Troop 1018 Personal Management MB Workshop Lesson Plan

Instructor Notes: This lesson plan was written by Doug Donnell, Scoutmaster Troop 1018, Dranesville, VA and is meant to supplement the material in the Boy Scout Personal Management Merit Badge Book. If you use this material in teaching the merit badge for your Scout troop please give me feedback so I can refine and improve the material. Send comments via email to dwdonnell@huskeralum.com. It is designed to be taught in 5 sessions of approximately one hour each. Emphasize to your Scouts that they will NOT be able to get through the MB unless they listen carefully, read the book, and do all of the exercises.

NOTE: All worksheets can be found at this link:

http://troop1018.org/Merit_Badges/Personal_Mgt/PM-handout-idx.htm

Workshop Overview

Session 1 – Introduction; Preparing a Budget; Smart Shopping

Session 2 – Banks and Banking, Checking Accounts, Savings Accounts

Session 3 – Saving vs. Investing, Stock Market, Interest

Session 4 – Borrowing Money, Credit Cards, Debit Cards, Credit Rating

Session 5 – Time Management, Project Planning

Personal Session (approx 30 minutes with each Scout) – to go over everything

Listing of Handouts

Workshop Schedule (Session 1) – prepared for each workshop
Budget Preparation Exercise (Session 1)
Major Expense Worksheet (Session 1)
Check Writing Exercise (Session 2)
Stock Worksheet (Session 3)
Thousand Dollar Exercise (Session 3)
Time Management Exercise (Session 5)
Time Management Calendar – goes with time management exercise (Session 5)
Project Planning Exercise (Session 5)
Sample Project Plan (Session 5)
Project Planning Worksheet (Session 5)

Session 1
Workshop Introduction, Preparing A Personal Budget, and Smart Shopping

Handouts for this session:

- Workshop schedule
- Budget Planning Exercise
- Major Expense Worksheet

Introduction

Want to be a millionaire? In this workshop I'll teach you how (and it doesn't involve winning the lottery).

How many of you:

- Have a credit card?
- Have made a major purchase such as a car?
- Have a retirement plan?
- Know the difference between a growth and income producing stock?

I you're like most people between the ages of 11 and 17 the answer is probably "no".

Those are some of the things we'll learn about over the next several months.

As you grow older, you take on more responsibilities

- For most of you high school graduation is just around the corner or only a few years away
- Some may go directly to work, full time or part time, some may go to college
- Either way, you'll be responsible for taking control of your life
  - Managing money and finances
  - Managing time

There isn't a course in "how to be an adult", so it pays to know and understand personal management

- Just because you're older doesn't mean you're wiser.
- When you're 18 you can sign contracts – these are legally binding and "I didn't know what I was signing" won't get you off the hook if you make a mistake
- Many adults get themselves into money troubles through poor financial decisions.
    - Mortgage crisis that is in the news has some basis in people making poor financial decisions

This MB is about taking control of your life – when we're done, you won't be a financial genius nor an expert in time management, but I hope to give you a good start in skills that will hopefully grow as you do.

Remember, for each of you the future will happen whether you're ready for it or not.

Administrative Stuff

- This is not an "easy" merit badge – but it's not extremely difficult either – you will simply need to keep up as we go along and ask questions if you don't understand something
- Everyone needs his own MB book
    - If you want to buy it and keep it, the cost is $3.50
    - If you want to turn it back in when you're done, there's no cost, but don't write in the book
- The budget portion of the MB will require 3 months of recordkeeping
- There are worksheets for most of the exercises – extra copies are available on the website in the merit badge section
- Please use the worksheets – it makes it easier to check your work
- Make sure you do all of the readings on time – while that may seem more like schoolwork than Boy Scout work, it's really the only way to understand the material.
- Make sure you read and understand the requirements. My expectation is that you'll do these completely – nothing more, nothing less.
- You're essentially on your own to keep up. I plan to do a spot check early on to make sure you understand the personal budget. Since this takes 3 months to complete, it's important that you do it correctly from the beginning. As we get toward the end of the classroom instruction, I'll sit with each of you for a 30-40 minute session to go over all the requirements. At that time we'll go through each requirement individually to make sure you've completed it as specified in the MB manual.
- Again, the expectation is that you'll complete each requirement as written, nothing more, nothing less.
- Important note before we start – Ask questions!! This material will be totally new to many of you, but it's important to know and understand. If you don't understand something, ask questions. The only dumb question is the one not asked. Feel free to call me at home or email if you have any questions.

Preparing a Personal Budget

Requirement 2a – *Prepare a budget reflecting your expected income (allowance, gifts, wages), expenses, and savings. Track your actual income, expenses, and savings for 13 consecutive weeks.*

Since this is the part of the merit badge that takes the longest time, let's get started on it right away.

- What is a budget? A written account of your expected and actual income and expenses.
- Remember, the goal is to <u>manage</u> our money – in order to do so means that we have to organize information so we can make informed decisions

- What sort of decisions, you ask?
  - Saving for a specific goal (e.g. buying a new computer game)
  - Saving for a long term goal (e.g. going to college)
  - Investing for the future? (e.g. a house, retirement)
  - Affording current wants (e.g. movie and dinner with your buddies)
- Preparing a budget is the important first step in money management.
- To really understand the "why" of preparing a budget, think in terms of your goals. The simplest form of money management is to look in your wallet – if you have enough money, you can afford something, if you don't, you can't
- Most of us want to plan ahead, so we set goals such as those above.
- Once we set the goals, we translate those into action
- And that's what a budget will do for us.

Basics of budgeting:
- Develop financial goals
- Determine income
- Determine expected expenses, considering our goals
- Put together a plan to match income with expenses.

Breaking down each of these . . .

Budget Exercise

To help you better understand the process I have put together a Budget Preparation Exercise that will walk you through the entire budget process. This will fulfill merit badge requirement #2

- **Worksheet 1** – Savings Goals
  - If you don't have a plan you will definitely end up *somewhere*, but most likely not where you want to be. The first step in making a plan is setting your goals. We'll do this using Worksheet 1.
  - Everyone should have some short term and long term goals
    - Examples of goals (savings for: summer camp, gifts, game, x-box, college, car, etc)
  - Fill out the worksheet – you can include non-specific savings
  - Savings note: even if you're not saving for anything specific, it's a good idea to set aside at least 10% of your income for savings. This is reflected in the "rainy day" savings line at the bottom of the worksheet.

- **Worksheet 2** – Expected Income
  - List your anticipated income for the month ahead; again, you'll be filling out three of these during this workshop.
  - Examples: allowance, job, gifts
  - Be sure to list ALL of your projected income for the month ahead

- **Worksheet 3** – Expected Expenses
    - List your expected expenses for the month ahead. You'll be filling out three of these during this workshop, one for each of the next three months.
    - You can lump expenses into categories such as entertainment, snacks, CDs, etc.
    - Try to think of everything that you'll spend money for during the course of the month

- **Worksheet 4** – Completing Your Monthly Budget

    - Insert the savings goal from Worksheet 1; this is the amount that you will have to save to meet your savings goals, both long and short term.
    - Insert your projected expenses from Worksheet 3
    - Add these together – this is how much you'll have to have as income to meet your goal.
    - At the bottom fill in your expected income
    - The income should match the expenses plus savings goal. So, if your plan does not balance, you will have to adjust your plan. You cannot start the month planning to spend more than you bring in.
    - If expenses exceed income you can increase income or decrease expenses
        - Tips for increasing income:
            - Bargain with your parents for more allowance
            - Offer to do more chores
            - Get a part time job
            - Work your own business (mowing lawns, running errands for people, teaching, etc)
            - Sell things you don't want or need.
        - Tips for decreasing expenses
            - For each expense determine whether it's a "need" or a "want"
            - You need food; you may want a soda, but certainly don't need it
            - Examples of things that people think the need, but really don't: cell phones, cable TV, magazine/newspaper subscriptions, high speed internet, snacks and sodas, entertainment electronics, computer games, new CDs & books, expensive clothing, etc.

- **Worksheet 5** – Actual Income and Expenses
    - Now it's time to track your actual income and expenses
    - Start with your current cash – balance
    - From the time you start list *every* expense or income item
    - Extra pages can be downloaded from the website

- **Worksheet 6** – Putting It All Together for the Month

- At the end of the month, you reconcile your budget and fill out **Worksheet 6**
- You can adjust your plan as the month goes on for unexpected changes, but make every effort to stick to the plan for expected income and expense.

- Review of the Process
  - This may seem a little complicated to begin with, but it's actually quite simple once you understand it. Just to make sure there's no confusion and so you'll know what I'm expecting to see to sign off requirement 2, let's do a quick review.
  - At the beginning of the month you create your budget – this is how much you expect to spend, how much you expect to make, and how much you expect to save
  - During the month you record your income and expenses
  - At the end of the month you compare your plan to your actual data. If you're spending more than you make, you'll normally have to adjust your budget for the next month.
  - Use the information you've gathered to put together your budget for the next month.
  - When we go over your paperwork I'll expect to see, for each month: your savings goals, an expected income sheet, an expected expenses sheet, a sheet of actual income and expenses, and a comparison of expected to actual. If you go through the Budget Preparation Exercise handouts you'll be doing each of these properly.

Smart Shopping

Since we have to shop for almost everything we need it's a good idea to learn "smart shopping" techniques. A smart shopper can save thousands of dollars a year over an impulse buyer.

What is a "smart shopper"?

- Researches purchases
- Plans purchases
- Compares products
- Considers alternatives

Research

- Check on features; get what you need and not more;
  - Example: software often has basic, enhanced, and professional versions, each with a larger price tag. Do you need the extra features of the higher priced version?
- Quality
  - Competing brands often have different reliabilities
  - Check consumer publications and websites

        - Consumer Reports (subscription, online, library)
        - CNET
        - Many websites have user ratings
    - Ask friends for recommendations
- "Test Drive"
    - Not just for cars – can often borrow or rent something before purchasing

Planning your Purchase

- Look for sales – some items go on sale periodically
    - Sales people will often let you know when an item will go on sale if you ask them
    - Sometimes stores will honor sale prices for 30 days after you buy a product
- Some sales are seasonal
    - Seasonal sales handout

Compare products and stores

- Visit different stores or websites
    - Discount stores
- Read advertisements
- Look for coupons or coupon books
- When buying items that come in units, compare unit cost
    - Example – groceries
- Make sure your comparisons are like-in-kind
    - Example – Computer prices may be package deals including monitor, others do not
    - Sometimes similar or same products are sold under different brand names or model numbers
    - Brand name higher price as you're paying for the advertising
    - Name brands often made in the same factory as generic

Consider alternatives

- Rent instead of buy (example: video games, DVDs)
- Wait – many things fall in price after they've been on the market a short while
- Build it yourself – save money through kits
- Buy used items
    - eBay
    - Returned or opened merchandise
    - Outlets (factory seconds with full warranties)
    - Overstocks

Impulse buying

- Marketers are experts in separating you from your money

- Impulse buying (something that you didn't plan) is a good way to spend lots more than you expected.
    - Stores are arranged to promote impulse shopping
    - Grocery stores – milk, bread typically at the back of the store
    - Items placed at eye level will sell more
    - Lots of small, high mark up items at the checkout
    - Sale items at the entrance
    - "Loss Leaders" get you into the store to buy other items at regular prices
    - "Bait and Switch" – steer you to a higher priced alternative
- Need to understand the moods and feelings that can affect buying decisions
    - Don't go grocery shopping when hungry – everything looks good!
    - Make a list (a shopping plan) and stick to it
    - People sometimes buy to make them feel better
    - Envy shopping (keeping up with someone else)
    - Name brand status

Major Expense Exercise – **Requirement 1**

- Hand out worksheet
    - Go through instructions on worksheet
    - Expectations
        - Fully filled out ("written plan")
        - When discussed with family
        - Include a summary of your comparison shopping (advertisements, web sites visited, etc)
        - Alternatives considered.

Summary

Tonight we covered budgeting and smart shopping

- While I'll cover most of the material in the workshop you should always read the book and do the exercises
- Very important to keep up
- For next week
    - Fill out budget worksheets for review next week (not a good idea to start recording your daily expenses until I look at it to make sure you're doing it correctly)
    - Complete major expense worksheet
    - Readings (Through page 29)
    - Suggest that you start on "savings versus investing" (p 31 – 39)

Session 2
Banks and Banking

Handout for this session:
- Check Writing Exercise

At start of session:
- Questions?
- Review major expense worksheets
- Review budget exercise worksheets 1-4

Banks and Banking
- Banks – institutions that “rent” and “loan” money
  - The bank “borrows” money from people
    - Pays interest (“rent” for the use of the money)
    - Lends the money to others
    - Charges interest (“fee” for the use of the money)
    - Simplest account is the savings account.
    - You deposit money with the bank; they pay you interest
    - Withdraw the money when you want
  - If you need to give money to others or pay bills, you’ll need a checking account
    - Bank holds the money and you can draw that money out by writing a check or using a debit card
    - A check is a promise to pay. You write someone a check and they can cash the check and the money will be removed from your checking account and transferred to them or their account
    - Debit card is an electronic check. Money is immediately deducted from your checking account.
    - Note: oftentimes people get cash from an Automatic Teller Machine (ATM). Be careful, as some banks charge ATM fees that can be very costly in the long run.
    - Electronic banking allows people to bypass the written check and transfer money online; same principle, but done electronically.
    - Very important to keep track of your balance (amount in the account)
    - If you write a check for more than the amount in your account, that called an “overdraft” and usually results in a substantial penalty
    - Don’t write a check expecting it to take a long time to “clear” – the process is very fast
  - How to write a check (How to write a check exercise):
    - Hand out “How to Write a Check Exercise”
    - Write the date
    - “Pay to the order of” means who you’re writing the check to.
    - Next, write the dollar amount in figures.

        - Next, write out the dollar amount in words and the cents as a fraction (e.g. Fourteen and 25/100ths)
        - The memo is for your use. Some use it to indicate what the check is for.
        - Finally, sign the check.
        - But, before you send it, make sure you record it in your register so you can keep an accurate balance.
    - Savings Accounts
        - Simple and safe
        - Deposit money anytime, withdraw anytime
        - Generally pays simple interest
        - Low return
        - Advantages:
            - Safe – guaranteed by Federal Government
            - “liquid” – can get money anytime
            - Doesn’t fluctuate with the market
        - Good for an emergency fund or when saving for a purchase

- A few notes about banks:
    - Banking is a competitive business, so it pays to shop around (remember “smart shopping?)
    - Most offer no-fee checking accounts; some require minimum balances
    - Most require you to pay for your own checks
    - Most offer online access for free
    - Some charge ATM fees

Summary
- Tonight we covered banking, savings accounts, and checking accounts
- For next session:
    - Progress check on budget worksheets
    - Reading: Saving versus Investing (p 31 – 39)

Session 3
Saving and Investing

Handouts for this session:
- Stock Worksheet
- $1000 Exercise

At start of session
- Questions?

Introduction
- This session will cover saving and investing and we'll discuss types of investments and investment accounts
- At the end of the session, you should know about:
    - Stocks
    - Mutual funds
    - Certificates of Deposit
    - Savings accounts and savings bonds
    - The pros and cons of each of these

Definition: inflation
- Rising cost for same goods
- Example: candy bar used to cost 5 cents, now 25 cents; haircut was $1, now $15
- Inflation rate in the US is about 3%
    - Means that if you have a dollar in January, you'll need $1.03 the next January to buy the same good or service
- If you save money, you want to have some way of getting 3% interest during the year just to "stay even"

Difference between saving and investing
- "Saving" means putting money aside, usually in a bank account, for buying something or to have for an emergency.
- Money is immediately available
- Low risk account, such as a savings account

"Investing" means that the money you're spending is specifically targeted to make more money later (later being several years into the future).
- Investing isn't necessarily money put into a financial account. There are many ways to "invest" for the future. Examples:
    - Buying a lawn mower to make money mowing lawns
    - Education – college or a tech school to prepare you for a higher paying job
    - Real estate (land, homes, apartments, office buildings)
    - Personal business
    - Commodities (gold, silver, oil, corn)
    - Collectables (paintings, rare coins, baseball cards)

- Key to understanding investing is concept of risk versus reward; generally, the higher the risk, the greater the potential reward.
    - With savings accounts, your return is very safe, but reward is low
    - With investing, you can lose all of your "investment" (also called principal), but the potential for reward is high
- Examples for risk/reward:
    - Savings account: virtually no risk; low reward (keeping up with inflation)
    - Stock market: higher risk – you could lose everything (e.g. Enron), but reward is higher
    - Education (an exception to the rule): low risk (unless you don't study); high reward – pays for a lifetime
    - Real Estate: medium risk – the property may go up or down in value
    - Lottery: very high risk – you probably will lose your entire investment, but reward is very high

How do we measure reward?

- "Return" (or rate of return) or "yield" – increase in value over a period of time
- Examples:
    - You put $10 in a savings account; at the end of a year you have $10.30. What is your rate of return (or yield)? (3%)
    - You put $10 into a Certificate of Deposit (we'll cover what this is shortly). At the end of the year you have $10.70. What is your rate of return? (7%)

Quick review to make sure everyone understands the concept of risk and return

Two main types of investments: loaned and owned

- Loaned
    - You loan money to a company or government in return for its promise to repay the principal (amount you loaned them) plus interest.
    - The interest can be paid all at once or at regular intervals
    - Risk can vary widely. Examples:
        - US Savings Bonds – you loan money to the US Government. In return, they pay you interest. Investment is very safe as it is guaranteed by the US Government
        - Municipal Bond – you loan money to a government – often for a specific purpose. For example, when the State of Virginia built the Dulles Toll Road, it issued bonds that anybody could buy, with the idea of paying the interest and principal from the tolls. These are generally safe investments since they're guaranteed by a government, but some governments (such as cities) can and do run out of money, so there can be some risk.
        - Corporate Bond – you loan money to a company. Could be low, medium, or high risk. Examples:
            - Low risk: General Electric – solid company, has been around for a long time, very large

            - High risk: XM Satellite Radio – new company, has never turned a profit, needs extra money to keep operating, if the company goes out of business, you're left with nothing.
            - Why would anybody buy a bond from XMSR? Remember, high risk, high reward. XMSR must pay a greater yield to attract lenders, so the return is higher.
        - There are credit rating agencies that study bonds and assign ratings based on risk. (examples of agencies are Standard and Poor's, Moody's)
            - Rating scales vary; the most popular scale uses (in order of increasing risk) ratings of AAA, AA, A, BBB, BB, B, CCC, CC, C
            - Bonds rated BBB and higher are called *investment grade bonds*; lower rated are called *speculative bonds*, aka *junk bonds*

- Owned
    - You own part or all of a company, real estate, or other asset (asset: an item of value)
        - Examples:
            - You own a baseball card (an asset); you can sell it when you want
            - You own a piece of property (an asset); it has value based on what you can sell it for
    - What are stocks?
        - If you own stock, you own part of the company
        - Example
            - Someone has a great idea for making widgets, but the widget making machine costs $1million, but he's convinced that everyone will buy widgets so he starts a widget business.
            - But, he has a little problem. He doesn't have the $1million that he needs to buy the machine. He needs $1 million, but only has $500K of his own money.
            - So he issues 1 million shares of stock for $1 each
            - He buys 500K shares himself for $500K
            - And sells the other 500K to anyone who will buy them
            - People who believe that the widget idea is good buy the shares of stock
            - So, in the end, our guy has his $1M and buys the machine to start producing widgets. However, he doesn't own the company. The shareholders do. (Our entrepreneur owns half the stock, so he owns ½ of the company)
            - So now he is in business. He starts producing widgets and making money.

- When the company makes money it can either
  - Keep the money to expand (say that widgets are selling well and he could double the number made and still sell them all, so he buys another machine with $1 million in profit)
  - Or, the company could divide the profit up among the shareholders. Example: the company makes $500K, which works out to 50 cents per share. So, it could pay a *dividend* of 50 cents per share.
- In the first example, the company is growing – spending all of its profit for expansion. This would be called a growth stock
- In the second example, the company is not growing, but is making good money. This is called an income stock.
- Note that in both cases, the shareholders each still own 1/1,000,000 of the company per share
- If people think that the widget business is really going places they might be willing to pay a shareholder for his piece of the company. Remember, each share originally cost $1. After that, it's worth whatever anyone will pay for it. If people believe that the company will continue to grow and make money, they will pay more than $1 for the share. If not, less than $1.
- Example: Let's say someone bought an original share for $1, but can sell it for $2. They have doubled their investment. What's the "return" on that investment? (100%)
- Alternate Example: Widgets are a bust. Nobody buys them. The company goes out of business. Everybody that bought a share loses $1. (Remember the guy with the idea put up $500,000 – he loses all of it)

  - If you understand this example, you now understand the stock market.
  - Insert a few real examples from the current financial markets

A summary of investments:

- Government Savings bonds:
  - Safe – backed by full faith and credit of the US Government; lower interest than other investments
  - Series E; purchased for half face value and grow to "maturity" at a fixed rate
  - Series II; purchased at a face value; interest rate pegged to inflation
- Certificates of Deposit (CD)
  - Pay fixed or variable interest of a specific period of time (e.g. 3 months – many years)
  - Money is locked up so risk is shared; if interest rates go up, you stand to lose; if interest rates go down, you do better.

    - CDs are for fixed periods so taking your money out before that time is up usually involves a penalty.
    - Safe place to "park" money; better return than a savings account
- Quality Growth Stocks
    - Companies that are leaders in their fields, with earnings that are growing at a rate faster than the economy.
    - Generally pay no dividend or very small dividend as money is pumped back into growing the company. Examples:
        - Microsoft
        - Cisco
        - Electronic Arts
- Income Stocks
    - Companies that produce steady earnings. Example:
        - Dominion Virginia Power
- Mutual Funds
    - Individual stocks can be quite risky, so mutual funds can help spread the risk
    - Investors pool their money and the manager buys many different stocks (sometimes hundreds); thus if one stock goes way up or down it won't greatly affect the overall fund value
    - Medium risk, medium reward
    - Note that, depending on the type of mutual fund, it can be much higher risk. Example: a sector fund that invests in technology stocks. If all techs go down, so will the mutual fund.
- Small and medium capitalization stocks
    - Smaller companies (up to $5B)
    - Higher risk, higher reward
        - Example:
            - Sirius Satellite Radio (market cap of $4.8B)
            - XM Satellite Radio (market cap of $4.2B)

Information on the stock market

- We now know about stocks. In order to trade stocks, you go to a market that specializes in trading stocks.
    - The biggest marketplace is the New York Stock Exchange on Wall Street in New York City.
    - If you want to buy or sell a stock, you call a broker who, for a fee, will match your order with another and bargain for the best price.
- A few definitions – usually from the finance section of the newspaper or internet (example on page 38 of the merit badge book):
    - Year to date change: how much the stock has gone up or down in the past year as a percentage
        - A stock goes up because investors believe it is growing or gaining value
    - 52 week high and low – the highest and lowest price of the stock over the past year

        - Shows how much the stock is going up or down over the past year
        - Also an indication of "volatility"
        - If a stock is trading near its lowest point for the year then clearly people believe that is worth less (perhaps problems in the company, lower sales)
        - If a stock is trading near its high point for the year the people have confidence in the company and believe that it will continue to grow and produce higher earnings
    - Yield – dividend as a percent of the stock's price
        - High dividend indicates that the stock is paying a large percentage of its profit to shareholders
    - Volume – number of shares traded that day (in round lots)
        - There's a reason for high volume – have to do more research to find out why
    - Closing price – price of the last trade of the day
    - Change – change from previous closing price
        - Indication of how the stock is perceived by investors

Compound Interest – the power of investing

- When you save and invest, the interest you earn then earns interest on itself
    - Example in the book (p 39)
    - Initial investment of $100 at 10%
    - At the end of 1 year you have your initial investment ($100) plus interest ($10) for a total value of $110. By year 10 it's worth $259.39.
- **If there's anything that you learn from this merit badge, let it be the power of compound interest.** You seldom get rich quick, but you can certainly get rich slowly over a long period of time.
- At the beginning of the MB clinic I told you that I would tell you how to become a millionaire.
    - Let's say you want to start saving for retirement now and decide that you can afford $100 per month and you want to retire at age 60. Assuming you make 11% interest – average for the stock market as a whole – by age 60 you would have $1,508,644.04. This is overly simplistic, but gives you an idea of the power of compounding. By the way, by age 60, you would have put in $54,000 ($100 x 540 months).
- Another example: If the Native American tribe that accepted goods worth 60 guilders for the sale of Manhattan in 1626 had invested the money in a Dutch bank at 6.5% interest, compounded annually, then in 2005 their investment would be worth over $820 billion, more than the assessed value of the real estate in all five boroughs of New York City.

Where to find financial information

- Business section of the newspaper
- Wall Street Journal
- Yahoo Finance (www. Yahoo.com)
- CNN Money website (money.cnn.com)

- Motley Fool (www.fool.com)

For next session

- $1000 play money exercise
    - Read requirement 6 and fill out the worksheet.
- Fill out *stock worksheet*
- Readings: Borrowing money (p 40 - 43)

Session 4
Borrowing Money

Handouts for this session:

- None

At beginning of session:

- Questions?
- Everyone should have
  - Completed the *$1000 play money exercise worksheet*
  - Completed the *stock worksheet*

Intro:

- Tonight we will:
  - Quickly review *stock worksheet*
  - Learn about borrowing money

Borrowing money - introduction

- Almost everyone will borrow money at some point in his life
- Sometimes it's small – borrowing a few dollars to go to the movie
- Sometimes it's large – borrowing for a house (mortgage)
- But, large or small the principles are the same
- And, it's VERY important to understand
- The most common financial problem comes from borrowing

Borrowing money – the details and terminology

- With the rare exception of borrowing a small amount from a friend, someone or some agency that loans you money expects you to pay it back *with interest*.
- Interest is the fee that the lender charges you to "rent" you their money
- It is usually charged as a percentage of principal, applied on a periodic basis.
  - Example one – you borrow $1000 at 5% compounded annually. A 5% charge is applied to the loan principal (the amount you borrow). You pay back $1050, so the finance charge (cost of the loan) was $50.
  - Example two – you borrow $1000 at 12% compounded monthly. To determine how much the rate is per month we divide 12% (the annual rate) by 12 (months in the year) to give 1%. Thus, the finance charge for the first month is $10.
  - Example three – a continuation of example two. Let's say, however, that you don't pay off the loan after a month, but let it ride. The next month's finance charge will be against a balance of $1010, so will be $10.10, so the total balance will now be $1020.10. Remember compound interest from the last session? This is the same thing, except now it's working against you. And, at the end of the year, you will have paid more than 12%.

        - This extra amount is called the Annual Percentage Rate. This is how credit cards work.

Other borrowing considerations:

- Some loans require fees – this is additional money out of your pocket
- Some loans have charges for early payoff. If you pay off a three year loan in two years, you have to pay a fee
- The longer the loan, the more you pay in interest
- You have a right to ask for the total cost of the loan
- All loans are not equal – if you have to borrow money, you can get different rates from different lenders
- Sneaky marketing: "0% for one year" or "no payments until 2010" often hide enormous interest rates unless you pay off before the listed date. If not, interest is sometimes retroactive.
- Always read the fine print; know exactly what you're getting before you enter into a loan agreement

Credit cards

- Example three above described how a credit card works
    - You charge items and a bill is sent to you at the end of the month. You either pay off the balance in total or it automatically becomes a loan and the bank charges you interest.
    - Each bill has a "minimum payment". If you only pay the minimum payment, you are taking out a loan at a high percentage rate and your debt will increase rapidly. If you do this you are quickly heading toward financial problems
- A credit card is an unsecured loan and interest rates are typically high (such as 18%)
- Credit cards are very easy to obtain and it is very easy to run up a high debt level
- Before you buy anything on credit, ask yourself if you really NEED it.
- The average American carries thousands of dollars in credit card debt
- Before you obtain a credit card, fully understand exactly what you're signing
- Some credit cards have "late payment fees". Even if you pay your bill, if you're a day late you can incur an additional fee (e.g. $25).
- Some cards have "over limit fees" – if you exceed your credit limit – even if you pay off your bill on time – you will be assessed a fee
- If you take a cash withdrawal, the interest starts from the day you take the cash, not from the date your bill is due.
- If you don't pay off your bill in full one month, every new charge will be billed interest from the day it occurs.

Charge card

- A charge card is a credit card issued by a particular company for use at that company's stores. Example: Macy's card, only good at Macy's

Debit Card
- Also called a check card
- We mentioned this before when we talked about checking accounts
- Works like a credit card, except that the charge is immediately subtracted from your checking account

If you get into credit trouble
- You are not alone; millions of Americans have credit problems; hopefully through this merit badge class, you won't be one of them, but if you do:
  - Don't ignore it – work with the credit company
  - Don't charge anything more – pay cash for everything.
  - If you have a roof over your head, food to eat, and a way to get to work you generally have everything you need.
  - Make and follow a budget
  - Earn extra money to pay off your debt

Credit Rating
- There are companies that assess your financial risk for loan purposes
- Called credit bureaus
- They accumulate information about your debts (how much you owe) and how well you pay off your debts
- They assign a "credit rating" based on these factors (Also called a FICO rating)
- If you miss payments or have too much debt, your credit rating goes down
- With a lower credit rating, the cost of borrowing money will go up.
  - You'll pay higher rates for auto loans and mortgages, for example
  - This can cost you thousands of dollars
- Main point: pay very careful attention to your credit rating; pay your bills on time

For next session:
- Read "Planning Your Time" (p 45 – 53)

Session 5
Time Management and Project Planning

Handouts for this session:

- Time Management Exercise
- Time Management Calendar
- Project Planning Exercise
- Sample Project Plan
- Project Planning Worksheet

At beginning of session:

- Questions?

Time Management

- We all have 24 hours in a day; learn to use them wisely
- There are many time management "systems" but all revolve around the same themes:
  - Establish long term vision
    - o What really counts for you in the long run? Examples:
      - Education
      - Getting married, raising a family and becoming a Scoutmaster
      - Living an ethical life
  - Establish long term goals. Examples:
      - Go to college
      - Buy a car
      - Learn to play guitar
  - Establish short term goals – here is the key to success
    - o List the things you have to do (take out the trash, wash dishes, go to school), then make time for important things that fit your long term goals.
    - o In our example, one of your long term goals was to learn to play guitar. Break that down into smaller tasks (e.g. get a guitar, guitar book, teacher, then practice, practice, and practice).
    - o Decide what you can do each day, or every few days to meet your long term goal.
    - o Another example – becoming an Eagle Scout
      - What do you need to do?
      - Advance through Life
      - Get 21 merit badges
      - Do a project
      - So, if you are currently a Tenderfoot, what do you need to do today to meet your long term goal? (advance to Second Class; work on a merit badge)
      - This becomes something for your "to do" list for the day

        - Another example – A term paper on President Millard Fillmore due in a month
            - Divide into sub-tasks
                - Collect materials; go to library; internet
                - Take notes
                - Organize information; prepare an outline
                - Write first draft
                - Review
                - Write second draft, review
                - Prepare final paper
            - You have a month – assign a deadline for each of these milestones, put them on your calendar, and stick to the plan

    - Plan each day with a "to do" list
        - List all of the things you MUST do, then schedule time for the things that you want to do
        - Always, every day, set aside time to spend of items to support your long term goals.
        - If you never get around to your long term goals *you will never achieve those things which you yourself said were the most important*
        - You NEVER will have enough time to do everything you want to, so set priorities so you do the important things

- Read the time saving tips on page 50

Project Planning

- Whenever you take on a project, make a plan
- Many of you will be performing Eagle Projects; doing a proper plan is essential to getting this done right
- Project planning involves making a plan that encompasses
    - Identifying all of the tasks that need to be done
    - Establishing deadlines (milestones) to get them done
    - Organizing all of the resources needed to carry out the task

- Example of a Project: Refer to the *Project Plan Example* handout
- Planning a campout (do this as a group exercise on the whiteboard or use the example in the handout)
    - Start by defining the project: What is the project and its goals?
    - Next, describe the project. This is how you plan to carry out the project that you've just defined. (Where, who, how, when you plan to meet your goal).
    - Make a list of all of the tasks that need to be done

- Assign deadlines to each task and note who is responsible. Remember, you are the project manager. That means that you are responsible for managing the project, not performing every task yourself.
- List the tasks in chronological order
- In our example
    - Before the campout
        - Reserve camp ground
        - Permission slips
        - Meal planning
        - Tour permit; park permits
        - Arrange for drivers, necessary adults
        - Gear
        - Fees
    - Getting there
        - Drivers, trip plan, maps
        - Meals en route
    - Once there
        - Set up
        - Site layout
            - Facilities (restrooms, showers)
            - Water
        - Schedule
    - Return trip

Closing and recap:

- Hand out *Time Management Exercise + Time Management Calendar*
- Hand out the *Project Planning Exercise*
- Hand out the *Sample Project Plan*
- Hand out the *Project Planning Worksheet*
- This completes the instruction portion of the MB workshop
- Next step is to sit down one-on-one or in small groups to go over the remaining items (refer to your book and workshop schedule)