

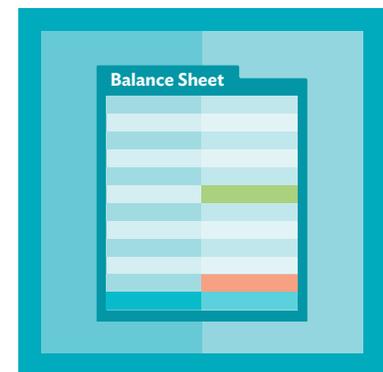
Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 1

Budget to Save—The Balance Sheet



Instructional Objectives

Students will:

- Define wealth using the concept of net worth.
- Measure wealth using a balance sheet.
- Distinguish between wealth-creating assets and other types of assets.

The Typical Millionaire



 **Wealth is...**

Net Worth—a way to measure wealth



Real Life Balance Sheets

John

Assets	Liabilities

Jason

Assets	Liabilities

Gwen

Assets	Liabilities

Judy

Assets	Liabilities

Types of Assets



Sandra's Balance Sheet



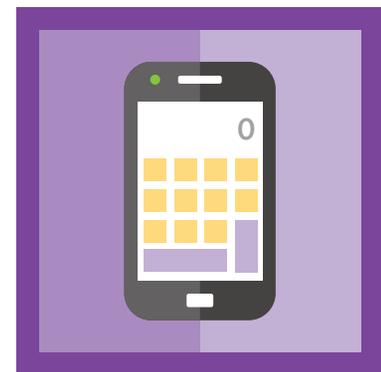
Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 2

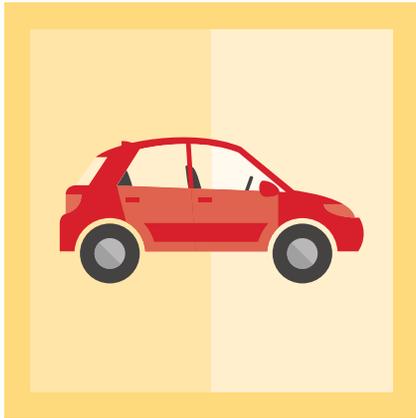
Budget to Save—Developing a Budget



Smart Goals

- **Specific**
- **Measurable**
- **Attainable**
- **Relevant**
- **Timely**

Setting Goals



Cost of purchase: \$2500

Cost of gas: \$25/week

Cost of insurance: \$100/month



Cost of plane ticket: \$500 (due at booking)

Cost of hotel: \$400

Cost of food and souvenirs: \$300

 **A budget allows you to:**



To develop a budget you need to:



Sam's Monthly Budget

Sources of income	Current income
Part-time job (net pay)	\$ 580
Lunch money from parents	80
Total income	\$ 660
Spending categories	Current expenses
Eating out at lunch (\$6 per school day)	\$ 120
Movie night with friends (once a week)	80
Dinner with friends (once a week)	50
Football games and snacks	20
Car insurance	140
New clothing	90
Gas	140
Soft drink from vending machine (per school day)	20
Total expenses	\$ 660
	Current savings
Available to save (Income – Expenses)	\$ None

Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 3

Put It in the Bank



The Role of Banks



Types of Bank Accounts



Reconciling Your Accounts



Sonya's Statement May 2014

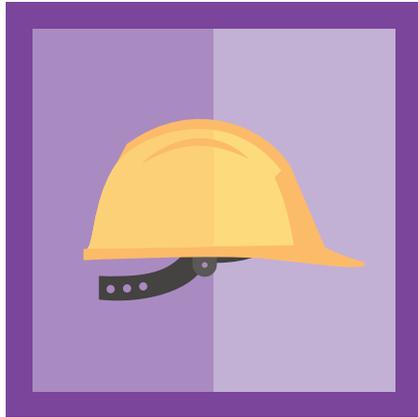
Checking Account xxxx-3476

Posting	Transaction Type	Amount	Balance
1-May	Beginning Balance		\$ 335.25
7-May	Debit Card: BW Movie Lights 17	\$ -15.65	339.60
7-May	Debit Card: BW Pump & Go, LLC	-45.50	294.08
11-May	Direct Deposit BW Greasy Spoon, LLC	356.28	650.36
11-May	ACH Payment: Automobile Insurance Company of Building Wealthopolis	-125.18	525.18
14-May	Debit Card: BW Pump & Go, LLC	-44.66	480.52
14-May	Internet Transfer to Savings Ending in 7762	-100.00	380.52
21-May	Check #1347	-81.16	299.36
21-May	Debit Card: Wealth Builders Fine Dining, LP	-35.16	264.20
21-May	Debit Card: BW Special Occasions Floral Designs	-25.24	238.96
24-May	Check #1347	-81.16	157.80
25-May	Direct Deposit BW Greasy Spoon, LLC	356.28	514.08
28-May	Internet Transfer to Savings Ending in 7762	-100.00	414.08
28-May	ACH Payment: Wealthopolis Wireless	-62.89	351.19
30-May	Debit Card: BW Pump & Go, LLC	-45.15	306.04
31-May	Check # 1348	-81.16	224.88
31-May	Monthly Maintenance Fee	-12.00	212.88
31-May	Ending Balance		212.88

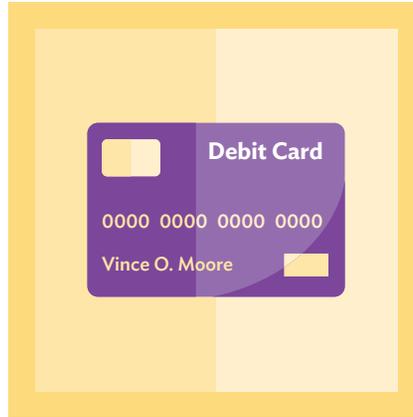
Savings Account xxxx-7762

1-May	Beginning Balance		\$ 450.00
14-May	Internet Transfer from Checking Ending in 3476	\$ 100.00	550.00
31-May	Interest Payment @ .85% annual	0.39	550.39
			550.39

Incentives for Banking



Safety



Convenience



Interest

Simple and Compound Interest



Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 4

Owning versus Renting



Owning a Home



Equity



Risks of Owning a Home



Responsibilities of Owning a Home



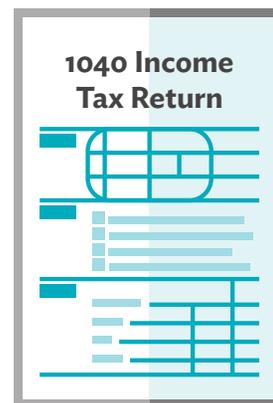
Mortgage



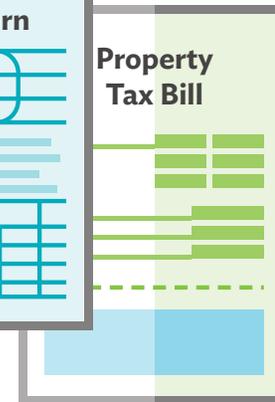
Property Value



Homeowner's Insurance



Taxes



Renting a Home



Lease Agreement

Renter's Insurance



Upfront Costs



Risks of Renting



Responsibilities

Budgeting for Buying

Sources of income	Current income
Job (net pay)	\$ 1,800
Total income	\$ 1,800

Spending categories	Current expenses
Food	\$ 250
Movie night with friends	40
Mortgage, Taxes and Insurance	700
Maintenance	50
Music purchases	20
New clothing	90
Gas	150
Utilities	250
Total expenses	\$ 1,550

	Current savings
Available to save (Income – Expenses)	\$ \$250

Budgeting for Renting

Sources of income	Current income
Job (net pay)	\$ 1,800
Total income	\$ 1,800

Spending categories	Current expenses
Food	\$ 250
Movie night with friends	40
Rent	600
Renters insurance	20
Music purchases	20
New clothing	90
Gas	150
Utilities	250
Total expenses	\$ 1,420

	Current savings
Available to save (Income – Expenses)	\$ \$380

Building Wealth Through Real Estate



Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 5

Save and Invest—Stocks

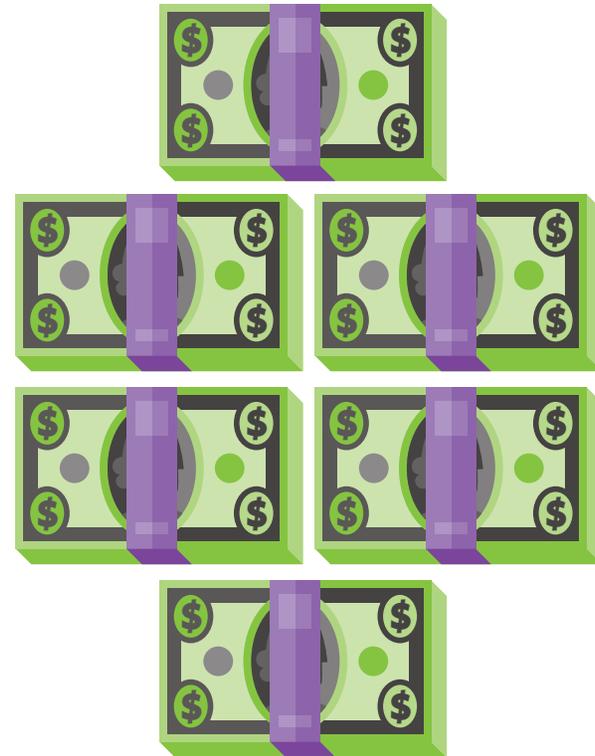


Wealth-Building Assets

Wealth-building assets are assets that generally appreciate over time or provide a return.



Stock Appreciation



Dividends

Building Wealth with Stocks



BINGO

B	I	N	G	O
7	18	31	53	68
5	27	44	55	71
3	20	BW	51	63
13	29	40	60	64
11	28	39	46	67

Stock Indexes



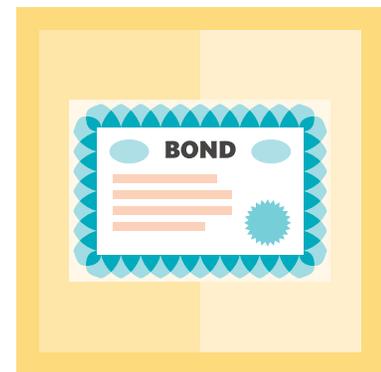
Building **Wealth**

In the Classroom

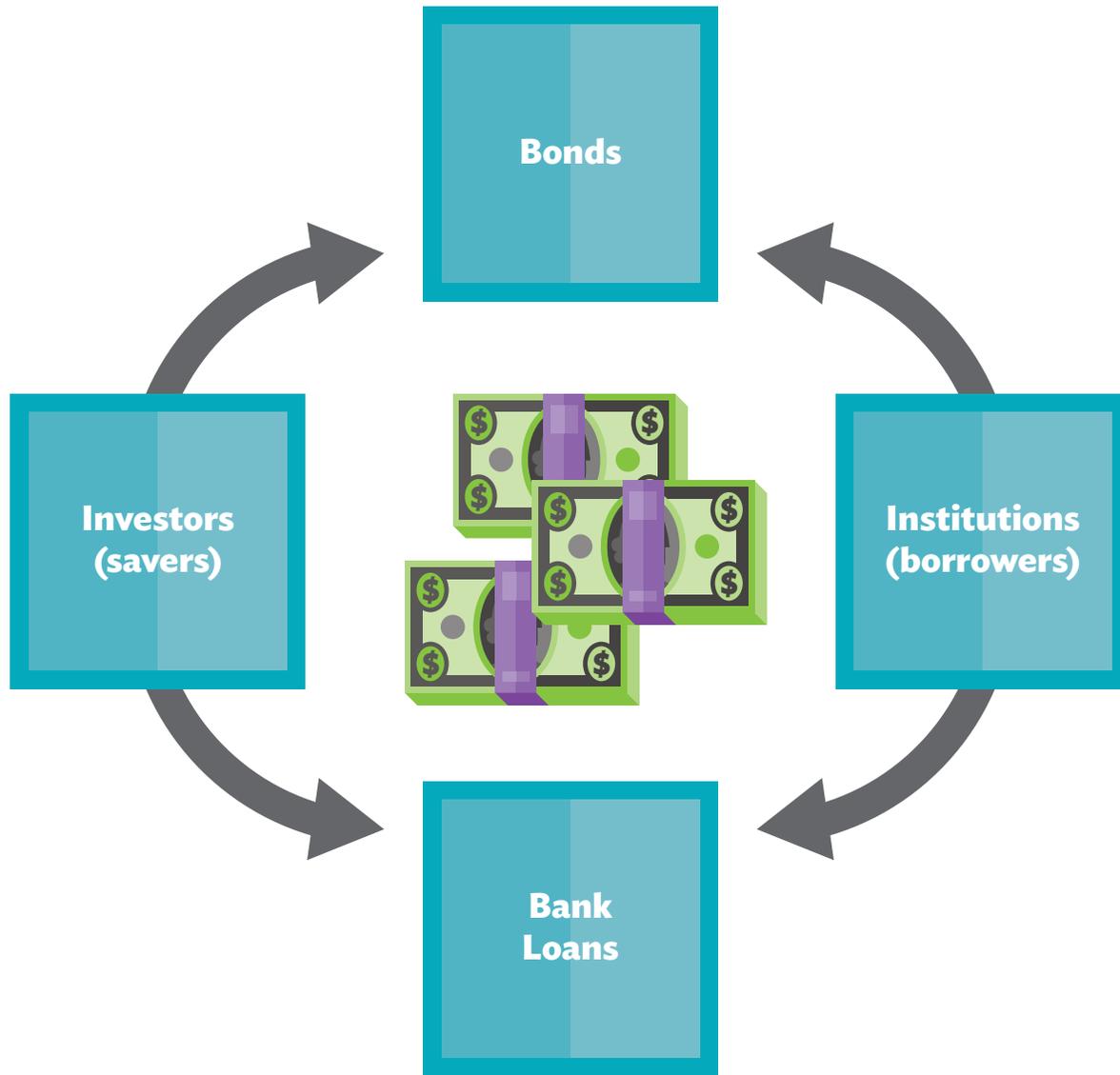
Interactive Lessons

Lesson 6

Save and Invest—Bonds



How to Borrow Money



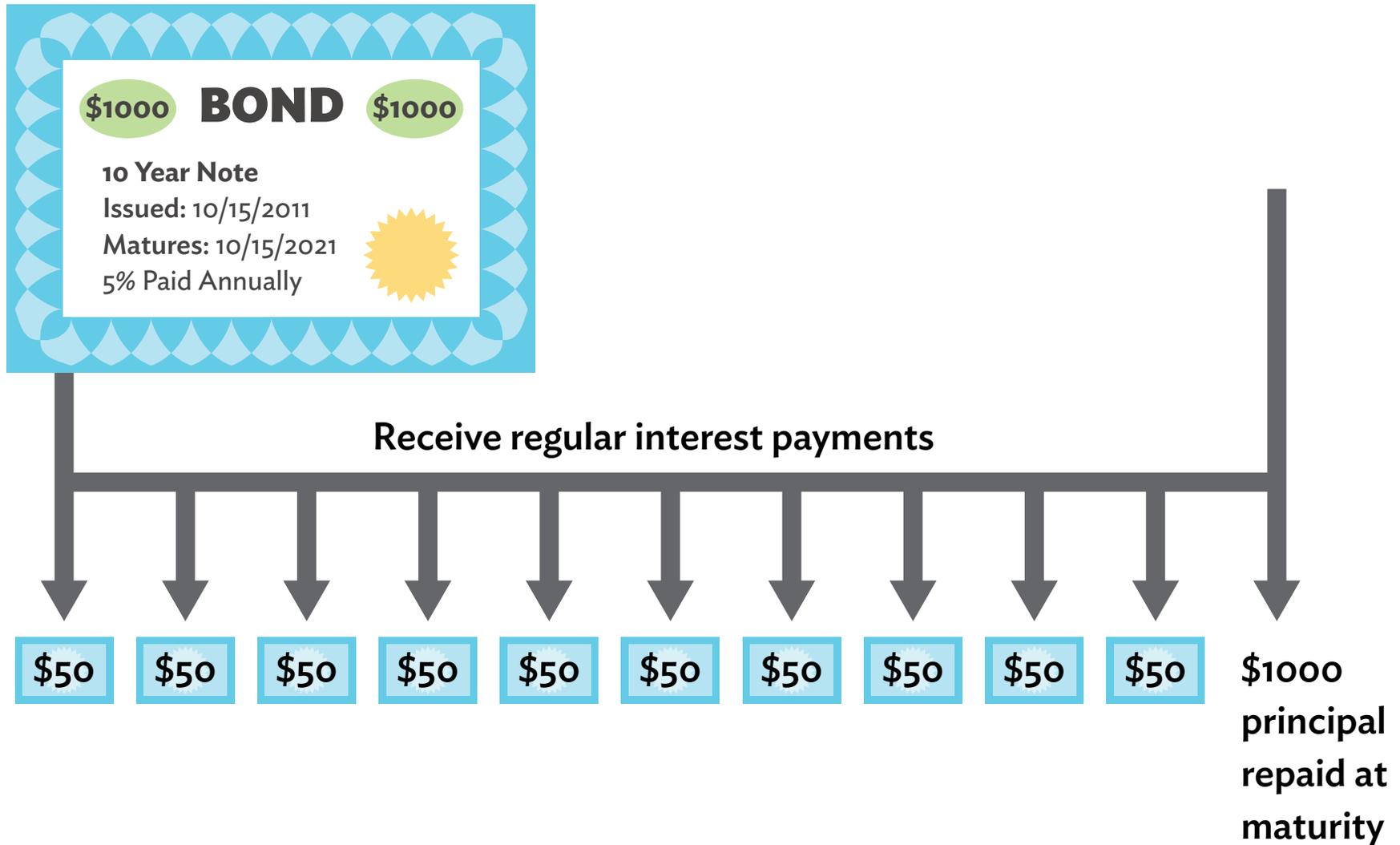
Major Bond Issuers



Parts of a Bond



The Life of a Bond



Wealth-Building Assets



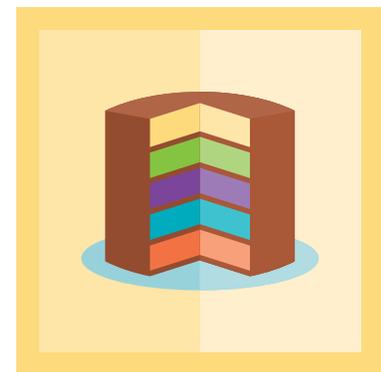
Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 7

Save and Invest—Diversification



Indexes



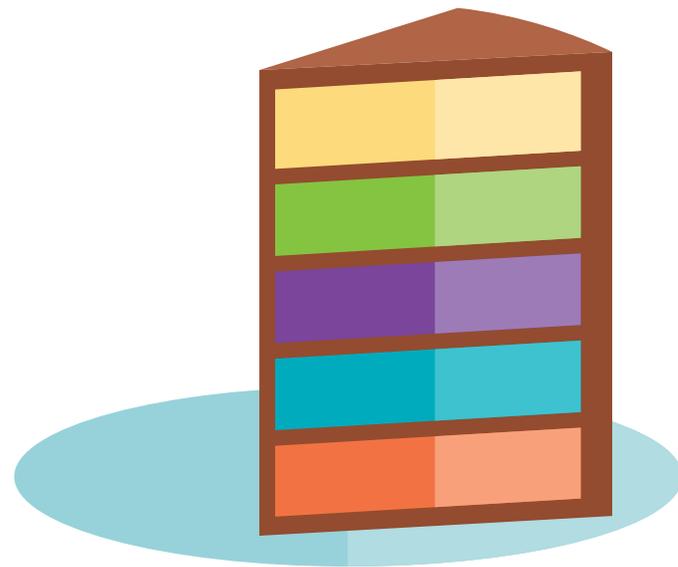
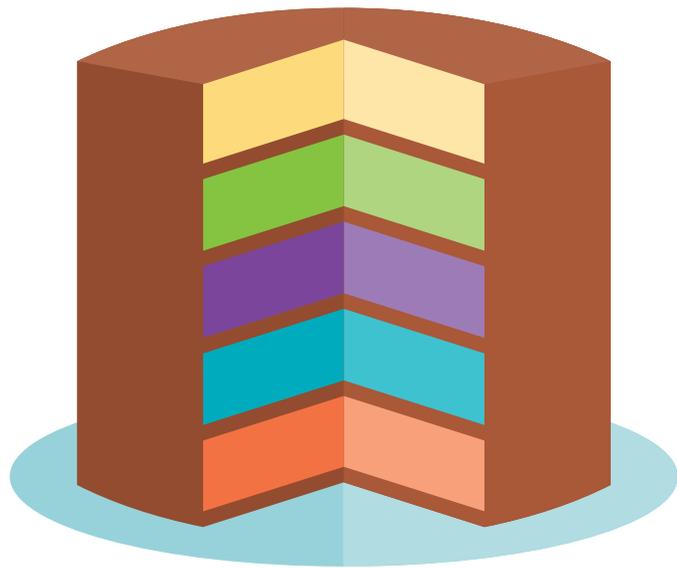
Diversification



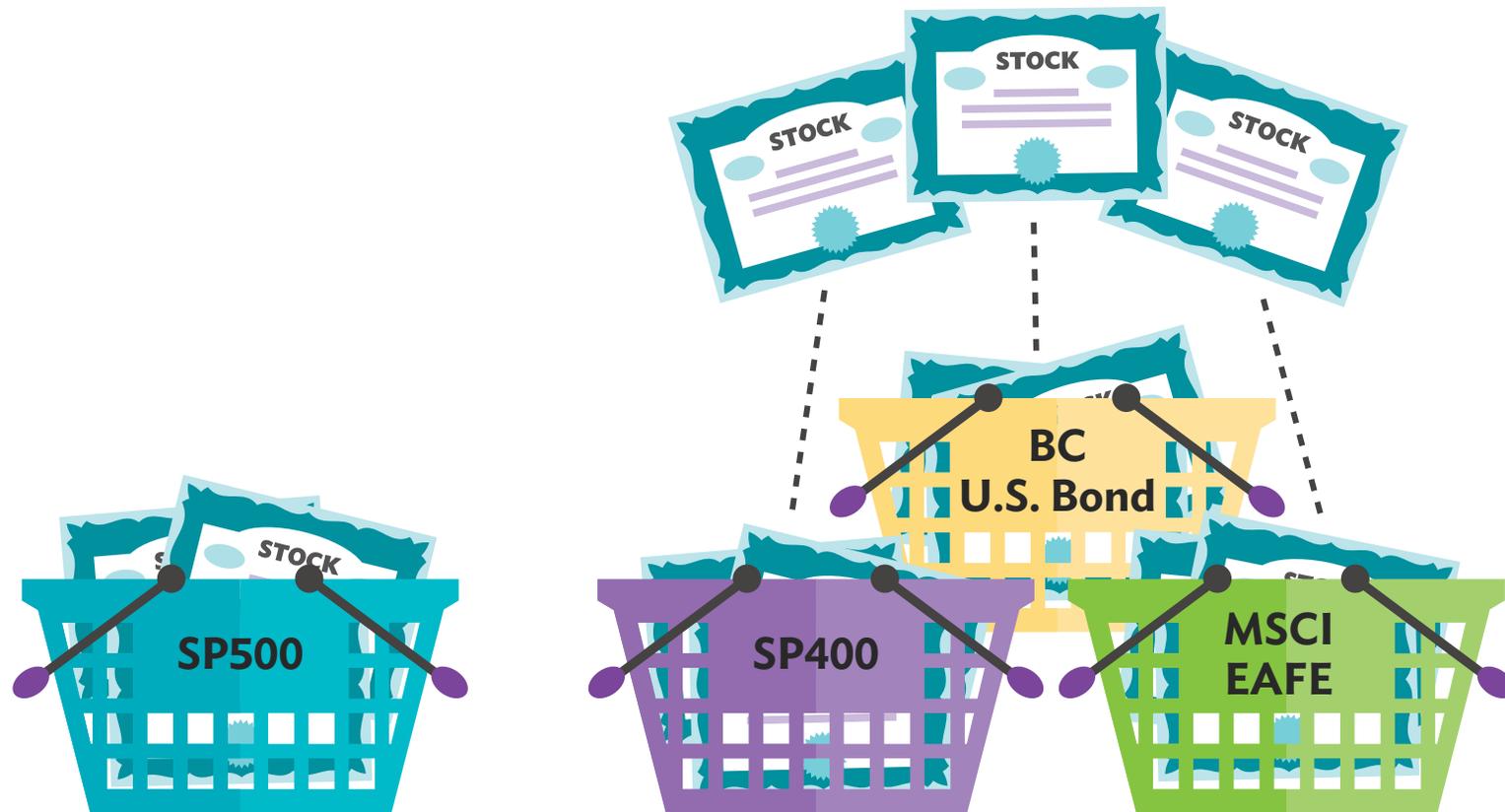
Why Diversify?



Mutual Funds



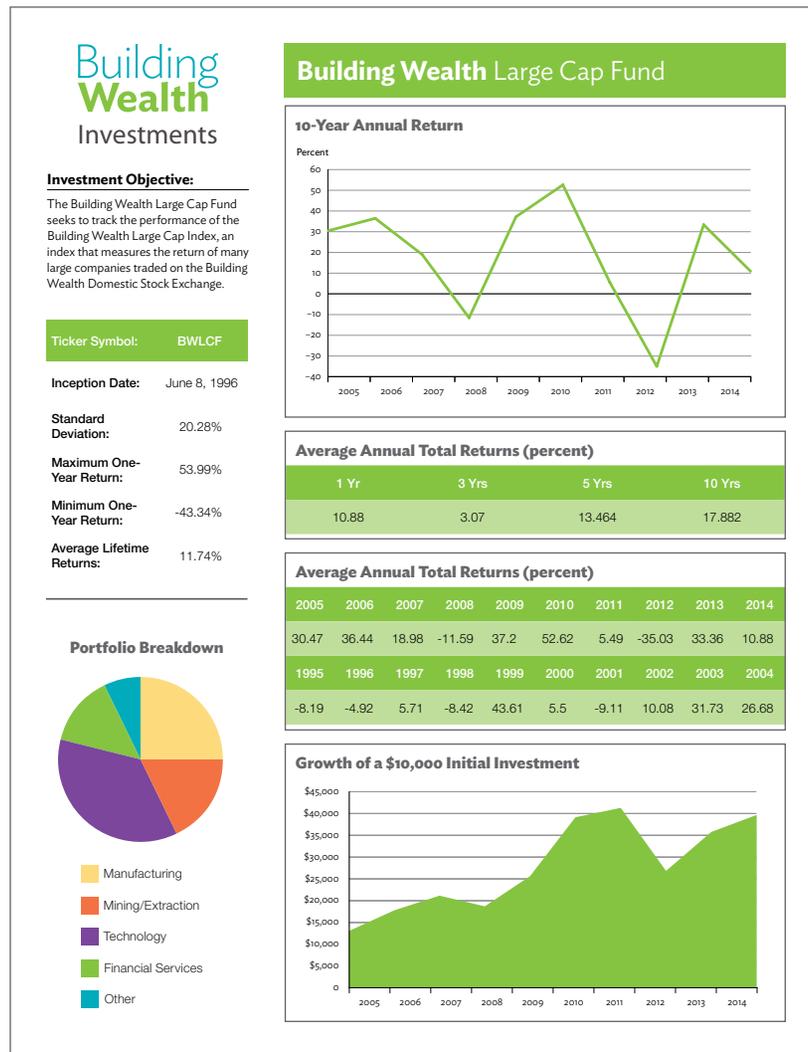
Index and Managed Mutual Funds



Constructing a Portfolio



Gathering Information about Mutual Funds



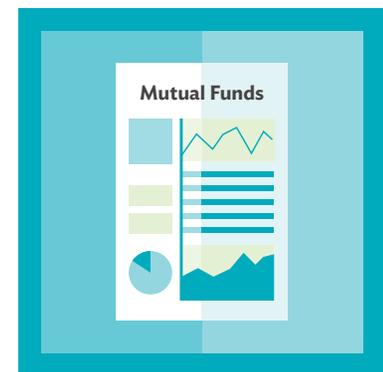
Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 8

Save and Invest—Investing for a Lifetime



Changing Your Allocation

Year 1

Initial Value: \$10,000

Allocation:

BWLCF ___% BWMCF ___% BWSCF ___% BWIIF ___% BWBIF ___%

Strategy/Remarks

Year 1

Initial Value: \$_____

Allocation:

BWLCF ___% BWMCF ___% BWSCF ___% BWIIF ___% BWBIF ___%

Strategy/Remarks



A Lifetime of Investing



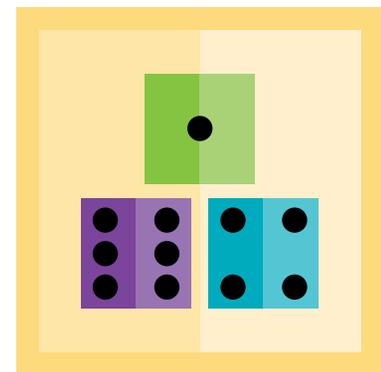
Building **Wealth**

In the Classroom

Interactive Lessons

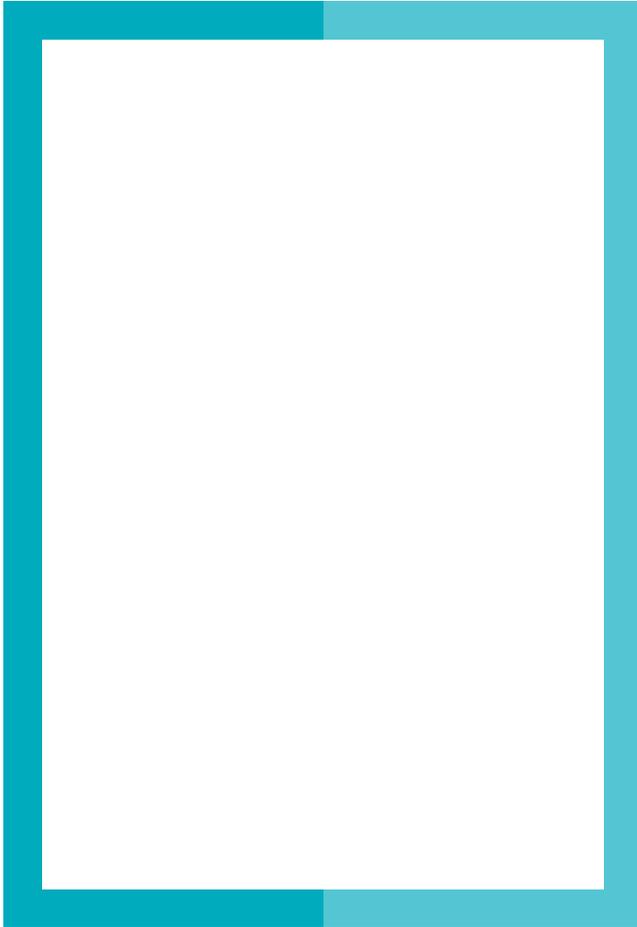
Lesson 9

Risk and Return

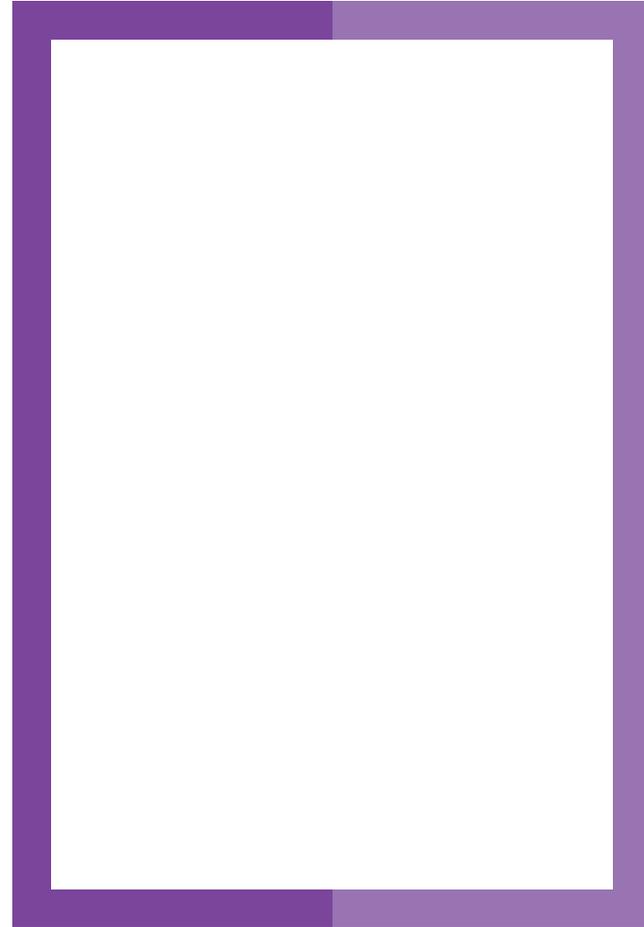


Everyday Risks

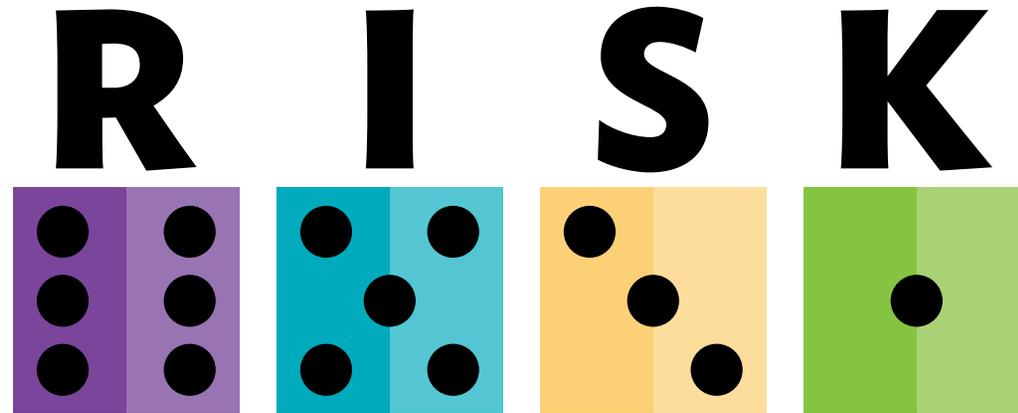
Playing sports



Driving a car



Financial Risks



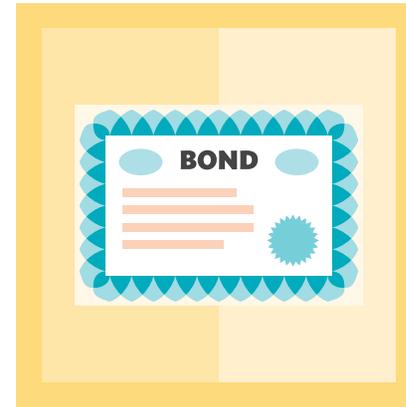
Not all investments make money. Financial risk is the possibility that an asset will fail to produce a return or will lose value over time.

Why might an investment lose money?



Risk of capital loss

When a saver buys an asset hoping for a capital gain, the market price of the asset can fall, resulting in a capital loss.



Risk of default

When a saver loans money or buys a bond, the borrower might not repay the original amount or the promised interest.

Other Investing Risks



Risk of inflation

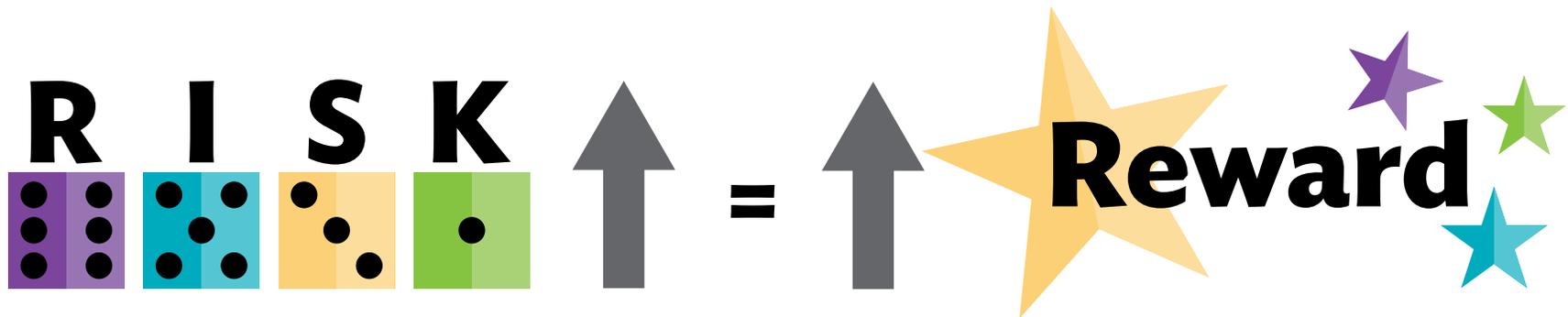
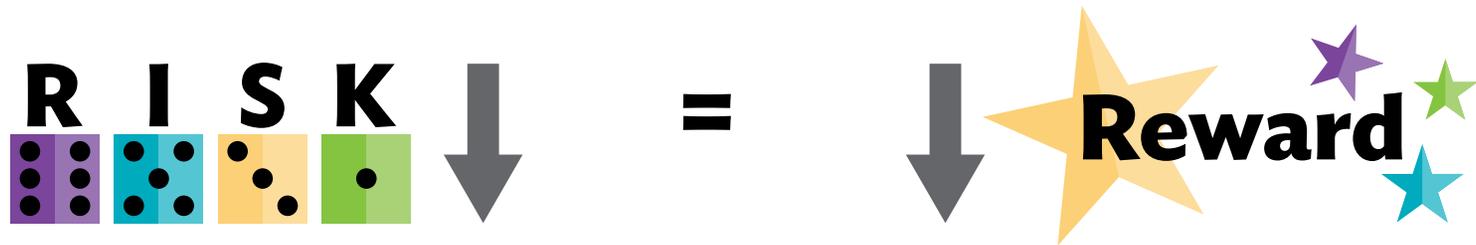
When a saver earns a rate of return that is less than the rate of inflation, purchasing power is lost.



Risk of liquidity

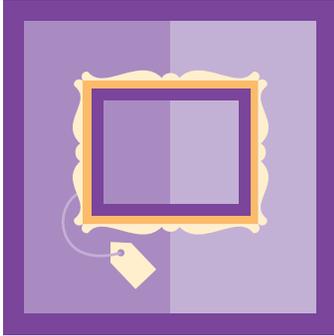
When a saver buys an asset for an investment, the asset must be sold to realize the capital gain. Market conditions affect the saver's ability to sell the asset.

The Risk/Return Relationship



Risk and Return Case Study

Case 1

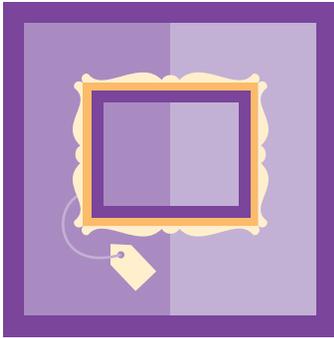


Several years ago, Chelsea was given a painting by a famous artist. She planned to keep it as an investment, hoping its value would increase so that she could sell it and make a profit. Several years later, Chelsea had costly emergency surgery, and she did not have enough money in her savings to pay for the procedure. Fortunately, the painting had substantially increased in value, and she decided to sell it. She found a reputable art dealer who told her that the market conditions would make it difficult to sell the painting for its full value in the next six months. Chelsea needed the money immediately, so the art dealer offered to buy the painting at a deep discount.

How would you describe the financial risk that Chelsea faces?

Risk and Return Case Study

Case 1



Several years ago, Chelsea was given a painting by a famous artist. She planned to keep it as an investment, hoping its value would increase so that she could sell it and make a profit. Several years later, Chelsea had costly emergency surgery, and she did not have enough money in her savings to pay for the procedure. Fortunately, the painting had substantially increased in value, and she decided to sell it. She found a reputable art dealer who told her that the market conditions would make it difficult to sell the painting for its full value in the next six months. Chelsea needed the money immediately, so the art dealer offered to buy the painting at a deep discount.

How would you describe the financial risk that Chelsea faces?

She cannot sell the painting for its full value as quickly as she needs to do so. Therefore, she faces a liquidity risk.

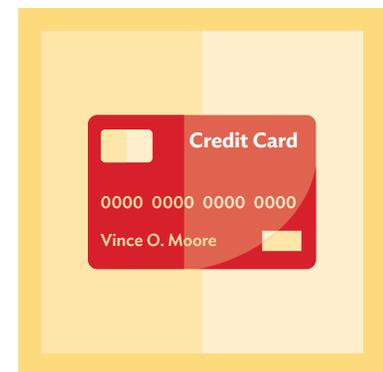
Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 10

Use Credit Wisely



The Liability Side



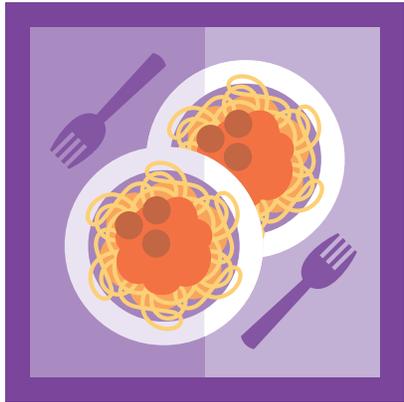
Adding Liability to the Balance Sheet



Obligated to Repay

Sources of income		Current income
	Part-time job (net pay)	\$ 580
	Total income	\$ 660
Spending categories		Current expenses
New	Car payment	\$ 120
	Movie night with friends (twice)	80
New	Furniture payment	50
New	Credit card payments	20
	Music purchases	140
	New clothing	90
	Gas	140
New	College debt	20
	Total expenses	\$ 660

Patrick's Prom Problem



Advantages

Disadvantages

Wealth-building assets	Amount
Savings account	
Checking account	
Liabilities	Amount
Credit card balance	

New

Debra's Degree Dilemma

Advantages

Disadvantages



Wealth-building assets	Amount
Savings account	
Checking account	

Liabilities	Amount
College debt	

New

Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 11

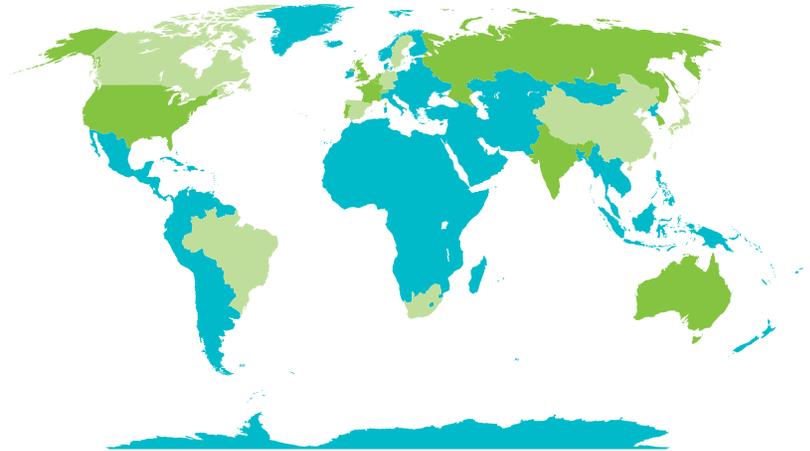
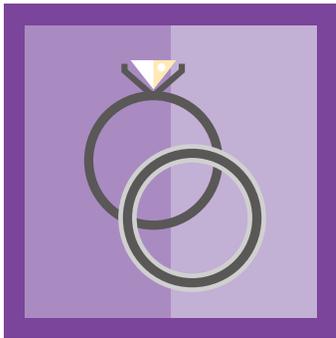
Are You Credit Worthy?



The Three Cs



Information Creditors Cannot Use



Credit Reports



Building **Wealth**

In the Classroom

Interactive Lessons

Lesson 12

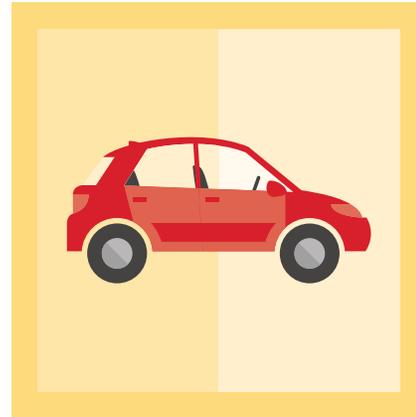
Term Loans



Term Loans



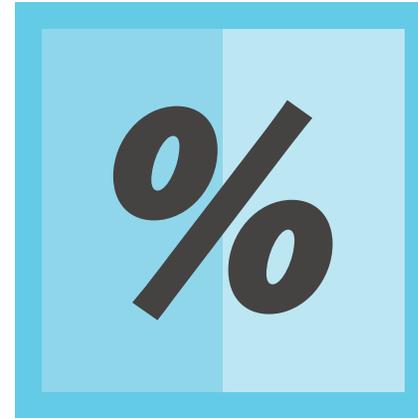
Common Term Loans



Comparing Credit Offers



Finance Charge



APR

Truth in Lending laws and regulations require all creditors to state, in writing and before the borrower signs any agreement, the cost of credit in terms of the finance charge and the annual percentage rate (APR).

Evaluating Car Loans: APR

Betty wants to buy a new car. After her down payment, she wants to finance \$15,000.



Lender	APR	Finance charges
Pixley Bank and Trust	6.5%	
XYZ Savings and Loan	7.5%	
Joe's Auto Sales	15.0%	

Evaluating Car Loans: APR

Betty wants to buy a new car. After her down payment, she wants to finance \$15,000.



Lender	APR	Finance charges
Pixley Bank and Trust	6.5%	\$2,609.53
XYZ Savings and Loan	7.5%	\$3,034.15
Joe's Auto Sales	15.0%	\$6,410.94

Betty's New Car: Loan Term

Betty chose the lowest interest rate and now has to decide on the length of her loan term.



Loan term	# of payments	Monthly Payment	Finance charges
3 years	36		\$1,550.46
4 years	48		\$2,074.77
5 years	60		\$2,609.53

Betty's New Car: Loan Term

Betty chose the lowest interest rate and now has to decide on the length of her loan term.



Loan term	# of payments	Monthly Payment	Finance charges
3 years	36	\$459.74	\$1,550.46
4 years	48	\$355.72	\$2,074.77
5 years	60	\$293.49	\$2,609.53