



Managing Money: An Intro to **Personal Finance**

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DISCLAIMER: I'm not a CPA,
accountant, or financial advisor.
I can't give you specific tax or
investing advice.

Agenda

- 1) What is **personal finance**?
- 2) The **math** behind finances
- 3) What is **credit** and how do I use it wisely?
- 4) How do I make good decisions for my next big “purchases” (**a car or college**)?
- 5) How do I make and follow a **budget**?
- 6) Any other questions/discussion topics?

General Principles of This Class

- 1) **personal finance** is personal
- 2) think of money in terms of **future value**
- 3) be strategic about your **credit**
- 4) **don't spend money you don't have**
- 5) be careful what you commit to (**loans**)
- 6) **every dollar has a job**

What is Personal Finance?

- o how you **obtain, budget, save, and spend money** over time
- o how you can prepare to afford **life events** (moving out, going to college, getting married, buying a house or car, having a family, etc.)
- o how to handle the financial side of your **“needs”** and your **“wants”**

What are your financial **goals**?

- 1) Write down a few **short-term** financial goals.
- 2) Write down a **long-term** financial goal.

- o Do you want to be financially secure?
- o Are you saving money for something?
- o Do you want a certain amount of wealth?

Doing the Math

- o **time value of money** = any money now can be worth more later if it can earn interest
- o **interest** = price paid for use of borrowed money

CONCLUSION: It's always easier to save more money by starting **sooner**.

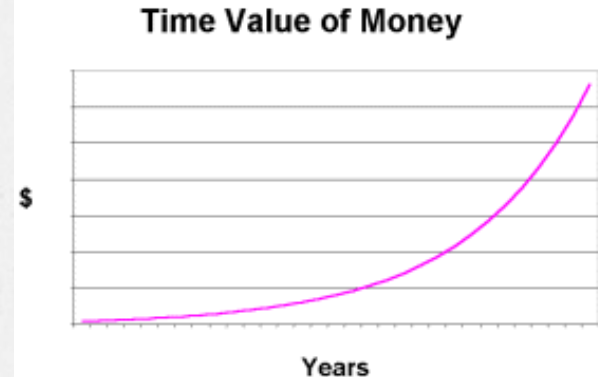
$$FV = PV(1+I)^N$$

FV = future value

PV = present value

I = interest

N = number of periods

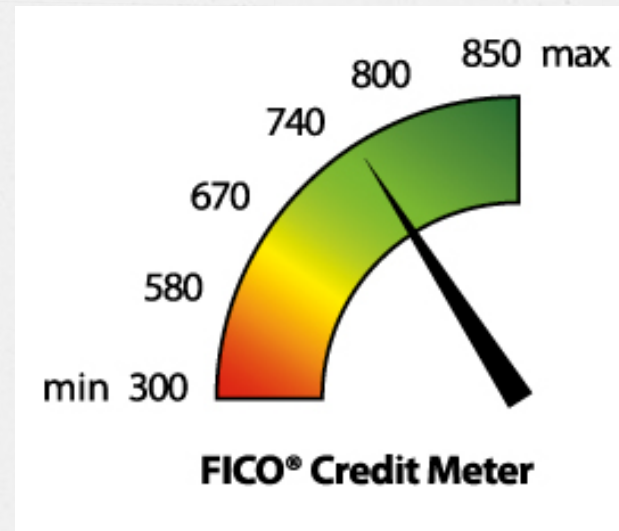


What is **credit**?

- o credit or creditworthiness is the **trust** that a lender has in you when they lend you money
- o loans (auto, home, etc.) and credit cards all involve **someone lending you money**
- o lenders judge how trustworthy you are based on your **credit score**
- o **your credit score** determines whether you get a loan, and also how good the loan is

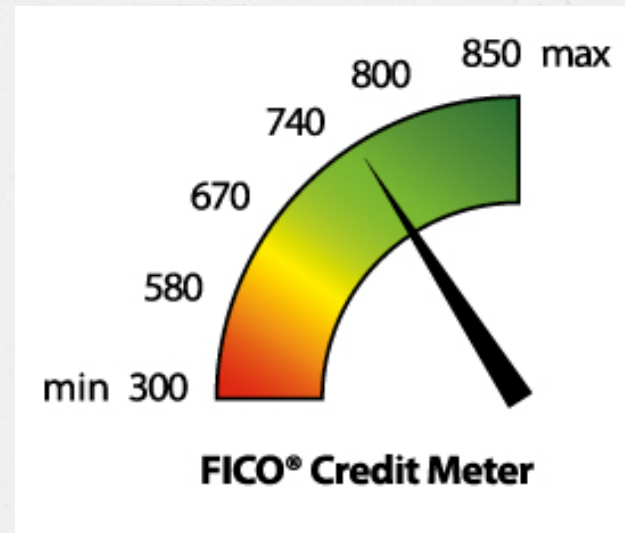
What factors into a **credit score**?

- o do you pay your bills on time?
- o how much of your limit do you use?
- o how long have you had credit?
- o and more...



How does a **credit score** affect you?

- whether you can get a loan
- if you get a good (low) or bad (high) **interest rate** on a loan
- sometimes affects whether you can get a **apartment** or a **job!**



BEWARE: The Dangers of Using Credit (especially Credit Cards)

- o the same magic math that helps your wealth grow will let your **debt** grow
- o always minimize the amount of interest you pay

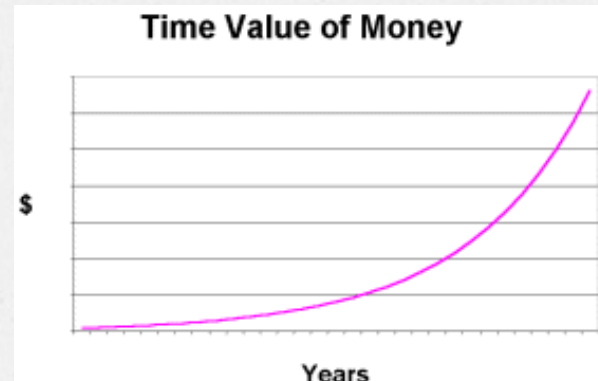
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How do I use credit cards?

- o cannot get one until you turn 18 (not a minor)
- o transition from debit/cash to credit
- o authorized user on one of your parent's accounts?



How do I use credit cards?

- o treat a credit card like a **debit card**
- o only spend money that you have
- o pay off every credit card balance **by the due date in full (no interest!)**



VISA

MasterCard

**AMERICAN
EXPRESS**

**DISCOVER
NETWORK**

Your Next Big “Purchases”

At your age, most people are anticipating that they will buy/pay for:

- o a car

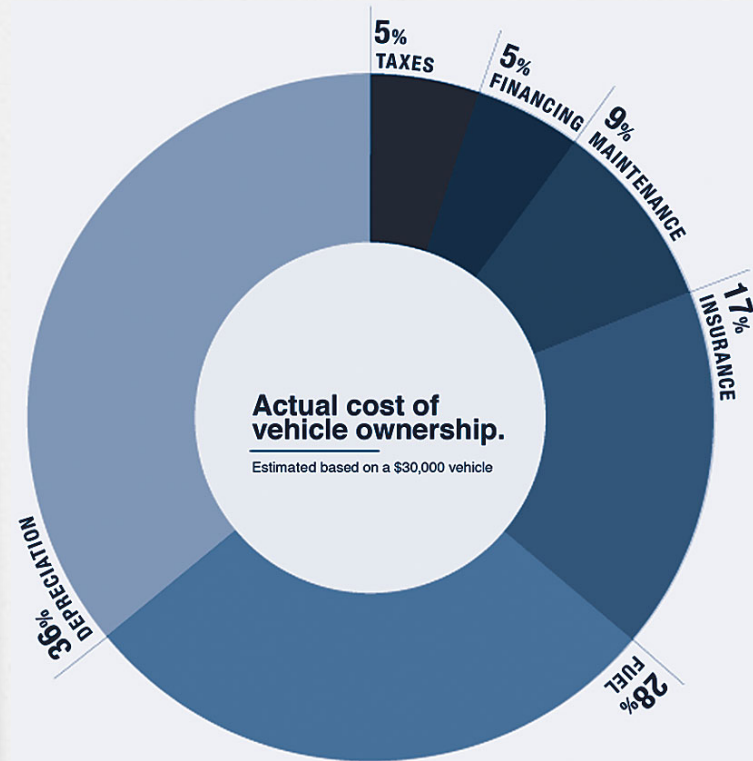
- o a college education

in the next few years.

Ask yourself, is it worth the financial investment? How can you minimize costs?

Buying a **Car**: Beware of Loans

- o do the car math before you buy
- o the cost of a car is more than you think
- o new car or used car?
- o you may spend \$1000s on interest with a loan



Paying for a College Education

- o > 50% of new college graduates have debt
- o average debt is \$30,000, can take decades to pay off
- o compare loans at **unbury.us** and look into scholarships



Your **Career** and Your Education

Answer these important questions first:

- o what career are you interested in?
- o do you need a degree?
- o what will be your salary in this career?



Tools for Your College Decision (from the **financial** side)

Financing College: fafsa.ed.gov

- o Scholarships - apply to all of them!
- o Loans - studentloans.gov, etc.
- o Student Jobs - calculate a part-time job wage, studentaid.ed.gov/types/work-study
- o research your potential schools and what they have to offer
- o talk to a financial aid office about options!

Tools for Your College Decision (from the **financial** side)

Your Job/Pay Prospects:

- o **Average job salary based on location:**
salary.careerbuilder.com or payscale.com
 - o What will you earn in an entry job?
 - o What is your max earning potential?
- o **Informational interviews**
 - o Ask someone in the field!
 - o How hard is it to get a job? Is a degree essential? What do they look for in a hire?

Interest Rates Compared

for reference, inflation rate: 1-3%

Money working
against you:

- credit card: 7-20+%
- auto loan: 2-17+%
- student loan: 5-13+%
- mortgage: 3-6%
- payday loans: 100+% !

Money working **for**
you:

- bank account: < 1%
- investing: 5+% ?

After you commit to these big “purchases”:

- o prepare yourself to take on debt (and avoid or minimize debt if you can)
- o once you decide on these purchases (and have monthly payments to make), what is next?
- o what do you do when you are on your own?

ANSWER: You need a **budget**.

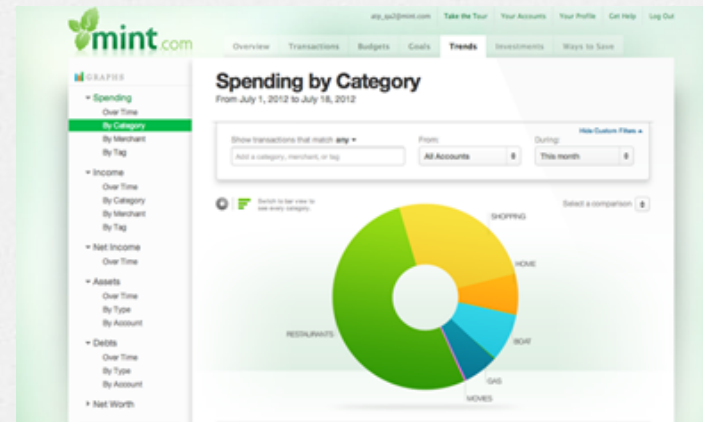
How do I make and follow a budget?

- o income – expenses must be = or > 0
- o if this is not true, you must increase income or cut expenses
- o list all of your expenses, **track your spending!**



A spreadsheet titled "Personal Monthly Budget" showing projected and actual monthly income and expenses. The "Projected Monthly Income" section shows a total of \$3,000, while the "Actual Monthly Income" section shows a total of \$2,500. Below this, a table compares projected costs to actual costs for various categories, with differences shown in green (under budget) or red (over budget).

Category	Projected Cost	Actual Cost	Difference
HOUSING	\$1,500	\$1,400	\$100
Mortgage or rent	\$60	\$60	\$0
Phone	\$50	\$180	\$130
Electricity	\$200		



Income

- o Is it fixed (constant) or variable?
- o Bi-weekly? Monthly?
- o What is the “take home” amount (minus **taxes**)?

Expenses

- o **Fixed:**
 - o housing
 - o loan payments
 - o savings
 - o some utilities
- o **Variable:**
 - o food
 - o clothing
 - o entertainment

What does your **budget** look like?

- 1) What were the last few things you bought/paid for? Write down **what you spend money on** in a day, then in a week.
- 2) **Estimate** how much each of the items you buy daily or weekly cost.
- 3) **Categorize** your expenses. How much do you spend on average for each category?

Tools for Maintaining a Budget

- o **You Need a Budget, etc.** - software to enter expenses and categorize expenses
- o **Mint, etc.** - online tools that automatically track your spending in your accounts
- o **Level Money, etc.** - apps that tell you how much money you have left
- o **Envelope Method** - put cash in separate envelopes for explicit purposes
- o other ideas?

Saving an Emergency Fund

- o keep **3-6 months** worth of expenses in a savings account
- o what happens if you lose your job or go to the hospital, etc.?
- o **do not rely on credit cards** in hard times

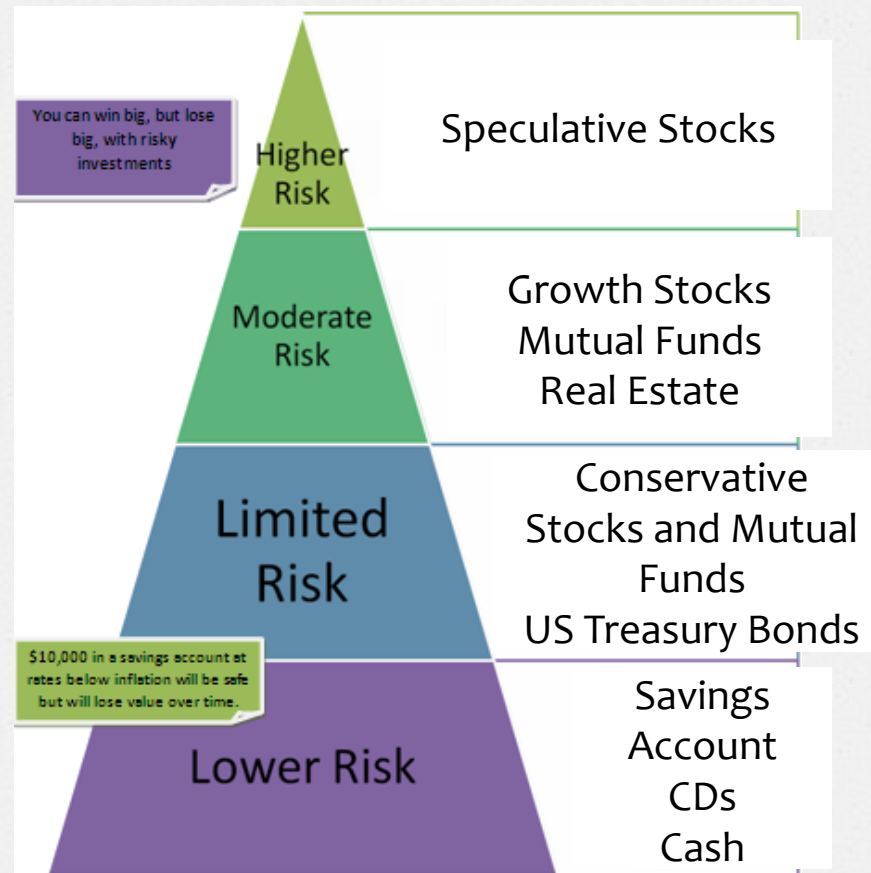


How do I save and invest my money?

Things to keep in mind:

o **liquidity** = how flexible and accessible your money is

o **risk vs. reward** = anything with a higher interest/growth rate also has a higher chance of losing value



Where should you **keep** your money?

- 1) Write down your **net worth**: how much you own (in dollars) or have saved.
- 2) When do you need your money? Do you need money on a regular basis or just in the future?
- 3) What is your **risk tolerance**? Can you afford to lose some of the value of your money?

What are your financial **goals**?

REVISITED

- 1) Review your **short-term and long-term** financial goals. Do you want to change them? Are they realistic?
- 2) What are **concrete steps** to achieve your goals? What should you do differently?



Questions?

