What You Own (Assets)		What You Owe (Debts)	
Cash and like Cash:		**Secured:**	
Cash on hand (wallet, home safe)		Home Loans (mortgages)	
Checking/savings accounts,		Automobile Loans	
Money market deposit accounts, CD's, savings bonds		Loans on Life Insurance, 401(k)'s, etc.	
Financial Assets:		Other:	
Stocks/Bonds/Mutual Funds		**Unsecured:**	
Retirement Accounts		Alimony	
Employer plans: 401(k), 403(b), etc		Past Due Bills	
IRA's/annuities		Personal Loans	
Cash Value in Life Insurance		Credit Card Accounts	
Other:		Pledges, i.e., tithing	
Real Property: (house, land)		Other:	
Small Business :		**Garnishments:**	
Personal Assets:		Child/Spousal Support	
Home furnishings/clothing		Student Loans	
Appliances/electronics		Taxes	
Automobile(s)		Other:	
Sports and hobby equipments			
Other			
Jewelry, antiques, collectibles			
Total Assets:	$ 0	**Total Debts:**	$ 0

Net Worth Summary

Total Assets:	$ 0
Less: Total Debts	$ 0
Net Worth:	$ 0

Make Money Work Glossary

Aggressive Risk Tolerance – an investor who seeks to maximizing returns over protecting principal and is willing to accept substantial risk.

Bond – an IOU (I owe you) issued by governments and corporations when they need to raise money. The borrower uses the money to fund its operations or projects, and the investor receives interest on the investment.

Capital – cash or liquid assets available for expenses or investments.

Capital Gain – a profit from the sale of property or an investment.

Capital Preservation – a low-risk investment strategy that seek assets with guaranteed principal value in exchange for lower interest rates.

Certificate of Deposit – a time deposit where an investor agrees to keep money in the account for a specified period, i.e., six months, one year, five years, etc. and in exchange for a higher rate of interest.

Company Risk – the chance of investment loss due to a business's products, practices, and/or management team.

Compound Interest – is interest earned on a deposit and previous interest earned.

Conservative Risk Tolerance – an investor who seeks protecting principal over maximizing returns and is willing to accept lower returns for a higher degree of liquidity and/or stability.

Diversification – the process of allocating investments in a way that reduces the exposure to any one particular asset or risk.

Dividends – payments of cash or additional stock to stockholders to share in the company profits. Dividends are typically paid quarterly and must be approved by the company's board of directors.

Financial Asset – a liquid asset that gets its value from some type of contractual right or an ownership claim. Bank deposits, stocks, bonds, and loans are basics examples; mutual funds, options, foreign currency, and future's contracts are also financial assets.

Garnishments – a creditor takes a portion of a paycheck or bank account to collect a debt. Most garnishments are court ordered as a result of a judgement. Garnishments for other debts owed to the federal government may occur without a court order.

Growth and Income Objective – a balanced investment strategy that seeks assets that will both increase in value over time and make regular cash payments.

Growth Objective – a medium-to high-risk investment strategy that seeks assets whose value increase over time and can be sold for a profit; the increase in value is dependent upon the profitability of the company or market uncertainty.

Hedging Objective – a high-risk investment strategy using speculative assets and practices to minimize loss due to a security's price fluctuation or market uncertainty. (See Speculative Investing.)

Income Objective – a low-to high-risk investment strategy that seeks assets that make regular cash payments at rates based on the credit rating of the payor.

Inflation Risk – the chance of decreasing purchasing power of money due to inflation.

Interest – the cost paid to borrow money, or the cost charged to lend money.

Interest Rate Risk – the chance of lost income opportunity or increased cost of borrowing as a result of fluctuating interest rates.

Invest – the process of buying assets that will generate income or increase in value to sell for a profit.

Investment Strategies – a plan to purchase assets to achieve long-term financial goals based on an investor's objective, time frame and risk tolerance.

Liquidity – a measure of time and ease with which an asset can be turned into cash.

Liquidity Risk – the chance of loss from the inability to turn an asset into cash when needed.

Longevity Risk – the chance that an investor will outlive their resources.

Loss – selling an asset for less than its purchase price or an excess of expenses over revenues (sales) from a business.

Market Risk – the chance of an asset's decrease in value due to a decline in value of the asset's respective market.

Moderate Risk Tolerance – an investor who seeks assets which balance reasonable risks and returns.

Money Market Deposit Account – an interest-bearing account at a bank or credit union that is a hybrid between a savings and checking account. These accounts typically have higher minimum balances, pay higher interest rates and have limited check-writing privileges which makes them less flexible than a regular checking or savings account.

Mutual Fund – a "bucket" of money pooled by investors who want don't want to select individual assets. A money manager oversees the bucket and chooses the assets. Mutual funds can contain stocks, bonds, real estate, foreign currency, precious metals, etc. or made up of single industries, only United States assets, overseas assets, etc. The money manager publishes a prospectus which describes the underlying investments in detail.

Net Worth – the sum of the current market value of all assets, minus the total of all liabilities at any given point in time.

Opportunity Cost – the loss of potential gain or income when choosing one option over another.

Pay Yourself First – the process of saving a portion of earnings before paying any expenses.

Personal Property – a tangible and movable item owned by a person or other entity that is not real property.

Principal – the initial amount saved, invested, or borrowed.

Profit – selling an asset for more than its purchase price or an excess of revenues (sales) over expenses from a business.

Rate of Return – the net gain or loss of an investment over a specified time period, expressed as a percentage of the initial amount invested.

Real Property – a parcel of land, all buildings and permanent structures attached, and the rights of ownership.

Risk and Reward – the tradeoff between the potential return of an investment and the risk taken to achieve it.

Risk Tolerance – the amount of loss an investor is willing to accept.

Save – the process of setting cash aside for future use.

Savings Account – a basic cash holding account at a bank or credit union.

Secured Debt – a loan in which the borrower pledges an asset as collateral. If the borrower defaults on the loan, the lender may take possession of the asset and sell it to satisfy the loan.

Small Business – are corporations, partnerships, or sole proprietorships which have fewer employees and/or less annual revenue than a regular-sized business or corporation.

Speculative Investing – a high-risk investment strategy using speculative assets and practices to maximize profit due to a security's price fluctuation or market uncertainty. (See Hedging Objective.)

Stock – a part of ownership in a company whose value is dependent on the company's profits and losses and stock market conditions.

Time Value of Money – the concept that a dollar is worth more today than tomorrow due to the opportunity cost of waiting to invest and inflation.

Unsecured Debt – a loan in which the borrower pledges no collateral as a guarantee for payment. If the borrower defaults on the loan, the lender may petition the courts to make a legal judgement for payment.

Value Investing – a medium-to high-risk investment strategy that seeks assets that are currently out of favor or may have a perceived value of more than the current price.

Wealth – a measure of owning assets or things of lasting value that can provide income or profit.

Additional Resources to: *Make Money Work*

Federal Deposit Insurance Corporation (FDIC): www.FDIC.gov

Money Smart – A Financial Education Program

This interactive online (and MP3) program two modules dedicated to making your money work: Pay Yourself First and Your Own Home.

Financial Football: www.financialfootball.com

Pick your NFL team and answer questions about *saving* in order to move the football downfield.

FINRA Investor Education Foundation: www.finrafoundation.org

Investor Education Modules

These modules contain accurate, unbiased education to assist consumers through saving and investing.

PA Department of Banking and Securities: www.dobs.pa.gov

Learn more about stocks, bonds, mutual funds, investing strategies, retirement savings, and more with the department's free brochures.

PA Housing Finance Agency (PHFA): www.buildingyourfinancialhouse.org

Building Your Financial House is a commercial free financial resource for Pennsylvanians. Mirroring PHFA's flagship financial education program, the site provides comprehensive information on general financial topics and major milestones in life. The site also has over 40 worksheets, including those found in this module, to help build your own financial house.

PA Treasury: www.patreasury.gov

Learn more about Achieving a Better Life Experience (PA-ABLE) accounts for individuals with disabilities and the higher education savings program (PA-519) administered by the PA Treasury.

Savings Fitness: www.dol.gov/ebsa

A Guide to Your Money and Your Financial Future

This guide helps determine where you are financially, how to improve from that, and stay financially secure.

Pre-session Questionnaire

ID____________________

Circle the answer that you believe is correct.

1. Which of the following is the key to wealth?
   - A. Education
   - B. Income
   - C. Working
   - D. Ownership
2. Which of the following is a characteristic of saving?
   - A. Quickly turned into cash
   - B. Sell for a profit in the future
   - C. High monthly interest
   - D. May lose value
3. Which of the following is a timed deposit?
   - A. Savings account
   - B. Certificate of deposit
   - C. Money market deposit account
   - D. Retirement account
4. Which of the following assets can be considered an IOU?
   - A. Stock in a credit card company
   - B. Leased vehicle
   - C. Diamond ring
   - D. Savings bond
5. True ◯ or ◯ false: A savings account is risk free?
6. Buying stock and selling for a profit is an example of which investment strategy?
   - A. Capital preservation
   - B. Income
   - C. Growth and Income
   - D. Growth
7. Net worth is
   - A. income less debts.
   - B. assets less debts.
   - C. assets less expenses.
   - D. income less expenses.

Post-session Questionnaire

ID________________________

Circle the answer that you believe is correct.

1. Which of the following is the key to wealth?
   - ◯ A. Education
   - ◯ B. Income
   - ◯ C. Working
   - ◯ D. Ownership
2. Which of the following is a characteristic of saving?
   - ◯ A. Quickly turned into cash
   - ◯ B. Sell for a profit in the future
   - ◯ C. High monthly interest
   - ◯ D. May lose value
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   - ◯ A. Savings account
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   - ◯ C. Money market deposit account
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6. Buying stock and selling for a profit is an example of which investment strategies?
   - ◯ A. Capital preservation
   - ◯ B. Income
   - ◯ C. Growth and Income
   - ◯ D. Growth
7. Net worth is
   - ◯ A. income less debts.
   - ◯ B. assets less debts.
   - ◯ C. assets less expenses.
   - ◯ D. income less expenses.

Building Your Financial House
Module 5: Make Money Work

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ID___________________

Location_______________

Date__________________

Session Evaluation

We hope you found today's session engaging and of value to you. Please share your opinions and comments so we may continue to improve the program. Thank you!

	Excellent	*Very Good*	*Good*	*Fair*	*Poor*
Overall, I feel the session was:	☐	☐	☐	☐	☐
Before the session statement:					
My knowledge and skills about the topic were:	☐	☐	☐	☐	☐
After the session statement:					
My knowledge and skills about the topic are:	☐	☐	☐	☐	☐
My confidence to apply what I have learned today is:	☐	☐	☐	☐	☐

During the session statements	*Strongly Agree*	*Agree*	*Not Sure*	*Disagree*	*Strongly Disagree*
The instructions were clear and easy to follow.	☐	☐	☐	☐	☐
The time allocated was right for the topic.	☐	☐	☐	☐	☐
The slides were clear and helped my learning.	☐	☐	☐	☐	☐
The examples helped my learning.	☐	☐	☐	☐	☐
The examples were relevant to my situation.	☐	☐	☐	☐	☐
The instructor:					
was knowledgeable about the topic.	☐	☐	☐	☐	☐
delivered lesson in a clear and understandable manner.	☐	☐	☐	☐	☐
was engaging and encouraged interaction.	☐	☐	☐	☐	☐
was well-prepared.	☐	☐	☐	☐	☐
was approachable and open to questions.	☐	☐	☐	☐	☐
The session:					
met my expectations.	☐	☐	☐	☐	☐
was of value to me.	☐	☐	☐	☐	☐
has motivated me to take action.	☐	☐	☐	☐	☐

Final Questions

The most valuable thing I learned today was:	What was the least valuable part of the session and how could it be improved?
Additional comments:	

For Agency Use Only - Session (25): 0 Knowledge (5): 0 Instructor (25): 0 Impact (20): 0