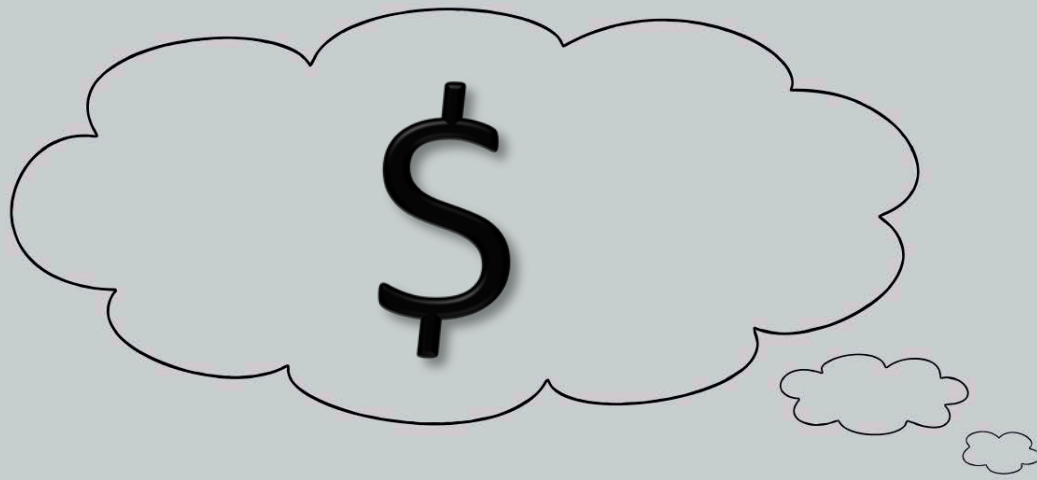


# Financial Psychology





# Financial Psychology

In this unit you will develop an understanding of how your financial psychology relates to achieving your financial and lifestyle goals. You will explore these concepts by looking in-depth at how your personality, goals, dreams, and emotions can affect your attitude toward money.

# The Most Important Thing

## Warm-Up Activity

Take a moment to reflect on the following quote:

"Money frees you from doing things you dislike. Since I dislike doing nearly everything, money is handy." ~*Groucho Marx*

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## Lesson Activity: Money Motivation

**BELIEF STATEMENT:** I believe the most important thing money can buy is \_\_\_\_\_

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## THE BEN FRANKLIN CLOSE

Reasons For	Reasons Against

# The Most Important Thing

## Lesson Questions

1. What is the most important factor determining your overall financial success?
  - a. Your current net worth.
  - b. Accumulation of material goods.
  - c. Developing financial skills.
  - d. Freedom from want.
2. Which of the following supports your motivation to acquire money and attain your financial goals?
  - a. Your dreams and personal goals.
  - b. Graduating from school.
  - c. Living without negative emotions.
  - d. Living without stressors.
3. What is motivation?
  - a. The drive to do something.
  - b. Drive to do nothing.
  - c. Lack of energy.
  - d. None of the above.

## Essential Questions

What motivates you to get money? \_\_\_\_\_

\_\_\_\_\_

Why do these things motivate you to obtain money? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

How does your motivation affect your desire to earn money? \_\_\_\_\_

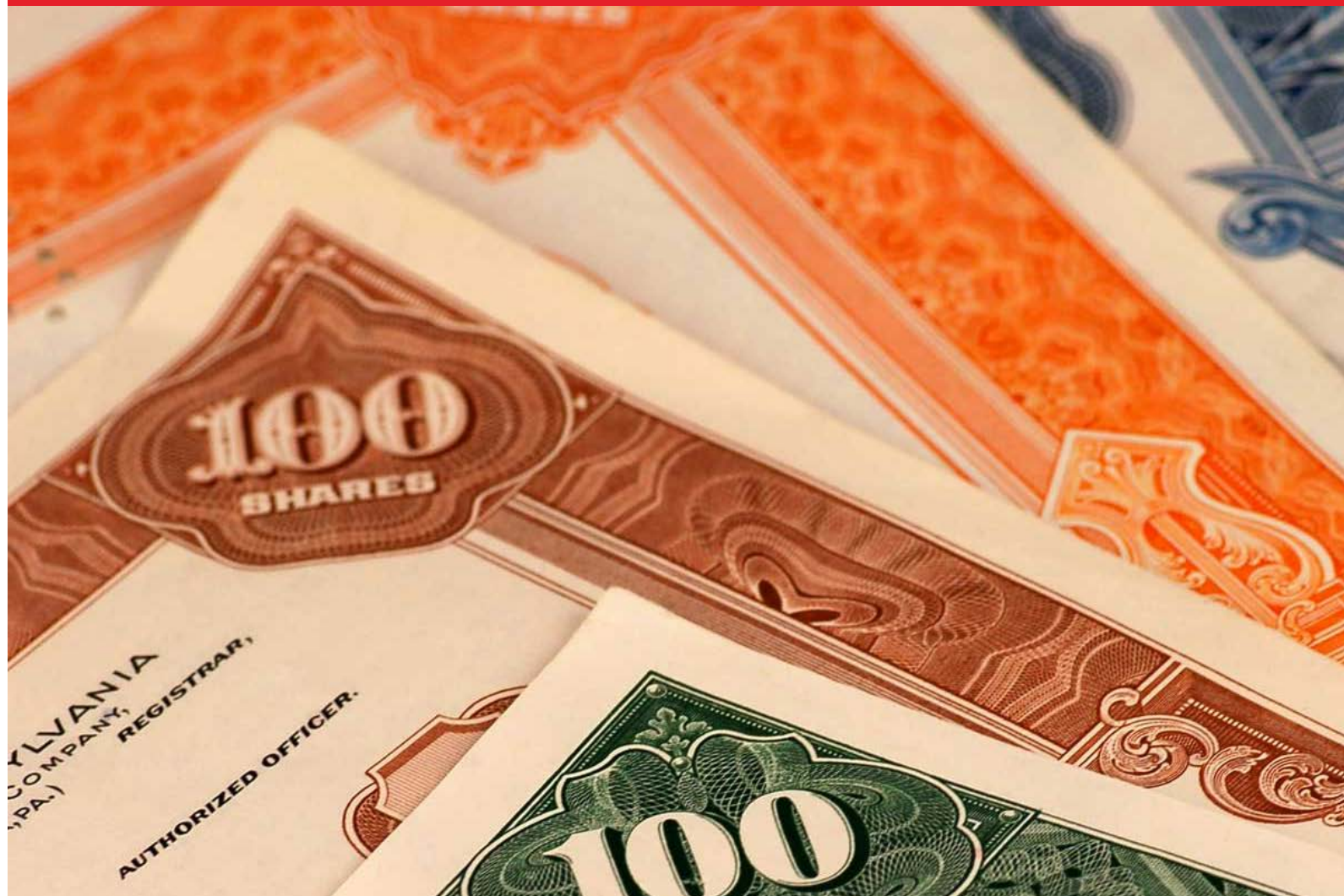
\_\_\_\_\_

Can your motivation for money affect your wants and needs in life? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

# Investments







# Investments

In this unit you will gain an understanding of what investing is. Within these lessons you will learn about a variety of investment strategies and techniques to increase long-term financial security.

## Why People Invest

### Warm-up Activity

What does the word investing mean to you?

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### Why People Invest

Ask yourself: Is it better to bury your money in the ground where it could lose value due to inflation, or to invest your savings and potentially see your dollars grow for you?

Investing makes sense. It's all about making your money work for you, instead of the other way around. Best of all, if you take the time to become an investing expert, you may see your money double, triple, and quadruple. The earlier you begin investing, the more you can increase your original investment – at least in theory. So start studying now.

Imagine being able to earn money while you sleep, vacation, study, or shop. You can be making money all day, every day. This is possible when you earn profit and income by investing your savings in the stock market, bonds, real estate, entrepreneurial endeavors, and other investments. There are many good reasons why people choose to invest their money.

- **FINANCIAL SECURITY.**

Many people decide to learn about investing because they want to become financially secure. They don't want to worry about bills or being able to afford things they want.

- **LIFESTYLE.**

Earning money through investments helps you afford your desired lifestyle. Investing gets your money working for you, instead of you having to work for every dollar. And investments can provide you more free time to enjoy life.

# Why People Invest

- **RETIREMENT.**

Most people today rely on Social Security (SSI), a social welfare program that provides monthly payments to people over the age of 65; and Medicare, a program that provides medical insurance coverage to seniors; for their retirement incomes. SSI and Medicare have been projected to be bankrupt by 2033, so you should put an alternative plan in place.

- **BEAT INFLATION.**

Inflation is defined as “too many dollars chasing too few goods.” Inflation drives prices up. Putting your money to work for you through investing can help you become financially comfortable and give you the freedom to live the lifestyle you choose. There are two ways to achieve financial comfort:

- Build up your net worth; and
- Build up your cash flow.

It is also important to understand the meaning of “cash flow” and “net worth.”

- **NET WORTH** is the measure of your net economic position – how much money you have left after your liabilities are subtracted from your assets.
- **CASH FLOW** is the amount of money you have coming in on a regular basis from investments or other sources.

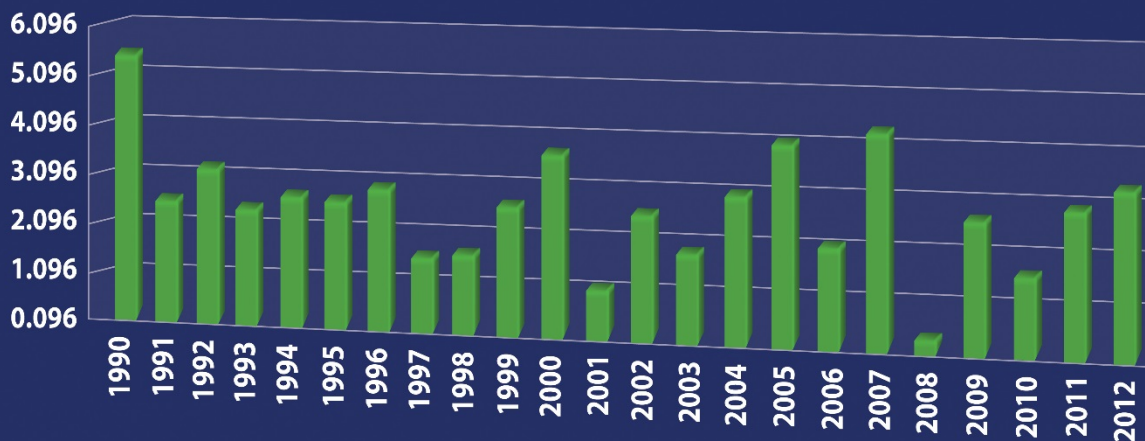
Look at the **Inflation Charts** on the following page to see how inflation has affected the purchasing power of the dollar over the years.



## How Much Will You Need To Have The Purchasing Power of \$10,000?



## Historic Inflation Rates



## The Effects of Inflation on Purchasing Power



# Why People Invest

Historical US Inflation Rates									
Year	Percent	Year	Percent	Year	Percent	Year	Percent	Year	Percent
1921	-11.1	1941	11.3	1961	0.7	1981	8.4	2001	1.1
1922	-0.6	1942	7.6	1962	1.3	1982	3.7	2002	2.6
1923	3.0	1943	3.0	1963	1.6	1983	4.2	2003	1.9
1924	0.0	1944	2.3	1964	1.0	1984	3.5	2004	3.0
1925	3.5	1945	2.2	1965	1.9	1985	3.9	2005	4.0
1926	-2.2	1946	18.4	1966	3.5	1986	1.5	2006	2.1
1927	-1.1	1947	10.2	1967	3.6	1987	4.0	2007	4.3
1928	-1.2	1948	1.3	1968	4.4	1988	4.7	2008	0.03
1929	0.0	1949	-2.1	1969	6.2	1989	5.2	2009	2.63
1930	-7.0	1950	8.1	1970	5.3	1990	5.7	2010	1.63
1931	-10.1	1951	4.3	1971	3.3	1991	2.6	2011	2.93
1932	-9.8	1952	0.4	1972	3.6	1992	3.3		
1933	2.3	1953	1.1	1973	9.4	1993	2.5		
1934	3.0	1954	-0.7	1974	11.8	1994	2.8		
1935	1.5	1955	0.4	1975	6.7	1995	2.7		
1936	2.2	1956	3.0	1976	5.2	1996	3.0		
1937	0.7	1957	3.6	1977	6.8	1997	1.6		
1938	-1.4	1958	1.4	1978	9.3	1998	1.7		
1939	-0.7	1959	1.0	1979	13.9	1999	2.7		
1940	1.4	1960	1.7	1980	11.8	2000	3.7		

## Lesson Activity: Inflation Quiz

If you are earning 1% in a savings account and inflation is at 3%,  
will you be able to purchase more or less next year?

☐ More ☐ Less

What if you are earning 7% on a stock market investment with 3% inflation,  
would you be able to purchase more or less next year?

☐ More ☐ Less

What if your bank offered you a CD at 4% but you had to keep your money in the CD for 5  
years. What are the risks?

In Year #1 of the example above, if the inflation rate was 3% for all 5 years, would that give you more or less purchasing power? ☐ More ☐ Less

If inflation jumped to 8% in Year #2, would that investment still make sense for you?

☐ Yes ☐ No

## CASE STUDY

The Federal Reserve is a company that acts as the central bank of the United States. It is not part of the government; however, the Federal Reserve is designed to work within the overall economic and financial policies established by the government. The Federal Reserve is primarily funded by interest on US government securities.

One of the Reserve's duties is to regulate money supply. In 2010, the Reserve increased money supply by \$600 billion. This is commonly referred to as "printing money," although nowadays they're able to create money electronically.

Knowing what you now know about inflation, what do you think happened to the inflation rate in 2010 : ☐ Increase ☐ Decrease

What do you think will happen to the purchasing power of the dollar:

Will you be able to purchase more or less with \$1.00? ☐ More ☐ Less

## Lesson Activity: Budget at Retirement

This activity will help you estimate your budget when you reach retirement and plan ahead for the impact of inflation.

First, you will need to fill out the **Net Worth Chart**. List the current value of your assets and costs of your liabilities. Place the totals in the designated cells, then subtract the total cost of your liabilities from the total value of your assets to determine your net worth.

# Why People Invest

## NET WORTH CHART

Assets		Liabilities	
<input type="checkbox"/> Personal Residence		<input type="checkbox"/> Real Estate Mortgages	
<input type="checkbox"/> Rental & Other Properties		<input type="checkbox"/> Retirement Loans	
<input type="checkbox"/> Physical Metals (i.e., gold, silver)		<input type="checkbox"/> Student Loans	
<input type="checkbox"/> Jewelry, Art, etc.		<input type="checkbox"/> Credit Card Debt	
<input type="checkbox"/> Automobiles		<input type="checkbox"/> Payday Loans	
<input type="checkbox"/> Other		<input type="checkbox"/> Personal Loans	
		<input type="checkbox"/> Auto Loans	
<input type="checkbox"/> US Government Bonds		<input type="checkbox"/> Life Insurance Loans	
<input type="checkbox"/> Corporate Bonds		<input type="checkbox"/> Margin Account Loans	
<input type="checkbox"/> Municipal Bonds		<input type="checkbox"/> Other	
<input type="checkbox"/> Bond-Based Mutual Funds		<input type="checkbox"/> Other	
<input type="checkbox"/> Other		<input type="checkbox"/> Other	
		<input type="checkbox"/> Other	
<input type="checkbox"/> Stocks			
<input type="checkbox"/> Stock-Based Mutual Funds			
<input type="checkbox"/> Variable Annuities			
<input type="checkbox"/> Other Annuities			
<input type="checkbox"/> Life Insurance with Cash Value			
<input type="checkbox"/> Business Partnership Interest			
<input type="checkbox"/> Other			
<input type="checkbox"/> Savings Account		<b>TOTALS</b>	
<input type="checkbox"/> Checking Account			
<input type="checkbox"/> Money Market Account			
<input type="checkbox"/> Certificate of Deposit			
<input type="checkbox"/> Other			
		<b>Total Assets</b>	
		<b>Total Liabilities</b>	
		<b>Net Worth</b> <b>(Assets minus Liabilities)</b>	

## Future Living Expenses

You need to calculate your possible living expenses in the future to create a solid retirement plan.

First, you need to determine an annual inflation rate. There is no crystal ball for determining an accurate rate; but gaining knowledge, keeping up-to-date with monetary policy, and having a trusted team of advisors can help you decide on an average figure.

Next, calculate your possible living expenses in the future. For example, if you think the inflation rate will be 3% and your expenses total \$2,000 per month right now, here's what you would enter into your calculator:  **$\$2,000 \times 1.03 = \$2,060$**

That figure estimates your expenses to increase by \$60 at the end of the first year. To calculate inflation for 5 years, simply keep multiplying each new total by 1.03. For example:

Year 1	\$2,000	X 1.03	= \$2,060
Year 2	\$2,060	X 1.03	= \$2,121
Year 3	\$2,122	X 1.03	= \$2,185
Year 4	\$2,185	X 1.03	= \$2,251
Year 5	\$2,251	X 1.03	= \$2,318

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### Lesson Activity: Future Impact Calculator

Now, complete the Future Impact Calculator below, following these steps:

1. Add up all the items that will be adjusted by inflation;
2. Add up those items that will not be adjusted by inflation;
3. Multiply your inflation-affected expenses by the inflation rate;
4. Then add your non-inflated expenses to that total.

# Why People Invest

## FUTURE IMPACT CALCULATOR

Monthly Expense of Items

Not Affected by Inflation

\_\_\_\_\_

Monthly Expense of Items

Affected by Inflation

\_\_\_\_\_

Estimated Inflation Rate

\_\_\_\_\_

Inflation-adjusted Expenses

Year

Year 10

Year 20

Year 30

Total Expense

Items Affected by Inflation +  
Items Not Affected by Inflation

Year

Year 10

Year 20

Year 30

What steps will you take now to ensure that your income is enough to support your retirement lifestyle?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

What expenditures will you reduce at retirement to ensure that your lifestyle goals are met?

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Finally, complete the charts “Budget Now” and “Budget at Retirement”. If you has more liabilities than assets in your net worth calculation, you will need to include a monthly payment towards this “expense” to compensate. You can either include the detailed (year to year) effects of inflation on your expenses or simply take the average to help in your forecasting.



# Investments

## Budget Now

Money Coming In		
Employment Income	Current	Goal
Employment Income		
Federal Income Tax	-	
State & Local Tax	-	
Social Security/Medicare	-	
Tips		
<b>Net Income</b>		

Other Income		
Rental Properties		
Stock Market		
Entrepreneurial Endeavors		
Interest Income		
Other		
<b>Total</b>		

<b>Total Income</b>		
---------------------	--	--

Money for Savings		
Emergency Fund		
Retirement Plans		
Investments		
Short Term 'Fun' Savings		
Charities		
<b>Total</b>		

<b>Total Income</b>		
<b>Total All Expenses</b>		
<b>Total Savings</b>		
<b>Money Left Over</b>		

Expenses		
Living Expense	Current	Goal
Rent / Mortgage		
Taxes / Insurance		
Utilities: Electric /Gas		
Utilities: Water / Garbage		
Cable/Satellite		
Internet		
Phone		
Other		
<b>Total</b>		

Travel Expenses		
Car payment		
Insurance		
Registration		
Gas		
Maintenance		
Other		
<b>Total</b>		

Other Expenses		
Student Loan Debt		
Credit Card Debt		
Groceries		
Clothes		
Personal Items		
Entertainment		
Eating Out		
Additional Liabilities		
<b>Total</b>		

<b>Total All Expenses</b>		
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# Why People Invest

## Budget At Retirement

Money Coming In	
Employment Income	Goal
Employment Income	
Federal Income Tax	
State & Local Tax	
Social Security/Medicare	
Tips	
<b>Net Income</b>	

Other Income	
Rental Properties	
Stock Market	
Entrepreneurial Endeavors	
Interest Income	
Other	
<b>Total</b>	

<b>Total Income</b>	
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Money for Savings +/-	
Emergency Fund	
Retirement Plans	
Investments	
Short Term 'Fun' Savings	
Charities	
<b>Total</b>	

<b>Total Income</b>	
<b>Total All Expenses</b>	
<b>Total Savings</b>	
<b>Money Left Over</b>	

Expenses	
Living Expense	Goal
Rent / Mortgage	
Taxes / Insurance	
Utilities: Electric /Gas	
Utilities: Water / Garbage	
Cable/Satellite	
Internet	
Phone	
Other	
<b>Total</b>	

Travel Expenses	
Car payment	
Insurance	
Registration	
Gas	
Maintenance	
Other	
<b>Total</b>	0

Other Expenses	
Student Loan Debt	
Credit Card Debt	
Groceries	
Clothes	
Personal Items	
Entertainment	
Eating Out	
Additional Liabilities	
<b>Total</b>	0

<b>Total All Expenses</b>	
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## Lesson Questions

1. How do you calculate your net worth?
  - a. Subtract your assets from your liabilities.
  - b. Total up your assets and liabilities.
  - c. Add up your income and expenses and adjust for inflation.
  - d. Subtract your liabilities from your assets.
2. Over the past five years, what has been the average rate of inflation in the US?
  - a. 1%
  - b. 3%
  - c. 6%
  - d. 12%
  - e. 25%
3. When the Federal Reserve increases the money supply, what happens to the purchasing power of the dollar?
  - a. It does not change
  - b. It goes up
  - c. It goes down
  - d. It goes up briefly, and then goes down
  - e. It goes down briefly, and then goes up
4. Precious metals (such as gold or silver) that you own are an example of:
  - a. An asset
  - b. A liability
  - c. An annuity
  - d. A bond

# Why People Invest

## Essential Questions

What is investing? \_\_\_\_\_

\_\_\_\_\_

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Why do people invest? \_\_\_\_\_

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What is inflationary risk? \_\_\_\_\_

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## Introduction to Investing

### Warm-up Activity:

What do each of the following quotes mean to you?

*“When you’re making money doing what you love, you are already retired.”*

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*“Many describe the new retirement as having the freedom to do what you want to do, when you want to do it.”*

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### ■ Preparing to Invest

The reason many people invest is to achieve financial freedom. The term “financial freedom” means something different to each person, but many define it as being able to have the lifestyle they want and knowing they can afford it financially. To work toward attaining this goal it’s important to get your money started growing for you instead of having to work for every penny.

# Introduction to Investing

Here are some important terms that relate directly to your financial freedom:

- **CASH FLOW** is the difference between the money you have available at the beginning and end of an accounting period.
  - **Positive** cash flow: Cash coming in is greater than cash going out.
  - **Negative** cash flow: Cash going out is greater than cash coming in.
  - **Breakeven** cash flow: Cash coming in and cash going out are the same.
- **NET WORTH** equals Assets minus Liabilities.
- **ASSET** is any item of economic value owned by a person or corporation
  - **Tangible** assets include gold, real estate, stocks.
  - **Intangible** assets include copyrights, trademarks, brand recognition.
- **LIABILITY** is a loan and/or other obligation you have to pay.
- **RETURN ON INVESTMENT (ROI)**. This performance measure helps investors compare the return offered by one investment to returns on other investments. ROI is calculated by dividing an investment's financial yield by its cost. The result is expressed as a percentage or ratio.

## Lesson Activity: Investment Definitions

### 1. CASH FLOW

You receive a **\$1,500** check from a tenant on a rental property that you own. That month, your mortgage, insurance, taxes, and other rental property- related expenses for that unit come to **\$1,300**. Complete the following statement:

In the example above, the rental property provides the owner a  
[type] \_\_\_\_\_ cash flow of  
[amount] \$ \_\_\_\_\_ per month.

### 2. ASSETS

Which are more secure: \_\_\_\_\_ **tangible** assets or \_\_\_\_\_ **intangible** assets?

Why? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



### 3. ROI (RETURN ON INVESTMENT)

Assume you purchased \$1,000 worth of stock. After a year, the stock is worth \$1,100.  
What did you earn on the investment? \$\_\_\_\_\_ [*financial gain*]

Use the formula to determine the percentage of ROI.

$$\frac{\text{[Financial Gain]}}{\text{[Cost of Investment]}} = \text{[ROI]} \%$$

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## Lesson Questions

1. Having a *break-even* cash flow at the end of an accounting period means:
  - a. You had more cash going out than coming in.
  - b. You had more cash coming in than going out.
  - c. You had a net worth higher than your amount of assets.
  - d. Your cash going out and cash coming in were the same.
  - e. Your bank account is empty.
2. *Tangible assets* might include:
  - a. Real estate and stocks.
  - b. Net worth and liabilities.
  - c. Clothing and food.
  - d. Copyrights and trademarks.
3. ROI is calculated by:
  - a. Dividing net worth by investments.
  - b. Dividing tangible assets by intangible assets.
  - c. Dividing financial gain by the cost of the original investment.
  - d. Multiplying risk times potential return.
  - e. Multiplying assets times liabilities.

# Introduction to Investing

## Essential Questions

What is cash flow? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What is net worth? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What does ROI stand for and what does it mean? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What does financial freedom mean to you? \_\_\_\_\_  
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## Compound Interest

### Warm-up Activity

“The most powerful force in the universe is compound interest.” *Albert Einstein*

What do you think this quote means? \_\_\_\_\_

\_\_\_\_\_

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\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### Compound Interest

What if you had known when you were 18 years old that, if you just invested \$100 a month, you could become a millionaire by retirement age due to compounding interest?

Would you have been inspired to start saving and investing your money when you were younger? Most people would answer, “Yes!” Unfortunately, even today most people do not learn about money when they’re young. And too many of us learn about money at the “school of hard knocks.”

People who start investing \$100 a month before they turn 30 have a good chance of becoming millionaires.

It happens due to a principle called compound interest. Compounding interest allows money to grow off of itself, and the younger a person starts to invest, the larger that person’s money can grow. Understanding the principle of compounding interest will help you when you begin investing.

The beauty of compounding interest is that you make money **BOTH** on the money you deposit **AND** on the interest your investments pay you. So interest is calculated not only on the initial principal, but also on the accumulated interest your money generates over time.

# Compound Interest

That's the definition of *compounding interest*: the process by which the value of an investment increases exponentially because it earns interest both on the principal and on the prior interest payments.

This may sound complicated. Don't worry too much about the definition. Here's what compounding interest would mean to someone who started investing at age 18:

Based on a 12% Rate of Return	
If you invest this much per month ...	You can be a millionaire at this age!
\$100	57
\$200	51
\$400	46
\$700	41

But no matter your age, you can still take advantage of compounding interest. There are various investment strategies to help you get better returns on your money. But do you see how just a simple savings plan and compounding interest can work in your favor?

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## Lesson Activity: A Penny a Day

Listen carefully to the business proposition put forth by your instructor who needs someone to work for him/her for one month. Here are your options:

1. On the first day, you will earn one penny. But your "salary" will be doubled each day for the entire 30 days.
2. You can choose to be paid a lump sum of \$100,000 for the entire month.

Consider your options carefully before choosing, then select the one you think will be most successful. Use the calendar grid provided to make your calculations based on the instructions.

# Investments

Day 1	Day 2	Day 3	Day 4	Day 5	Day 6	Day 7
Day 8	Day 9	Day 10	Day 11	Day 12	Day 13	Day 14
Day 15	Day 16	Day 17	Day 18	Day 19	Day 20	Day 21
Day 22	Day 23	Day 24	Day 25	Day 26	Day 27	Day 28
Day 29	Day 30					

# Compound Interest

## Lesson Activity: Compounding Interest

Follow along with your instructor and use your calculator to come up with the correct results.

You invest \$10,000 that earns a return of 10% per year. At the end of one year, you will have made \$1,000:  $\$10,000 \times .10 = \$1,000$

Now calculate your total account balance at the end of the year by multiplying  $\$10,000 \times 1.1 = \$11,000$

Next calculate how much you would have in your account if you earned **10%** a year from your **\$10,000** investment for **15** years.

Round to the nearest dollar: \$ \_\_\_\_\_

## ■ The Rule of 72

The **Rule of 72** says that if you divide 72 by the non-decimal interest rate (10, not 0.1) you are receiving from an investment the answer tells you how many years it will take for that money to double. This principle helps illustrate that the earlier you start saving for retirement, the better the chances that your money will double.

**EXAMPLE:** If you have \$10,000 in savings and are earning a 10% interest rate, your money will double in 7.2 years.  $72 \div 10 = 7.2$

## Lesson Activity: Using the Rule of 72,

1. How long will it take to double your \$10,000 at %% interest? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. If you put your \$10,000 in your piggy bank at 0% interest, how much will you have when you retire? \_\_\_\_\_

## ■ Preparing to Invest

The impending reduction and/or elimination of pension and SSI benefits make it critical that you become an educated investor.

The basic definition of investing is buying assets that you believe will increase in value.

Assets include purchases like real estate, stocks, precious metals, or businesses. Since assets do not always increase in value, every investment carries an element of risk.



## 1. **CONSISTENCY**

The first step to achieving financial success is following a consistent, long-term investment plan. Adopting a regular savings plan forms the foundation of your investing career. Your savings forms the backbone of a plan that provides you with money to invest on a regular basis.

Building wealth over time is all about taking the long view, and not getting bogged down in short-term gains. Building financial freedom takes time. But that doesn't mean you shouldn't get involved now. Success can come faster than you think!

By learning simple investment lessons you can begin making money while you sleep. If you start investing early and consistently, you'll harness the power of compounding interest.

## 2. **CHECK YOURSELF**

Emotions make us do things we wouldn't normally do. This is especially true with investing. The negative emotions most likely to affect people when they invest are greed and fear. Many people just chase the almighty dollar. They want more and more – yet when they start to lose money, they become scared and freeze up.

Another emotional crutch for some people is to fall in love with a stock, or a company, or a piece of real estate. Despite warning signs telling them to sell, they foolishly continue to hold on to it, even as it depreciates in value!

People who carry emotional baggage when they invest are likely to make bad decisions more often than people with a clear, relaxed business focus.

## 3. **CONTROLLING YOUR EMOTIONS**

Controlling your emotional responses to risk will be an important part of your investment plan.

"Get rich quick" schemes are a dime a dozen — someone calling you with a "hot" stock tip, or begging you to invest in a sweet deal. These types of salespeople are trying to stir up your emotions by selling you an improbable dream. Ponzi schemes, bank fraud, and the Enron collapse are some good examples of investment scams in which people lost millions. Don't let that happen to you. Gain the knowledge you need to make educated financial decisions for yourself.

When someone approaches me with an investment idea, the first question I ask is, "Do you invest in this yourself?" If the answer is "No," – which it often is – I thank them for their time and politely decline.

# Compound Interest

It's good to listen to other people's investment ideas, but never let them convince you to get involved before doing your own research. Check out their claims by looking online, reading books, and talking to trusted advisors. The more you know about money matters, the more successful you'll be – and the more fun you'll have doing it!

Always continue to learn and think for yourself. Put your money on your mind, and keep your mind on the money. Soon you could be making \$10,000 a month in interest alone!

## Lesson Activity: Preparing to Invest

Follow the instructor's directions to complete this activity. The checklist on the next page will be useful as you prepare to invest in your future.

Rate your current investment confidence level:

1 2 3 4 5 6 7 8 9 10

Low

High

Do you want to invest within the next few years?

☐ Yes

☐ No

### PREPARING TO INVEST CHECKLIST

- ☐ Before you consider investing be sure to have six months' worth of expenses put away in your emergency fund.
- ☐ Be free of credit card debt and have a working budget in place that allows you to save money each month.
- ☐ Only use *risk capital* for investments. Risk capital refers to money that you can afford to lose without putting you in dangerous financial circumstances.
- ☐ Have a team of trusted advisors and mentors at your disposal.
- ☐ Create an overall investment plan and determine how the investment you are considering fits into your plan.
- ☐ Gain expert-level knowledge on each specific investment you are considering by conducting *due diligence* research. Due diligence means you educate yourself on the investment and do your homework before committing your hard-earned money.
- ☐ Determine the risk and potential reward. All investments have a certain amount of risk and reward. Ideally, you want to earn the highest return (reward) with the least amount of risk.
- ☐ Have an exit plan in place in case the investment doesn't go as planned.

## Lesson Questions

1. According to the rule of 72, if you earn a 10% interest rate how long will it take for your money to double?
  - a. 1 year
  - b. 72 years
  - c. 7.2 years
  - d. It depends on the type of investment.
2. Interest earned both on an original investment of money and also on the interest the original money has accumulated is called \_\_\_\_\_ interest.
  - a. Simple
  - b. Nominal
  - c. Compound
  - d. Real
3. If you invest \$1,000 and earn 8% interest, to what amount will your investment have grown after 1 year?
  - a. \$1,800
  - b. \$920
  - c. \$1,080
  - d. It depends on the type of investment.
4. Compounding interest on your investments is beneficial because\_\_\_\_\_.
  - a. It protects you against investment risk.
  - b. It allows you to earn interest on the money you initially saved or invested, and then as you earn interest, the interest money earns interest as well.
  - c. It provides a way for you to diversify your investments.
  - d. You are able to calculate a return on investment (ROI).
5. How will the “Rule of 72” help you when you consider various investments?
  - a. It will let me know when my investment has increased 72%.
  - b. It lets me know when my investment will double.
  - c. It can reduce my risk.
  - d. All of the above.

# Compound Interest

## Essential Questions

What is compounding interest? \_\_\_\_\_

\_\_\_\_\_

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\_\_\_\_\_

What does the Rule of 72 tell you? \_\_\_\_\_

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What is a Ponzi scheme? \_\_\_\_\_

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What are some ways to become prepared to invest? \_\_\_\_\_

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## Building A Team of Trusted Advisors

### Warm-up Activity

What is a trusted advisor? \_\_\_\_\_

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### Building Your Team

As much as you need to think for yourself, nobody ever made a million dollars by working exclusively on their own. It takes teamwork. By establishing a winning team, you can be the best and invest.

Creating the right team of professional advisors is important to your success. It's important to work with trusted, reputable, and established professionals within any given field. Would you hire a computer programmer to fix your plumbing? Neither should you choose a financial advisor without any financial expertise.

Your financial team should include the following members:

- College planner – if you or your children are going to college this is a must.
- Tax planner – the tax code covers more than 15,000 pages.  
(Either learn all the regulations, or find a professional to do your taxes.)
- Attorney
- Financial mentor
- Financial coach, advisor, or professional
- Insurance agent
- Realtor and mortgage professional

Each of these members will play an advisory role in your success. Just like researching an investment, do your homework before selecting team members. Ask your friends, family, and business associates for referrals. Do your potential advisors have references? Can you check their histories?

## ■ Your Rock-Solid “A” Team

- **FINANCIAL MENTOR.** A mentor could be someone you know who successfully manages his/her own money, someone whose advice you feel comfortable soliciting. The more knowledgeable, experienced people you have around you, the better decisions you will make.

But never take anyone’s advice without doing your own homework. You’re looking for a helpful guide, not a puppet master! Although some people may seem to know how to manage their money properly, appearances can be deceiving. Always do your own research as a backup. Perhaps one day you will become an experienced mentor yourself!

- **TAX PLANNER.** Having the right tax planner on your team will keep more money in your pocket when April 15 (Tax Day) comes around.

The complicated tax code is more than 17,000 pages long, so having a tax planning professional is critical. Boning up on basic tax knowledge doesn’t hurt, though, since about one-fourth to one-third of your income goes to paying taxes if you work for someone else.

Besides the questions listed below, ask your tax planner: “Are you available year-round for questions?” If you’re first starting out, your taxes will be pretty easy to manage, but we still don’t advise you to do them yourself. Hire a professional with whom you can grow as your investments and income grow.

- **COLLEGE PLANNER.** If you or your children are going to college, finding a talented college planner is a must. It will be important to determine your (or your child’s) return on investment for obtaining the college degree. How much will the education cost, compared to the increased earning potential with the degree?
- **ATTORNEY.** Legal questions often arise when you review contracts and other documents, so finding an efficient attorney is a good idea. Any time you need to sign a contract, hire an attorney who specializes in the relevant field. An inexpensive way to hire an attorney is through pre-paid legal companies, which typically offer several different plans. Choose the plan that best fits your needs.

Sometimes you might feel you don’t get straight answers from legal folks. Remember that they’re trying to limit their own liability. To avoid this problem and get better answers, consider reviewing all contracts yourself first, writing down any specific questions you have prior to asking the attorney for review. You’ll expand your knowledge and get a better grasp of the business side of investing.

- **REALTOR AND MORTGAGE PROFESSIONAL.** If you own or plan to purchase a home, the expert assistance of a realtor and/or mortgage professional will be critical to your advisement team. They can help you calculate the mortgage you can afford, obtain financing, and research and select the perfect property for your needs.
- **FINANCIAL ADVISOR.** Finding a trusted financial advisor can help you achieve your financial objectives and forms an important member of your investment team. Find an advisor who believes in furthering your education and who takes the time to truly understand your investment objectives.
- **INSURANCE AGENT.** Many people just choose insurance companies based on the cheapest rates. But choosing by price alone might actually cost you more in the long run. Pick an established insurance company with competitive rates, one that offers all types of insurance (auto, home, life) and that knows the business inside and out. Select an experienced agent who can address your unique situation.

Ask each professional you're considering as a member of your trusted advisor team the following basic questions:

- How many years have you been in your respective field?
- What are your fees and how do you get paid?
- What are your credentials?
- What professional boards do you belong to?
- Have you ever had any disciplinary action?
- What is your past experience?
- What other services do you offer?
- How many other people do you advise?

Choose people who not only are educated, but whom you like on a personal level. These relationships will be long-term, so you want to work with people you enjoy being around. If your financial planner, realtor, lawyer, or tax professional is a close trusted friend, and you know he or she has been successfully managing and investing money for years, that person may be an excellent resource.

While it's important to have a great team on your side, you shouldn't use your advisors as a crutch. Your financial decisions are ultimately your own. Your advisors just serve the purpose of informing you about all your available options.

# Team of Trusted Advisors

Once you have the proper team in place, your advisors will support your efforts in ways you can't accomplish alone. You'll have more time at your disposal and the peace of mind you need to start building your fortune.

## Lesson Activity: Investment Protection

Consider the following scenarios and write down your answers to the questions about each.

1. A mortgage broker recommends to a family that makes \$2,500 a month that they get a loan at payments of \$1,000 per month. What he doesn't tell the family is that,
  - in the second year, the payments increase to \$1,500;
  - in the third year payments will be \$2,000; and
  - by the fifth year payments will be \$3,000 per month.

This escalated payment schedule is mentioned in the 40 pages of legal disclaimers the family received, but they didn't read all those pages because the documents were confusing.

How could this family have protected themselves from getting a mortgage that was bad for their situation?

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2. In 2008, one of the largest investment banking firms in the country was recommending that people purchase an investment while secretly betting that the investment would lose money. As a result, the investment firm made millions while the people lost millions.

How could the people who became prey to this scandal have protected themselves?

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## Lesson Questions

1. Which of the following are two professionals you should have on your team of trusted advisors?
  - a. College professor and health care professional.
  - b. Doctor and event planner.
  - c. College planner and tax planner.
  - d. Accountant and pastor.
2. What is the primary role of a financial advisor?
  - a. To make your final investment decisions for you.
  - b. To help you get a mortgage.
  - c. To protect you from banking fees.
  - d. To inform you about all the options surrounding a financial decision.
3. Which of the following is an important question you should ask a potential member of your team of trusted advisors?
  - a. What is your past experience?
  - b. How much do you earn?
  - c. Do you have any hot stock market tips?
  - d. Where did you go to school?
  - e. How many other people do you advise?



## Essential Questions

What is a trusted advisor? \_\_\_\_\_

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Why is it important to have trusted advisors in business?

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What are three things I should ask a potential advisor?

1. \_\_\_\_\_

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2. \_\_\_\_\_

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3. \_\_\_\_\_

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## Investment Checklist

### Warm-up Activity:

What steps should I take before I start investing?

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### ▀ Becoming Prepared to Invest

You now know some very compelling reasons why you should begin investing to get your money working for you, instead of you having to work for every dollar. But before you dive into investments you also must take some important steps to become prepared.

Knowledge forms the foundation of your investment strategy and financial planning. Once you have gained a solid knowledge base about all the available investment options, your next most important step is to build a trusted team of advisors.

Another key component of investment preparation is freeing up risk capital to use for your investments. Before implementing any investment strategy you should build up an emergency savings fund that equals between 6 and 24 months' worth of your expenses. Then if your income source were to dry up (for example, if you lose your job), you could still meet your obligations for that number of months.

Once you have an emergency fund that would last you 6-24 months and a working budget that includes a good savings plan, you can start building up risk capital that you can afford to invest. Minimizing bad debt should be an important focus of your budget.

# Investment Checklist

Finally, you need to develop an overall investment plan that aligns with your lifestyle goals and matches your risk tolerance. You should include an exit plan in case an investment doesn't perform as predicted. Don't forget to conduct due diligence research on every investment you're considering.

## Lesson Activity: Investment Preparation Checklist

### KNOWLEDGE

Circle the number that represents your current financial knowledge level. Then underline the number that represents the knowledge level to which you plan to improve your personal financial knowledge within one year.

1 2 3 4 5 6 7 8 9 10

Low

High

### TRUSTED TEAM

Place a check mark next to those trusted team members you will have in place within one year.

- |   |  |
|---|--|
| <input type="checkbox"/> Tax planner                      | <input type="checkbox"/> College planner   |
| <input type="checkbox"/> Attorney                         | <input type="checkbox"/> Financial mentors |
| <input type="checkbox"/> Financial advisors               | <input type="checkbox"/> Insurance agent   |
| <input type="checkbox"/> Realtor or mortgage professional |  |

### EMERGENCY SAVINGS

Depending on your qualification and ability to get a job, a 6- to 24-month emergency fund will prepare you for an unexpected event or job loss.

- ☐ I currently have \_\_\_\_ months in emergency savings.
- ☐ Within one year I will have \_\_\_\_ months of emergency money saved.
- ☐ I have a working budget in place. ☐

### RISK CAPITAL

Once I build up my emergency fund, I will start to save risk capital. Risk capital is money that I can invest without risking dangerous financial circumstances. I will start saving risk capital to invest by [date]\_\_\_\_\_.

## MINIMAL BAD DEBT

Many people pay 20% or higher credit card interest rates. Those people earn less on their investments.

If your investments are earning 6% and you're paying 24% interest on credit card debt, what action should you explore? Why?

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If you owed \$20,000 on a credit card at a 0% interest rate and you received \$20,000, would it be better to pay off your credit card or to invest that money? Why?

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## PLAN

I will have solid ideas on my investment and retirement plan by the end of this coursework.

*Check here* ☐ if over the next 12 months you will take time to finalize your plan, even if you don't yet have enough money saved to risk yet.

## DUE DILIGENCE

*Check here* ☐ if you will perform due diligence on the specific investments or companies in which you consider investing.

## Lesson Questions

1. What is the first, most important step you should take before you start investing?
  - a. Conducting due diligence
  - b. Having a trusted team
  - c. Gaining knowledge
  - d. Borrowing money
  - e. Selling off assets

# Investment Checklist

2. Why is minimizing bad debt important to an investment plan?
  - a. Bad debt carries high interest rates that will decrease the amount you earn on your investments.
  - b. Having bad debt looks negative on a budget.
  - c. Bad debt increases the brokerage fees you have to pay.
  - d. Having bad debt will interfere with your exit plan.
3. It's a good idea to start creating an overall investment plan even if you don't yet have enough money saved to risk investing.
  - a. True
  - b. False

## Essential Questions

Name at least four important steps you should take to prepare for investing:

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. \_\_\_\_\_  
\_\_\_\_\_  
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3. \_\_\_\_\_  
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4. \_\_\_\_\_  
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