FOR THE BEST LIFE IN YOUR TIME

PERSONAL FINANCE

AN INTRODUCTION

LASHLEY FINANCIAL

2007

CONTENTS

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OBJECTIVES

- To provide you with some practical tools to help create personal wealth
- To get you started in applying these tools to your own situation
- To ask that you pass on these tools to your own children and to those you influence.

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PERSONAL FINANCIAL PLANNING
What's involved?

1. UNDERSTANDING PERSONAL FINANCIAL PLANNING
2. THE FINANCIAL PLANNING PROCESS
3. GOAL SETTING AND FINANCIAL DECISION-MAKING
4. BUDGETING AND SAVING
5. CREDIT AND DEBT MANAGEMENT

PERSONAL FINANCIAL PLANNING
What’s involved?

6. INSURANCE AND RISK MANAGEMENT

7. WHAT HAPPENS IF YOU ARE UNABLE TO WORK?

8. TAXATION

9. HOME OWNERSHIP

10. CHILDREN, FAMILY AND MONEY

PERSONAL FINANCIAL PLANNING
What's involved?

11. EDUCATION PLANNING

12. INVESTING: CONCEPTS, PROCESSES AND APPLICATIONS

13. RETIREMENT PLANNING AND LONG-TERM CARE

14. ESTATE PLANNING

15. OPPORTUNITIES, CHOICES AND FINANCIAL ADVICE.

What is Personal Financial Planning?

- Our life develops through a number of stages
- Each stage has financial consequences and create a need for money
- Financial planning provides:
  - meaning and direction to financial decisions
  - an understanding of the consequences of financial decisions on life goals
  - the opportunity to actively manage your finances
- Financial planning allows you to adapt more easily to life changes and challenges.

Financial planning is the process of achieving your life goals, through proper management of your finances.

LIFE'S MAJOR STAGES

- Single and starting out
  - 16 to 25
  - Young, no dependants, first job
  - Few financial responsibilities, disposable income, lifestyle expenses?
- Single and established
  - 20 to 30
  - Young, committed, own car, looking to purchase a home
  - New debt, some savings, increasing expenses?

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LIFE'S MAJOR STAGES

- Married
  - 23 to 35
  - First house, dual income, second job, thinking about children
  - Increased debt, some assets, increased disposable income?
- Early Family Life
  - 25 to 40
  - Young children, high medical expenses, bigger house, lot of expenses, need for financial security.
  - High expenses, property assets?

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LIFE'S MAJOR STAGES

- Mature family life
  - 30 to 50
  - Educating children, parents aged needing care
  - High expenses, property and financial assets?
- Empty Nest
  - 40 to 60
  - Children left home, approaching retirement
  - Reduced expenses, significant assets?

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LIFE’S MAJOR STAGES

- Retirement
  - 55 to 85
  - Reduced income, increased medical costs, increased leisure time
  - Asset rich, increased expenses for long-term care?
- Bereavement
  - 65 to ….
  - Death of a spouse, own death
  - Passing on assets?

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LIFE'S MAJOR STAGES - DETOURS

- Divorce
  - Legal costs, maintenance, setting up a new home
- Serious injury, major illness, long-term unemployment
  - Reduced income, medical bills, emotional and financial stress
- Deep in Debt
  - Loans, credit card debt
- Premature Bereavement
  - Death of a spouse or child.

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11 REASONS WHY YOU NEED TO PLAN

- To protect yourself and your family against financial risks
  - Injury, illness, death and increasingly lawsuits
- To eliminate personal debt
  - To accumulate assets, you must eliminate debt
- Because you are likely to live a long life
  - Because most of us can expect to live to over 80
- To pay for raising children
  - This will be your biggest expense!

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11 REASONS WHY YOU NEED TO PLAN

- **To pay for education - yours or your children's**
  - For Barbadians, education is an opportunity for improvement
- **To pay for your daughter's wedding**
  - What does a wedding costs today?
- **To buy a car**
  - After your home, this is likely to be your largest single expenditure - and it begins to depreciate the day you buy it!
- **To buy a home**
  - We all want a piece of the rock - and the prices for land and building????

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11 REASONS WHY YOU NEED TO PLAN

- To retire when - *and how* - you want
  - How much do you need to retire?
  - Could you outlive your money?
- To pay for long-term care
  - It is estimated that one out of every two persons who reach 65 will require long-term care
  - Many of us will have to care for elderly parents
- To pass on assets to your descendants
  - More than ever, your children will require a start in life.

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THE ECONOMY AND YOU

Factors of Production

Labour

Land

Capital

Entrepreneurship

TOTAL PRODUCT OR INCOME

Types of Remuneration

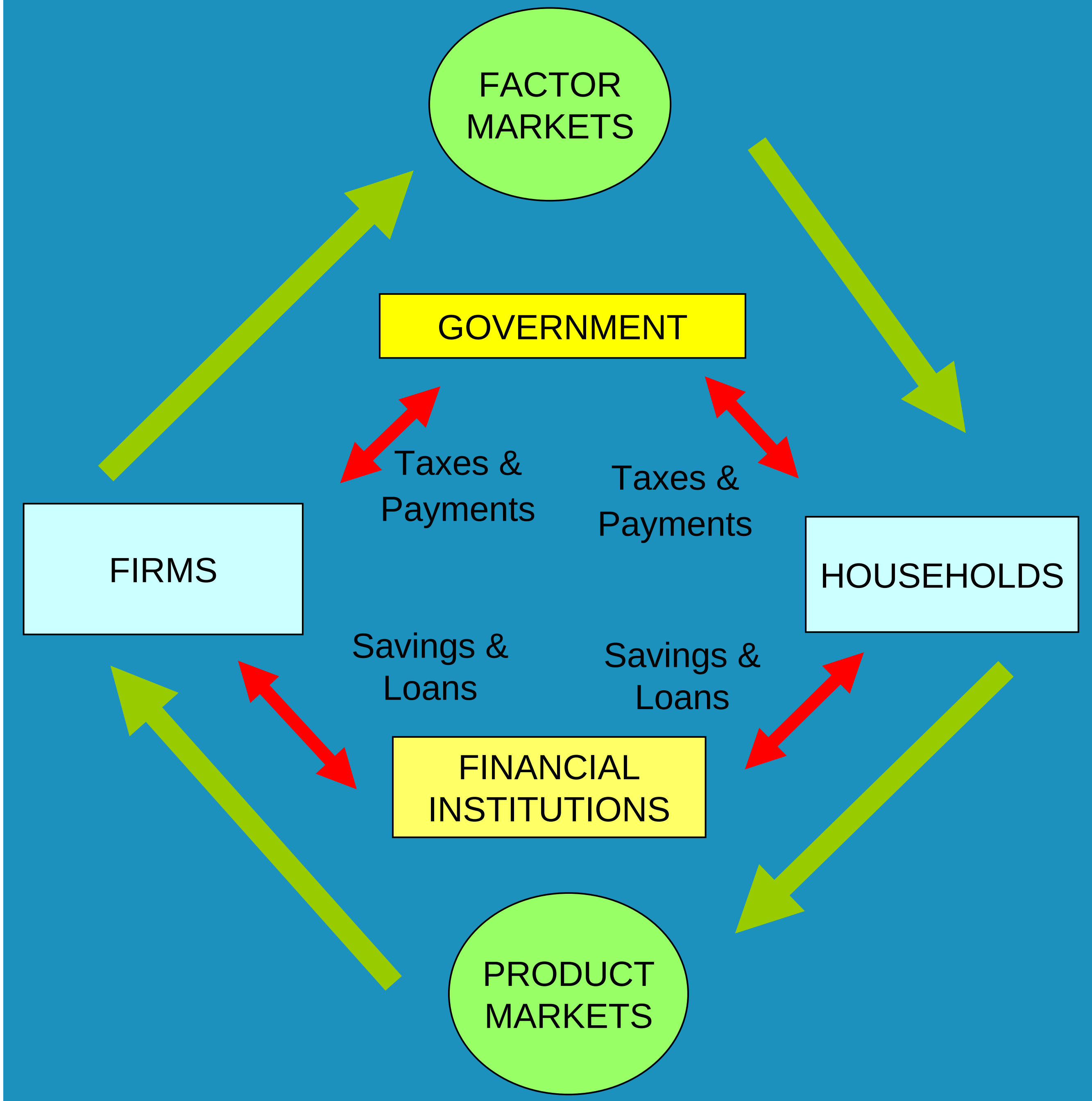
Salary/Wages to labour

Rent to landowners

Interest to Owners of Capital

Profit to Entrepreneurs

THE FLOW OF INCOME



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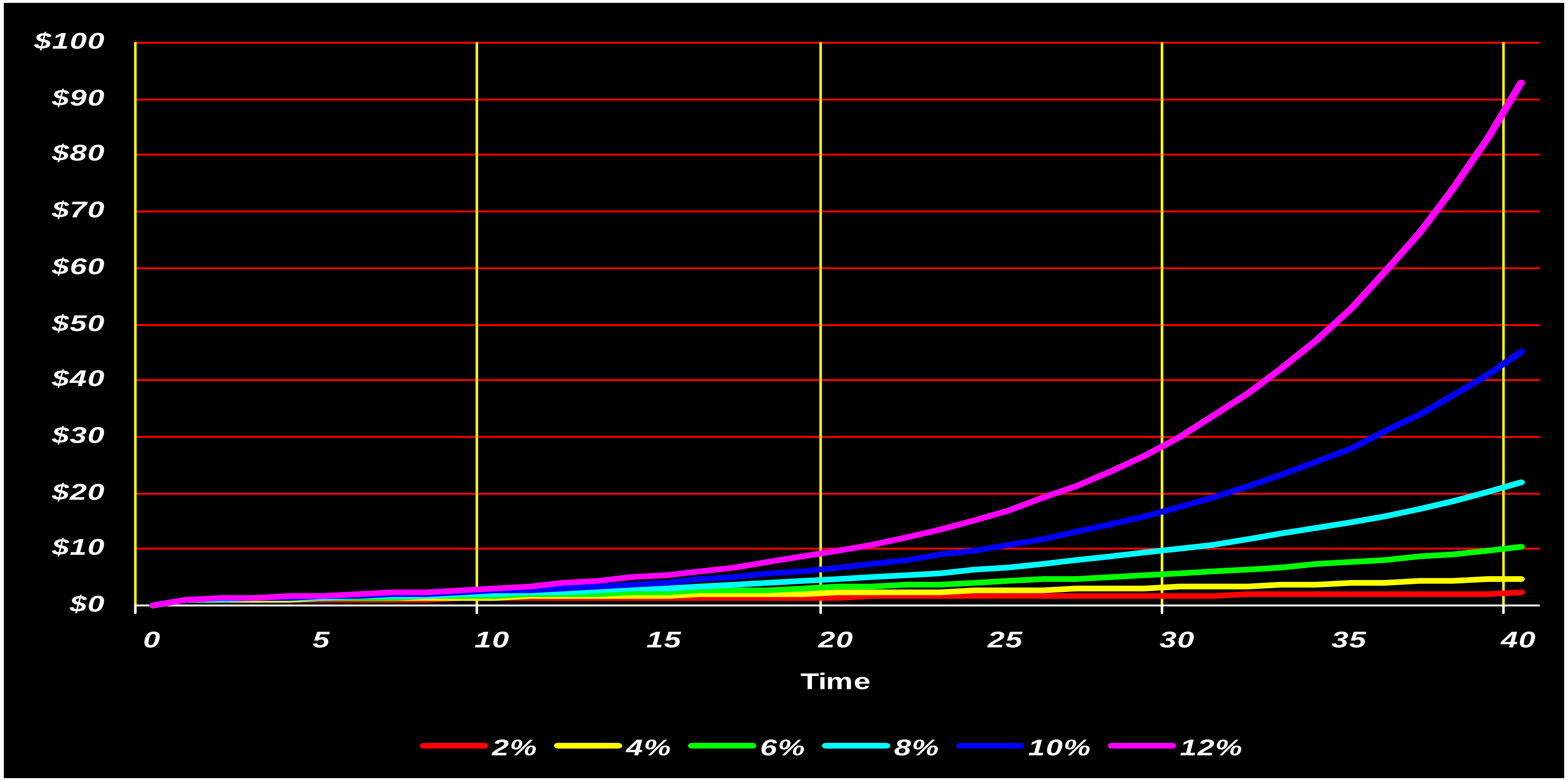
1. Compound Interest

- Is receiving (or paying) interest on interest
- Einstein: ‘the greatest invention of the 20th Century”

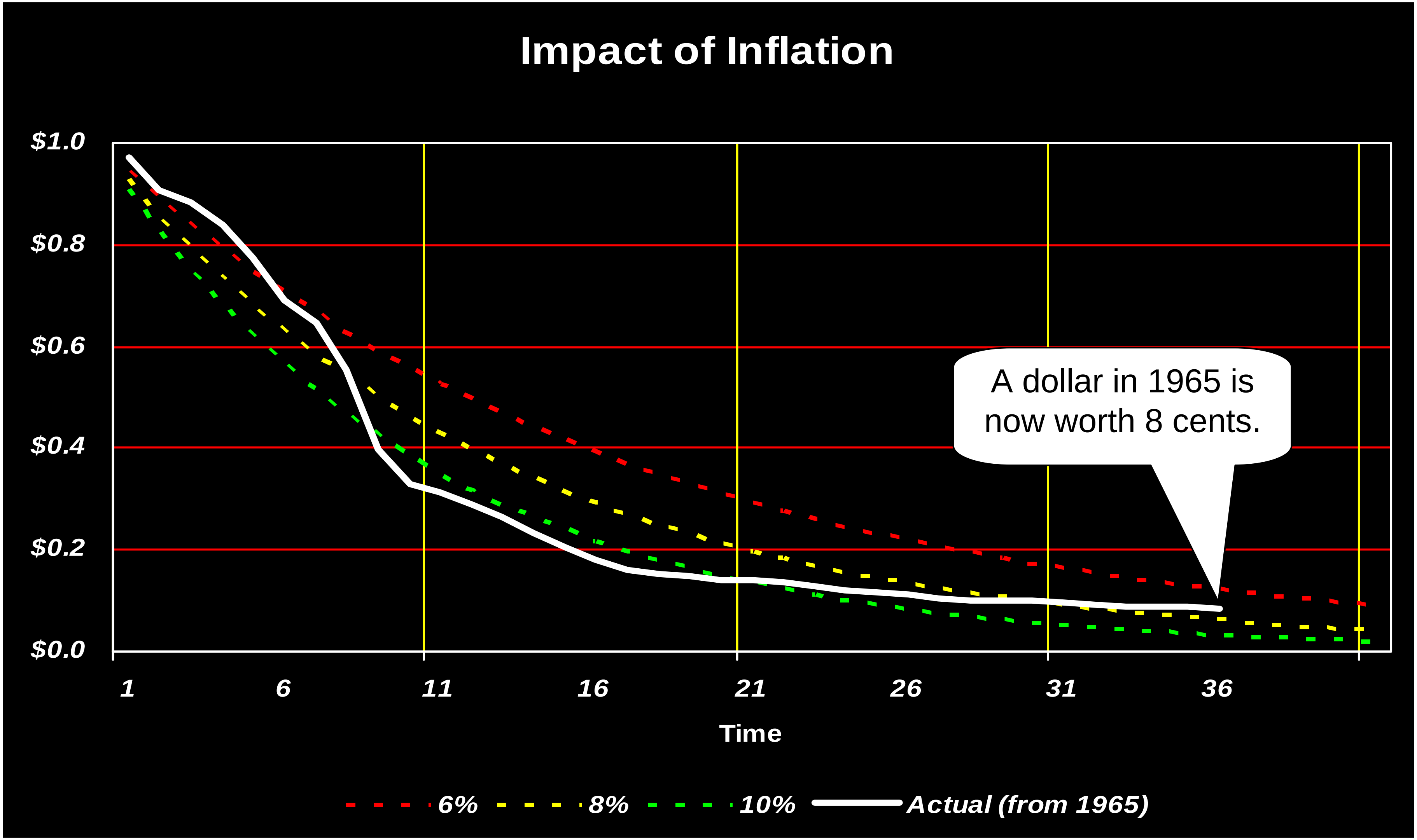


2. Inflation

- In 1986, you could buy:
  - A new Toyota Corolla for less than $20,000
  - A piece of land in St Philip for $2.00 per square foot
  - And with $150,000 you could build a very nice 3 bedroom, two-bathroom house
- With 3% annual inflation, in 25 years:
  - A dollar will be worth only 48 cents
  - Alternatively, you will need $209 to purchase what you could purchase with $100 today.

A persistent increase in the price level not attributable to any increase in the real value of the good or service.

UNDERSTANDING THE BASICS



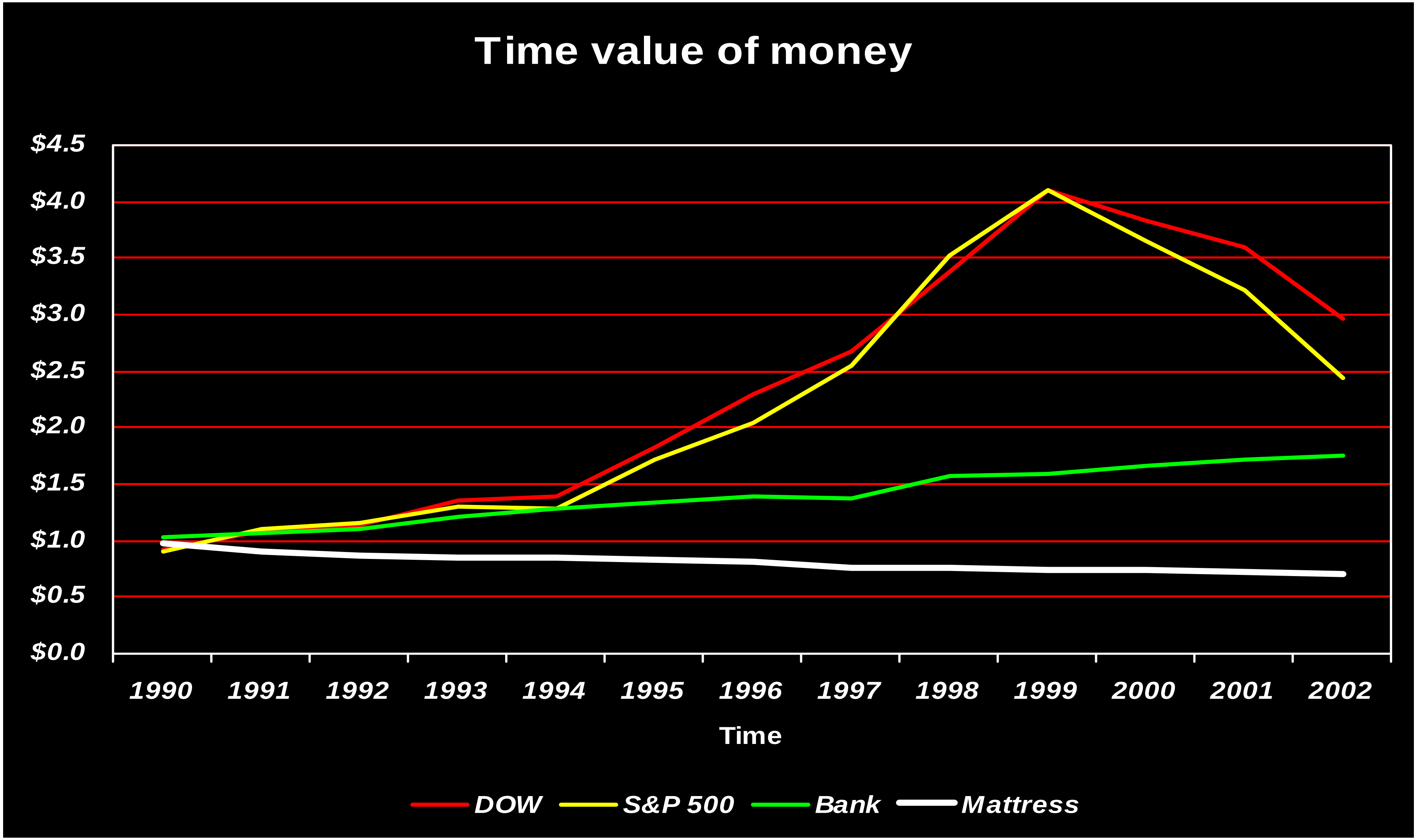
3. Opportunity Cost

- The income that is foregone by choosing a particular opportunity over the next best course of action.
  - e.g. If you put your money under you mattress, the opportunity cost is the interest foregone if you had put the money in the bank

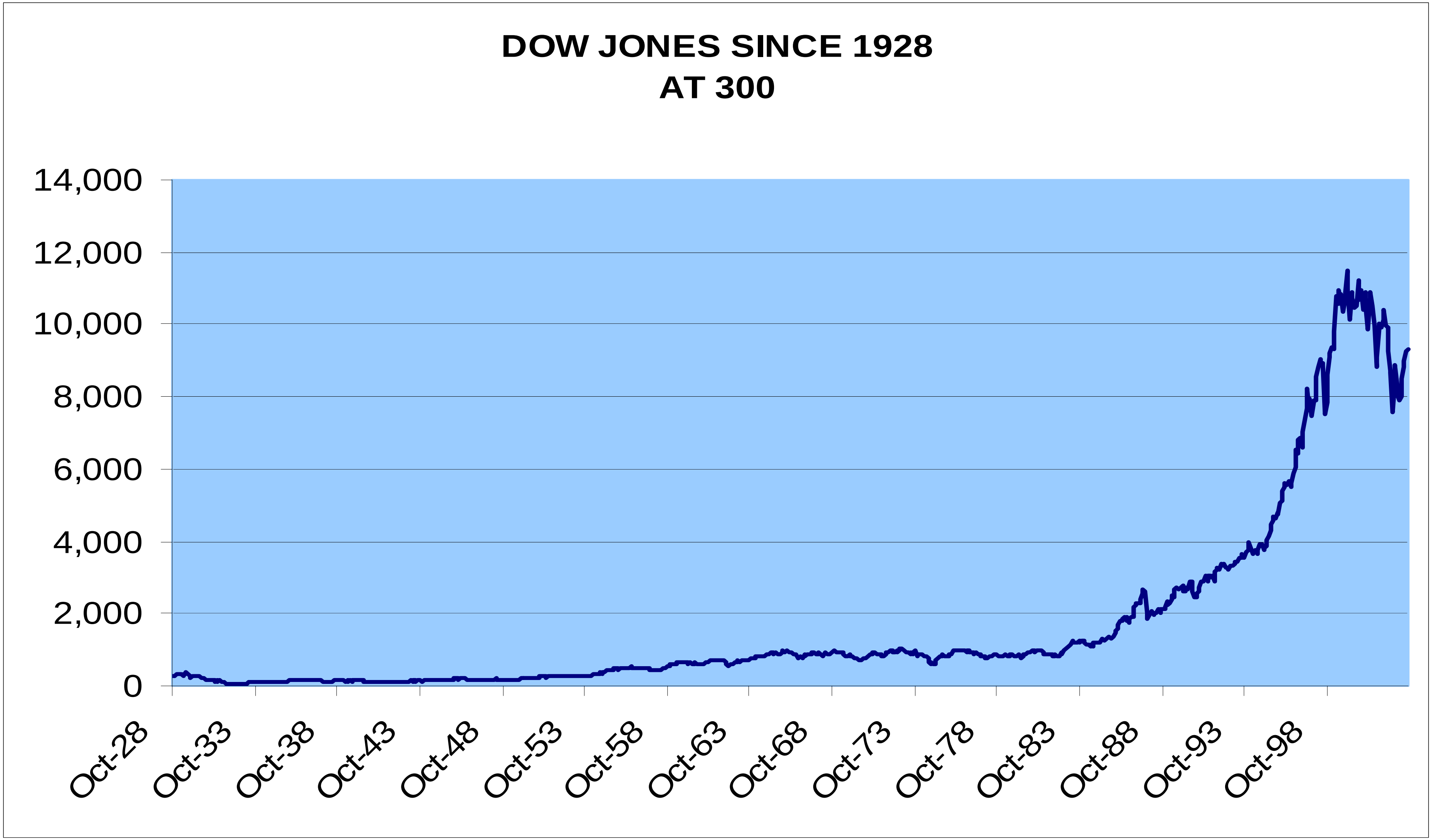
4. Time Value of Money

- Time is the key factor is creating wealth. A dollar tomorrow is not worth a dollar today because of inflation and opportunity cost.
  - Future Value = Present value x $(1+\text{Interest Rate})^{\text{time}}$
  - Present Value = Future value / $(1+\text{Discount Rate})^{\text{time}}$

UNDERSTANDING THE BASICS



UNDERSTANDING THE BASICS



UNDERSTANDING THE BASICS

5. Impact of Taxes

- Let us assume that you are in a 40% tax bracket, you can earn 6% interest on your investments, and all interest is re-invested
- If you invested $200 per month (after tax dollars) for 30 years with the interest above $50,000 is taxed at 12.5% (e.g. if you save your money in the bank), you would have **$181,200**
- If you invested $200 per month (before tax dollars and invested the tax savings) for 30 years in a tax-deferred investment (e.g. if you save your money in the Credit Union, invest in mutual funds etc.), you would have **$276,000**.

The key to creating wealth is to have your money working as hard as you do.

UNDERSTANDING THE BASICS

6. Risk and Return

- There is an inherent trade-off between risk and return trade-off
  - To have low risks, you must accept low returns; high returns mean high risks
  - ‘No free lunch’: This makes perfect sense: no one in their right mind would put their money in a riskier investment unless they expect to get a higher return. The extra return for a given level of risk is the "risk premium" that is necessary in order to induce investors to place their money in a riskier investment.
- If anyone offers you a sure way to earn 20% per year on my money, why aren’t they keeping it to themselves and borrowing all that they can to invest in this ‘sure thing’?
- BUT when it comes to your long-term financial future, the biggest risk of all may simply be to do nothing.

Your Personal Financial Statement
Basic Components

JOB

Income
Salary
Dividends
Interest
Rental Income
Royalties

Expenses
Taxes
Food
Housing
Clothing
Transportation
Entertainment

SURPLUS OR DEFICIT

Assets
Stocks
Bonds
Mutual Funds
Real Estate
Intellectual Prop.

Liabilities
Mortgage
Car Loan
Hire Purchase
Credit Card Debt
Other Loans

Your Personal Financial Statement
Remaining poor

JOB

<u>Income</u>
Salary

<u>Liabilities</u>
Hire Purchase
Consumer Loans

<u>Expenses</u>
Taxes
Food
Housing
Interest
Clothing
Transportation
Entertainment

SURPLUS/DEFICIT

Your Personal Financial Statement
Stuck in the middle

JOB

Income
Salary
Interest

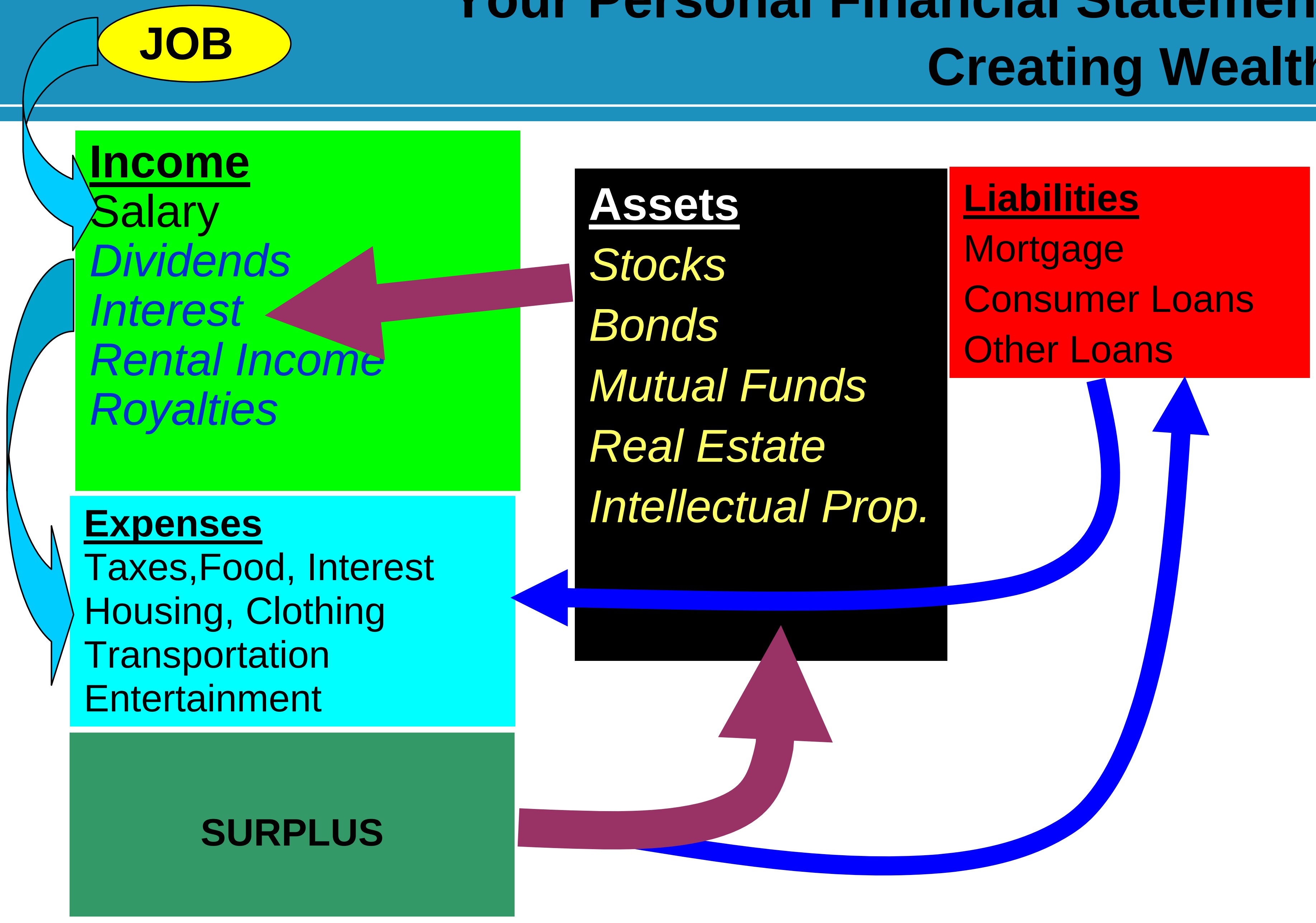
Assets
Mutual Funds

Liabilities
Mortgage
Car Loan
Hire Purchase
Credit Card
Debt
Other Loans

Expenses
Taxes
Food
Interest
Housing
Clothing
Transportation
Entertainment

SURPLUS/DEFICIT

Your Personal Financial Statement
Creating Wealth



HOW DO YOU PLAN?

STEP 1: CREATE A FINANCIAL ROADMAP

- Know where you are
  - Identify current income and expenses
- Set goals
  - What are you trying to achieve?
- Create Your Budget
  - Your plan of how you are going to spend AND SAVE
- Monitor how you are doing
  - Track your Expenses - you cannot control what you do not track.
  - Review your progress each month or quarter.

If you don’t know where you are going, you’ll probably end up somewhere else.

HOW DO YOU PLAN?

STEP 2: PROTECT YOUR FAMILY AND PROPERTY

- Prepare for “Routine” Emergencies
  - Repairs and Sickness
- Set up an emergency fund or cash safety net
  - For medical bills, repairs - not vacations
  - 3 to 6 months expenses - or 1 month for every $1,000 of salary
  - Money must be accessible (the Credit Union?)
  - Must be “repaid” if it is used
  - Must keep pace with increases in expenses.

Living brings threats, which if they occurred, would result in financial loss.

HOW DO YOU PLAN?

STEP 2: PROTECT YOUR FAMILY AND PROPERTY

- Plan for Major Emergencies
  - Loss of job, long-term illness or serious injury, loss of Property, ‘Premature death’.
- Protect your assets with insurance
  - Life, health, ability to work
  - Home and contents
  - Car
  - Investments.

Living brings threats, which can result in financial loss. You need to protect against them.

HOW DO YOU PLAN?

STEP 3: CREATE AND PRESERVE WEALTH

- You can only invest if there is money to invest
- But saving is not necessarily investing
- Invest first, spend later
- Ask:
  - What are my life goals?
  - What are my financial goals and objectives?
  - What is my investor profile?
  - What investment options do I have based on my profile?
  - How can I set up a realistic financial plan to meet my life goals?
- Invest all extra income
- Remember - an investment in knowledge pays the best return!

The key to creating wealth is to have your money working as hard as you do.

BIG 7 FINANCIAL DECISIONS

1. How you handle risk

- The risk-return trade-off is fundamental to investing
- Your ability to tolerate risk determines the return you will get
- But risk without knowledge is gambling - investing in knowledge in your best investment
- Time is the key factor in determining your ability to tolerate risk
- There is a dramatic difference between what is earned when if you invest $200 per month for 30 years at 4% (bank account) vs. 10% (long-term return on stocks).

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BIG 7 FINANCIAL DECISIONS

2. Your lifestyle

- Where do you want to live?
- What size house do you need?
- What amenities do you need in the house?
- What type of car do you want to drive?
- What clothes do you wear?
- What food do you eat?
- How often do you eat out?
- What hobbies do you have?
- How do you get your entertainment?
- Where do you spend you vacations - and how often?
- And what is the cost of living in the style you desire?

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BIG 7 FINANCIAL DECISIONS

3. Your choice of career

- Most of what you accumulate will come from what you earn
- And the career you choose will determine what you earn.

4. How you manage debt

- Credit is the privilege of spending money you do not have
- Interest is the cost of that privilege
- So what are you sacrificing for that privilege?

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BIG 7 FINANCIAL DECISIONS

5. Protecting your assets

- Are you protecting your most important asset?
- Are you insuring your assets? Yourself?
- Can you afford to replace your assets - and still realise your dreams?

6. How many children you have - and when.

- It’s truly great to have children
- What will it cost to support them for 18 or more years?
- What if they want to go to university? Overseas?
- Is there a difference if you have your children at 20 or at 30?

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BIG 7 FINANCIAL DECISIONS

7. Marrying for better
Or for worse

- Two can't live as cheaply as one - but it doesn't cost twice as much
- What will each party contribute - or take away from - the marriage?
- Financial problems are one of the main reasons for marital problems
- Financial teamwork can pay substantial dividends in later years - if you stay together
- Divorce can also wreck your financial dreams.

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QUESTIONS?

Ask Us at lashleyfinancial.com

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