Financial Empowerment for Women
Fitness ✦✦Foundation ✦✦Fluency

presented for

The Christopher Wren Society

by

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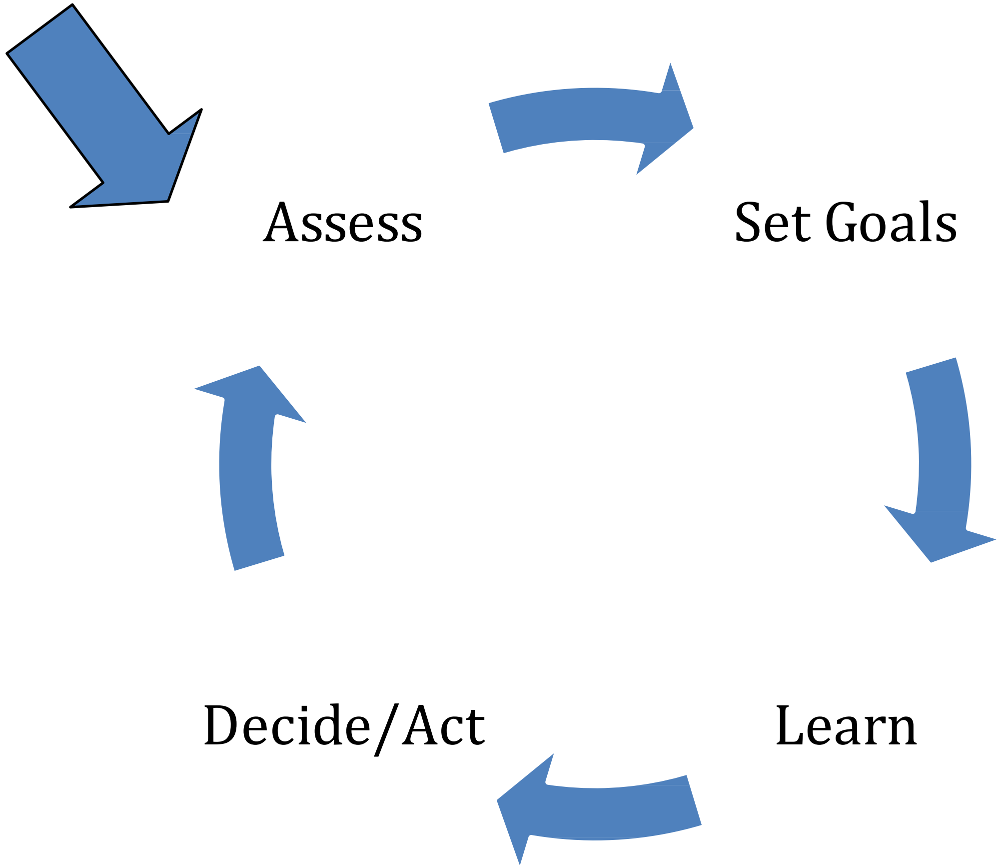
83%

want to get more involved in their finances within the next year.[6]

Source: Fidelity Investments

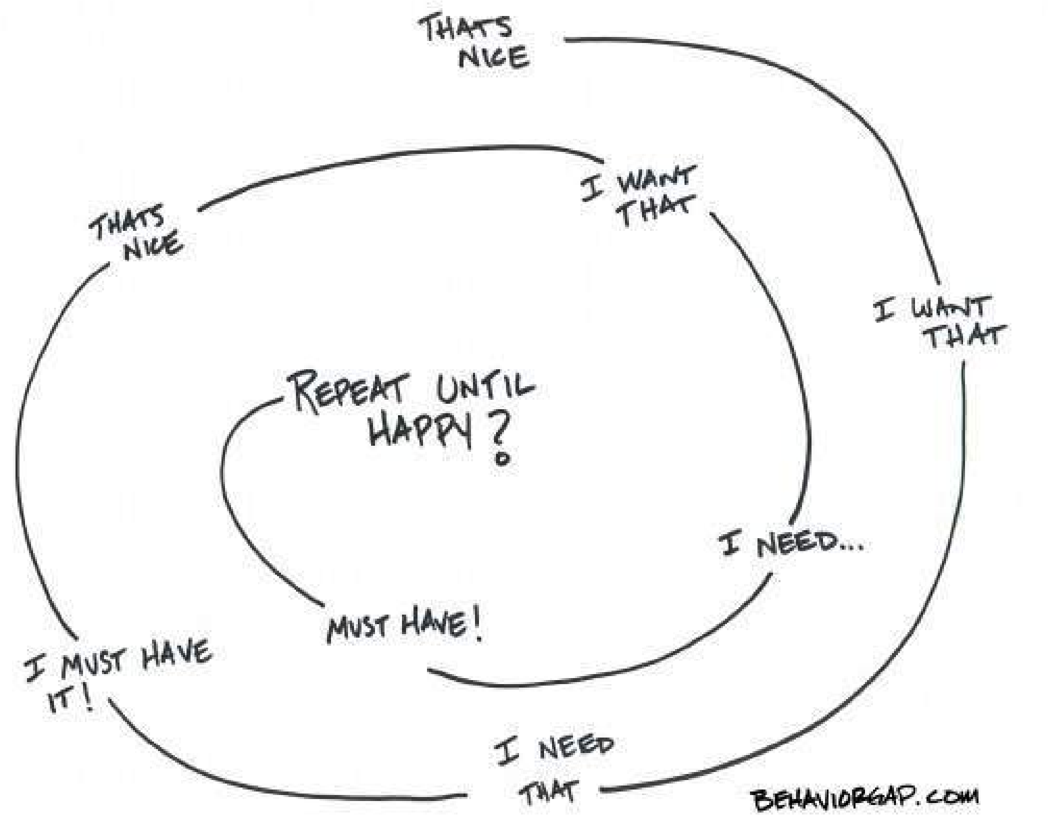
Financial Fitness

Begins with Awareness



Your Relationship with Money

For many of us, money is emotional:



Financial Archetypes

Type	Description
The Caretaker	**gives and lends money to express compassion and generosity**
The Empire Builder	thrives on power and innovation to create something of enduring value
The Guardian	always alert and careful
The Idealist	places greatest value on creativity, compassion, social justice, and/or spiritual growth
The Innocent	**avoids putting significant attention on money and believes or hopes life will work out for the best**
The Pleasure Seeker	**prioritizes pleasure and enjoyment in the here and now**
The Saver	**seeks security and abundance by accumulating more financial assets**
The Star	spends, invests, or gives money away to be recognized, feel hip or classy, and increase self---esteem

From "It's Not About the Money" by Brent Kessel

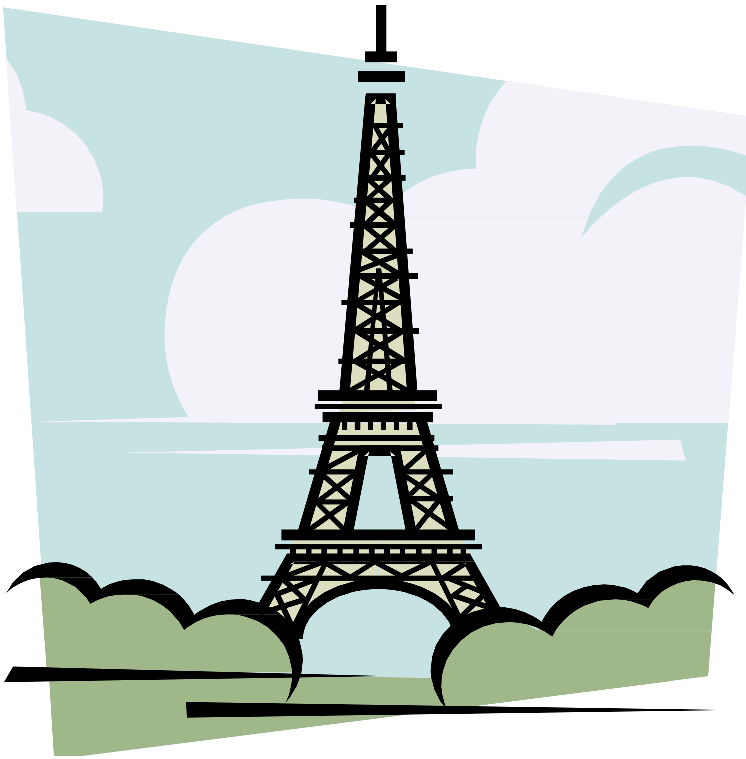
The Caretaker

- gives and lends money to express compassion and generosity
- may keep investments liquid in case someone needs to be rescued
- may spend 20% or more of income on needs of others but not generous with self

The Innocent

- avoids putting much attention on money and believes or hopes life will work out for the best
- prefers root canal over reconciling checking acct or dealing with bills
- nothing to show for a lump sum payment rec'd in the past few years

The Pleasure Seeker



- prioritizes pleasure and enjoyment in the here and now
- regularly engages in non-budgeted retail therapy when feeling low
- debts exceed assets due to overuse of credit
- saves less than 5% of income

The Saver

- seeks abundance and security by accumulating more financial assets
- saves more than 20% of net income each year
- spends and gives away less than 3% of financial net worth each year
- net worth grows more than 5% annually

Financial Archetypes

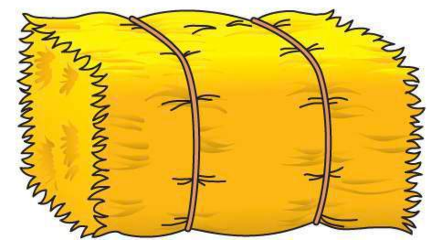
Type	Gifts	Pitfalls
The Caretaker	**empathy, generosity**	**enabling, self- -- abandoning**
The Empire Builder	innovation, decisiveness	greed, domination
The Guardian	alertness, prudence	worry, anxiety
The Idealist	vision, compassion	distrust, aversion
The Innocent	**hope, adaptability**	**avoidance, helplessness**
The Pleasure Seeker	**enjoyment, pleasure**	**hedonism, impulsiveness**
The Saver	**self-- --sufficiency, abundance**	**hoarding, penny- -- pinching**
The Star	leadership, style	pretentiousness, self- -- importance

From “It’ s Not About the Money” by Brent Kessel

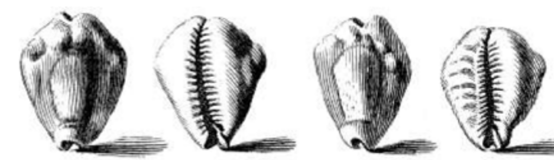
BREAK!!!

Origins of Money

- Aristotle
  - Every object has two uses



- Early civilizations
  - Metals, grains, livestock
  - Cowry shells, koku, shekel



- Clay Tablets
  - Promissory notes

- China – Song Dynasty
  - Banknotes

Functions of Money

- Medium of Exchange
  - Easy to trade for something else
- Unit of Account
  - Divisible into smaller units easily
  - Fungible – one is the same as another
- Standard of Deferred Payment
  - Accepted way to settle debt
- Store of Value
  - Reliably saved, stored, retrieved in predictable fashion

X	✓
X	✓
X	✓
X	✓

Income Statement

Income Statement

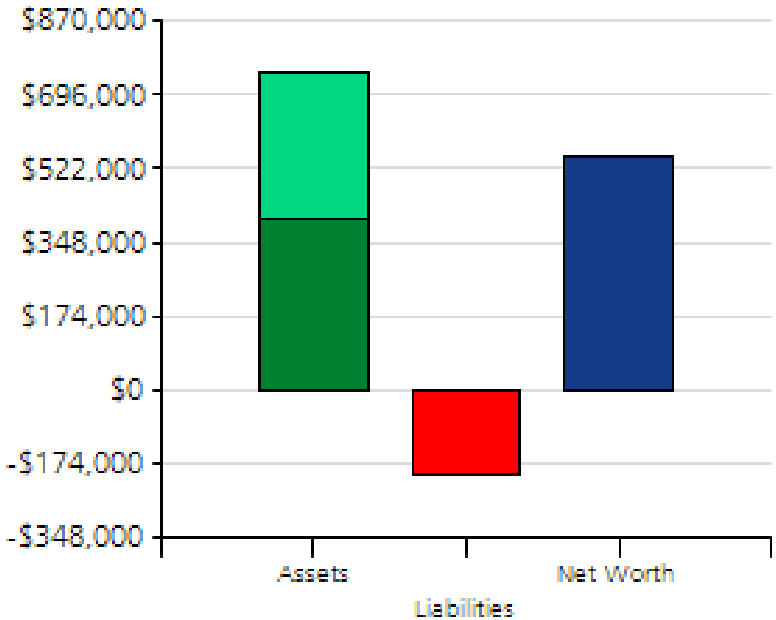
- Inflows
  - Social Security
  - Pension
  - Dividends, Interest
  - Anything else?
- Outflows
  - BILLS!
  - Mortgage/rent
  - Food, gas, insurance
  - More?

Monthly Income Statement
for the month of September 2009

Income:	Actual
Wages/salaries (after taxes)	2,400
Other Income	250
Income Available for Living Expenses	2,650
Expenditures for Donations/Savings	
Church Donations	318
Savings	398
Expenditures for Living Expenses	
Food	320
Rent	700
Utilities	325
Transportation	165
Debt Payments	50
Insurance	150
Medical	40
Clothing	100
Other	75
Total Expenditures for Donations/Living	2,641
Total Income less Expenditures	9

Balance Sheet

Summary | Detail



Investment Assets		$400,000
Other Assets	+	$350,000
Total Assets		$750,000
Liabilities	−	$200,000
Net Worth		**$550,000**

Description	Total
Investment Assets	
Employer Retirement Plans	$100,000
Taxable and/or Tax-Free Accounts	$300,000
Total Investment Assets	**$400,000**
Other Assets	
Home and Personal Assets	$350,000
Total Other Assets	**$350,000**
Liabilities	
Personal Real Estate Loan:	$200,000
Total Liabilities	**$200,000**
Net Worth	**$550,000**

Income and Expense Period of Time—Month, Year

Income
Salary
Interest Income

Subtract

Expense Food
Housing
Transportation
Other

Equals

Surplus/(Deficit)

Net Worth
Moment in Time

Assets—What You Own
Checking Acct
Savings Acct
Retirement
Car

Subtract

Liabilities—What You Owe
Credit Card
Car Loan
Student Loan

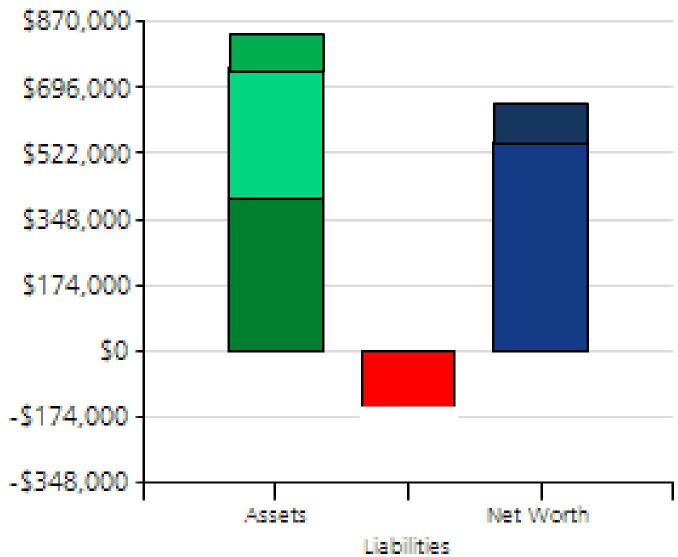
Equals

Net Worth

Example: Person A gets a pay raise at work and also decides to live more frugally. She saves $50,000 this year.

How does her balance sheet change?

Summary | **Detail**



Investment Assets		$400,000
Other Assets	+	$350,000
Total Assets		$750,000
Liabilities	−	$200,000
Net Worth		**$550,000**

Description	Total	
Investment Assets		
Employer Retirement Plans	$100,000	
Taxable and/or Tax-Free Accounts	$300,000	
Total Investment Assets	~~$400,000~~	$425,000
Other Assets		
Home and Personal Assets	$350,000	
Total Other Assets	**$350,000**	
Liabilities		
Personal Real Estate Loan:	$200,000	
Total Liabilities	~~$200,000~~	$175,000
Net Worth	~~$550,000~~	$600,000

Net worth ↑ $50,000

Income and Expense Period of Time—Month, Year

Income
Salary
Interest Income

Subtract

Expense Food
Housing
Transportation
Other

Equals

Surplus/(Deficit)

Net Worth Moment in Time

Assets—What You Own
Checking Acct
Savings Acct
Retirement
Car

Subtract

Liabilities—What You Owe
Credit Card
Car Loan
Student Loan

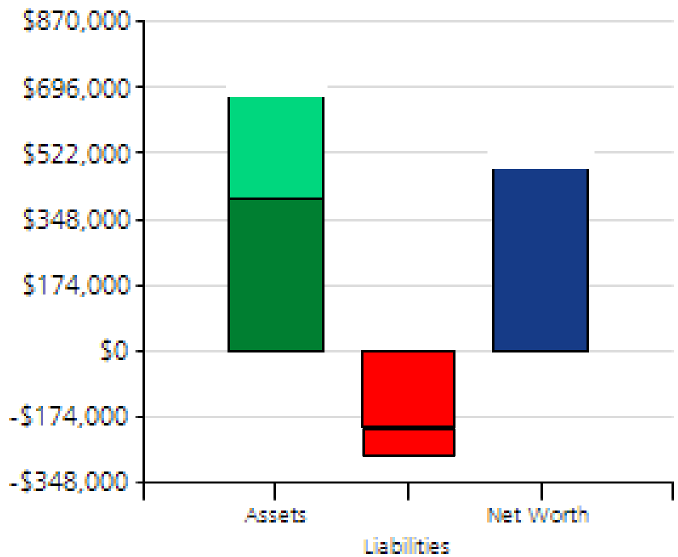
Equals

Net Worth

Example: Person B gets a pay raise at work and celebrates by going to Las Vegas. She plays the high stakes poker room at Caesar's… but isn't very good at poker.

How does her balance sheet change?

Summary | **Detail**



Investment Assets		$400,000
Other Assets	+	$350,000
Total Assets		$750,000
Liabilities	–	$200,000
Net Worth		**$550,000**

Description	**Total**	
Investment Assets		
Employer Retirement Plans	$100,000	
Taxable and/or Tax-Free Accounts	$300,000	
Total Investment Assets	~~$400,000~~	$375,000
Other Assets		
Home and Personal Assets	$350,000	
Total Other Assets	**$350,000**	
Liabilities		
Personal Real Estate Loan:	$200,000	
Total Liabilities	~~$200,000~~	$225,000
Net Worth	~~$550,000~~	$500,000

Net worth $50,000

MASTERING YOUR MONEY

Savings Are Delayed Spending

The Bucket Strategy

Emotional Spending: 20%
Spending is emotional. Happy or sad humans are prone to impulsively spend due to specific event, promotion, being laid off, etc. Plan for it!

Emergencies: 20%
Life happens, cars breakdown, roofs leak. Idea is to save for the eventuality and not let it disrupt your long-term savings plan.

Long-Term Savings: 60%
You are in control of your future. As noted previously your future retirement lifestyle is dependent more now than ever on the amount you save.

Risk and Reward

Risk

Reward

Standard Deviation

- Bell curve
- Distribution of returns around a mean
- Measured over time… 3yr, 5yr

- Narrow standard deviation
  - More returns close to mean
  - Less volatility
  - Less perceived risk

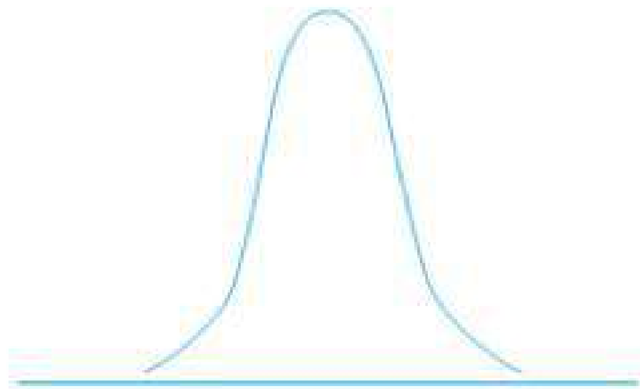


Figure (1)

- Wider standard deviation
  - More dispersion of returns
  - More fluctuation/volatility
  - More perceived risk

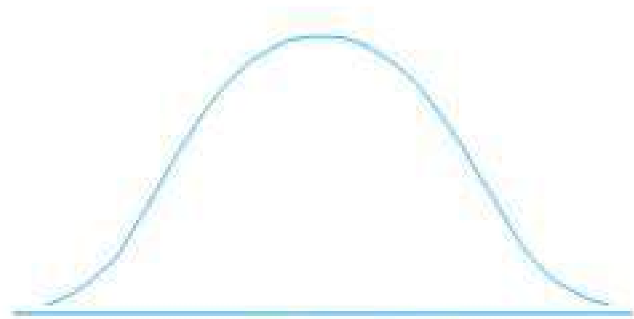


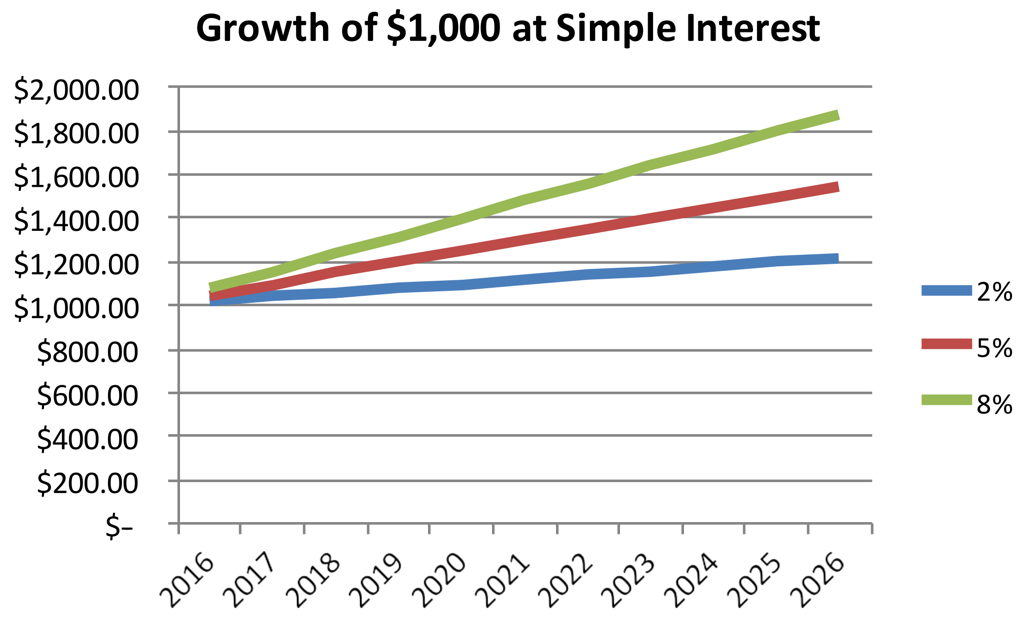
Figure (2)

SIMPLE INTEREST

Laws of Eshnunna (early 2nd millennium BC) instituted a legal interest rate, specifically on deposits of dowry, since silver being used in exchange for livestock or grain could not multiply on its own. *Wikipedia*

$$y = a(r)$$

Assumption: Interest is earned on a static sum of money ($1,000). This implies that the funds are spent as earned, i.e much like someone spending interest earned on bonds, savings account, etc.



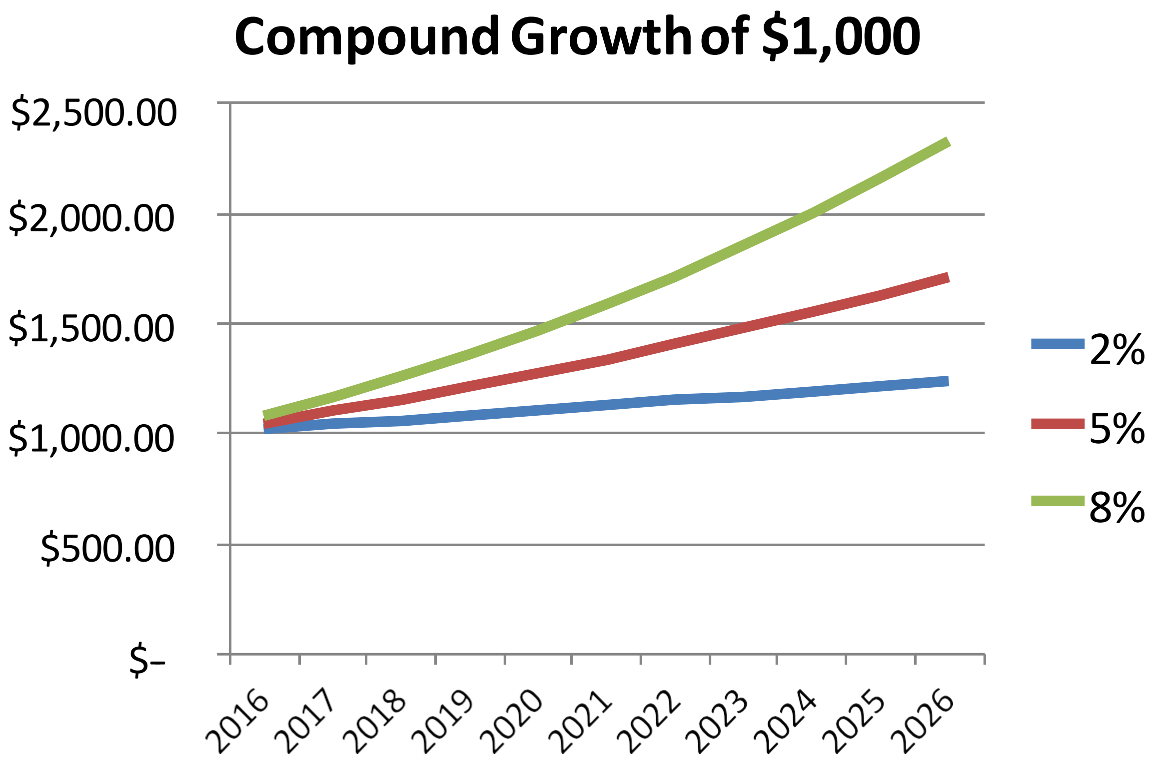
This is for illustrative purposes only and not indicative of any investment.

COMPOUND INTEREST (*AKA* GROWTH)

Albert Einstein is said to have called
"*the power of compound interest the most powerful force in the universe*."

$$y = a(1 + r)^N$$

Assumption: interest earned is not spent but saved, resulting in more interest being earned in the future and a larger balance accruing



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RULE OF 72

A rule stating that in order to find the number of years required to double your money at a given interest rate, you divide the compound return into 72. The result is the approximate number of years that it will take for your investment to double. *Investopedia*

For example: If you are offered 10%, it will take roughly 7.2 years to double your money (via compound interest).

Proof: $\$1(1+.10)^{7.2} = \$1 * (1.986) = \$1.99$