

# 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

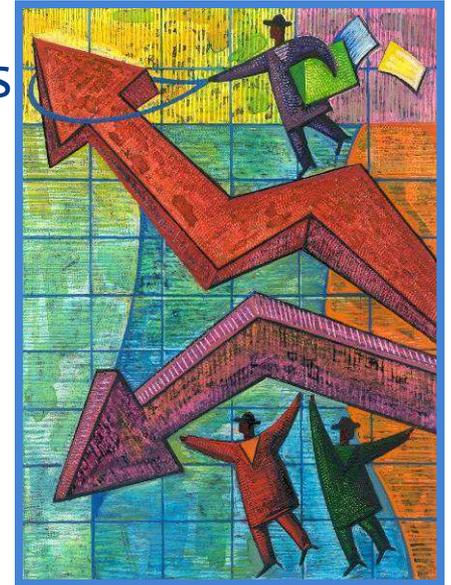
- \* You own a small portion of the company (shares)
- \* Growth in value comes from dividends and price increases
- \* Higher risk but potentially higher rewards

## \* 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

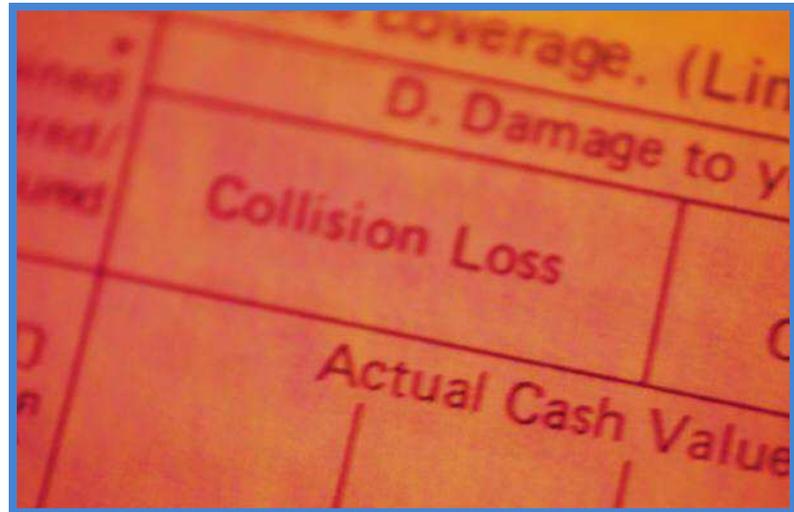
## Annual fees

- \* Avoid cards with annual fees

# Primary types of insurance for young people

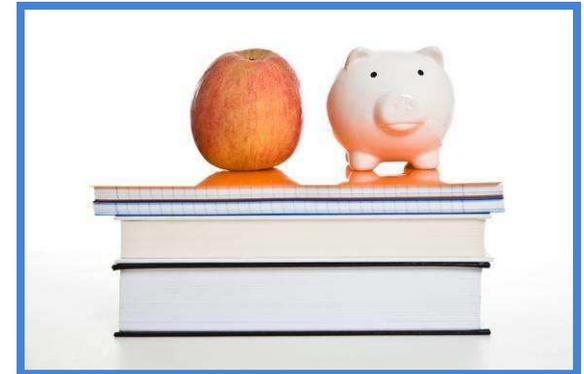
- \* Automobile
- \* Health
- \* Life (term vs. hybrid)
- \* Disability

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](http://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”

