

*No Brainers on Personal Finance*

Length: 1 hour, © 1998 Cerebellum Corporation

Audience: 7-12 grades

*No Brainers on Personal Finance* introduces seven personal finance concepts including dreaming, setting goals, financial planning, budgeting, saving, investing, and portfolio strategy review. In addition, Goodman's Ten Rules That Can Make You Independently Wealthy are given at the conclusion of the video.

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- I. What is personal finance?
  - A. Seven steps designed to help you gain control of your financial future
    1. Dreaming
    2. Setting Goals
    3. Financial Planning
    4. Budgeting
    5. Saving
    6. Investing
    7. Portfolio Strategy Review
- II. Dreaming and Setting Goals
  - A. Difference between dreaming and setting goals
- III. Financial Planning
  - A. What plan is best for you?
  - B. Factors to consider when working with a professional consultant
    1. Are they professionally trained or certified
    2. Confidence
    3. Reputable firm
    4. Is the plan worth the cost?
    5. Do they only push a product?
    6. Is the plan clear and easy to understand?
    7. Does the plan allow you to change assumptions?
    8. Is the plan presented as a product or a process?
    9. Are samples available to consult?
  - C. What a financial plan should include
    1. Assessment of net worth
    2. Income tax profile
    3. College
    4. Retirement
    5. Estate
    6. Family
    7. Disability
    8. Healthcare
    9. Asset allocation and Property
    10. Risk Assessment

## 11. Record Keeping Component

- IV. Budgeting
  - A. Projecting income
  - B. Fixed expenses
  - C. Discretionary spending
  - D. Three categories of budgets
    - 1. Extra cash flow
    - 2. Break even
    - 3. Fall short
      - 1. Managing debt
  
- V. Saving
  - A. Power of compounding
  - B. Striking a balance between the present and future
  - C. Three axioms of saving
    - 1. The power of compound interest increases over time
    - 2. Starting sooner is better than later
    - 3. Time in the market is better than timing the market
  
- VI. Saving
  - A. Three axioms of saving
    - 1. The power of compounding interest increases over time
      - a. Example of two saving strategies over 30 years
    - 2. Starting sooner is better than later
      - 1. If you can't start early start now
      - 2. If you are saving but need to save more, then save more
    - 3. Time in the market is better than timing the market
      - 1. Example of two market scenarios over 10 years
  - B. Factors when determining a savings strategy
    - 1. How much do you have available to save?
    - 2. How much do you need to save?
    - 3. Are you willing to get a second job?
    - 4. How long will it take to achieve your goals?
    - 5. Should you retire later or save more today?
  - C. Rule of 72
    - 1. Mathematical ratio that tells how long it will take to double money invested based on expected return rate.
    - 2. Helps quickly gauge investment return
    - 3. Keep in mind that rates do fluctuate
    - 4. This is only an approximation based on a time horizon
  - D. Dollar Cost Averaging
    - 1. Investing money in the markets once a month or at regular intervals
    - 2. Saves you money on the average share cost
      - 1. Buy more stock when prices are down
      - 2. Buy less stock when prices are up
    - 3. Market volatility helps this work except under two circumstances

1. If you have the opportunity to buy all shares at the lower price
2. If you bought your shares at the all-time low
4. Advantages
  1. Creates discipline in investors
  2. Prevents investors from becoming “market timers”
  3. Purchase more stocks
5. Disadvantages
  1. Does not always return a profit
  2. Does not protect against losses
  3. Continuous investing needed
    1. Must consider financial ability to continue purchases

## VII. Investing

### A. Why people are investing

1. Inflation’s impact on purchasing power
2. Forced early retirements and reduced benefits
3. Accumulate wealth

### B. Three main factors to consider when choosing how to invest savings

1. Financial Goals
2. Time Horizon
  1. How long do you plan to invest?
    - a. Type of investments
    - b. Amount of risk you can tolerate
3. Risk tolerance
  1. The level of risk you want to take in your investments
  2. All investments include some risk
  3. High rate of return = higher risk
  4. Low rate of return = more secure investment
    - a. Savings accounts
    - b. CD’s
    - c. Treasuries
  5. Categories of risk tolerance
    - a. Conservative
    - b. Conservative-Moderate
    - c. Moderate
    - d. Moderate-Aggressive
    - e. Aggressive

### C. Asset Allocation Strategy

1. Equities
  1. Common stock or mutual funds
2. Fixed Income
  1. Bonds
3. Cash
  1. Cash
  2. Money market funds

3. Certificates of Deposit (CD's)
4. Investments redeemable within one year or less without penalty
4. Asset Allocation Strategies based on
  1. Individual situation
  2. Goals
  3. Holding period
  4. Risk tolerance
5. Examples of four investment profiles
  1. 25 year old Aggressive Growth
  2. 40 year old Long Term Growth
  3. 60 year old Income and Growth
  4. 75 year old Retired Income

#### VIII. Portfolio Strategy Review

- A. Reviewing goals and objectives periodically to see how they correspond to current situation
- B. Reasons to review portfolio more often than annually
  1. Marriage
  2. Death of a spouse
  3. Unemployment for more than 3 months
  4. Need to liquidate investments to purchase a home
  5. Just won the lottery
  6. Inherited a windfall
- C. Questions to ask when reviewing
  1. How did your investments do compared to similar investments of similar risk?
  2. Is it time to rebalance, tilt, or rotate portfolio asset allocation?
  3. Is it time to revise your individual objectives, savings plan, or goals?

#### IX. Goodman's Ten Rules That Can Make You Independently Wealthy

- A. Start now
- B. Set realistic goals and objectives
- C. Choose a competent advisor
- D. Educate yourself
- E. Pay yourself first
- F. Invest regularly
- G. Choose your investments carefully
- H. Diversify
- I. Be an owner, not a lender (buy stocks, not bonds)
- J. Avoid temptation