

Hyde Park UMC Money

Give all you can &
Save all you can (part 2)

Review

- * Earn all you can, Save all you can, Give all you can
- * Should I buy or lease a car?

Give Scripture

- * Proverbs 11:24-25
- * Proverbs 22:7
- * Deuteronomy 26:1-2
- * Malachi 3:10
- * 2 Corinthians 9:7
- * Luke 19:8-10
- * Mark 12:43-44
- * Mathew 6:2-4

Giving Opportunities

- * HPUMC (your church)
- * Metropolitan Ministries
- * YMCA/YWCA
- * Schools
- * Non-profit organizations
- * Youth sports
- * Others?

Investing Learning objectives:

At the end of the discussion you will be able to:

1. Distinguish between the terms “saving” and “investing”
2. Describe the two primary types of long term investments
3. Describe the two types of mutual funds
4. Describe the risk/ reward ‘trade-off’ of investing
5. Design a simple investment portfolio (diversify!!)

Savings and Investing - defined

* Savings

- * Setting aside money now to meet future short-term and long-term needs

* Investing

- * Using a portion of your savings to buy assets which are expected to grow in value over the long-term

Why are saving and investing so important?

- * To buy the things you need and want (house, cars, college, vacations, etc.)
- * To provide a safety net to see you through difficult times
- * To allow you to achieve financial freedom at a reasonable age
- * To provide resources during your older years

Two broad categories of long term assets

- * Stocks

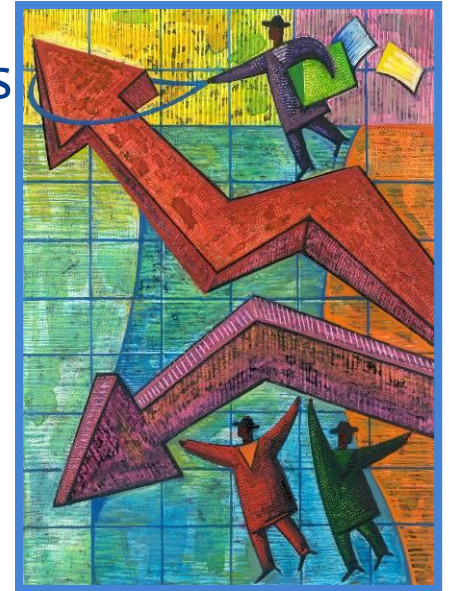
- * You own a small portion of the company (shares)
- * Growth in value comes from dividends and price increases
- * Higher risk but potentially higher rewards

- * Bonds

- * You loan money to a corporation or government
- * Growth in value comes from interest payments and price increases
- * Lower risk, lower rewards

What are stocks?

- * Certificates of ownership issued by corporations to raise money
- * Owners of stocks are called “shareholders”
- * Reasons to own:
 - * Dividends
 - * Price appreciation
- * Reasons not to own:
 - * Short term - Price volatility
 - * Long term - Possible price decline



What are bonds?

- * A loan from the buyer (you) to the seller
- * The seller legally commits to pay to the buyer annual interest payments plus return the principal at maturity date
- * Why buy bonds?
 - * Income in the form of interest payments
 - * Reduce volatility in portfolio
 - * Price appreciation (if sold before maturity)
 - * Safety of principal if held to maturity
- * Why not buy bonds? low return

Who Issues Bonds?

- * Corporations
 - * usually pay a little more interest than government bonds but have higher risk (default)
- * Governments (very safe)
 - * Federal: treasuries, savings bonds
 - * State/Local: called municipal bonds or “Muni’s”

Bonds carry a risk rating



Managing the risk and return of investing

- * Risk
 - * The uncertainty that you won't achieve the return you expected
- * Risk/return trade-off
 - * To achieve a higher return, you must assume more risk
- * How do I manage this trade-off?
 - * Diversification

Three Steps in Diversification

1. Diversify between stocks and bonds
2. Diversify the stock portion
3. Diversify the bond portion



Mutual Funds

- * Mutual fund: A single portfolio funded by many investors
- * There are two types:
 - * Actively managed
 - * Indexed
- * Advantages:
 - * Diversification
 - * Convenience
 - * A team of professionals make the buy/sell decisions in the “managed” funds
- * Risks:
 - * They can be costly
 - * It isn't easy to select the good ones (so stick with indexed)

Example of a simple portfolio for a young investor (20 years old)

<u>Asset Class</u>	<u>% in Portfolio</u>
U.S. Stocks	40%
Foreign Stocks	40%
Bonds	20%
Total	100%

What is a credit score?

- * A single number based on your credit history that indicates your creditworthiness
- * Scores range from 300 to 850
 - * 720 is considered very good
- * You have 3 credit scores, one from each of the 3 credit bureaus
 - * Each score is calculated using the same formula (FICO) but only using the data from that bureau

Loans Types

- * Credit cards (rewards programs)
- * Car loans (buy vs. lease)
- * Mortgage (home loan)

Loan Structure

- * Rate (fixed vs. variable)
- * Term (amortization period)
- * Fees and other costs

What are credit card fees?

Late payment fee

- * Incurred when you are even one day late
- * Can also trigger a big increase in the interest rate you pay on this and other credit cards (universal default)
- * Average late fee is \$34.00

Over-limit fee

- * Incurred when you exceed the maximum credit limit
- * Average fee is \$31.00

Cash advance fee

- * 3% of advance (\$10.00 minimum)
- * Interest charges begin immediately

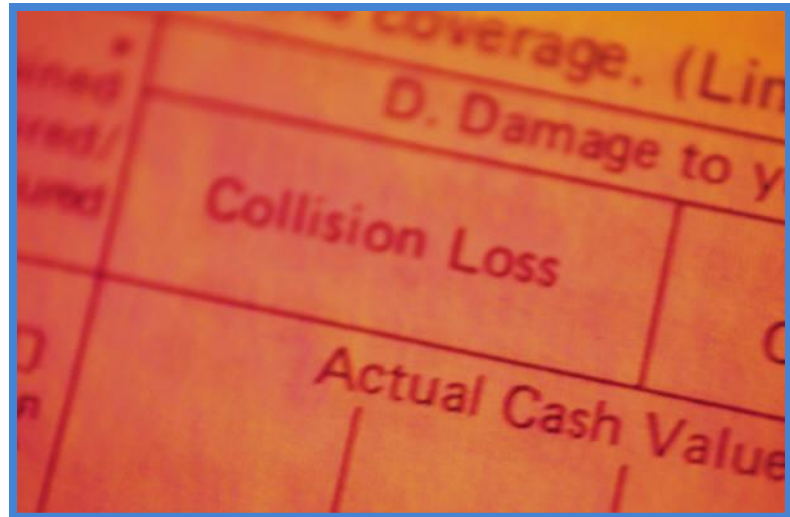
Annual fees

- * Avoid cards with annual fees

Primary types of insurance for young people

- * Automobile
- * Health
- * Life (term vs. hybrid)
- * Disability

When do you need it?



Paying for College

- * Scholarships
 - Merit (athletic, academic, talent)
 - Bright Futures
 - * Federal Grants (Pell)
 - * Work part time
 - * Parents/relatives
 - * Your savings
 - * Federal loans (last option)
- * Note: Going into debt is the last option



Current status of debt for graduating seniors

- * The average student loan debt at graduation is \$24,000 for students who have loans
 - * 25% borrowed \$30,000 or more
 - * 10% borrowed \$45,000 or more
- * To pay off \$24,000 in 10 years at 6.8% interest would mean \$276 per month in payments
 - * = \$3,312 per year
 - * Total interest = \$9,120

FAFSA – Free Application for Federal Student Aid

What is it?

- * Required document to obtain any federal or State student loan or aid
- * Furnishes key financial information about you and your parents

When to submit

- * Must be submitted every year that you want aid
- * Submit as early as possible after Jan. 1 of the next school year
- * Example: To receive aid for Fall 2012, submit FAFSA in January of 2012. Note: Don't wait for parents to finalize their tax return. It's better to estimate the tax return inputs and complete the FAFSA in January.

How to submit

- * Online at www.fafsa.ed.gov (preferred method)
- * Paper version (PDF format)

Identity Theft

- * What is Identity Theft?
 - * When someone uses your name, social security number, or other personal information without your permission



How can someone steal your identity?

- * Retrieving account numbers from statements that have been disposed of improperly or that are just lying around (bank, credit card, account summary)
- * Telephone solicitations where you give out personal information
- * Phishing, freeware, and spyware
- * Retrieving personal information from the internet

Closing thoughts...

- * Follow the 10/10/80 plan
- * Debt is your enemy
- * Diversify
- * Give your money, time and talents

Questions??

- * What would you like to know?

Homework: Go out in the world and be a good steward of God's gifts!

“money really does matter, but at the same time, it really doesn't matter”

