How to not lose your money: Financial well-being in uncertain times

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Objectives

- Identify ways we can lose money
- Learn ways to counter those threats
- Learn key financial instruments
- Bob’s financial “dos” & “don’ts”
- What are your priorities going forward?

What are ways we can lose our money?

Brainstorm

What are ways we can lose our money?

Some ideas I generated:

- Inflation (buying power decreases).
- Investment scams / other scams
  - Speculative cryptocurrencies
  - “Pump and dump” schemes / rugpulls
  - Ponzi schemes
  - Hiring scams (fee to apply to a job)
  - Tech support / malware type scams
- High interest rates
- Impulsive purchases that don’t provide value

How can we protect against these threats?

Threat	Counter(s)
Inflation	• High yield savings • Low-to-medium volatility index funds • I personally hedge inflation with SPHD. Not financial advice! • Treasury bonds
Investment scams	• Work with a fiduciary • Monitor FOMO
High interest rates	• Improve credit score • Keep debt-to-income low • Budget to avoid carrying a credit card balance
Impulsive purchases	• Budgeting / expense tracking

What’s the role of personal responsibility?

Think pair share

- To what extent is a person’s financial well-being their own credit / fault?
- What factors are inside a person’s control when it comes to financial well-being?
- What factors are outside a person’s control?
- Resource: The Price of Being Poor

Quiz Time!

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True or false

Typically, you need a good credit score to get a credit card. But you need a credit card to get a good credit score.

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TRUE – we will talk later about how to get a credit card without good credit.

Quiz time!

All else being equal, which is better for your credit score?

A. $100 balance on a $10,000 credit card

B. $50 balance on a $100 credit card.

Quiz time!

All else being equal, which is better for your credit score?

A. **$100 balance on a $10,000 credit card**

B. $50 balance on a $100 credit card.

Option A is a 10% credit utilization, while option B is a 50% credit utilization.

Quiz time!

True or false

“The best way to keep your money safe is to put it in a savings account.”

Quiz time!

True or false

"The best way to keep your money safe is to put it in a savings account."

FALSE(ish) – As time goes on, prices of goods go up. This is inflation. If you keep your money in a savings account for a long time, inflation will eat it up your money's purchasing power.

Savings accounts are good for short-term savings goals.

Quiz time!

You have an extra $200 this month. You have a good amount of savings already. What do you do with it?

A. Buy an NFT
B. Put it in a savings account that earns 0.5% interest
C. Pay down a credit card that charges 25% interest
D. Pay down a student loan that charges 7.8% interest
E. Buy new running shoes

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Quiz time!

You have an extra $800 this month. You have a good amount of savings already and no credit card debt. What do you do with it?

A. Buy an NFT
B. Pay down an auto loan that charges 0.9% interest
C. Pay down student lean that charges 7.8% interest
D. Deposit into a ROTH IRA
E. Deposit to a savings account that earns 0.5% interest

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Quiz time!

I need $500 to make my rent payment! What should I do?

A. Not pay rent
B. Visit a payday loan office
C. Put other expenses on a credit card
D. Call landlord and set up a payment plan

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If you set a payment plan, get it in writing.

Quiz time!

Your employer offers a 401(k) plan. They will match up to 5% of your wages. You are young and in a low tax bracket – you expect to make more money later in your career.

A. No matter what your situation is, set 5% of your wages to the 401(k)
B. If you can make ends meet, set 5% of your wages to the 401(k)
C. Maybe later you'll contribute, but you want to take that trip to Italy!
D. Choose TRADITIONAL 401(k)
E. Choose ROTH 401(k)

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Credit Scores

What is a credit score used for?

- Unfortunately, it's used for a lot. Even though it shouldn't be.
  - Credit Reports: Last Week Tonight with John Oliver (HBO) - YouTube
  - Why Credit Scores Are Racist. Credit scores reflect economic racism… | by Common Future | Common Future | Medium
  - From Inherent Racial Bias to Incorrect Data—The Problems With Current Credit Scoring Models – Forbes Advisor
- Can be used to determine
  - Employability
  - Quality of rental application
  - Ability to get a loan
  - Ability to open / refinance a line of credit
  - Ability to buy a house or car
    - i.e. buying a $25,000 car at 2% over 6 years costs $26,551
    - Buying a $25,000 car at 10% over 6 years costs $33,347
    - Source: google "car loan calculator"
  - Ability to finance a purchase at a lower interest rate

How is a credit score determined?

- There are three agencies that produce credit reports: Equifax, Experian, and TransUnion
  - Can view your credit report for free at AnnualCreditReport.com
    - [Credit Reports and Scores | USAGov]
  - Can also view through sites like CreditKarma, but they often are only estimates
- There are five main categories that impact your score. Each agency uses a slightly different formula
  - Payment history (want lots of on-time payments and no missed payments)
  - Outstanding balances (want lots of available credit, don’t want to use it)
  - Length of credit history (need to show you keep credit accounts open)
  - Applications for new credit accounts (don’t apply for credit cards)
  - Types of credit accounts (want a good mixture of types of accounts)

Getting started on your credit score

- Open a "secured" credit card NOW
  - This means you put a deposit of, say, $200 down
  - Your credit limit will be $200
  - After time, you'll get your deposit back
  - Keep the account open by making a small purchase every 3 months or so and paying it off.
- Report your rent / utilities to credit agencies
  - How to Report Your Rent to Credit Bureaus - NerdWallet
- Open a "credit builder" loan (not as good as other two options)
  - Improve Your Credit with Credit Builder Loans | Credit.com

Budgeting

Budgeting tip

- Create a monthly zero-dollar budget
  - Every dollar that you receive has a job.
  - That job might be to pay rent, pay down a loan, go to a savings account, or invest in the stock market.
- Re-work your budget every month for the first 6 months to get a better sense of what's realistic
- Budget by expense priorities. Pay what you must pay first, then what you want later.
  1. Survival now
  2. Survival later
  3. Fun later
  4. Fun now

Budgeting tips – Expense priorities

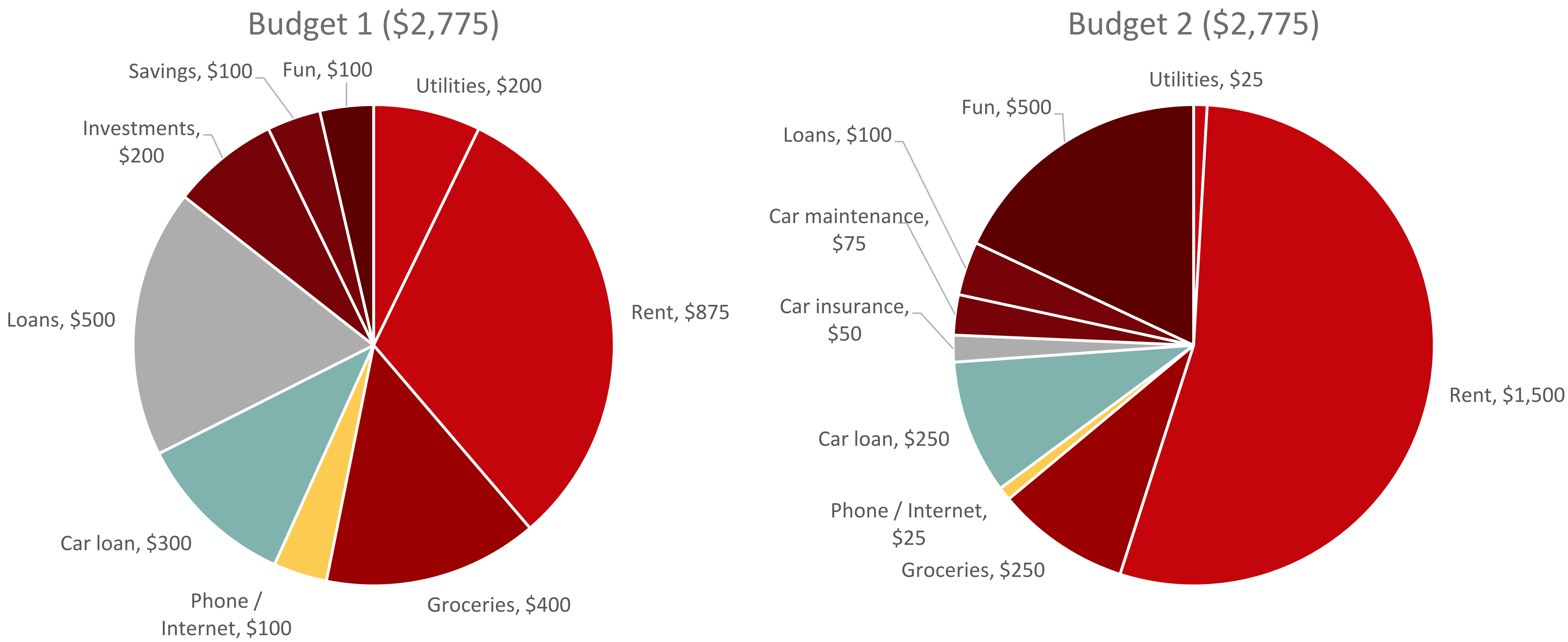
1. Utilities
2. Rent
3. Groceries
4. Phone / internet
5. Transportation
6. Loans
7. Investments
8. Savings
9. Fun (dining out, movies, vacations)

Expense tracking

- Track every expense at least every month
- Have an accounts payable (money that must be spent / deducted this month) category
- Have an accounts receivable category
- Spending power = Checking account – Accounts payable
- Bottom line = Checking account – Accounts payable + accounts receivable

- You can use a budgeting app… but I don't like any of them because I want control

How would you adjust these budgets?



Financial Products

Financial Products

- Insurance
  - Pay a little money monthly to avoid catastrophic losses in the future
  - Premium = cost up to open / maintain policy. Note that this money disappears after spending it.
  - Deductible = how much you pay at the beginning of a claim.
  - Limit = how much the insurance company will pay max.
  - Max out of pocket (MOOP) = the maximum you will pay out of pocket.
  - Co-insurance = the proportion of the bill you pay after the deductible.
  - Co-pays = a fixed fee you pay for every time you use the service
- Example
  - You have health insurance with an ER copay of $50, deductible of $400, coinsurance of 10%, and a MOOP of $2,500.
  - If you get a $10,000 ER bill, you will pay $\$50 + \$400 + 10\% \cdot \$9{,}600 = \$1{,}420$.
  - For the rest of the year, the most you'll pay total is $1,080.

Financial Products - Continued

- Individual Retirement Accounts (IRA)
  - Contribute up to $6,000 per year
  - Actively manage yourself
  - Pay tax now and no tax later? Choose a ROTH IRA
    - Can always withdraw *contributions*
  - Avoid tax now and pay tax later? Choose TRADITIONAL IRA
    - Can sometimes withdraw w/o penalty, like first time homebuyer

Financial Products - Continued

- 401k or 403b
  - Contribute up to $20,500 per year
  - You pick a product like a mutual fund, and someone else manages it
  - More difficult to withdraw than IRAs
  - Can also be ROTH or TRADITIONAL

Financial Products - Continued

- Trading accounts
  - You can contribute usually as much as you want
  - You will be taxed now and taxed on your gains, so your profits will be cut
  - Examples are Robinhood, WeBull, Think or Swim, IBKR
  - Useful for short-term saving, like you want to buy a house in the next 5-10 years.

Financial Products – MY easy investment strategy

- Trade Mutual Funds / ETFs NOT individual stocks
- If you're young, choose a low-fee fund that tracks the S&P 500
  - Examples FXAIX (Expense ratio 0.015%) or VFIAX (Expense ratio 0.04%)
  - Keep 100% invested in FXAIX until you're about 10-20 years from retirement
- As you get closer to retirement
  - Shift your investments to dividend and bond ETFs or Mutual Funds
- Historically, *this works*
- Just because it's worked before, does NOT mean it will work again.
- NOT investing your money costs you money. Inflation is about 7% right now, so every year you hold cash, it loses 7% of its buying power.

Financial Products – What if you follow my strategy?

- Start by opening an IRA through a firm like Fidelity
- Invest in an ETF / Mutual Fund that tracks the S&P 500, which has a historical average return of 10.5% per year
- If you're 20 years old now and want to retire at 60, you have 40 years of investing.
- If you invest $200 / month and put it all in FXIAX, in 40 years…
  - You will invest a total of $96,000
  - Your account value will be $1,275,356
- If you invest $500 / month and put it all in FXIAX, in 40 years…
  - You will invest a total of $240,000
  - Your account value will be $3,188,390

Financial Products – Things to investigate

- Options trading
  - Can ruin your life without the proper knowledge
    - NOT a get rich quick scheme
  - Can also take advantage of inefficiencies in financial markets
  - InTheMoney on YouTube
  - TastyTrade on YouTube
- Strategies I really like – IF you do massive research
  - The wheel strategy
  - Poor man's covered calls
  - Put calendar spreads during periods of low implied volatility
  - Iron condors during periods of high implied volatility

Dos and Don’ts

Bob’s “dos”

- If your employer matches your contributions to a legit retirement account (401(k) or 403(b)), MAX THAT OUT. It’s free money.
- Pay off credit card balance every month. Treat credit cards like debit cards.
    - Example: Your checking account has $1000 in it. Your credit card has a $300 balance. You ACTUALLY have $700 because you must pay the $300 at the end of the month.
- When purchasing something, think how much you would sell it for? For example…
    - If you buy a car for $10,000, would you accept $7,500 for it the next day?
    - If you buy a pair of shoes for $100, would you accept $75 for it the next day?

Bob’s “don’ts”

- Pay day loans
- Carry a balance on anything at or above the rate of inflation
  - Consider you have a credit card with an interest rate of 33%.
  - You make a $250 purchase on that credit card.
  - You pay the minimum payment of $25 per month.
  - You will end up paying $315.78 over 18 months!!
  - Resource: Credit Card Minimum Payment Calculator | Bankrate
- Invest in anything you don’t 100% understand
- Invest in a product and you can’t afford the risk
  - i.e. don’t invest in the S&P 500 if you *need* all the money some time in the next seven years

Closing

Closing: What are your priorities going forward?

- Turn to a partner and discuss
- Be ready to share out

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