Building Your Financial House

Set the Foundation of Your Future

Module 5

Make Money Work

Facilitator Guide

PHFA
PENNSYLVANIA HOUSING FINANCE AGENCY

Table of Contents

Objectives and Checklist

According to the Framework, much like adding an extra room in the attic, you can expand your financial house by making your money work for you through saving, investing, and monitoring what you own. As a result of Module 5, participants will know how to:

- Differentiate between working and wealth, as well as, saving and investing
- Identify the power of compounding and time when building assets
- Distinguish between types of assets, their uses, risks, and costs
- Recognize net worth as a measure of wealth

What we encourage the participants to do with this information is:

- Pay yourself first
- Save early, save often, and reinvest
- Assess an asset's use, expectations, pros, and cons, when making an investment choice
- Calculate net worth and monitor ownership

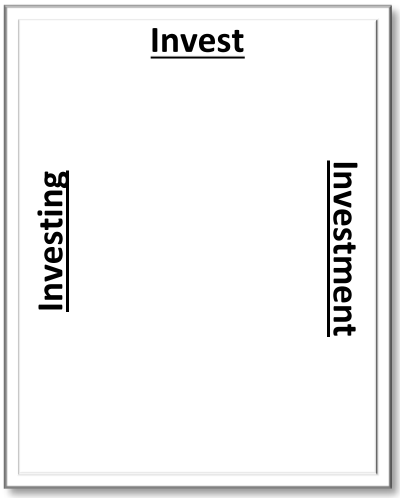
To prepare for the session, refer to the following checklist.

Handouts	☐ Module 5 - Participant Guide ☐ Module 5 - Presentation Slides ☐ Participant Certificates of Participation
Supplies	☐ Computer/laptop, projector, and slide advancer (test prior to start) ☐ Extension cord ☐ Non-adhesive flip chart paper and easel or dry-erase board ☐ Colored markers ☐ Visuals
Room Set-up	☐ Adequate tables and chairs, ideally arranged in a U-shape

Visuals

Below are the visual aids that will be used during the presentation of Module 5: Make Money Work.

Word Gallery:
Use non-adhesive flip-chart paper



Investing In Anna:

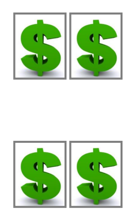
1. Print the pictures from the **Make Money Work Visuals** file and label the visual number on the back of each.
2. Consider laminating for use in multiple sessions.


Visual 1

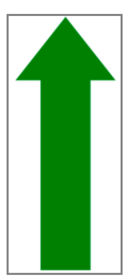

Visual 2

Visual 3

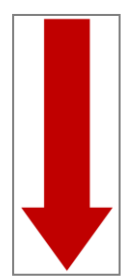

Visual 4


Visual 5

Visual 6


Visual 7

Visual 8


Visual 9

Session Outline and Activities

Slides	Section	Time Allotted
MMW.1-8	Welcome and Recap – Collect and copy page CT-3 for data tracking	15 minutes
MMW.9-12	Objectives and Self-Assessment - Pre-Session Assessment, page MMW-3	5 minutes
MMW.13	Word Gallery – Invest, Investing, and Investment - Group discussion	5 minutes
MMW.14-21	Working vs. Wealth and Save vs. Invest - Make the Commitment to Save - Where to Stash Your Cash	15 minutes
MMW.22-29	Rules for Building Assets - Time Value of Money (Save Early) - Compound Interest (Stay Invested) - Diversify (Mix It Up)	15 minutes
MMW.30-31	Case Study: Investing in Anna, page 24	10 minutes
MMW.32-37	Taking the Fear Out of Financial Assets - Stocks - Bonds - Mutual Funds	15 minutes
MMW.38-51	Choosing the Right Assets - Balance Risk and Reward - Investing Strategies - Assessing Assets	15 minutes
MMW.52-55	Monitor Ownership	5 minutes
MMW.56-61	Recap and Take Action	10 minutes
MMW.62-63	Session Evaluation and Closing, page MMW-25	5 minutes

Certificate of Participation

Participant Name

in recognition of your participation on this day, Month Date, 20XX

in the Make Money Work *module of the*

Building Your Financial House

Financial Education Program

Building Your Financial House
Set the Foundation of Your Future
www.phfa.org
www.buildingyourfinancialhouse.org

Your Name
Instructor

Agency Name
Location

Presentation Instruction Guide and Script *(italics)*

Welcome and Recap — Time: 15 minutes

As participants arrive, **hand out** the **Module 5 Participant Guide and Participant Slides** if they don't already have them in a binder.

Discuss any housekeeping issues: silent cell phones, nearest exit, restrooms, parking, judgment free zone, etc.

Next

slide MMW.1

Explain:

Remember the objectives of Building Your Financial House:

Read the objectives

Next

slide MMW.2

Explain:

Remember the topic schedule for the entire program; this session, we'll be talking about making our money work.

Next

slide MMW.3

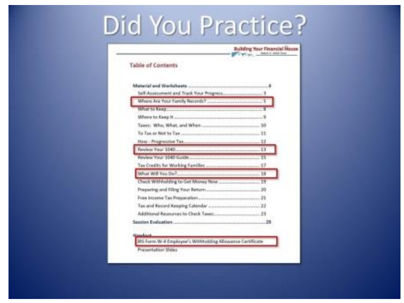
Explain:

Let's recap what we talked about last session.

Read the points.

Next

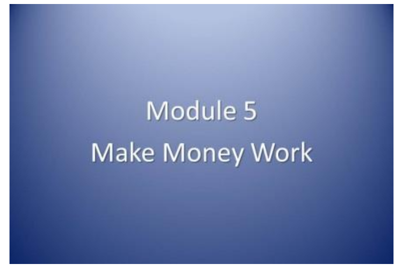
slide MMW.4

Ask participants to turn to **page CT-3, Self-Assessment and Track Your Progress**, in the **Module 3** participant guide and **complete** the page (goals, worksheets completed, actions taken) if they haven't done so already. **Explain:** *Did you set a goal?* **Next**	 *slide MMW.5*
Explain: *Did you practice?* **Ask** for any feedback on the homework. **Next**	 *slide MMW.6*
Explain: *Did you learn more?* **Ask** for any feedback on the additional resources. **Next**	 *slide MMW.7*
Explain: *Did you make progress?* **Ask** for any feedback on the actions taken. Make sure participants write their anonymous identifier (participant #) in the lower right hand box. **Collect**, **copy**, and **return** the worksheets before the session is finished. **Next**	 *slide MMW.8*

Module 5: Objectives and Self-Assessment — Time: 5 minutes

Refer participants to the **Module 5 - Participant Guide** and **Presentation Slides** handouts (or appropriate binder section). Again, participants may prefer to follow the slides, but pages in the guide will be referenced during the presentation so both (and the **Case Study**) should be handy.

Next

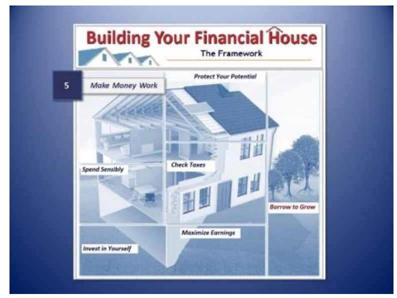


slide MMW.9

Remind audience where the module fits in the framework.

Read the slide.

Next

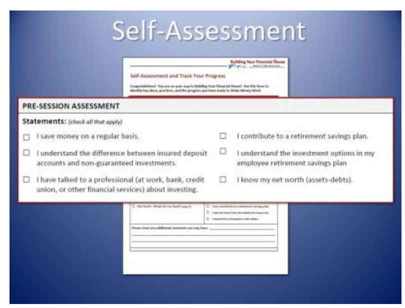


slide MMW.10

Refer to **page MMW-3**, **Self-Assessment and Track Your Progress**.

Read the points of the pre-session self-assessment. **Ask** participants to complete.

Next



slide MMW.11

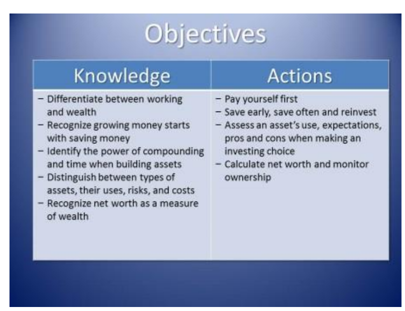
Explain:

> *Remember that each of the modules in Building Your Financial House will have things that we should know about the topic, but also what we should do with this information, or the actions.*

Read the knowledge objectives.

Click and **read** the action objectives.

Next



slide MMW.12

Word Gallery – Invest, Investing, and Investment — Time: 5 minutes

Explain:

Close your eyes and think about what comes to mind when you hear the words invest (pause), investing (pause), and investment? What feelings do you have?

Write the participants responses on the **'Word Gallery'** visual. **Expect** responses of confusion, fear, anxiety, etc. **Remind** the groups that they have taken on tough subjects before (taxes and employee benefits), and this topic will be broken down into understandable concepts just like the others.

Next

slide MMW.13

Working vs. Wealth and Save vs. Invest — Time: 15 minutes

Explain:

So, what does it mean to have our money work for us? Let's take a step back and look at the main source of cash coming into most of our homes. It typically comes from our jobs, where we are "working hard for our money."

Click

Where does our cash come from if we stop working? The answer is our wealth. Wealth means different things to different people, but at its core though, is owning things that pay us cash or that we can sell for more than we paid. Wealth is our "money working hard" for us! It's so important to build our wealth as our ability to earn an income decreases with age and maybe even before that.

Still not convinced? What do Mark Twain, MC Hammer, Mike Tyson, Abraham Lincoln, and Mozart all have in common? They certainly worked hard for their money, but they all filed for bankruptcy. They spent their income on things that did not work for them to support their lifestyles.

So how do we do this?

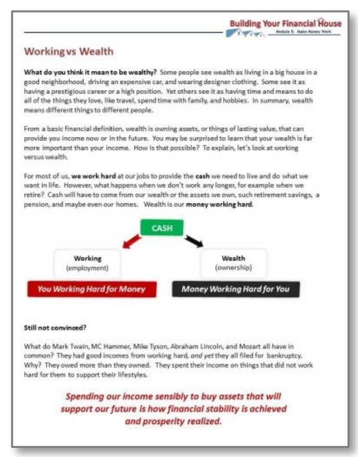
Click

We do this by saving and investing. But aren't they the same? Not really.

Refer to **page MMW-5**, **Working vs. Wealth**, and explain that there is additional information that participants can review on their own.

Next

slide MMW.14


Building Your Financial House
Module 5: Make Money Work

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.

page MMW-5

Explain:

__To save__ is the simple act of setting cash aside. This cash can be used for emergencies, a purchase, and/or to buy assets to build your wealth.

We need a place to __Stash Our Cash__. Under the mattress or walking around with a wad of cash just isn't safe. A stash should also be guaranteed that if you put a dollar in, you get a dollar out; no risk of losing value. Lastly, it should be liquid, meaning it can be turned into cash quickly when you need it. Don't expect to earn a lot of interest though; low interest is the cost of liquidity and safety. We'll talk more about this shortly.

Next

slide MMW.15

Explain:

Now, __to invest__ is to use the cash you set aside to buy assets (-or- things of value), build your wealth, and ultimately, future income. Building wealth is also known as __building assets.__

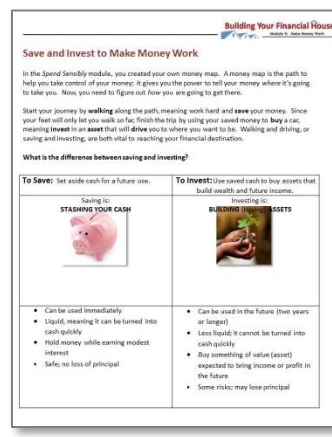
Investing is for money you will need in the future, at least two years or longer. It doesn't have to be liquid because it's not necessary to turn it into cash quickly. Investing has risks. There is no guarantee that when you put a dollar in, you get a dollar out. So why buy assets with risks? There may be an opportunity for cash payments (higher interest or dividends) and/or could be sold for a profit.

There are many types of assets in which to invest, from your home, to stocks, bonds, and mutual funds to name just a few. We will look at types of assets and how to use them more closely a little later on.

Refer to **page MMW-6**, **Save and Invest to Make Money Work**, and explain that there is additional information that participants can review on their own.

Next

slide MMW.16



Building Your Financial House

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 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

page MMW-6

Read the slide. **Ask** for verification from the participants that it is possible. **Expect** some negative reactions.

Next

slide MMW.17

Explain

Yes, it all starts with cash and making the commitment to save it. One way to solidify your commitment is to put it in writing with SMART goals and a line item on your money map.

There are a couple of things to remember when making the commitment to save:

Click

Saving is necessary-you can't make it work if you don't have it.

Click

Do it often-with every paycheck, 'pay yourself first' into savings before anything else.

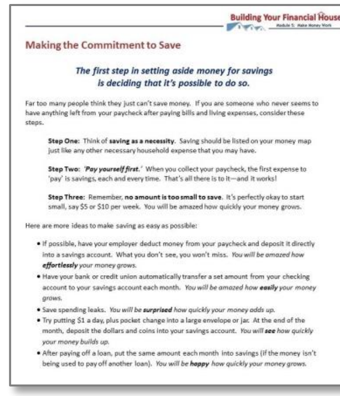
Click

No amount is too small-remember spending leaks?

Refer to **page MMW-7**, **Making the Commitment to Save**, and explain that there is additional information that participants can review on their own, including ideas to make saving as easy as possible.

Next

slide MMW.18



Building Your Financial House
Module 5: Make Money Work

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.*

page MMW-7

Explain:

Remember, it's only a $2 cup of coffee.

- *But in one year $520…a really nice start!*
- *5 years $2,600*
- *20 years $10,400!*

No amount is too small because it adds up!

Next

slide MMW.19

Explain:

Remember, back in the Spend Sensibly module, we talked about the importance of using mainstream financial institutions or federally insured banks and credit unions. We talked about more about checking accounts in their usefulness in cash management. Banks and credit unions also are a great place to stash your cash

Next

slide MMW.20

Explain:

There are three main types of savings vehicles available:

- *savings accounts: simple, easily accessibly account*
- *money market deposit accounts: may offer slightly higher interest rates and accessibly by check-writing privileges*
- *certificates of deposit (or CD's): time deposits offering a higher interest rate for longer maturity dates*

Click

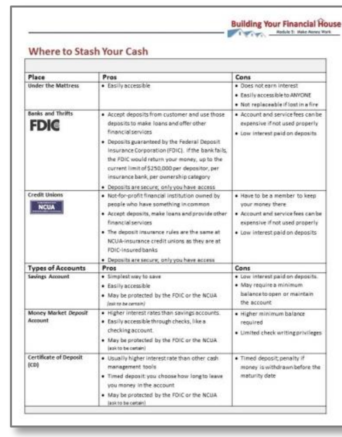
This arrow visualized the direction of typical interest rates among the three.

Refer to **page MMW-8**, **Where to Stash Your Cash**, and explain that there is more detailed information on the types of savings vehicles available at insured institutions for participants to read on their own.

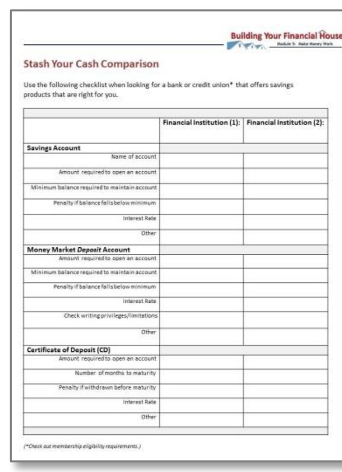
Refer to **page MMW-9**, **Stash Your Cash Comparison**, and explain that the worksheet provides participants the opportunity to research savings vehicles at different financial institutions to find the best fit for their needs.

Next

slide MMW.21



page MMW-8



page MMW-9

Rules for Building Assets — Time: 15 minutes

Explain:

Making your money work isn't out of reach, but it does take some knowledge to do it successfully. So, here are three rules for making your money work by investing and building assets:

Read points.

Next

slide MMW.22

Explain:

Time value of money can be illustrated in a couple of ways, but essentially it means the earlier you start, the more you accumulate.

Click

For example: If you start investing $25 per month at age 25 until you turned 65, you will have accumulated $87,275, whereas if you started at age 50, you would only have accumulated $8,651 at age 65.

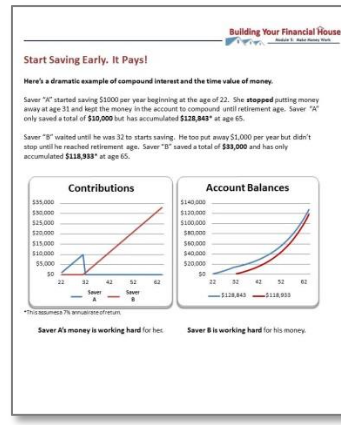
Click

Likewise, if you could save $200 per month when you are 25 until you turned 65, you will have accumulated $698,200; whereas if you started at age 50, you would only have accumulated $69,208.

Refer to **page MMW-11**, **Start Saving Early. It Pays**, shows another example of time value of money. Saving early then **stopping** pays more than waiting and continual saving.

Next

slide MMW.23



page MMW-11

Explain:

Yet another way to see the time value of money is by the cost of waiting. Here are four savers that have the same goal of accumulating $250,000 by the time they are 65.

Click

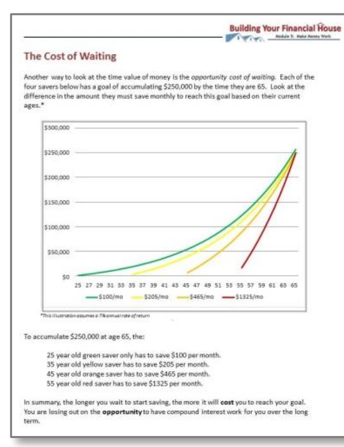
- *The green saver is 25 and needs to invest $100 per month until 65 to accumulate the $250k.* **(click)**
- *The Blue saver is 35 and needs to invest $205 per month until 65 to accumulate $250k.* **(click)**
- *The Yellow saver is 45 and needs to invest $465 per month until 65 to accumulate $250.* **(click)**
- *Finally, the Red saver, again with the goal of accumulating $250,000 by age 65 needs to invest $1325 PER MONTH!*

So you can see, the sooner you start, the less it will 'cost' you in the long run.

Refer to **page MMW-12**, **The Cost of Waiting,** and explain that the page reviews this example and participants can revisit on their own.

Next

slide MMW.24



page MMW-12

Explain:

They next rule is to "stay invested" to take advantage of the power of compounding. Compounding sounds complicated but it's a pretty simple concept, similar to the idea of creating a forest from one tree.

Click

Let's say you bought a tree and planted it. At the end of the first year, the tree produces a seed, which takes root. You now have two trees!

Click

At the end of the second, both trees produce a seed, which take root. You now have four trees!

Click

In year three, the four trees each produce a seed, which, again, take root. You now have eight trees!

Click

Lastly, in year four, the eight trees each produce a seed, which take root, resulting in sixteen trees. You can see how making the 'investment' in one tree, letting it grow and multiply, can produce a forest! Compounding with money is no different.

Next

slide MMW.25

Explain:

Now let's look at how compounding works with money. To show its real benefit, we're going to compare it to simple interest.

Click

Simple interest is just the amount of interest earned in one period, in our example one year. If we invested $1000 for one year @10% interest rate we would make $100. If we took the $100, spent it, and did that for four years, we would have made a total of $400.

Click

Now, if we kept all of the earnings in the account, at the end of four years, we would have actually made $464. Every year, earnings from the previous years are now earning interest and working for us! You can see compounding does pay!

Refer to **page MMW-13**, **Stay Invested,** and explain that the page reviews the One Tree Forest illustration and the compound interest calculations above so participants can revisit on their own.

Next

slide MMW.26

page MMW-13

Explain:

The third rule for building assets is to diversify your assets or mix it up. In other words, don't put your eggs all in one basket. Here are some general categories of assets that we could buy for investment:

- *Financial assets: stocks, bonds, and mutual funds; we'll talk more about these shortly.*
- *Real property: houses, land, rental properties*
- *Small business: which can really be thought of as you **and** your money working hard, but the big difference is that you are working hard for you!*
- *Personal Property: Cars, furniture, clothing, jewelry, collectibles*

Next

slide MMW.27

Explain:

Here's another important reason to not have all of our eggs in one basket.

Click

In this country, owning a home is by far the largest single asset that many people have. According to the US Census Bureau (2014), 32% of what we have is in our homes (not including the top 1% of households by net worth). Another article by the Wall Street Journal (12/26/14), reports 63% of assets for American households (the middle 60% by net worth). That's a lot of money tied up in our homes, but there is no cash closet that we can open up and withdraw money.

Click

So, what if you lose your job and source of income?

Click

How will you make the mortgage and car payments and buy food and things your children need? That's where having other assets, like an adequate cash reserve, financial assets, etc., will help to cover these expenses.

Next

slide MMW.28

Explain:

The same article by the Wall Street Journal, described the 19% of high net worth households as having 10% in liquid assets (cash), 38% in financial and retirement assets, 24% in business investment, and 28% in their homes. It's a good mix, and financial assets play an important role. They can be unsettling and confusing as their values go up and down. Let's look at them in more detail to clarify.

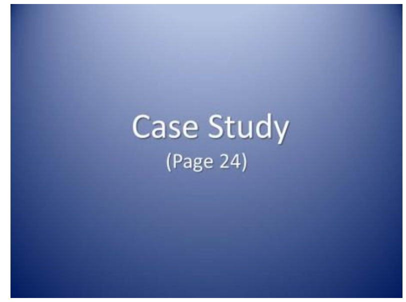
Next

slide MMW.29

Case Study: Investing In Anna — Time: 10 minutes

Refer to the **Case Study, pages 24.** **Ask** for a volunteer to **read** the first paragraph.

Next



slide MMW.30

Explain that this is a role-playing activity and **ask** for four volunteers to read following roles: Anna, Mom, and Consumers (1 &2). **Retain** the role as Narrator. **Give** the characters the following visuals:

Anna: Visual 1 – Noodle dough through press
Visual 2 - Large dollar sign
Visual 3 - Notion of Noodles stock certificate

Mom: Visual 4 - Small nooodle products

Consumer #1: Visual 5 - Small dollar signs (two)
Visual 6 - Thumbs up

Consumer #2: Visual 5 - Small dollar signs (two)
Visual 8 - Thumbs down

Narrator: Visual 7 - Green arrow (up)
Visual 9 - Red arrow (down)

Instruct the volunteers follow the actions designated in red italics after they read their lines.

Ask ‘Anna’ to begin. When the play is completed, **ask** participants what Anna should do in order for Notion of Noodles to make a profit again.

Next

slide MMW.31

Case Study page 24

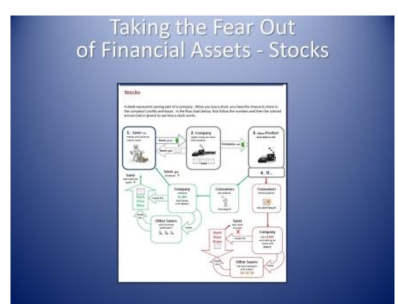
Taking the Fear Out of Financial Assets — Time: 15 minutes

Refer to **page MMW-15**, **Taking the Fear Out of Financial Assets - Stocks**.

Explain:

As we saw with Anna, a stock represents (part) ownership in a company. When you buy a stock, you have the chance to share in the company’s profits and losses. Let’s recap what we saw with Anna.

-continued-



-continued-

Click

A saver has money and wants to make it work. At the same time, a company needs money to make their product.

Click

The saver gives the company money in exchange for stock or shares of the company. The company uses the saver's money, makes product and is ready to sell them.

Next

slide MMW.32

Explain:

If … consumers like the product, they buy it! A lot of it! **(click)** *The company makes a profit and shares some of it with the saver. These are called dividends.*

Click

Sharing profits with savers is one reason a stock may become worth more; this may cause other savers to want a share of those profits too! The shares of a profitable company are in high demand, which is another reason a stock price goes up. The saver can then sell the higher priced shares for more than they paid and make a profit!

Click

And we saw what happened when consumers don't like the product. They won't buy it. The company won't make a profit and has nothing to share with savers.

Click

Having a loss is one reason a stock price may go down;
other savers won't want to own shares of a company that doesn't make a profit. The shares of the unprofitable company are in low demand, which is another reason a stock price goes down.
The saver may have to sell the lower priced shares for less than they paid, thus having a loss too!!

Next

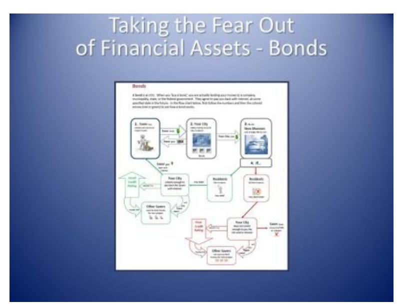
slide MMW.33

Refer to **page MMW-16**, **Taking the Fear Out of Financial Assets - Bonds**.

Explain:

Now let's look at 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 interest while using the money and pay back the entire amount that they borrowed at some specified date in the future. It's just like when we borrow money.*

-continued-



-continued-

Many of us are familiar with US savings bonds. When you invest in or buy a savings bond, you are lending the federal government money. They agree to pay you interest for using your money and pay you back the entire amount they borrowed from you. When you hear about the national debt, owning a savings bond is part of that. You are a creditor to the federal government. Let's look a little closer at bonds.

Click

A saver has money and wants to make it work. At the same time, let's say your city needs money to build a new museum. The saver gives the city money in exchange for a bond or IOU for the money borrowed. The city uses the saver's money to build the museum and intends to charge an entrance fee to the museum in order to pay back the IOU.

Next

slide MMW.34

Explain:

If … residents like the museum, they visit, repeatedly! **(click)** *The city collects enough in entrance fees that they can pay back what they borrowed with interest.*

Click

We know the act of borrowing money and paying it back builds good credit. It is no different in this situation. The city borrowed money and paid it back with interest as they promised. They have established a good credit rating. If the city came back to you and said they have another project, would you lend it money again?

Allow for responses.

Click

Other savers will look for that good credit rating before lending money to the city, too. AND the city will be able to pay lower interest because of its good credit practices…just as in our personal credit.

Click

So if residents don't like the museum, well, they won't visit! The city won't bring in enough money in entrance fees to pay back the saver.

Click

When money loaned is not paid back, credit rating falls. If the city came back to you and said they have another project, would you lend it money again? (**Expect** 'no' responses) *What would entice you to lend money to the city? The city will have to pay higher interest rates for you to take on the risk of not receiving interest or the principal not being repaid…just as in our personal credit.*

Next

slide MMW.35

Refer to **page MMW-17**, **Taking the Fear Out of Financial Assets – Mutual Funds**.

Explain:

What if you don't want to pick the stocks and bonds to buy? What if you have a small amount to invest and don't want to risk it all in one stock or bond? That's where mutual funds come in.

Click

A mutual fund is like a bucket of money, pooled from several savers and given to a money manager to invest. The money manager will give shares of the fund in exchange.

Next

slide MMW.36

Explain:

The money manager then uses the money to buy stocks, bonds, both, or other investments. Each share the saver owns represents a part of the overall bucket.

Click

Now, if the companies profit or IOU's that the manager purchased are paid back, the saver will get interest/dividends just like owning the individual stock or bond.

Click

As the value of the stocks/bonds increase, the size of the bucket increased, and the shares increase in price, again, just like owning individual stocks or bonds. The saver can sell the higher priced mutual fund shares for a profit!

Click

And just the opposite happens if the companies don't profit or IOU's are not paid back. The saver will get no interest/dividends just like owning the individual stock or bond.

Click

As the value of the stocks/bonds decrease, the size of the bucket decreases, and the shares decrease in price, again, just like owning individual stocks or bonds. The saver may have to sell the lower priced mutual fund shares for less than they paid!

Next

slide MMW.37

Choosing the Right Assets

Time: 15 minutes

Explain:

So now that we know how basic financial assets work, how do we choose the right ones?

Click

Again, eeny, meeny, miny, moe is not the best way to choose. Nor is a dart board or drawing from a hat. Having an investment strategy is essential to making the right choices.

Next

slide MMW.38

Refer to **page MMW-18**, **Choosing the Right Assets**.

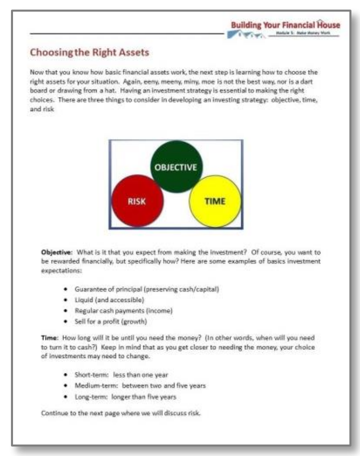
Explain:

There are three things to consider in an investment strategy:

- *What is your **objective** or expectation in buying it*
- *What is the time frame you have until you need to use it or sell it?*
- *What is the overall level of risk involved with owning the asset?*

Next

slide MMW.39



Building Your Financial House
Module 5: Make Money Work

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
RISK
TIME

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.

page MMW-18

Explain:

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 or objectives:

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

Next

slide MMW.40

Explain:

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*

Next

slide MMW.41

Refer to **page MMW-19**, **Risk and Risk Tolerance**.

Explain:

Now let's look at risk. The first is market risk: also known as "follow the leader." Say, for example, home prices in your neighborhood go up, what would you expect the value of your home to do? Go up! When a "market" of assets heads down or up, there is a tendency for the entire group to follow. Like a domino effect, if one goes down, they all may follow. Follow the leader.

Click

Company Risk: 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. Same goes for the management team. An unscrupulous management team can bring down an entire company. Think ENRON.

Click

Liquidity Risk: "get cash now." We know liquidity means turning something quickly into cash. Some investments are not easily turned into cash, i.e., our homes, collectibles, even stocks when the trading floor is halted for some reason.

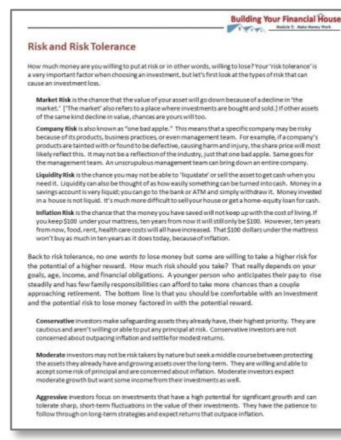
Click

Inflation Risk: "worth less dollars." Inflation causes our dollars to become worth less and less. Think about what a loaf of bread cost in 1980. Seventy-five cents, perhaps. That same loaf of bread costs $3.00 today. This means that it takes more and more dollars every year to buy the same product.

These are not the only risks. Credit can be at risk in an unstable economy just like during the recession of 2009; interest rates may fall and your bonds may be paid back sooner so the issuer can refinance at a lower rate; an unstable political climate may make investing risky as well. All good things to consider when investing.

Next

slide MMW.42



Building Your Financial House

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.

page MMW-19

Explain:

So why should we invest if there are all these risks out there? This is where reward comes in. Say you invested $100 back in 1980 and bought:

Click

- CD's, that renewed every six months, you would have $616 today

Click

- 10yr US Treasury bonds, you would have $1,405 today

Click

- Standard and Poor's (S&P) stock market index, you would have $3,220 today, and that is why investors take risks.

*Now, this all sounds good, but remember that investing in stocks and bonds doesn't result in a straight line going up. As a matter of fact, during that time period, there were years where the investments lost 20, 30, 40% of their value. But overall, you can see that sticking with it over the long haul (35 years), can pay off. (*Note that past performance of any investment is no guarantee of future returns.)*

Next

slide MMW.43

Refer to **page MMW-20**, **Risk and Reward**.

Explain:

The general trend in risk vs. rewards shown by the risk/reward pyramid.

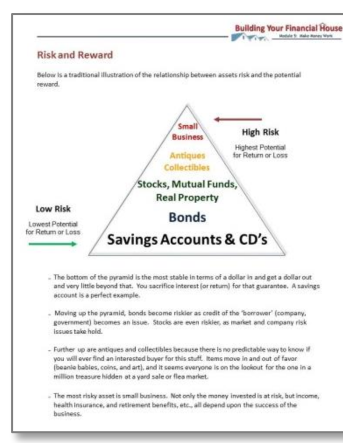
- *The bottom of the pyramid is the most stable in terms of a dollar in and get a dollar out and very little beyond that. You sacrifice interest (or return) for that guarantee. A savings account is a perfect example.*
- *Moving up the pyramid, bonds become riskier as credit of the 'borrower' (company, 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, (i.e., Anna's $250 savings she used for Notion of Noodles) but income, health insurance, and retirement benefits, etc., all depend upon the success of the business.*

Click

The arrows summarize the direction of risk and reward.

Next

slide MMW.44



page MMW-20

Refer to **page MMW-21**, **Investment Strategies**.

Explain:

Using objective, time, and risk, here is a summary of common investment strategies as they are referred to in the financial industry. Let's look at capital preservation first.

Click and **read** the expectations, time, and risk items.

Next

slide MMW.45

Building Your Financial House
Module 5: Make Money Work

Investment Strategies

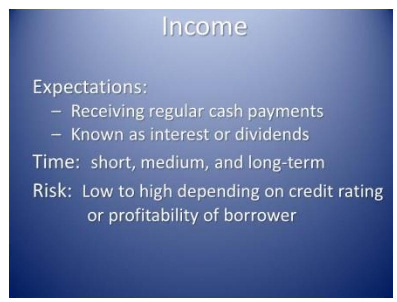
Using objective, time, and risk, here is a summary of common investment strategies as they are referred to in the financial industry. Remember that there are other assets, besides financial assets, that can be included as part of the strategy. Think diversification!

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
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)

page MMW-21

Click and **read** the expectations, time, and risk items.

Next



slide MMW.46

Click and **read** the expectations, time, and risk items.

Next

slide MMW.47

Click and **read** the expectations, time, and risk items.

Next

slide MMW.48

Click and **read** the expectations for value and hedging, then follow with time and risk items which apply to both strategies.

Next

slide MMW.49

Explain:

So where can you start the investing process. You probably have access to investing vehicles already. An employer's retirement savings program is a great place to start, usually offering a variety of mutual funds to choose from based on your strategy.

Click

A PA 529 college savings plan offers investment options in addition to the guaranteed (tuition credits).

Click

Index mutual funds follow the various 'markets,' like we saw with the S&P 500 in the investing of $100 example and they don't require much effort, as long as, you understand the assets that make up the index.

Click

Target date mutual funds invest in particular assets according to the target time you have until you will need the cash, as in when you retire, becoming more conservative as the date approaches.

Next

slide MMW.50

Explain:

So we know the types of asset, risks, and reward, but can we logically choose the appropriate assets for our situation? There are four things to look at:

- *What will you ultimately **use** the asset for*
- *What is your **objective** or expectation in buying it*
- *And of course the **pros** and **cons** of owning it*

Click

Uses: How will you be using the asset? For example, as a cash reserve or emergency fund, college for your kids, retirement income, shelter (as in use for a home), career (enrolling in higher education or specialized training programs), and personal (transportation, clothing, or perhaps even to strengthen a relationship as in a diamond ring, etc.).

Click

Objectives: What do you expect from it? For example:

- *Do you want it to be there when you need it?*
- *Are you expecting income like interest or dividend payments?*
- *Do you want it to grow and be worth more than what you paid for it so you can sell it for a profit?*
- *Are you looking for assets that are on sale?*
- *Do you want your assets to produce even in down times?*

Click

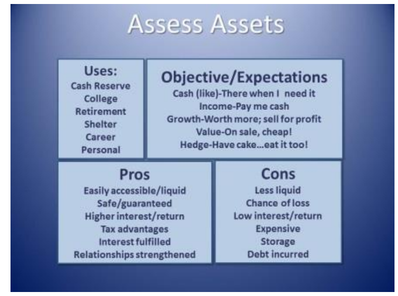
Pros and Cons: In more simple terms, will this investment prevent you from sleeping at night? For example: liquidity/accessibility, risk/return, tax advantages, hobbies fulfilled, relationships strengthened, storage issues, acquiring debt to purchase, etc.

Click

The most important thing is to assess assets before you buy or sell!

Refer to **pages MMW-22 and 230**, **Assessing Your Assets**, and the **Guide**, and explain that the worksheets provide the participants with the opportunity to assess their own assets and refer to the guide for typical uses, expectations, pros and cons of each type.

Next



slide MMW.51

Assessing Your Assets

page MMW-22

Assessing Your Assets Guide

page MMW-23

Monitor Ownership — Time: 5 minutes

Explain:

The final part of making money work is knowing where we stand so we can measure our success going forward. To do that, we calculate our 'net worth.'

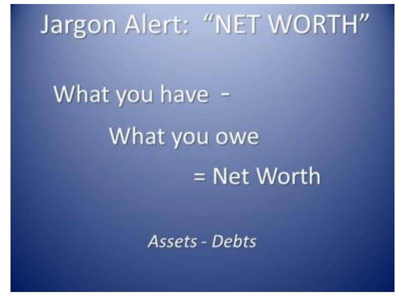
Next

slide MMW.52

Explain:

Net worth is another fancy financial term for 'what do you have less what you owe.' It's calculated by adding up the value of all of your assets and then subtracting all of your debts.

Next



slide MMW.53

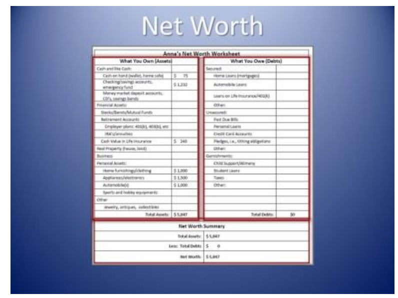
Refer to **page MMW-22, Net Worth – Where Do You Stand?**

Explain:

This is a typical net worth statement; we'll look at Anna's actual number as an example. The left column is where assets are listed.

Read categories of assets and Anna's numbers. **Click** and **read** the debt categories in the right column. **Explain** that Anna no longer has any debts because she used her tax refund to pay them in full. **Click** and **summarize** Anna's net worth.

Next



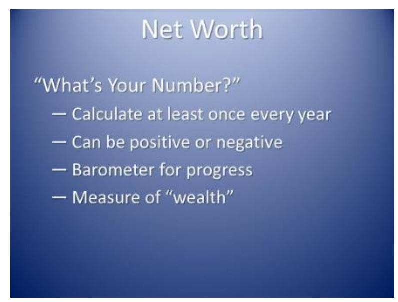
slide MMW.54

Explain:

So, what's your number?

- *Calculate your net worth at least once every year*
- *Your number is the measure of your 'wealth'*
- *Your number can be positive or negative*
- *Your number is a real barometer of your progress*

Next



slide MMW.55

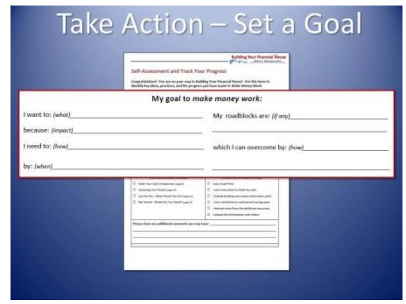
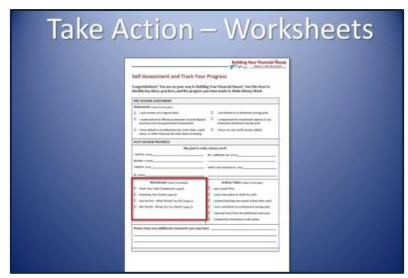
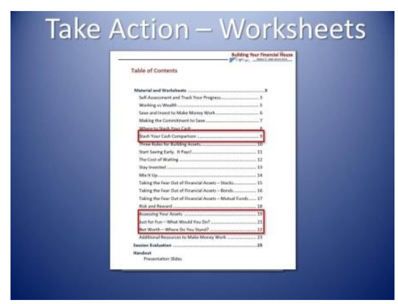
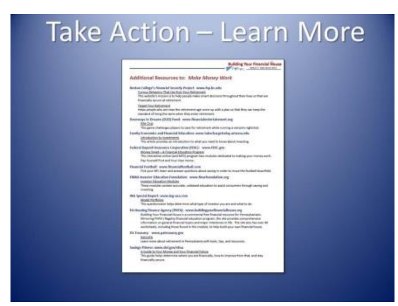
Recap and Take Action — Time: 10 minutes

Explain:

You made it through yet another tough module! Whew!

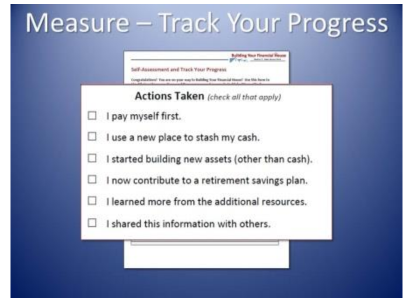
Next

slide MMW.56

Explain: *Let's recap.* **Read** points. **Next**	 *slide MMW.57*
Refer back to **page MMW-3**; **Self-Assessment and Track Your Progress**. **Click** and **read** the goal section. **Clarify** any questions on setting a goal. **Next**	 *slide MMW.58*
Highlight the list of worksheets that are in the module. **Click** and **read** the worksheet titles and page numbers on **page MMW-2**, **Table of Contents**. You may want to show the actual pages to clarify. **Next**	  *slide MMW.59*
Refer to **page MMW-23, Additional Resources to *Make Money Work*** that contains additional resources for those participants that would like to learn more on their own. **Next**	 *slide MMW.60*

Refer back to **page MMW-3**. **Click** and **point out** the list of target actions to be taken as a result of the module. Stress the importance of keeping a record of the progress the participants are making.

Next



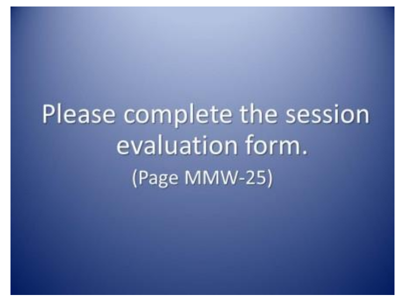
slide MMW.61

Session Evaluation and Closing — Time: 5 minutes

Refer to **page MMW-25** and **instruct** participants complete the session evaluation.

Return the **Self-Assessment and Track Your Progress** sheets for Check Taxes back to participants.

Next



slide MMW.62

Collect session evaluations and **remind** participants of the next session's date and time, as well as, any housekeeping details before dismissing.

slide MMW.63

Participant Guide

Building Your Financial House

Set the Foundation of Your Future

Module 5
Make Money Work
Participant Guide

www.buildingyourfinancialhouse.org

PHFA
PENNSYLVANIA HOUSING FINANCE AGENCY

page MMW-1

Table of Contents

page MMW-2

page MMW-3

Self-Assessment and Track Your Progress

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*.

PRE-SESSION ASSESSMENT

Statements: *(check all that apply)*

- ☐ I save money on a regular basis.
- ☐ I contribute to a retirement savings plan.
- ☐ I understand the difference between insured deposit accounts and non-guaranteed investments.
- ☐ I understand the investment options in my employee retirement savings plan.
- ☐ I have talked to a professional (at work, bank, credit union, or other financial services) about investing.
- ☐ I know my net worth (assets-debts).

POST-SESSION PROGRESS

My goal to *make money work:*

I want to: *(what)* ____________ My roadblocks are: *(if any)* ____________

because: *(impact)* ____________ ____________

I need to: *(how)* ____________ which I can overcome by: *(how)* ____________

by: *(when)* ____________ ____________

Worksheets *(check if completed)*

- ☐ Stash Your Cash Comparison *(page 9)*
- ☐ Assessing Your Assets *(page 19)*
- ☐ Just for Fun - What Would You Do? *(page 21)*
- ☐ Net Worth - Where Do You Stand? *(page 22)*

Actions Taken *(check all that apply)*

- ☐ I pay myself first.
- ☐ I use a new place to stash my cash.
- ☐ I started building new assets (other than cash).
- ☐ I now contribute to a retirement savings plan.
- ☐ I learned more from the additional resources.
- ☐ I shared this information with others.

Please share any additional comments you may have: ____________

page MMW-4

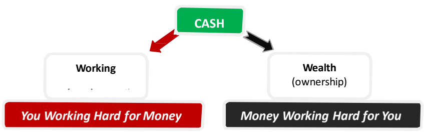
This page intentionally left blank.

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.

page MMW-5

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: Talking ollars and Sense with Parents and Kids* (Penn State Extension)

page MMW-6

page MMW-7

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.*

page MMW-8

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	• 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	• 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 at NCUA-insurance credit unions as they are at 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. • May be protected by the FDIC or the NCUA (ask to be certain)	• 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 • May be protected by the FDIC or the NCUA (ask to be certain)	• 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: Talking ollars and Sense with Parents and Kids* (Penn State Extension)

Stash Your Cash Comparison

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 required to maintain account		
Penalty if balance falls below minimum		
Interest Rate		
Other		
Money Market *Deposit* Account		
Amount required to open an account		
Minimum balance required 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.)*

page MMW-9

Three 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)

page MMW-10

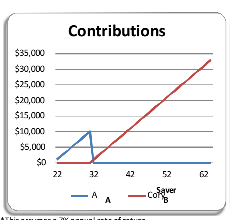
page MMW-11

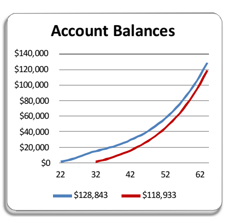
Start Saving Early. It Pays!

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.

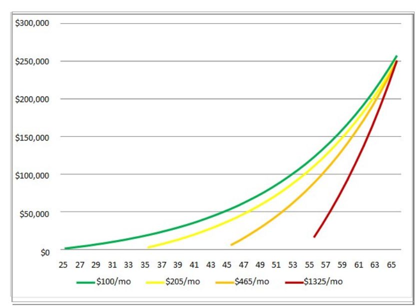
Saver A's money is working hard for her. **Saver B is working hard** for his money.

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

page MMW-12

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

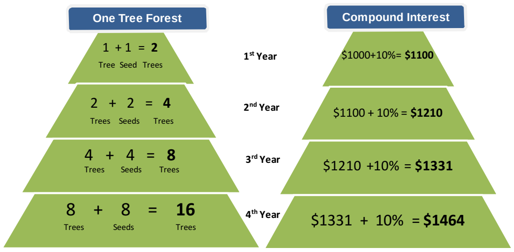
To accumulate $250,000 at age 65, the:

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!



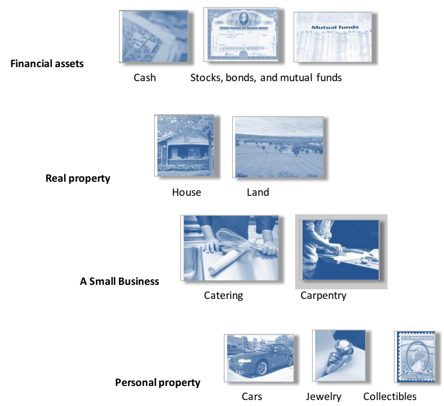
Compounding interest operates the same way. Start out with $1,000 that earns 10% interest ($100) the first year. Now you have $1100. In the second year, that $1100 earns 10% interest ($110). Now you have $1210. In the third year, the $1210 earns 10% interest ($121). Now you have $1331. Continuing the 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.

page MMW-13

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.

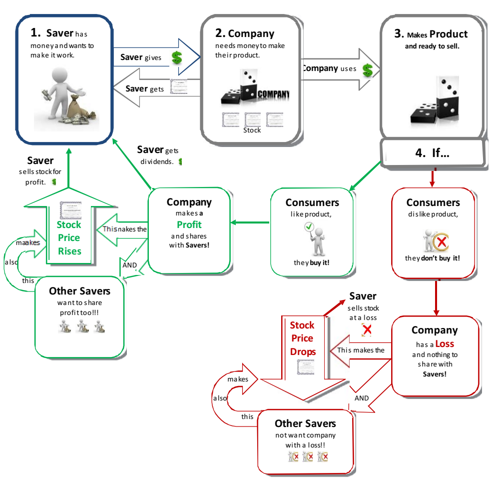


page MMW-14

page MMW-15

Taking the Fear Out of Financial Assets - Stocks

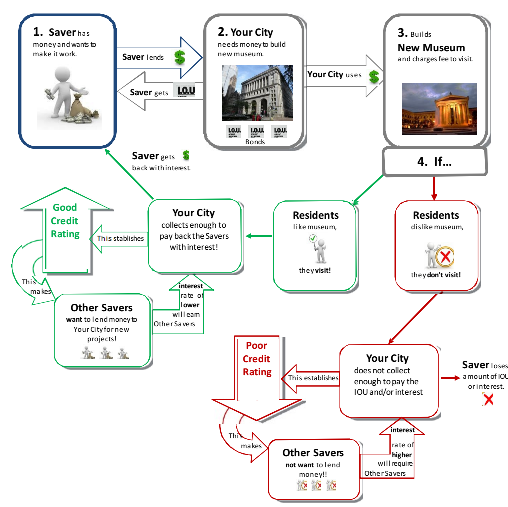
A **stock** represents owning part of a company. When you buy a stock, you have the chance to share in the company's profits *and losses*. In the flow chart below, first follow the numbers and then the colored arrows (red or green) to see how a stock works.



page MMW-16

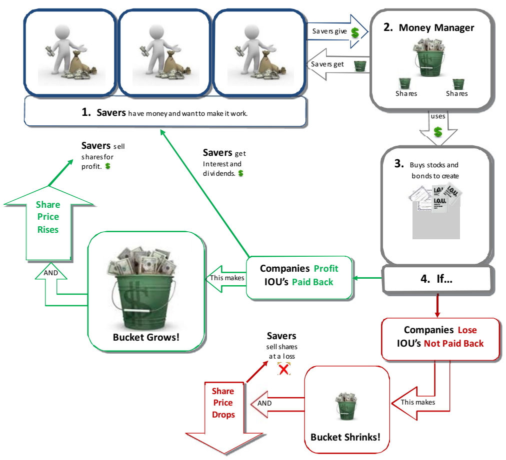
Taking the Fear Out of Financial Assets - Bonds

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

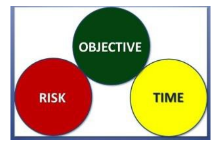
A **mutual fund** is a "bucket" of money filled by savers that want to buy a lot of different stocks and/or bonds (and other investments) but don't want to or can't buy them on their own. A money manager (the mutual fund investment company), is in charge of the bucket and buys stocks and/or bonds with 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.



page MMW-17

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.

page MMW-18

page MMW-19

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.

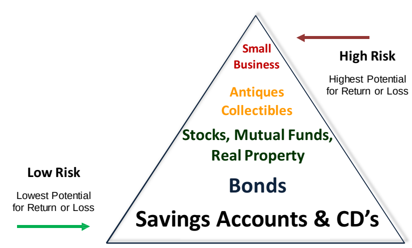
Moderate investors may not be risk takers by nature but seek a middle course between protecting the assets they already have and growing assets over the long-term. They are willing and able to accept some risk of principal and are concerned about inflation. Moderate investors expect moderate growth but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

Risk and Reward

page MMW-20

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



- 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
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)

page MMW-21

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. Think about what the asset may mean for you and your family, both now and in the future. 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 and 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.)				

page MMW-22

page MMW-23

Assessing Your Assets Guide

Here are some common thoughts on the uses, expectations, pros and cons of assets. You can use these as a guide when completing the Assessing Your Assets worksheet.

Asset	Uses	Expectations	Pros	Cons
Cash and Cash-like: (savings/ checking, CD's)	- 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: (stocks, bonds, mutual funds, etc.)	- 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: (401(k)'s, IRA's, etc.)	- 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: (house, land)	- Shelter - Permanency for kids	- Growth - Value	- Stable housing costs - Part of a community	- High upfront costs - High ongoing costs - Responsibility
Personal Property: (cars, appliances, clothing, etc.)	- Meet basic needs - Status - Entertainment	- Value	- Basic needs met - Comfort	- Debt problems in not limited - Decrease in value as used
Other: (antiques, jewelry, collectibles, etc.)	- Family heirlooms - Gifts - Hobbies	- Growth	- Personal interests fulfilled - Relationships strengthened	- Unpredictable future value and liquidity - storage

page MMW-24

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 and Cash-like (savings account, CD's, money market deposit account, etc.)			
Financial (stocks, bonds, mutual funds, etc.)			
Retirement Accounts (401(k)'s, IRA's, etc.)			
Business			
Real Property (house, land, etc.)			
Personal Property (cars, appliances, clothing, etc.)			
Other: (antiques, collectibles, jewelry, etc.)			

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, emergency fund		Automobile Loans	
Money market deposit accounts, CD's, savings bonds		Loans on Life Insurance/401(k)	
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	
Real Property (house, land)		Pledges, i.e., tithing obligations	
Business		Other:	
Personal Assets:		Garnishments:	
Home furnishings/clothing		Child Support/Spousal Support	
Appliances/electronics		Student Loans	
Automobile(s)		Taxes	
Sports and hobby equipments		Other:	
Other			
Jewelry, antiques, collectibles			
Total Assets:		**Total Debts:**	

Net Worth Summary

Total Assets:	
Less: Total Debts	
Net Worth:	

page MMW-25

Additional Resources to: *Make Money Work*

Boston College's *Financial Security Project*: www.fsp.bc.edu
Curious Behaviors That Can Ruin Your Retirement
This website's mission is to help people make smart decisions throughout their lives so that are financially secure at retirement.

Target Your Retirement
Helps people who are near the retirement age come up with a plan so that they can keep the standard of living the same when they enter retirement.

Doorways to Dreams (D2D) Fund: www.financialentertainment.org
Bite Club
This game challenges players to save for retirement while running a vampire nightclub.

Family Economics and Financial Education: www.takechargetoday.arizona.edu
Introduction to Investments
This article provides an introduction to what you need to know about investing.

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.finarfoundation.org
Investor Education Modules
These modules contain accurate, unbiased education to assist consumers through saving and investing.

ING Special Report: www.ing-usa.com
Model Portfolios
This questionnaire helps determine what type of investor you are and what to do.

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
RetirePA
Learn more about retirement in Pennsylvania with tools, tips, and resources.

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.

page MMW-26

Session Evaluation

Agency: __________
Date: ___________

We hope you found today's session engaging and of value to your situation. 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:	❑	❑	❑	❑	❑
The location of the session was:	❑	❑	❑	❑	❑
The meeting room and facilities were:	❑	❑	❑	❑	❑
Before the session:					
My knowledge and skills about the topic were:	❑	❑	❑	❑	❑
After the session:					
My knowledge and skills about the topic are:	❑	❑	❑	❑	❑
My confidence to apply what I have learned today is:	❑	❑	❑	❑	❑

During the Session:	*Strongly Agree*	*Agree*	*Not Sure*	*Disagree*	*Strongly Disagree*
The instructions were clear and easy to follow.	❑	❑	❑	❑	❑
The time allocated was right for the topic.	❑	❑	❑	❑	❑
There was ample opportunity to share experiences/ideas.	❑	❑	❑	❑	❑
The overhead slides were clear and helped my learning.	❑	❑	❑	❑	❑
The activities and examples helped my learning.	❑	❑	❑	❑	❑
The activities and examples were relevant to my situation.	❑	❑	❑	❑	❑
The instructor:					
Was knowledgeable about the topic.	❑	❑	❑	❑	❑
Delivered lessons 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:	

page MMW-27

This page intentionally left blank.

page MMW-28