

Personal Finances 101

Why should you care about personal finance?

Planning your future starts here.

There are a lot of your folks who have no clue about how to manage money. They usually spend everything they have in their pocket, and even more: they charge the credit cards like the card is their deep pocketbook. The result? They live from check to check while their finances move with accelerated speed below zero deeper and deeper.

I see it as a triple problem:

1. The lack of financial discipline/bad habits
2. The lack of financial education
3. The lack of understanding of what means to live below your means.

“If you want to be wealthy, live below your means”

Paul Merriam

Living “below your means” and saving/investing money for the future requires common sense:

- Do I really need to buy this purse/phone/snickers/game/expensive car/expensive house/restaurant meal or *{insert your item}*? Can I live without it?
- Can I prepare the food in my kitchen instead of spending money on the same sandwich that would cost me 3 times more?
- Can I brew a coffee in the morning at home instead of spending \$5-6 in the coffee shop?

While, as a couple, we are financially well-being at this point, we never overpay for needed items even if we can and have enough money to buy. From our point of view, we could drive an expensive car but prefer Subaru which has excellent technical innovations, reliability, and a price well below any luxury car. It serves all our needs for shopping, travel, and occasional work. Since we have retired, we don't need a second car (while we can afford it!).

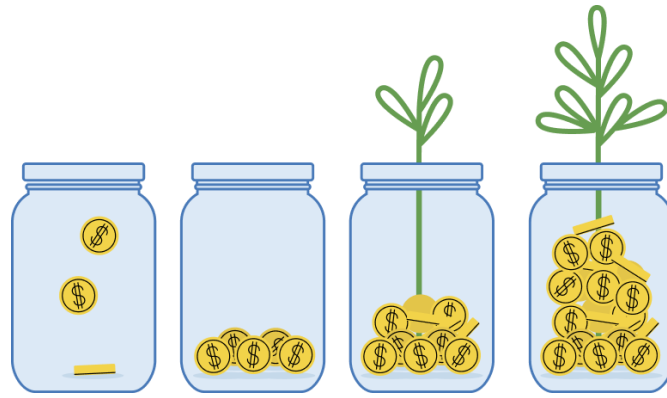
This single example shows how to live below your means while having everything we need in this life. At the same time, I use “not-spent” money to generate more money because it is the purpose of money.

- *"If you don't find a way to make money while you sleep, you will work until you die." - Warren Buffett.*
- *"One of the dumbest things you can do with cash is to spend it."*
Robert Wilson, a short seller
- *"Any man can earn a dollar, but it takes a wise man to keep it."*
Russell Sage
- *"Getting rich is easy if you follow three rules: spend less, save more, and invest the rest"*
Kevin O'Leary, Shark Tank

Spend little — invest the rest to generate more. The compounding effect is great!

Financial education is super important. Do you know how much money people lose with credit cards ONLY BECAUSE they are considering them as a deep wallet? Why not pay off the entire due amount and not let the bank charge you more? Here is some useful information:

While our friends live below their means, their daughter doesn't care about saving money. She had a good sum in her saving account that could be used to buy her property but she spent it on food delivery, various online orders, expensive cosmetics, restaurants, etc.



Was it wise? Not at all...

Should I say more?

Learning about the basics of money and finance can give you a big head start. Find out how a little education goes a long way toward a brighter future.

Finally, think of your money in the long term. Maybe you want to retire early or start your own business. Good personal finance habits can help make this possible and change your life for the better.

I just want to highlight the most important topics in quick lessons. If you learn about these foundations, you'll have a big advantage going forward:



Making Money

Money doesn't buy happiness, but it does give you more freedom to live the life you want. Learn the basics of budgeting and taxes that can help keep you in the green.



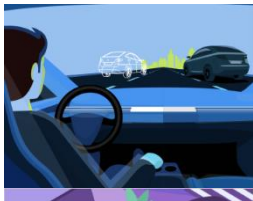
Debit, Credit, Checking, and Savings

Credit or debit? Checking or savings? Learn the banking basics you'll want to keep in mind, as well as tips for building credit and avoiding big debt.



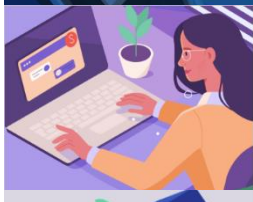
Credit Scores

A good credit score can save you thousands of dollars and open new doors for you (literally—a good score can help you get a classy new place to live).



Cars and Transportation

Learn how to buy or lease a car and get around reliably (and hopefully with a little style).



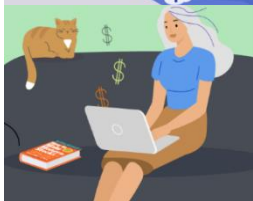
College

College is very useful but expensive. Learn some tips for paying for college and creating a budget.



Housing: Renting and Buying

There's nothing quite like a space to call your own. Learn some practical tips for renting a place and eventually buying a home.



Plan for Retirement

Want to retire a millionaire? If you start contributing money towards your retirement early, you'll be well on your way.

Remember: Small decisions, made over and over, can get big results.

How to Make Money

Money doesn't buy happiness, but it does give you more freedom to live the life you want. Here are the basics of budgeting and taxes that can help keep you in the green.

Getting a job or starting a business is step one.

For example, let's say you get a part-time job as a barista. You work 20 hours per week and get paid \$15 an hour. So that means you'll make \$300 a week...right?

Wrong. Because of Taxes.

Here's a look at what your paycheck would look like after taxes are taken out.

Taxes are a pain and there's nothing you can do about them. Why? Because when you drive on a road, walk on a sidewalk, or use public services, that's the government giving your taxes back to you.

PAYCHECK			
INCOME	RATE	HOURS	TOTAL
REGULAR	15.00	20	300.00
OVERTIME	0	0	0.00
BONUS	0	0	0.00
DEDUCTIONS			TOTAL
FEDERAL INCOME			-15.00
TAXES			-9.00
STATE INCOME TAXES			-19.00
SOCIAL SECURITY			-4.00
MEDICARE			
TAKE HOME PAY			253.00

A budget helps ensure you can pay your bills and have money left over.

*Your monthly pay: **\$1012.00**

Rent for room
in shared apartment: **-500.00**

Transportation
Car payment: **-150.00**

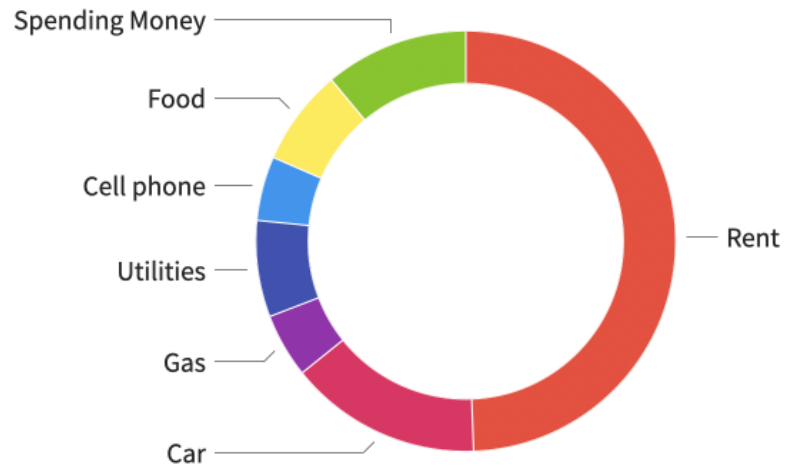
Gas: **-50.00**

Utility bills: **-75.00**

Cell phone: **-50.00**

Food: **-75.00**

Spending Money: **\$112.00**
(Amount left for the month)



Key Points

1. Make money by getting a job or starting your own business.
2. Creating a budget for all your expenses can help ensure you have spending money left over.
3. Don't forget to account for taxes when you're budgeting your paycheck.

Debit, Credit, Checking & Savings

Credit or debit? Checking or savings? Here are the banking basics you'll want to keep in mind, as well as tips for building credit and avoiding big debt.

Checking and Savings Accounts

Checking accounts allow you to easily access your deposited money from ATMs and banks, plus services like Venmo, PayPal, and Apple Pay.

Savings accounts

Savings accounts allow you to set aside money and earn interest on it. It's not as easy to access as money in a checking account, but you're rewarded for parking your money here.

Checking accounts

Checking accounts are designed for everyday usage, while savings accounts are designed for your long-term financial goals. You can have both of these accounts at the same time.

Checking and savings accounts

Checking and savings accounts can have monthly fees, but many banks will waive these fees if you maintain a set minimum balance or have your paycheck automatically deposited (known as direct deposit).

Debit Cards

Debit cards are a way to use the money in your checking account without worrying about carrying cash. Debit cards are often free, but sometimes there is a fee to use the card. They also let you withdraw your cash from any ATM.

5 things to know about credit cards

1. Credit cards are borrowed money that you can use, but will have to pay back (usually at an increased cost due to interest).
2. Credit card companies charge you a percentage of what you spent (called the interest rate) for the use of their money.
3. Often, credit cards won't start charging you interest if you pay off your account balance in full within a month. After that, you'll pay a percentage on your balance until it's paid off.
4. The percentages vary widely based on your credit score, but they can be as high as 25% or 30% in some cases.
5. Credit cards are good for building your credit score, but they can be costly if you're making minimum payments over a long period.

How much extra does it cost to pay with a credit card?

Say you want to buy a new \$1,000 laptop and don't have the extra money to purchase it upfront. You open a credit card with an interest rate of 19.99% APR to make the purchase and then pay it off over time.

How much extra would a \$1000 laptop cost?

PAYMENTS/DURATION/INTEREST

\$100 installments/12 Months to payoff/**\$105.04 EXTRA**

\$50 installments/24 Months to payoff/**\$226.61 EXTRA**

Minimum payments/195 Months to payoff/**\$2,126.15 EXTRA!**

If you pay the only minimum, your laptop will cost you **\$3,126.15** instead of \$1,000 if you cover your expense right away, upon receiving the bank statement.

Paying slower = Paying too much

That's why it's a good idea to pay off credit card debt aggressively—so you're not paying for a computer for 16 years!

Practical credit card tips

If you don't have much of a credit history, here are a few things you can do to get a card and start building your credit:

1. Apply for a College Student credit card, which usually has lower credit limits.
2. Apply for a Secured credit card, where you deposit money upfront.
3. Have a family member add you as an Authorized User on their credit card. The account will appear on your credit report.

It's easy to apply online for a credit card and you can often get a decision within minutes.

Compare credit cards before you apply and shop around for the best rates and rewards:

[Nerdwallet.com](https://nerdwallet.com)

[CreditKarma.com](https://creditkarma.com)

[Bankrate.com](https://bankrate.com)

Key Points

1. Debit cards let you spend money from your bank account and credit cards let you borrow money to spend.
2. Use credit cards sparingly and pay them off quickly, or else you'll lose money to interest payments.
3. Getting a credit card can help you build your credit history.

Do you need a car?

If you live in cities like San Francisco, New York, or Chicago, you might not need a car to get around thanks to public transportation. When you add in the costs and hassles of traffic and parking, plus the public transportation options available, you might not want to get a car. If you live in a place like LA or a smaller city, having a car can be essential.

Buying a car

It's nice to be able to get around with ease, but when's the best time to buy a car? Usually around the end of the month or quarter, as well as holidays. Do your research! Know what you want, your budget, used or new, finance or lease, and your credit score.

3 options when buying a car:

- **Financing**

Financing gives you a car loan so you can buy a car and drive it while paying it off in monthly installments.

You pay interest on the car loan (usually between 3-10%). You own the vehicle after all payments are made. The length of the car loan is usually between 3-5 years, which means 36-60 payments. The better your credit score, the lower the interest rate, and the less you pay.

- **Leasing**

Leasing lets you temporarily own a car for a fixed monthly payment, and once the lease is over you return the car.

Leases usually last 2-3 years. The advantage is that you are paying less per month than financing the car.

The downside is that you never actually own the car—it's more like a long-term rental. You're also on the hook for penalty payments if you drive too many miles or cause major damage.

- **Buying it outright**

Unless you're buying a low-priced used car (or you have a lot of money on hand), you're not likely to be paying cash.

Cost of car ownership

You'll be spending more money on a car than just your monthly payment.

Maintenance

Registration

Gas

Insurance

Key Points

1. Unless you have a lot of upfront cash, getting a car loan and leasing a car are your two best options.
2. Financing a car means you get to keep it when it's paid off, but leasing means you have to give it back.
3. Having a car means other monthly costs, so make sure it's in your budget, and don't borrow more than you can afford.

Credit Scores 101

A good credit score can save you thousands of dollars and open new doors for you (literally—a good score can help you get a swanky new place to live).

Credit score basics

Lenders use credit scores to determine:

- Who qualifies for a loan
- The interest on the loan
- The size of the loan/credit limit

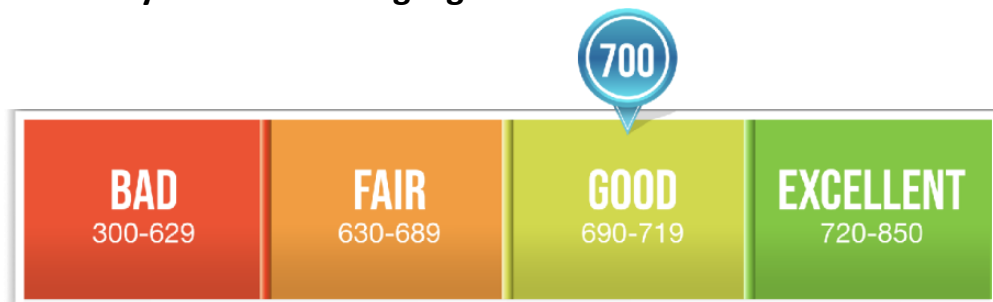
It's a big advantage to maintain a good credit score. Having a high score will make it easier (and cheaper) to:

Rent an apartment; Buy a home; Get a car; Get a business loan

6 Factors that affect your credit score:

1. On-time payment history
2. Amounts owed compared to an overall credit limit
3. Length of credit history
4. Types of credit cards/loans
5. New credit lines opened
6. Inquiries on your credit report

How can you start building a good credit score?



- Pay back student loans on time after you graduate
- Pay any credit cards back on time and keep your monthly balance low
- Don't miss payments and don't default on any loans, that will quickly lower your score!

It's easy to keep track of your credit report

The Fair Credit Reporting Act (FCRA) requires each of the nationwide credit reporting companies to provide you with a free copy of your credit report. You can request a free copy every 12 months.

Go to www.annualcreditreport.com to request your credit report from all 3 of the major national credit bureaus:

Experian

Equifax

TransUnion

It takes less than 10 minutes and you'll get your reports instantly—no need to wait for them to come in the mail.

Key Points

1. Your credit score is based on your history with lenders, including credit cards, banks, and more.
2. Having a high credit score can save you tons of money and make it easier to get a car, home, or apartment.
3. Keep your credit score high by making payments on time and keeping your balances low.
4. You can request free credit reports to see if anything is hurting your credit score.

Housing: Renting vs Buying

There's nothing quite like a space to call your own. Here are some practical tips for renting a place and eventually buying a home.

When you're younger, you're more likely to be a renter.

Renting a house or apartment can cost less per month than buying a home and paying monthly mortgage payments. And the property taxes and maintenance expenses are not your responsibility.

You usually rent in 1-year terms, but some rentals are month-to-month.

You have the flexibility to move more often than owning a home.

Your credit score and past rental history can affect whether your rental application is approved.

Can you rent without good credit?

If you don't have a credit history or it's not a great credit history, you may have to have someone (like a family member with good credit) co-sign your rental agreement.

This means that if you can't pay your rent, the co-signer will be responsible. The co-signers credit will be checked, alongside yours, during the rental application.

Buying a House

It's nice to have a home of your own, but there are many more expenses than renting. That's why renting might be a good idea when you're starting. You'll have to pay for:

- The Down Payment (20% is common)
- Monthly mortgage payments (30 years is common)
- Property Taxes
- Maintenance and Repairs
- Insurance
- Homeowners' Association (HOA) Fees — not every neighborhood has them.

How much does a house cost?

Just for example:

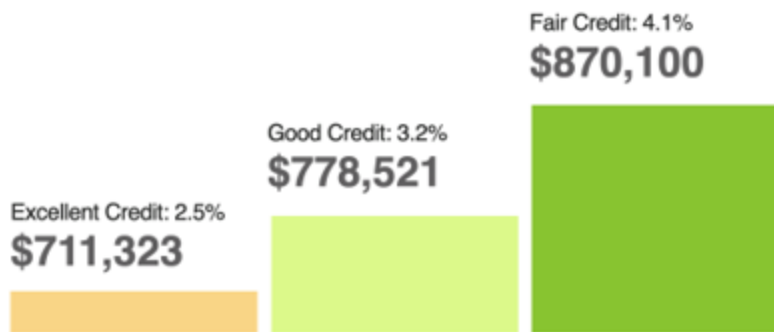
The median price of a house in Los Angeles is \$764,528. Here's how much a house like that would cost you:

●	
●	<i>The down payment: \$ 152,905 (upfront)</i>
●	
●	<i>Monthly mortgage: \$ 2,578 (30 years)</i>
●	<i>Property tax: \$ 503 (per month)</i>
●	<i>Insurance: \$ 66 (per month)</i>
●	<i>Total monthly payment: \$ 3147</i>
●	

The downpayment	\$152,905
Monthly Mortgage	\$2,578 (30 Years)
Property tax	\$503 (per month)
Insurance	\$66 (per month)
Total monthly payment:	\$3,147

What difference does your credit score make on a \$500,000 home loan?

Your credit score affects how low the interest rate is on your mortgage. In this case, let's look at 3 different rates—for excellent credit, good credit, and fair credit—and see how it affects the total price you end up paying for a standard 30-year mortgage.



Key Points

1. Many people rent when they are first starting, then buy a home later.
2. Buying a house usually involves paying a percent of the price upfront and paying the rest off in monthly mortgage payments.
3. Having a high credit score can save you thousands of dollars by the time you pay off a mortgage.

Your financial education plays a big role in the area of **housing and real estate**. People who have no clue how to invest money give their after-tax dollars to their bank to pay off the mortgage faster. They do not realize that they are giving their cash to the bank which can invest their money and earn not only on growth but also on [COMPOUNDED interest](#) by reinvesting dividends in the stocks.

The result? You are the [house-rich but cash poor](#). Instead, try to pay as least as possible, and use saved dollars to invest (and re-invest). Click on the link above to learn how.

I have refinanced my property 3 times, and every time with a 30-year term because I want to pay AS LEAST as possible every month. I invest, however, religiously with an average earning on dividends of 7.5% (not counting the growth in value). After all refinancing, the bank is charging 2.75% a SIMPLE interest on my mortgage. So, I am obviously putting in my pocket more dollars only on interest, and while reinvesting my dividends, I am earning a COMPOUNDED interest (over time it increases exponentially).

How to Pay for College

A college degree is a big plus to your career, however, it can be expensive. Here are some tips for paying for college and creating a budget (pizza money not included).

Here's what it costs to go to college:

- **Tuition:** Varies depending on public, private
- **Housing:** Averages around \$9,000-\$10,000 per year

- **Food:** If opting for a meal plan, that's \$4,500 per year
- **Books:** Averages over \$1,200 a year, but it varies widely by area of study
- **Computer/smart device:** depends...

Most people who go to college pay for it with a combination of sources.

- **Family Contributions:** If your parents make over a certain amount, they will be expected to pay for at least some of your college expenses.
- **Grants:** These are given by colleges, states, and the federal government.

They do not need to be repaid.

- **Student Loans (like Financial Aid):** These you have to pay back, with interest. Repayment doesn't usually start until after you leave school.
- **Scholarships:** These are given by colleges and organizations to cover some or all of your college expenses. They do not need to be repaid.
- **Part-time job:** Getting a job is a good way to pay bills or earn extra money for living expenses. Some colleges offer work-study jobs, which are awarded like a grant or loan and give you a part-time job while you're at school.

Thousands of scholarships help you pay for college. Find one that's perfect for you.

Key Points

- College expenses can add up quickly, so make sure you watch your money and make a budget.
- Grants, student loans, scholarships, and part-time jobs can all help pay for college expenses.
- If you're planning on going to college soon, make sure to apply for financial aid by filling out a FAFSA (in the U.S. only).

Planning for Retirement

Want to retire a millionaire? If you start contributing money towards your retirement early, you'll be well on your way.

Retirement

- Retirement is the period of your life when you're able to stop working and live off the money and investments you've made.
- The normal Retirement Age in the U.S. is 67 years old — the age when you start receiving full retirement benefits from the government.
- The Retirement Age can change if a new law will be introduced.
- You don't have to stop working at 67.
- However, you can start receiving government benefits for being retired.



Retirement doesn't mean the same for everyone.

People dream differently. What if you want to retire early to start your own business, or simply because you want to enjoy life without working? Maybe you want to:

- Travel the world
- Take up old/new hobbies
- Relax and enjoy more time with your friends and family

There are many ways to achieve this, and you'll have more options if you start saving and investing for retirement early.

Social Security

- **Social Security is a program that helps older Americans by providing them with money to help pay bills and expenses.**
- The idea is that you pay for these benefits while you're younger and employed, then receive the benefits when you retire.
- Because the retirement age and benefit amounts have been adjusted before, you shouldn't plan on Social Security as your only source of income for retirement.
- There are many other ways to save for a comfortable retirement.

Saving for Retirement with a 401(k)

A 401(k) account lets you put aside money from every paycheck in a long-term account that gets invested in stocks, bonds, and other assets.

But why not just put it in a savings account?

- Savings accounts pay a fraction of 1% - 3% per year depending on market rates.
- Retirement account investments grow at a much higher rate — think 5%, 10%, or more, depending on your decisions.
- Employers often match your contributions to a 401(k) account, so you can accumulate money faster and watch it grow.

IRA accounts

- If your employer doesn't offer a 401(k), you can open your own IRA (Individual Retirement Account). With an IRA, you contribute money on your own and can then deduct it from your taxes. Yet, you still have to pay taxes when you will start withdrawing money from IRA (hopefully, on smaller tax brackets).
- Many IRAs give you the option to invest your money in a wide selection of stocks, bonds, and other sources.

Why should you invest in a 401(k) or IRA?

Let's say you start contributing to a 401(k) at 4 different ages: 25, 35, 45, and 55.

- Your salary at that point is \$47,060 — the U.S. average.
- You contribute 6.9% (the U.S. average) of your paycheck to your 401(k).
- You get a 1% raise per year.
- You're making 7% on your 401(k) investments per year, a safe number.



Here's how much money you'd have by 70 if you started saving at 4 different points in your life.

- Starting at 55 - \$125,744
- Starting at 45 - \$333,932
- Starting at 35 - \$746,008
- Starting at 25 - \$1,565,948

What happens to your 401(k) when you leave your job? You have three options:

- **Roll over your 401(k)**

You won't have to pay any withdrawal penalties if you take your old job's 401(k) and open your own IRA with the money.

- **Leave it at your old job**

Some employers will let you maintain your old 401(k), but you can't contribute new money to it. You have to keep track of it and make sure you don't forget about it.

- **Bring it to your new job**

Some employers will allow you to take your old 401(k) funds and put them into their 401(k) without you having to pay withdrawal penalties.

Want to retire a millionaire?

Here's how.

Start saving for retirement at an early age. The earlier, the better! It'll make it easier and you'll end up with more money.

- **Contribute the maximum to your 401(k)** from each paycheck that your employer will match. That's free money going into your account.
- **Increase your 401(k) contributions** as you get older and start making more money. Many plans automatically start you at 3% of your paycheck; bump it up to 6% and aim to get to 15% when you can afford it.
- **You can choose how your money gets invested** in a 401(k) or IRA. Do your research and allocate your fund for faster growth! For example, growth stocks outperform value stocks over time, and both outperform most bonds.
- **If you're younger, consider a Roth IRA/401(k)** over a traditional one. You're likely to pay fewer taxes overall (since you generally make more money as you get older).
- **Don't withdraw money from a retirement account early!** You'll have to pay a penalty (10%) and taxes on the money you take out.

Key Points

1. You shouldn't rely on Social Security alone to pay your living expenses in retirement.
2. Automatically contributing money from every paycheck into a retirement account gives you a comfortable nest egg.
3. The earlier you start contributing money into a 401(k) or IRA, the faster it compounds and grows.