9 Things Every College Student Should Know About Money
Thing 8 Presentation Transcript

"THE YOUNGER, THE BETTER"

The younger the better.

USE YOUR SUPERPOWER

Instructor Brad: When it comes to money, time matters. We are going to take a few field trips to learn how to use your math superpowers. Let's learn the following rules or principles about money so you can make better choices when saving, spending, and investing your money.

TOPICS

1. TIME AND MONEY

TIME MATTERS

Yelena: Hi Brad, welcome to the Crimson Credit Union. Follow me to our board room and we'll begin our sessions. As you already knows, when it comes to money… time matters.

TIME IS ON YOUR SIDE!

Yelena: Time is on your side when you start saving and investing early.
Instructor Brad: This is why I say, the younger the better.
Youth is one of the single greatest factors in creating wealth.
But first, let's reflect on some questions that impact our money decisions.

REFLECTIONS

How will the choices you make about money today impact you in the future? It's called opportunity cost and it happens to you all the time. Decisions that you make today, you're gonna do A or you're gonna do B, will impact how you grow financially down the road. We'll show you some examples of those in a minute, but it is called opportunity cost. Any time you miss out on an opportunity then you are missing the chance to make money later on in life.

How does your attitude about money impact your decisions? Are you a spender or a saver?

Do you look at money as something that should simply be consumed or do you look at money that is something that is a building block that can be invested and create a better future for you? Your attitude towards money and how you approach it will greatly affect your ability to create wealth in the future.

How does your culture affect how you use and value money? It depends on a lot on the cultural values that you are raised with and it's going to determine your use of money going forward.
If your parents were big spenders, there's a chance you are going to elevate your lifestyle more quickly. If your parents were savers then there's a chance that you are going to take that culture of savings and move forward. Or you could do the exact opposite and say, you know I grew up in a house that did this so I am not going to do that, I am going to go the exact opposite way.

Many cultures are debt averse, so they do not like taking out any type of loan or credit. As we talked about, college is in great part funded by students using student loans. This has a big impact on whether or not a lot of students can take advantage of a student loan based on their cultural values.

So, how does this statement affect you? "The sooner you start saving and investing in your future the better." Go ahead and jot down your thoughts.

Interaction T/F
Your choices and your attitude do not affect your use and value of money.

2. OPPORTUNITY COST

Instructor Brad: TISATAAFL! Everyone!

What is TISATAAFL? Some strange new holiday? No, TISATAAFL actually stands for there is such a thing as a free lunch. I added up my lunch account at the university a few years ago, well—a while ago, back in 2005, and discovered I was spending over $2,000 a year just buying lunch as a working professional. So I put together a plan. I started bringing my lunch on some occasions and on other days I basically knew where every free lunch around campus was at any given time. I drastically reduced that lunch cost that was a part of my budget. So, TISATAAFL everyone. Figure out a way to get a free lunch, weekly of course.

Opportunity cost is the cost of a missed opportunity. Or you can think of it as something you have to give up in order to get something else, or the next best alternative.
So let's check out some common scenarios.

SCENARIOS

Football tickets vs. travel to an away game or pay per view?
Got to college 1 more year vs. start your career?
Ride/walk/public transport vs. buy a car?

HOW DO YOU FIGURE THAT?

For those of you on the university meal plan, take advantage of that. That is a food cost, a board cost they call it, that is prepaid. So you want to make sure that you get every dime out of that prepaid cost that you possibly can before you go off campus and start adding to your food cost.

ONE MORE TIME…

Okay, let's go through this one more time. Now I do think that everyone should try to go see an OU/TX football game during their career here and OU, but I think you understand the example.

WHATCHA GONNA DO?

Instructor Brad: Did you notice that determining opportunity cost isn't really that difficult? But sometimes when it comes to actually making the decision, well that's a different story. Our choices matter! Consider all the factors before making the decision.
Bucky: I can't believe your mom and dad gave you their tickets. This is too awesome!
Raj: I'm happy! Being here in person is worth the cost!

3. COMPOUND INTEREST

HERE WE GO AGAIN!

Yelena: Making your money work for you is very important.

A POWERFUL TOOL!

Instructor Brad: Compound interest is a powerful tool for financial success!
Let's let Yelena explain how it works.

HOW COMPOUND INTEREST WORKS

Yelena: How compound interest works.

Make an initial deposit.

Interest accrues on the initial deposit.

Keep the interest money in the account.

Then you can earn interest on interest.

The higher the interest % the more you earn.

The longer you keep the money invested the more it can grow.

THE 8TH WONDER OF THE WORLD

Instructor Brad: Thanks Yelena for that wonderful information. Now let's build a little bit on the foundation Yelena has established.

Compound interest is the most powerful tool in creating wealth. A lot of people refer to it as the miracle of compounding interest. So how does compound interest work? Well interest accrues on the initial investment. This is the same thing we talked about with credit cards, only credit card interest works to the negative. Now we are talking to the positive. We are talking about creating wealth for you!

If you take an initial deposit of $1000 and you put that in the bank and it earns 10% interest, you now have $1100 in the bank. What happens with compounding interest is, it doesn't continue to compute interest on that initial $1000 deposit; it now computes interest on the $1100. So the $1100 is going to make you *more* interest than just the $1000 did because you are earning interest on top of interest. That is the compounding factor and that is what is going to allow your investments to grow so quickly.

It's like a snowball, it starts out small because the numbers are small, but when the numbers start to grow it grows exponentially because of this compounding factor. So you keep the interest money in the bank and that way you are building up, you aren't pulling off the interest which would basically destroy any compounding opportunities. You leave that there so you are earning interest on top of interest. And the higher interest rate that you can earn the more money you are going to make.

This gets down to risk and how much risk you are willing to take. You only want to invest in things that you can sleep well at night. So you want to make sure that you put your money

somewhere it is making as much interest that you can possibly feel good about. And the more risky that you are, the more potential you have of making money, but also, the more chance that you could lose money as well. So try to find a balance when it comes to risk, as to what kind of a person you are and how much risk you are willing to take. I will say that when you are younger you can take more risk because you have more time to recover. As you get older and closer to retirement you've got to get more conservative because your window to recover shrinks as you get older.

Also, another good reason to start saving younger, the younger the better. The longer you can keep the money invested the more it can grow. And this gets back to, don't just pull the money out on a whim, it's there for a reason. It is either for retirement or for the creation of wealth and if you just pull it out any time some small thing happens it will never grow for you.

Instructor Brad: Take time to read this document, before you take the quiz.

Interaction T/F

Compound interest can help your money grow faster over time.

4. RULE OF 72

LET'S GO TO THE FARM…

Instructor Brad: Hey, let's go to the farm where we will learn about the "Rule of 72"!

Penny: So which came first? The chicken or the egg?

Bucky: Hey, we don't have time for that deep philosophical discussion right now.

"FLIPS"

The rule of 72. My favorite rule. We talked about it in the video, but let's just go back through it one more time. The rule of 72. It gives you an idea of how many years it's going to take for your money to double. So in other words, the rule of 72 is just kind of an easy way—that you can do it in your head, for the most part. You can determine how long it will take your money to double based on a certain interest rate. When the money doubles, I call that flips. That's why *Things* 7, 8, 9 of the *9 Things* go together because if you start young, you pay yourself first, the younger the better, you have more time for flips and it's just a math game.

If you have $20,000 it flips to 40 it flips to 80, 160, it flips to 320 and you just keep going. If you are young enough when you start you are going to have some serious money at the end.

So, the way that the rule of 72 works, is you take the number 72 and divide into that the interest rate being earned and that will equal the number of years that it takes for your money to double. So the example I used in the video, if your money is earning 10% a year, your money will double every 7.2 years. If you're earning more, then that 7.2 year time frame will shrink, if you are earning less, then that 7.2 year time frame will take longer.

YOU CAN CREATE WEALTH

Remember the importance of the 9 Things. If you pay yourself first, start saving young, and remember the rule of 72. You drive your potential to become a millionaire.

EXAMPLES

So for example purpose of the rule of 72 you save a $100 a month at 10% interest, your money is going to double every 7.2 years. Which is some powerful compound. But maybe to put it even more perspective, let's say you graduate from college at 23 and start saving $400 a month, which any college graduate should be able to do. And that money is earning 8% interest. If that money is earning 8% interest and if you don't touch it and leave it alone, when you turn 60, you will be a millionaire.

CAN YOU BE A MILLIONAIRE?

Continuing on that--by the time you turn 60 you can be a millionaire, as long as you don't touch that money. If you wait until you're older, say 44, so in both of those previous examples you were going to end up a millionaire, but if you wait until your older say 44--you would have to save $2500 a month at 8% interest, in order to be a millionaire at the age of 60. Unless you have a really high paying job, in today's dollars saving $2500 a month is going to be tough. So, it's much better for you to start younger. I love the example of the student starting at 23 or 24 and only having to earn 8% on their money. I just think that that is a good focus for you to have. And then as your money increases over time your income increase, just keep piling it in there. Because you know, it's your money, its security, it's a way that even if you don't want to retire, even if you want to keep working--you've got that money locked away and it's your money. And then you can either deal with it when you do get ready to retire, or you can create some kind of a trust for it so that you can do some estate planning and leave whatever inheritance you want for those that come behind.

SELF-ASSESSMENT T/F

Rule of 72 Problem

5. PRESENT VALUE & FUTURE VALUE

OUT OF THIS WORLD?

Let's take a trip to the planetarium of the "future" to see what's happening to our money!

KHAN ACADEMY LINK

Let's start by watching this video from Khan Academy, "Time Value of Money."

UNTITILED SLIDE-KHAN ACADEMY VIDEO

PRESENT AND FUTURE… VALUE OF MONEY

Present: a dollar today is always work more than a dollar tomorrow (all things being equal).

Future: How much a dollar today will be worth in the future.

FUTURE VALUES FROM INVESTOPEDIA

SELF-ASSESSMENT M/C

Future Value Problem

YOU CAN BE A SUPERHERO!

Instructor Brad: Hey, when it comes to personal finance, you can become a superhero!

GLOSSARY REMINDER

Be sure to review all the term in the Glossary as they will be on the quiz and the final exam.