



# Financial Literacy

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# Agenda

- Budgeting
- Savings and Investing
- Find Money at Work
- Saving and Investing Beyond Work
- Investing in Individual Stocks



# Benefits of Budgeting

- Gives you control over your money
- Keeps you focused toward your financial goals
- Helps you stay aware of where your money goes
- Helps you save for expected and unexpected costs
- Clarifies areas where you can save money

# Three Main Components of a Budget

## Income

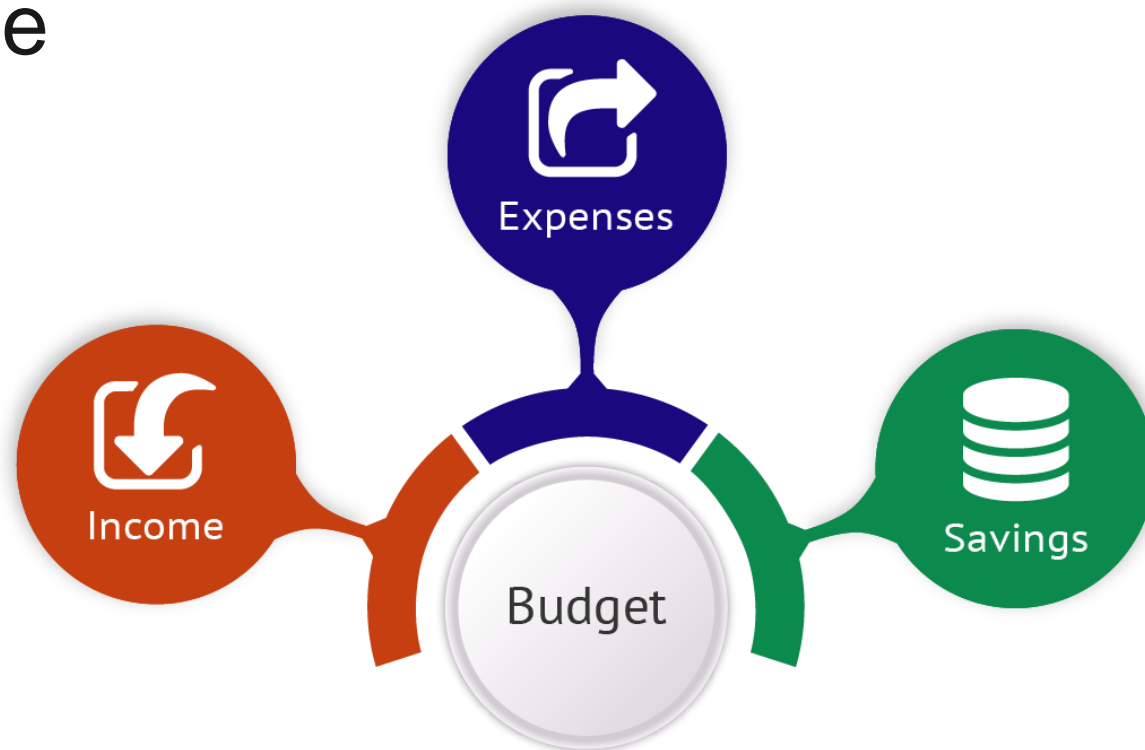
- Money you earn from a range of sources

## Expenses

- Outgoing funds you pay to others

## Savings

- Anything you have left over after paying your expenses



# Where to Start when Developing a Budget

- Understand your money and how you spend it
- Make tough decisions about spending priorities
- Budget with a lifestyle in mind
  - Items that create meaning and bring you joy
  - Things you want, but that can wait
  - Things you would like to have, but aren't essential
- Build a budget that allows you to save



# Things to Remember about Budgeting

- Make sure your list reflects your priorities
- You can always adjust your goals as your priorities change
- Budgeting takes time, patience, and effort
- If your first attempts don't go as planned, don't give up
- Look for ways to make tracking spending easier – like mobile apps



# What Happens if you Don't Budget

- Overspending
- Falling into a debt cycle
- Limited spending power
- Limited savings and investments
- Lack of future security





# Finally...

- Budgeting is about saving money
- Better budgeting helps you end up with more money to manage
- An accurate budget brings discipline and order to your finances
- Use your budget to guide important decisions
- Earning more than you spend is the way to a low-stress, comfortable life!



# Identifying and Reducing Your Expenses



## Fixed

Same  
Payment  
Amount  
Every Month



## Periodic

Scheduled  
Payments  
Outside Monthly  
Payment  
Routine



## Variable

Routine  
Expenses that  
are Different  
Each Time  
You Pay

# Fixed Expenses

- Payment remains the same month-to-month
- Examples:
  - Rent/mortgage
  - Car payment
  - Insurance premiums
  - Monthly gym memberships
- Fixed expenses are easy to track and include in your budget



# Periodic Expenses

- Payable at intervals other than monthly
- Examples:
  - Car registration
  - Quarterly subscriptions
- Plan for periodic expenses by budgeting toward the expense
- Calculate how much to save monthly for each periodic expense



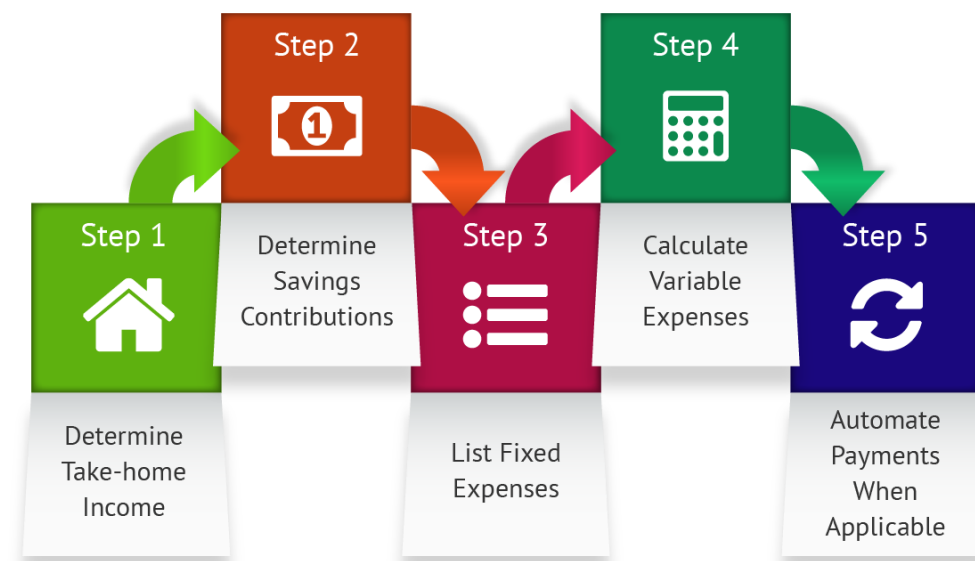
# Variable Expenses

- Routine expenses that vary in amount each month
- Examples:
  - Groceries
  - Eating out
  - Entertainment
  - Personal care
- Tips to keep variable expenses under control:
  - Open a separate checking account with a set amount to spend on variable expenses
  - Track spending using a spreadsheet or mobile app

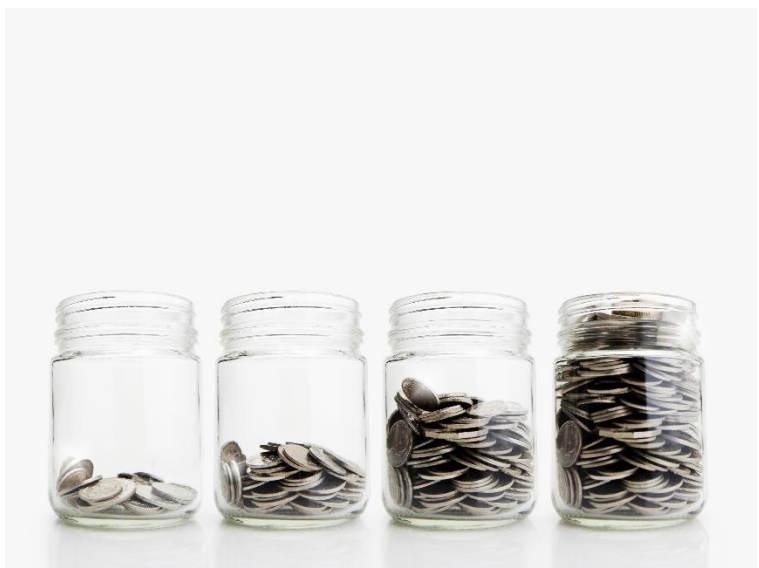


# Steps in Creating a Budget

- Step 1
  - Enter your income – Total net (take-home) pay, tips, and any other compensation.
- Step 2
  - Plan your savings – Set aside at least 10% of your income before you purchase any “wants.”
- Step 3
  - List fixed expenses – Rent, car payment, insurance. Account for annual fixed expenses (gym memberships, auto registration, etc.) by dividing the annual payment by 12.
- Step 4
  - Calculate variable expenses – Coffee, movies, special events. Track variable expenses for a month and adjust accordingly.
- Step 5
  - Set up your budget to automate and organize your finances online. This step will ensure that you can accurately monitor your budget and make adjustments.



# Develop a Personal Budget



- Identify Expenses
  - Fixed expenses
  - Periodic expenses
  - Variable expenses
- Balance Expenses with Income
- Create a Budget
  - Monthly averages
- Find Ways to Cut Expenses

# Streamlining Your Budget

Income		Current	Changes	New Budget
	Take-home pay	\$4,200.00		\$4,200.00
	Overtime pay			
	Pension/Social Security			
	Alimony/Child Support			
	Other Income			
Total Income		\$4,200.00	\$0.00	\$4,200.00
Expenses				
	Mortgage	\$2,000.00		\$2,000.00
	Insurance	\$200.00		\$200.00
	Utilities	\$150.00		\$150.00
	Cable	\$185.00	(\$150.00)	\$35.00
	Credit Card Payments	\$200.00		\$200.00
	Groceries	\$200.00		\$200.00
	Clothing	\$150.00	(\$50.00)	\$100.00
	Car Payment	\$300.00		\$300.00
	Car Insurance	\$80.00		\$80.00
	Gas	\$145.00	(\$30.00)	\$115.00
	Entertainment	\$400.00	(\$100.00)	\$300.00
	Other expenses	\$100.00	(\$50.00)	\$50.00
Total Expenses		\$4,110.00	(\$380.00)	\$3,730.00
Money to Save		\$90.00	\$380.00	\$470.00



# Savings and Investing

- Establish an Emergency Fund
  - 3 months, if multiple incomes or income streams
  - 6 months, if only one income or income stream
- Find Money to Save and Invest At Work
- Saving and Investing Beyond Work
- Stock Market Investing

# How Much Should I Be Saving?

	Fidelity	Investopedia	TIAA
Essential Expenses	50%	50%	50%
Retirement	15%	*10%	*10%
Savings	5%	*10%	*10%
Discretionary	30%	30%	30%

\*Savings and Retirement are Interchangeable

# Finding Money at Work

## How can I save and invest at work?

- ***Employer Sponsored Plans: Defined Benefit or Defined Contribution (401k, 403b, 457, Thrift Savings Plan)***
- ***Group Health Insurance***
- ***Health Savings Account (HSA) & Flexible Spending Account (FSA)***
- ***Group Life Insurance & Disability***
- ***Child Care Programs***
- ***Education Programs***
- ***Commuting Programs***
- ***Profit Sharing***
- ***Leave Buybacks***
- ***Employer Matching***



# Retirement

- Average life span is increasing (age 79)
  - Retirement dollars must last longer
- **Defined Benefit Plan** (rare)
  - Investing burden on employer
- **Defined Contribution Plan**
  - Investing burden on the employee
- **Social Security** (average \$1,550.48)



# 401 k/403b/457

- What is your Risk Tolerance?
  - <https://www.investopedia.com/>
- What investment options does your company offer?
  - Treasury Bills/Government Funds
  - Target-Date/LifeCycle Funds
  - Mutual Funds, Index Funds
    - Baskets of stocks, bonds or other assets
  - Company Stock
  - Company Matching?



# Start with Your 401k Plan

- Some companies “match” a portion of your investment
- At a minimum, contribute up to the match amount – you are earning it! Don't leave free money on the table.
- Only 25% take full advantage of the match
- A common employer match is 50% up to first 6%

\$50,000 Income

\$3,000 Your 401k contribution

\$1,500 Employer contribution

\$4,500 Total contribution



# Save and Invest Beyond Work

How can I save and invest beyond work?

- ***Traditional or Roth Individual Retirement Account***
- ***529 College Savings Plans/Other College Savings Plans***
- ***Brokerage Account***
  - ***Index Funds***
  - ***Mutual Funds***
  - ***Exchange Traded Funds***
  - ***Individual Stocks***



# Beyond Work: Your Investment Strategy?

- Develop an investment strategy beyond your 401k
- Park your cash where you can get a good return
  - Index Funds
  - Exchange Traded Funds
- Advance to individual stocks for greatest return and no fees



# What to Invest in?

## Index Funds

- Closely match indexes such as the S&P 500 Index or Total Stock Market Index
- Very low expense ratios (0.1% – 0.2%)
- Offer tax-efficiency due to low turnover
- Easy way to track with the performance of “the market”
- Known to outperform actively managed funds
- No opportunity to outperform the market
- When the market goes down, so does the index
- When the market goes up, so does the index

# What to Invest in?

## Mutual Funds

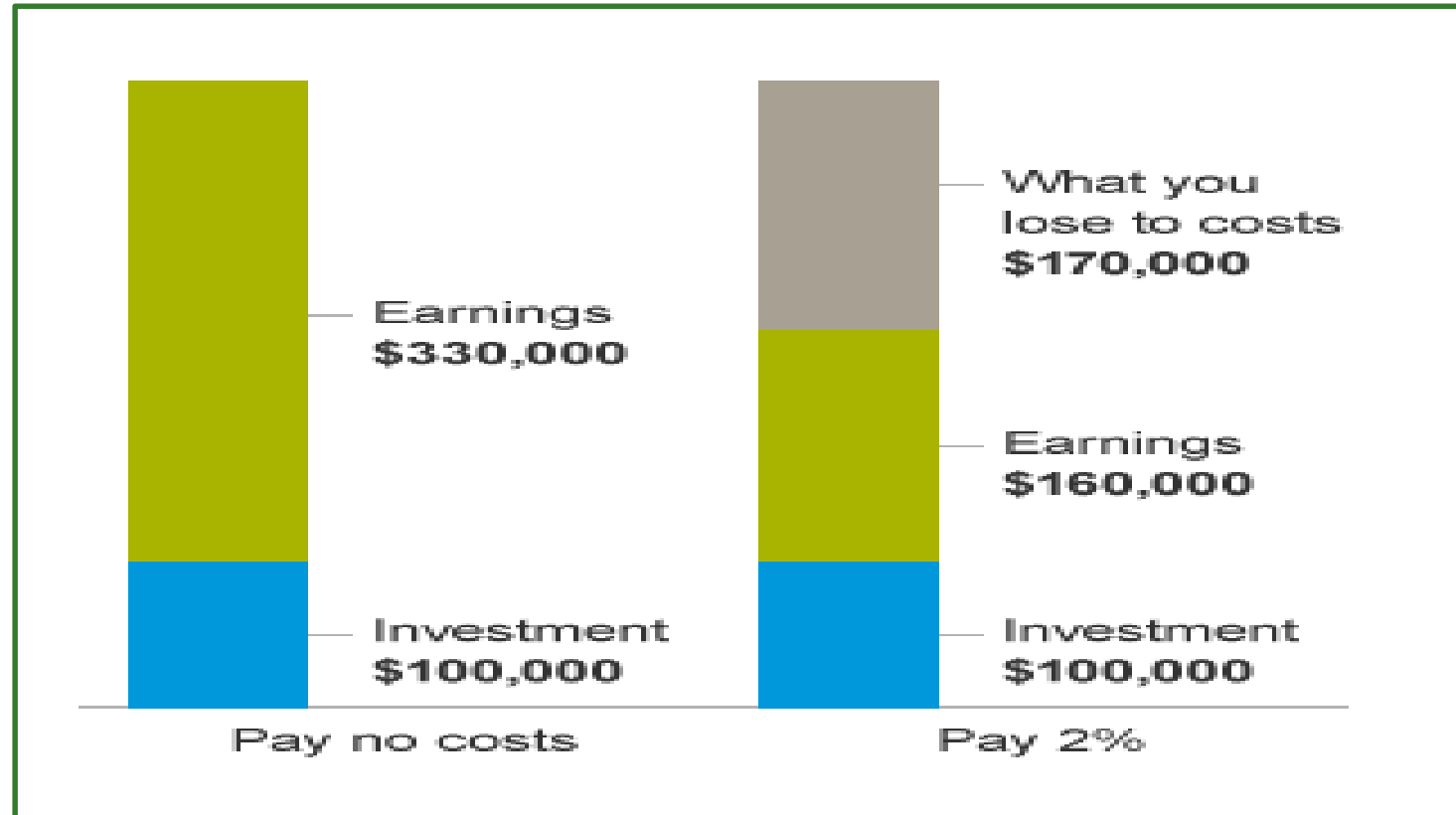
- Purchased and sold at end of trading day
- Actively managed
- Available more often in retirement plans
- Funds charge annual commissions and fees

## Exchange Traded Funds

- Purchased and sold (traded) throughout the trading day
- May be more tax efficient with smaller fees
- Transaction fees may be charged when buying or selling.

Both are baskets of stocks, bonds or other assets.

# A Look At Fees



FEE\$ →

Expense ratios  
Management Fees  
12b-1 Fees  
Administration Fees

# Brokerage Account Example

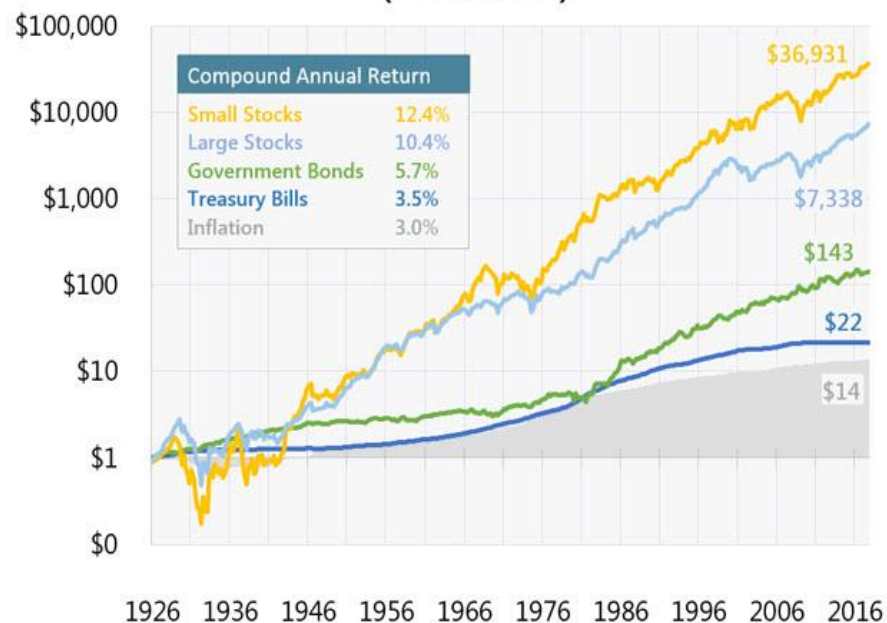
- Managed account fee: \$9,800 per year
- Adviser Large Cap Fund Fees:
  - .24 Expense Ratio
  - .18 Representative Fee
  - .43 12b-1 Fee
  - .01 Broker Commission
  - 1.75 Tax Cost
- Adviser Large Cap Fund: 22% invested in other funds managed by the same brokerage (more fees)
- The other 78% is in various stocks
- Fund is performing at least 2 points below the index for past 10 years

## Know Your Investments

- Read the prospectus on your investment so you know what you are invested in
- Use Morningstar to research Mutual Funds in your retirement plan (401k, 403b, 457)
- Review fee structure of your investments
- Review 1, 3, 5 and 10 year returns of your funds. Are returns better than the index or category?

# Why Start Investing Yourself?

Ibbotson SBBI Stocks, Bonds, Bills, and Inflation  
(1926-2017)



- The stock market offers the best return over time
- Compounding is a miracle
- Be careful with
  - Managed Brokerage Accounts
  - Mutual Funds
  - Annuities
- Be mindful of fees & taxes
- Everyone can learn

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# Questions?

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