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## Module 3:

# Wealth Building Concepts, Principles, Practices and Applications (The “How” of Financial Education)

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# Module Objectives

1.

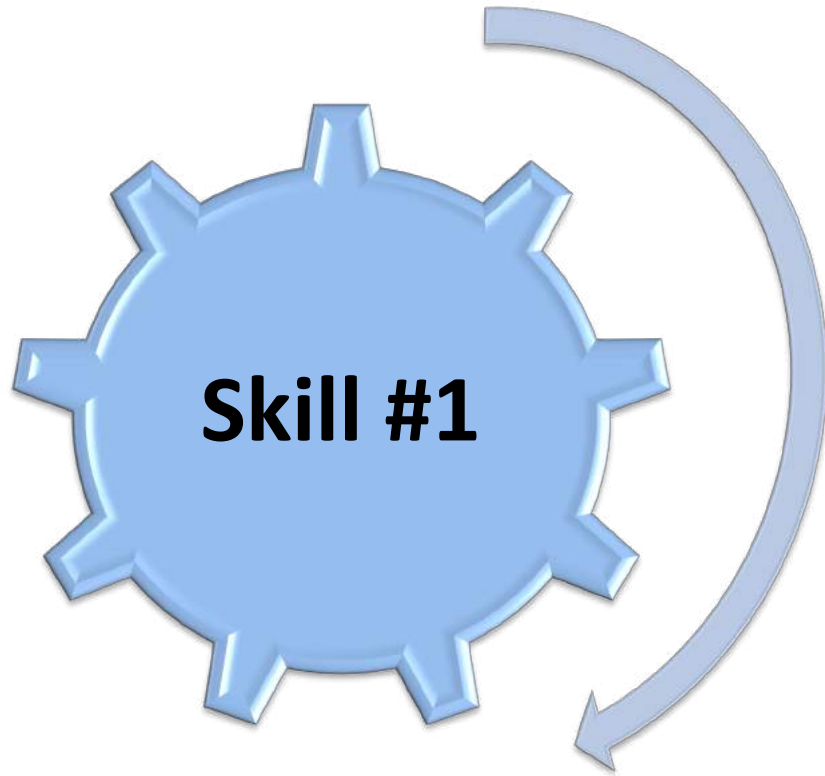
- Be equipped with the basic knowledge and understanding of the seven (7) financial skills in wealth-building (diversifying income, proper savings, controlling expenditures, responsible borrowing, retirement planning and prudent investing)

2.

- Apply the skills and tools in wealth building to improve financial capability



*Learning Objectives*



**Increasing and  
Diversifying  
Income**

# Individual Reflection

- What is income?
- What are the common problems people/families encounter about income?
- What are the types (or various sources) of income?
- What are various ways to increase (produce) income?

# Income is...

For **households** and **individuals** ...

“ **income** is the sum of all the wages, salaries, profits, interests payments, rents, and **other forms of earnings received...** in a given period of **time** ”



# What do we commonly hear about income?

- Not enough
- Very small
- Cannot meet family's needs
- “I don’t have.”
- Not consistently there
- Sometimes fluctuating



# When you have financial shortage, what do you do?

- ✓ Many people either borrow or beg.
- ✓ Don't get satisfied until one has reached their potential.
- ✓ Work hard as an absolute necessity for prosperity.
- ✓ When one goal is achieved ...Sets and pursues a higher and a bigger one. And makes this goes on and on and on...





# What is ideal about income source?

- ✓ Each “able” person must have income.
- ✓ Income should meet one’s or the family’s needs.
- ✓ There must be multiple income stream in a household
- ✓ **Income should be increasing**



# Dear Salary, **Why are you not growing?**



# Types of Income



## 3 TYPES OF INCOMES



### ACTIVE INCOME

Income generated from trading your time for money

- ⊗ SALARIES
- ⊗ WAGES
- ⊗ COMMISSIONS
- ⊗ BONUS
- ⊗ CONSULTATION/SERVICES

### PASSIVE INCOME

Income generated from your assets without you working for it actively

- 
- ⊗ BUSINESS
  - ⊗ ROYALTIES
  - ⊗ RENTAL
  - ⊗ AFFILIATE MARKETING
  - ⊗ MULTI-LEVEL MARKETING

### PORTFOLIO INCOME

Income generated from selling away an investment at a higher price than you paid for it

- 
- ⊗ CAPITAL GAINS
  - ⊗ COLLECTIBLES
  - ⊗ SHARES
  - ⊗ CURRENCY EXCHANGE
  - ⊗ STOCKS

# Earned Income

- ACTIVE or Earned income
  - any income that is generated by working. Your salary or money made from hourly employment (*regardless of whether that salary or hourly income came from working for someone else or from your own “consulting”*) is considered earned income.
- Working a job
- Bonuses
- Owning a small business
- Consultation Services
- Any other activity that pays based on time/effort spent



# Portfolio Income

- any income generated by selling an investment at a higher price than you paid for it.
- Some people refer to portfolio income as “capital gains”.
- **Trading (buying/selling) Paper Assets** (stocks, bonds, mutual funds, ETFs, CDs, T-bills, currencies or other types of futures/derivatives)
- **Buying and Selling Real Estate** (specifically the profit from the sale)
- **Buying and Selling of any other Assets** (Antiques or cars, for example, or other types of collectibles that have appreciated in value)



# Passive Income

- **Passive income** is money you get from assets you have purchased or created



- RENTAL INCOME or Net Income from Real Estate
- BUSINESS INCOME (*assuming it's not earned based on amount of time/effort spent ...that would be Earned Income*)
- ROYALTY ..Creating and Selling Intellectual Property — Books, Patents, Internet Content, etc
- Franchising
- Affiliate or Multi-Level Marketing



# What makes a great source of income?



- **Flexible:** The ideal source of extra income will allow you to call the shots when it comes to your time. Particularly if you have a full time job, the last thing you want is being tied down to working a set number of hours each week at a second job.
- **Scalable:** Look for income sources that have at least the possibility of generating substantial amounts of income.

# What makes a great source of income?

- **Sustainable:** The ideal extra income source will continue to generate cash even when you're not working at it. The idea is to build something that can eventually function without you
- **Enjoyable:** Generating additional sources of income is a lot of work, so you might as well enjoy what you're doing
- **Inexpensive:** I don't like income generating ideas that require massive investment

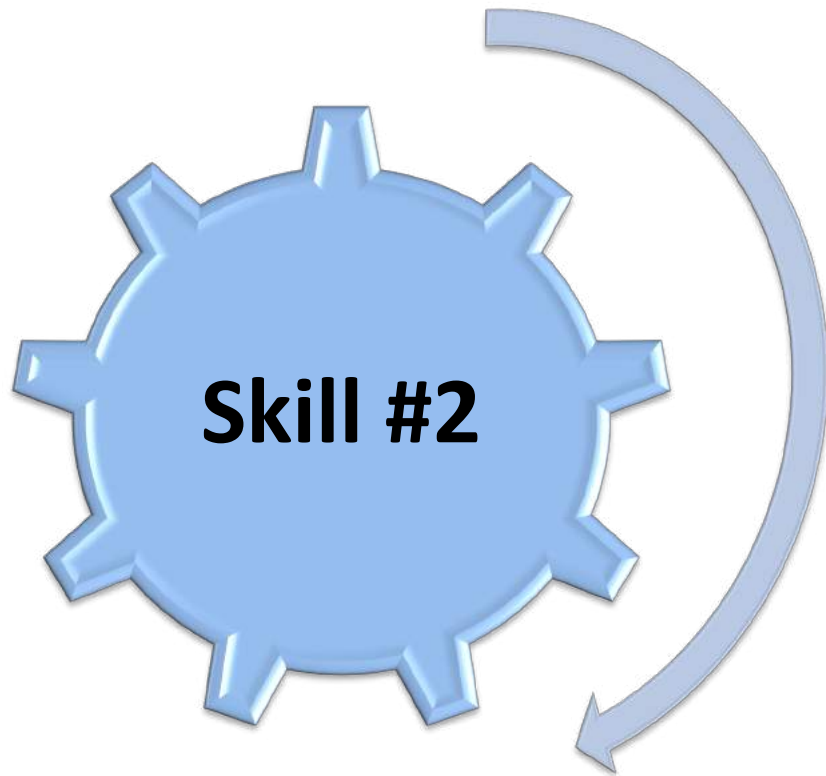




## In Summary:

- Cash is king.
- Cash has power (ability).
- Stable and consistent (regular) income is not enough. It must be increasing and diversified.
- Increasing = meeting needs
- Diversified = multiple sources
- 3 types of income --- active, passive and portfolio income
- 4 sources of income --- employment, self-employment, business, and investment

***Refer to Handout # 9, Types of Income &  
Handout # 10- Ways to Earn  
for further reading.***



# **Controlling Expenditures (Making a Budget)**

# Understanding Budgeting

## Bougette

*(from an old French Word)*

*Meaning pouch,  
small bag  
where you keep  
our pennies.*



# Understanding Budgeting

**“Create and follow a spending plan or budget .  
It helps you manage and control your  
expenses.”**

**“It is an essential tool for effective saving and  
achieving your goals.”**



# Budget

- Financial Plan
- Taking the incoming and outgoing monetary resources into consideration
- A good budget should not only mean a balance or equity between income and expenditures
- Also means lesser expenses and making an allowance for savings.

# Goals of a Budget

- B** • Boundaries
- U** • Unwanted Stress and Pressures
- D** • Debt Free
- G** • Generate More and Give
- E** • Eradicate Impulsive Buying
- T** • Trust

## Structured Learning Exercise: Budgeting & Savings

Duration: 15 minutes

### **Instruction:**

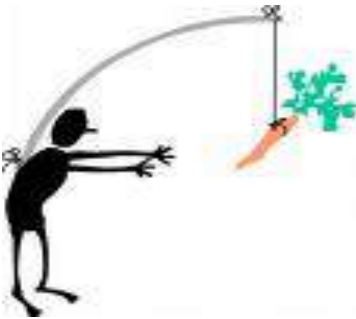
1. Participants will be asked to complete **Worksheet # 6** on budgeting to determine their current cash inflow and outflow.
2. The worksheet also guides them in determining the amount of savings that they need.
3. They will share their outputs in the plenary.



*Debriefing: The habit of maintaining a monthly budget not only for expenses but also for emergency fund and purposive savings are important tools in helping the participants in achieving their financial goals.*



# Three Critical Elements for Successful Budgeting



Motivation  
“The Want To!”



Implementation  
“Acting It Out!”



Education  
“The How To?”

# Challenges in Budgeting

- We don't know where to start
- Budgets make us feel claustrophobic
- We don't know how to get our significant other involved
- Large expenses always derail our budget anyway, so why bother ?



**Refer to Handout # 11:  
Overcoming the Common Challenges of Budgeting  
for further reading**

# Steps in Budgeting

## 1. Review – Keep track of your bills and credit obligations

A strong and accurate credit report is one of your most important financial assets. It is not only a clear picture of your indebtedness, it can reveal problems and discrepancies which bar your access to further credit.



# Steps in Budgeting

## 2. Have A Plan!

- The process of developing and maintaining your budget is much simpler if you have the records of what you are currently spending on hand
- Easier to develop and adjust your budget

# Steps in Budgeting

## 3. Incorporate Your Goals

Family Budget that includes established short or long term goals are always the most effective. Start slowly with a fairly easily attainable goal and then “test yourself” with a more difficult (and rewarding) goal as you get more proficient at your budgeting process.

# Steps in Budgeting

## 4. Develop Your Budget

- An effective budget keeps track of your expenditures, it allows you to concentrate on those items that bring the highest reward, both financially and personally
- It puts you in control of your finances, rather than letting the control slip into the hands of chance.
- Prioritize needs over wants

# Difference between Needs & Wants

**Wants  
VS.  
Needs**





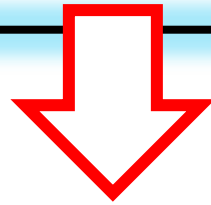
WANT NEED



MUST HAVE

# NEED

## Means



## Live

LIVE below your MEANS but within your NEEDS

# Tips to Keep You Within the Family Budget



**Buy Your  
Groceries at  
One Time**

**Avoid Going to the  
Supermarket  
frequently**



**Maintain a  
Logbook**



**Before You Buy**

# Tips in Budgeting

1. Opt for Simplicity
2. Pay Off Debts
3. Give Yourself a Buffer
4. Use Cash in Paying a Person
5. Anticipate Your Expenses
6. Billing Cycles can be changed

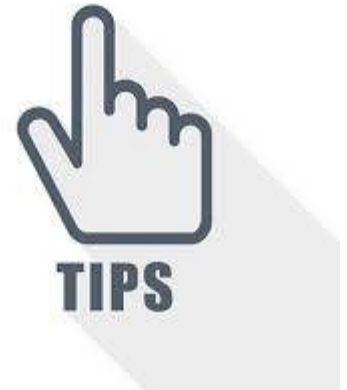


# Tips in Budgeting

- 7. Treat Math as your lifetime partner
- 8. Save as much as you can in an item you are trying to buy
- 9. Know your wants and needs
- 10. Do not spend more than what you earn
- 11. Keeping a List



# Tips in Budgeting



- Use a budget that's right for you.
- Do not memorize; write it down.
- First item in your budget should be for your savings; ideally 10-20% .
- Set aside a monthly amount for periodic or irregular payments.
- It should reflect your current situation.

# Points to remember...

- Set aside a fixed percentage of your income for savings.
- Save the amount before spending money.
- Members of the family contribute & save for their family goals.





# In Summary....

## Goals of budgeting:

- boundaries,
- unwanted stress and pressures,
- debt-free,
- generate more and give,
- eradicate impulsive buying, and
- trust



# In Summary....

Budgeting by priority:

1. Giving	2. Paying	3. Spending
<b>Tithing</b> <b>Offering</b> <b>Pledges</b>	<b>Savings</b> <b>Loans</b> <b>/borrowing</b>	<b>Expenses and other</b> <b>Obligations, including</b> <b>financial support to loved</b> <b>ones</b> <b>Fixed and variables</b>



# In Summary....

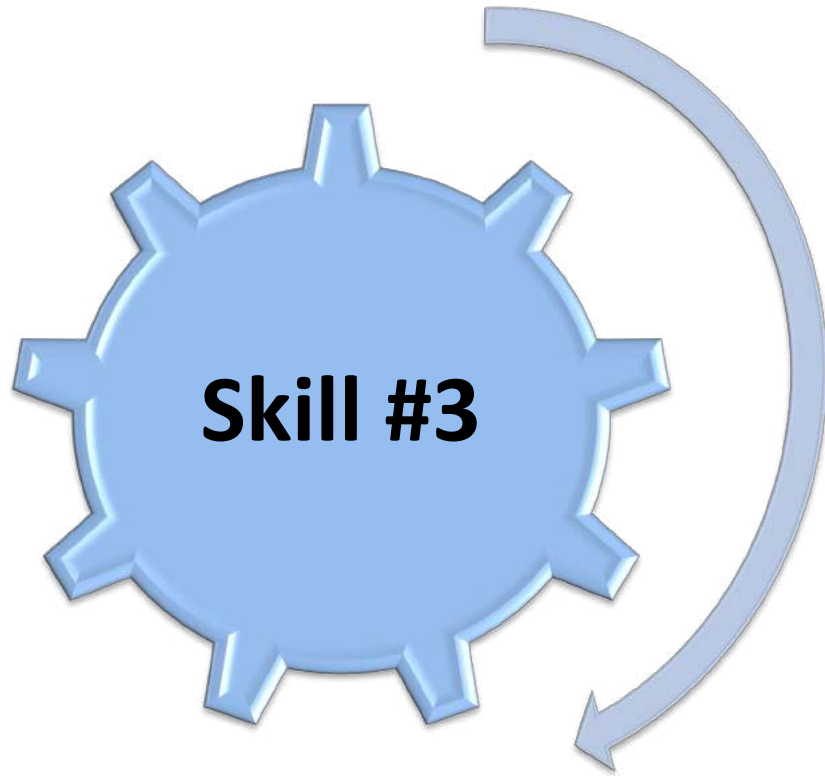
- Understand needs, wants and desires
- Prioritize based on available resources



Rules in budgeting:

- ***written,***
- ***reviewed and updated regularly, and***
- ***followed***





## **Proper Saving**

# Structured Learning Exercise:

## Coin Tossing

Duration: 5 minutes

### **Instruction:**

1. Participants will be asked in advance to bring 5 SZL.
2. Each participant will be asked to throw one coin using right hand and to catch the coin.
3. This will be repeated 4 times with one coin added for each round.
4. The same process will be done using the left hand.
5. After the exercise, the trainer will ask their experience, process their responses and lead to the discussion of savings.



*Debriefing: The habit of savings can be developed depending on ones will, strategy and resolve to do it, just like catching the coins using the right or left hand. Money is fungible and can easily leave one's hand but it can be controlled using the skills in proper saving.*

# What is Saving?

***Saving = Wealth Creation  
/ Wealth Building***





# What is Saving?



*Understanding saving and its possibility is very important*

# What is Saving?

- An amount of money put aside that can be used later (Dictionary.com)
- The part of a person's income that is not spent. (Investor Word. Com)





# Why Save?

- Funds for daily needs
- Emergency funds
- Increase future capacity to spend
- For investment—capital
- Opportunities



# Goals of Savings

## Short Term Goal

- something you will need and want in the near future
- *“You should be ready to buy those items in CASH!”*



# Goals of Savings

## Medium and Long Term Goal

Giving your children  
good education



Starting your  
own business



Buying your own house



Securing your  
retirement



Getting the car you want



# Goals of Savings

## Life Events and Emergency Reserve Goal

- Having a secured financial future requires putting money aside for life events and emergency situations.



Lost of Job / Income  
Source



Sickness



Birthdays and other celebrations



Calamity



Wedding



Giving birth

# What your small consistent savings can do for you?

<b>Amount Saved</b>	<b>Cigarette</b>	<b>Angkor Beer</b>	<b>Lotto</b>	<b>Soft drinks</b>
Daily	20	30	10	50
Monthly	600	900	300	1,500
Yearly	7,200	10,800	3,600	18,000
10 Years	85,016	127,524	42,508	212,540
20 Years	199,271	298,906	99,635	498,177
30 Years	352,819	529,229	176,410	882,048
40 Years	559,176	838,764	279,588	1,397,939
Then, add 2% interest per year				

# The Learning Difference – Savings

## RICH

- Save first then spend what is extra
- Invests money
- Transform loss into a win

## POOR

- Spend first and save what is extra
- Fear of losing money
- Gives up



# How do we start saving?

1. **Learn to Adjust** – by cutting down your expenses
2. **Be resourceful and frugal** – if you desperately needs new clothes, look for sales or frequent factory outlets for branded clothes
3. **Plan Future Expenses** – ex. School expenses, giving birth, special occasions
4. **Calculate It Over the Years**  
(ex. Paying for entertainment of \$ 500 for 1 year (Consider the interest))



# How do we start saving?

## 5. Take a Percentage

If you are earning KHR 1,000,000 per month and you have to pay for communication expenses amounting to KHR 100,000 a month, then that is 10% of your monthly earnings

**“Income – Savings = Expense”**

## 6. Put Savings as Category

- This will be **forced expenditures**.
- Put it as first category in your expense items.





# Savings Formula

<b>SALARY</b>
Food
Housing
Transportation
Clothing
Education
Health
Leisure
<b>EXPENSES</b>
<b>= SAVINGS</b>



<b>SALARY</b>
<b>SAVINGS</b>
Food
Housing
Transportation
Clothing
Education
Health
Leisure
<b>= EXPENSES</b>

# Other Factors that Hinders us from Saving

1. Many Debts to Pay
2. No permanent Job / Income Source
3. Improper Handling of Money or Being Luxurious
4. Vices
5. Do not know what the priorities are



# Tips on Savings

- Start Saving early
- If you can postpone spending, do it...
- Save consistently until it becomes a habit.
- Its never too late to save





# Coin Bank

# Cluster Savings



# Different Ways of Savings



# Savings Bank Account

# Ways to Save

**“It is not the money  
you make but it is  
how much money  
you save.”**

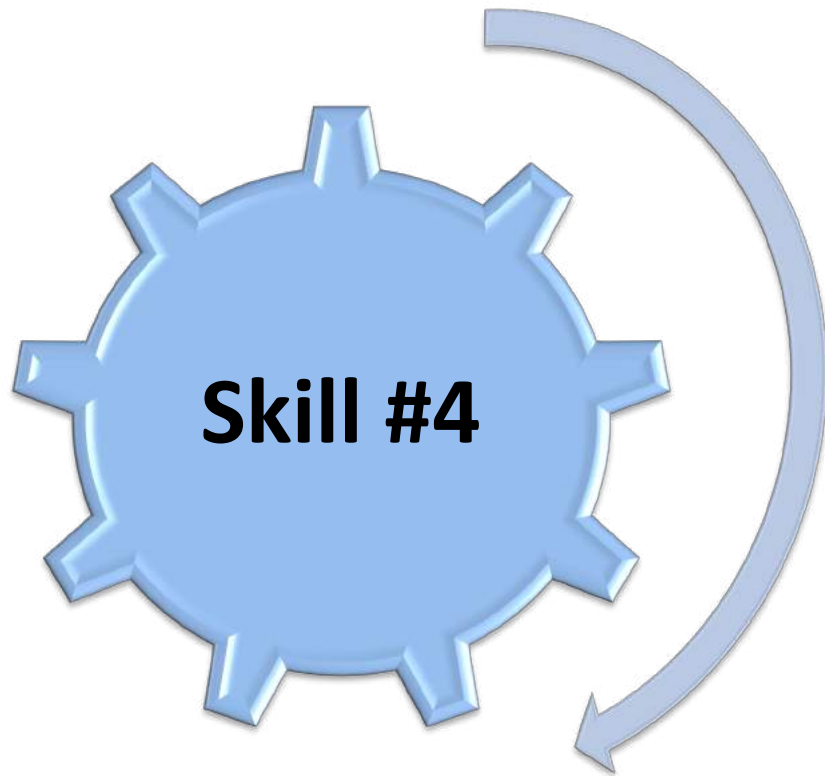


**Refer to Handout # 12: 100 Ways to Save  
Money for further reading. 126**

# In Summary...

- Priority budget-line item
- 1<sup>st</sup> Savings Goal: Emergency / Contingency Fund
- Purposive and dream-focused
- Progressive and Consistent
- Practical ways to save





# **Responsible Borrowing**

**(Managing Personal and  
Family Loans and Addressing  
Multiple Borrowing and  
Over-Indebtedness)**



# Proper borrowing and managing debt

2 critical  
questions...

- When is it right to borrow?
- When is borrowing a bad decision?





# When is it right to borrow?

- **Financial leveraging** – making more money; earning more quickly (e.g. – business expansion, asset acquisition, etc.)
- **To save on interest and avoid stress** (e.g. - well-computed debt consolidation)



*earn more, save more and have more ...*

# When is borrowing a bad decision?

- when there's no need
- without understanding
- for consumption and wants you can't afford
- for someone
- to give and demonstrate "generosity"



# Definition of Loan



- amount of money that a lender gives to a borrower for a definite period of time.
- There's a commitment and legal agreement to repay the money

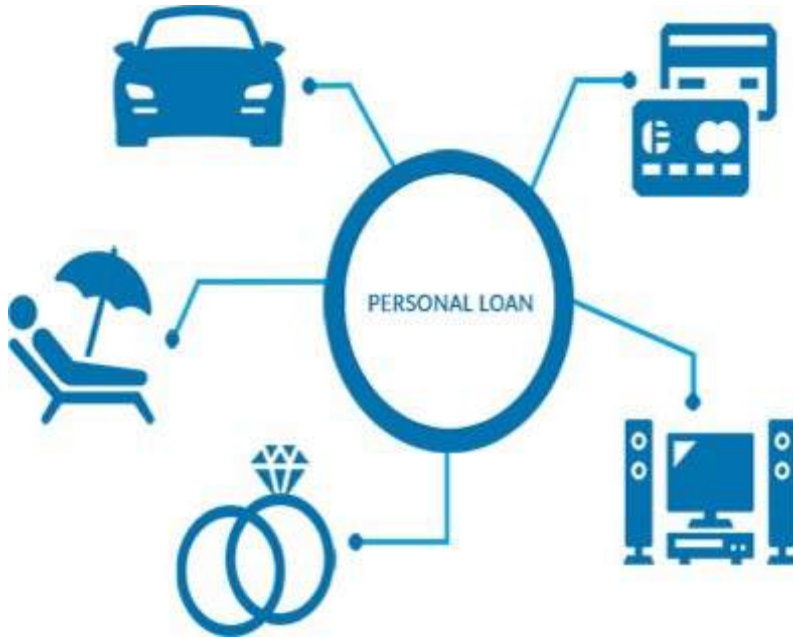


# Components of a Loan

- Loan size
- Loan term
- Interest rate
- Repayment schedule
- Fees
- Charges (*on missed payment*)



# Understanding my Need for Loan



- Spending tomorrow's income today.
- Lifestyle
- Emergencies
- Life events
- Investments
- Greed
- Ignorance
- Impatience
- Self-indulgence

# Avoiding Non-Repayment



- Understand the loan terms
- Commit to use the original purpose of the loan
- Prioritize loan payment
- In the event of miss payment, keep communication line with the lender
- Do not pay loans with another loan

# Consequences of default

- Loss of good will
- Strained relationship
- Access to other sources affected
- Loss of face
- Lower self-esteem
- More Debt to re-pay





# Risks involved in taking more than one loan

- **When expected income does not come...**
  - Stress
  - Mental burden.
  - Sadness
  - Depression
  - Short temperament
  - Anger,
  - Fights among family members,
  - Loss of affection of friends and loved ones.



*Source: MicroSave Briefing Note # 114 . A Closer Look at Multiple Borrowing in the Philippines. December 2011*



# Steps to get out of over indebtedness

- D** Decide
- E** Empty all your savings account and liquidate your assets
- B** Be faithful in paying your debts
- T** Totally reverse the process



# Reminder!

**DO NOT  
BORROW MORE  
THAN YOU CAN  
AFFORD TO PAY!**



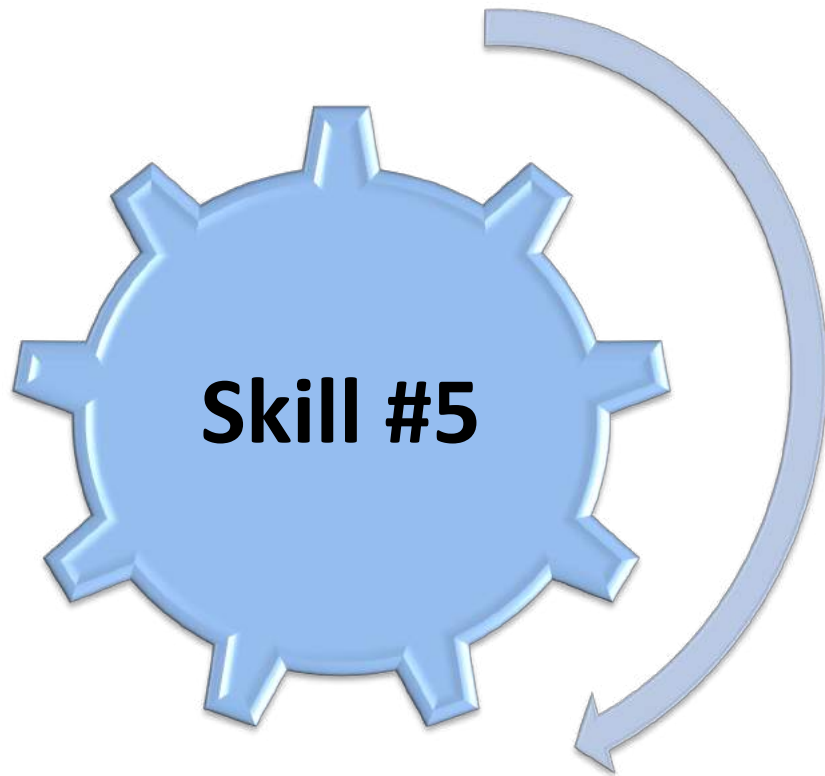
# In Summary...

Key critical questions:

- When is it right to borrow?
- When is borrowing a bad decision?
- Where to borrow?

Understanding loan agreements/contracts

Assessing loan terms and conditions



# **Protecting Assets**

**(Choosing insurance  
programs and buying  
insurance policies)**

## Structured Learning Exercise: Life Events and Vulnerabilities



Duration: 10-15 minutes

### **Instruction:**

1. Participants will be divided into 4 groups.
2. Each group will discuss all possible events that will result to income/wealth loss.
3. List as many as possible in the flipchart
4. List will be presented to the plenary
5. All duplicating answers will be streaked-out
6. Group with the most remaining items wins a prize

*Debriefing: Determining the various life events is the first step in mitigating risks and vulnerabilities that have impacts on one's finances.*

# PRINCIPLES OF INSURANCE



# What is Insurance?

- form of risk management primarily used to hedge against the risk of a contingent, **uncertain loss**.
- equitable transfer of the risk of a loss, from one entity to another, in **exchange for payment**.





# What is Insurance?

- ❑ An insurer is a company selling the insurance.
- ❑ The insured, or policyholder, is the person or entity buying the insurance policy.
- ❑ The amount to be charged for a certain amount of insurance coverage is called the premium.



# What is Life Insurance

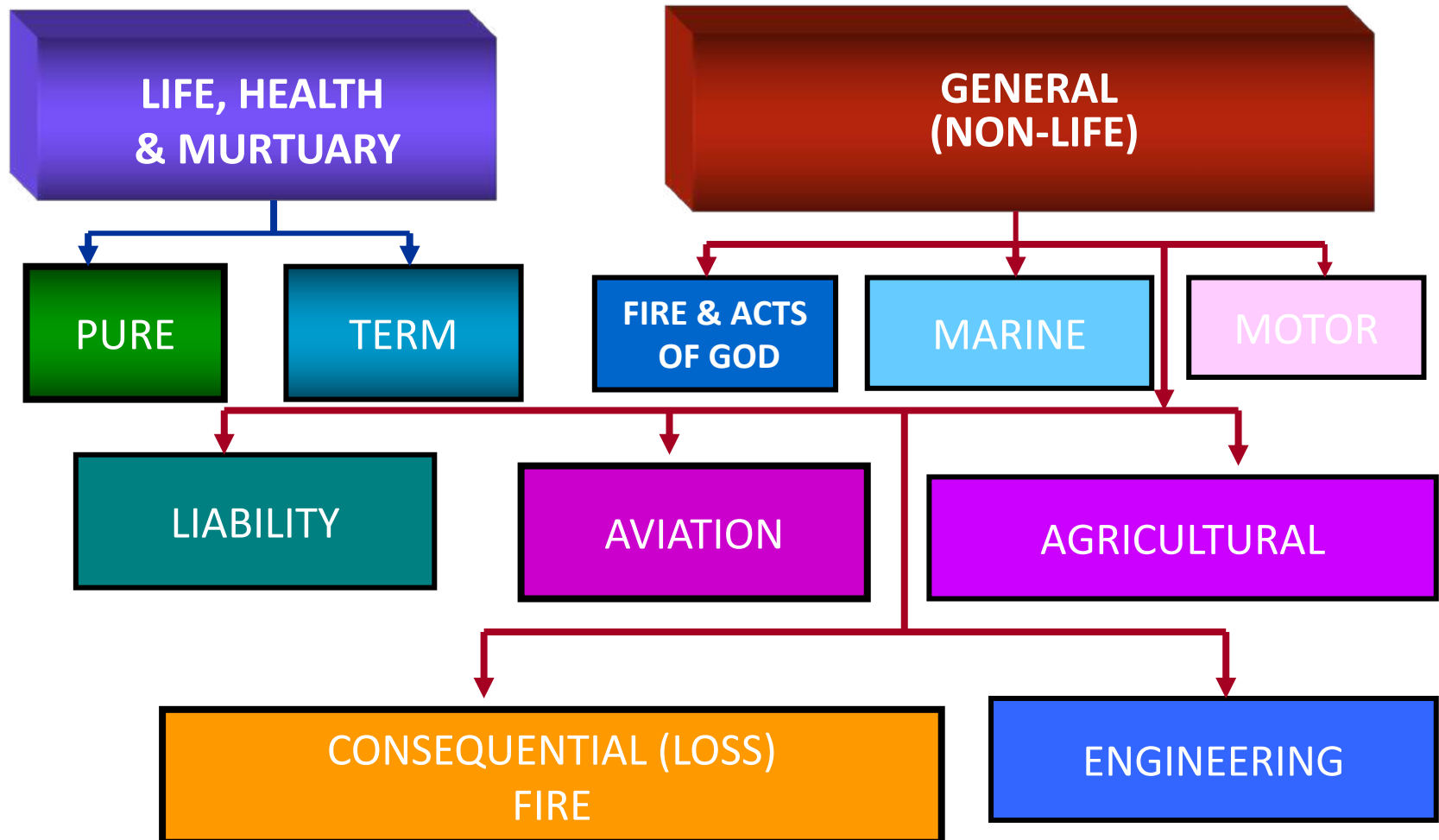
- It is a **cooperative risk-sharing** on human life
- A device by which a **large number of people** protect themselves against large economic losses by paying premium to a common fund from which their **losses are reimbursed.**



# Identify: Natural or Human-Made



# Protect Yourself, Protect your Wealth through Insurance



# Insurance products: What do I need?

- **Basic Life** - Insurance against death risk
- **Property Insurance** - Cover against any loss of asset, e.g. house, car, buildings, other properties
- **Health / Medical Insurance** - Cover costs incurred as a result of specified accidents or illnesses
- **Disability Insurance** - Includes protection against reduction or loss of income due to illness or accident

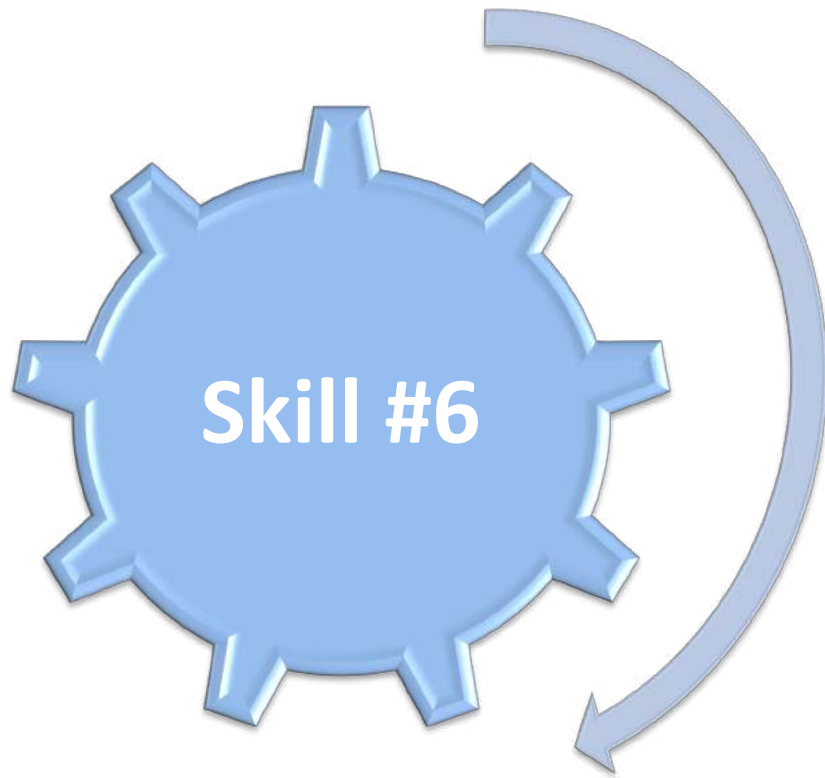




## In Summary....

- Insurance is a social device in which the risk of one is transferred to many through fund pooling to cover for contingent losses
- Peace of mind
- Investment
- Basic types: Life, health and property
- Tips on buying insurance
- Orientation on different insurance products





# **Retirement Income Planning**

**(Ensuring cash flow after age  
60 or retirement age from  
traditional employment)**



# Seasons of Life



**Land Preparation:**  
0 – 20 years old



**Planting Season:**  
over 20 to 49 years old



**Harvest Season:**  
50 – 60 years old



**Rest: Upon 60  
years old**



# Computing for Noodles: The situation

- At age 65, you are now retired or could no longer work
- All of your children have their own families
- You and your spouse is left to look after yourselves
- Assume ...You will live up to 80 years old
- Suppose .. that all you will eat are noodles three times a day, 7 days a week... how much money should you have saved for retirement?



# Computing for Noodles:

In SZL				
Cost of noodle	X 2 (you & your spouse)	X 3 (breakfast, lunch, dinner)	=	Cost of Noodle/ day
Cost of noodle/day	X 365 (# of days/year)		=	Cost of Noodle/year
Cost of Noodle/year	X (# of years for remaining life expectancy)		=	Total cost of noodles for life.
			154	

# Computing for Noodles (Sample):

Example:	in SZL
Cost of Noodle/person	30
X 2 (Couples)	60
X 3 (Meals)	180
X 365 (days)	65,700
X 15 years more to live	985,500

**ARE YOU READY TO RETIRE???**

**This does not include gas & water to cook your  
noodles and potential sickness due to salt and  
MSG!!!**



# Preparing for Retirement

	In SZL
Saving for Noodles	985,500
Your age now	40
Years to build savings for noodles	25
Annual Savings for retirement	39,420
Monthly savings equivalent	3,285
Weekly savings equivalent	821.25
Daily savings equivalent	117.30

# Where will you get SZL 117.30 daily ???

- If there's a will there's a way
- Instead of decreasing your dreams, what we need to do is **expand your income.**



## Structured Learning Exercise: Overcoming the SZL 117.30 Barrier

Duration: 15 minutes

### **Instruction:**

1. Each participant will write as many ways and means on how to increase your ability to earn SZL 117.30 extra daily
2. Same answer with the other group will be cancelled
3. Winner with the most number of “unique” ways and means will get a prize.
4. They will share their outputs in the plenary.

*Debriefing: Determining the current net worth will help the participants realize how much they need to earn and save in order to achieve their financial goals.*





# Ways to Prepare for Retirement<sup>1</sup>

- ❑ **Start saving, keep saving, and stick to your goals**

*Make saving for retirement a priority.  
Devise a plan, stick to it, and set goals!*

*It's never too early or too late to start saving!*



<sup>1</sup> Source: from the United States Department of Labor, [https://www.dol.gov/ebsa/publications/10\\_ways\\_to\\_prepare.html](https://www.dol.gov/ebsa/publications/10_ways_to_prepare.html)

# Ways to Prepare for Retirement<sup>1</sup>

## ❑ Know your retirement needs

*Retirement is expensive!*

*It is estimated that you will need at least **70 percent** of your pre-retirement income (**90 percent** if you are low-earner) to maintain your standard of living when you stop working*

<sup>1</sup> From the United States Department of Labor, [https://www.dol.gov/ebsa/publications/10\\_ways\\_to\\_prepare.html](https://www.dol.gov/ebsa/publications/10_ways_to_prepare.html)

# Ways to Prepare for Retirement<sup>1</sup>

## ☐ Consider basic investment principle

*Put your savings in different types of investments – diversify!*

*Diversifying will likely to reduce risk and improve return*

<sup>1</sup> From the United States Department of Labor, [https://www.dol.gov/ebsa/publications/10\\_ways\\_to\\_prepare.html](https://www.dol.gov/ebsa/publications/10_ways_to_prepare.html)

# Ways to Prepare for Retirement<sup>1</sup>

**❑ Don't touch/withdraw your retirement savings**

*If you withdraw your retirement savings now,  
you'll lose both the principal and the interest!*

<sup>1</sup> From the United States Department of Labor, [https://www.dol.gov/ebsa/publications/10\\_ways\\_to\\_prepare.html](https://www.dol.gov/ebsa/publications/10_ways_to_prepare.html)

# Ways to Prepare for Retirement<sup>1</sup>

## ☐ Find out about your Social Security benefits

*Don't be afraid to inquire and ask questions!*

**Refer to Handout # 13: 5 Steps to planning your retirement & Handout # 14: How an Employee Can Prepare for Retirement further reading.**

<sup>1</sup> From the United States Department of Labor, [https://www.dol.gov/ebsa/publications/10\\_ways\\_to\\_prepare.html](https://www.dol.gov/ebsa/publications/10_ways_to_prepare.html)

# In summary...

- Understand: slowing down, opportunities and harvesting principles
- Retirement is not:
  - ✓ Not the time to start saving and investing
  - ✓ Not the time to use up all you've worked for
  - ✓ Not the time to build
  - ✓ Not the time to stop
- How to plan? --- save? Invest? How much?
- “Noodle” illustration to compute retirement needs





# **Prudent and Useful Investments**



Savings is  
**not**  
enough.



**Investment is a wise  
move! It multiplies  
your savings**

# Investment

What would you consider your  
'investments' right now?



# Investment

- Savings is **not** enough;
- You have to make your money grow by **investing it properly**.
- There are too many cases of people who are good at saving but who still **lose** all their savings because of **bad investments**.



# What is investment?

- Making your hard earned money make more money.
- It's acquiring assets and not liabilities.
  - Assets – put money into your pocket
  - Liability – brings out money from your pocket



# Difference between Savings & Investment

## Savings

- Short-term: Ready to go
- typically for smaller, shorter-term goals in the near future (usually three years or less)
- like going on vacation or having money for an emergency.

## Investment

- Long-term: Achieve major goals
- can help you reach bigger long-term goals (at least four to five years away),
- like saving for a purchase of house and lot, child's college education.

# Difference between Savings & Investment

## Savings

- **Ready access to cash when you need it; but many savings accounts have limits on how often you can withdraw**
- **Minimal risk**
- **Earn interest**

## Investment

- **Cash can't be accessed readily**
- **takes time to convert to cash**
- **High risk**
- **Potential for profit – grows bigger**

# Types of Investments

1. Ownership Investments
2. Lending Investments
3. Cash Equivalents



<https://www.investopedia.com/articles/younginvestors/10/what-is-an-investment.asp>



# Ownership Investments

most volatile and profitable class of investment.

- Stocks
- Business
- Real Estate
- Precious objects and collectibles



# Lending Investments

Lending investments allow you to be the bank. They tend to be lower risk than ownership investments and return less as a result.

- Your savings account
- Bonds
- On-lending



# Cash Equivalents

investments that are "as good as cash," which means they're easy to convert back into cash.

- **Money market funds**
- **Treasury bills**
- **Certificate of deposits**



# These Items Are Not Investments

- **Consumer purchases:** Beds, cars, mobile phones, TVs – and anything that naturally depreciates with use and time – are not investments.



**Refer to Handout # 15: Saving vs. Investing &  
Handout # 16: Investment 101 -Types of Investments  
for further reading.**

# Power of 72 in Investing

72

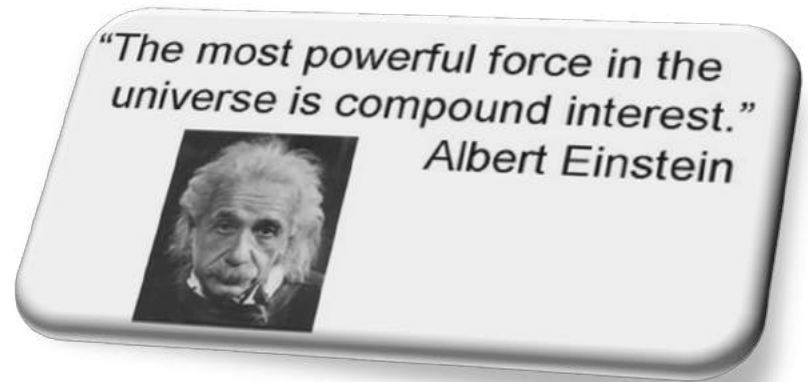
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and it's **Power** for You

# Quick History

- The Rule of 72 discovered by **Albert Einstein**
- considered it his greatest discovery even over  $E=MC^2$  (Squared).
- He considered it the most powerful force on earth. In its simplest form **Einstein** explained it this way:

*When you invest money, you earn interest on your capital*



Source: <https://personalfinanceliteracy.com/rule-72-einsteins-rate-return-formula/>

# Quick History

*“...compound interest the eighth wonder of the world and mankind’s greatest invention because it is the mightiest force ever unleashed for the amassing of wealth” — **Albert Einstein***

*“The most powerful force in the universe is compound interest.”*  
Albert Einstein



These rules apply to [exponential growth](#) and are therefore used for [compound interest](#) as opposed to [simple interest](#) calculations.



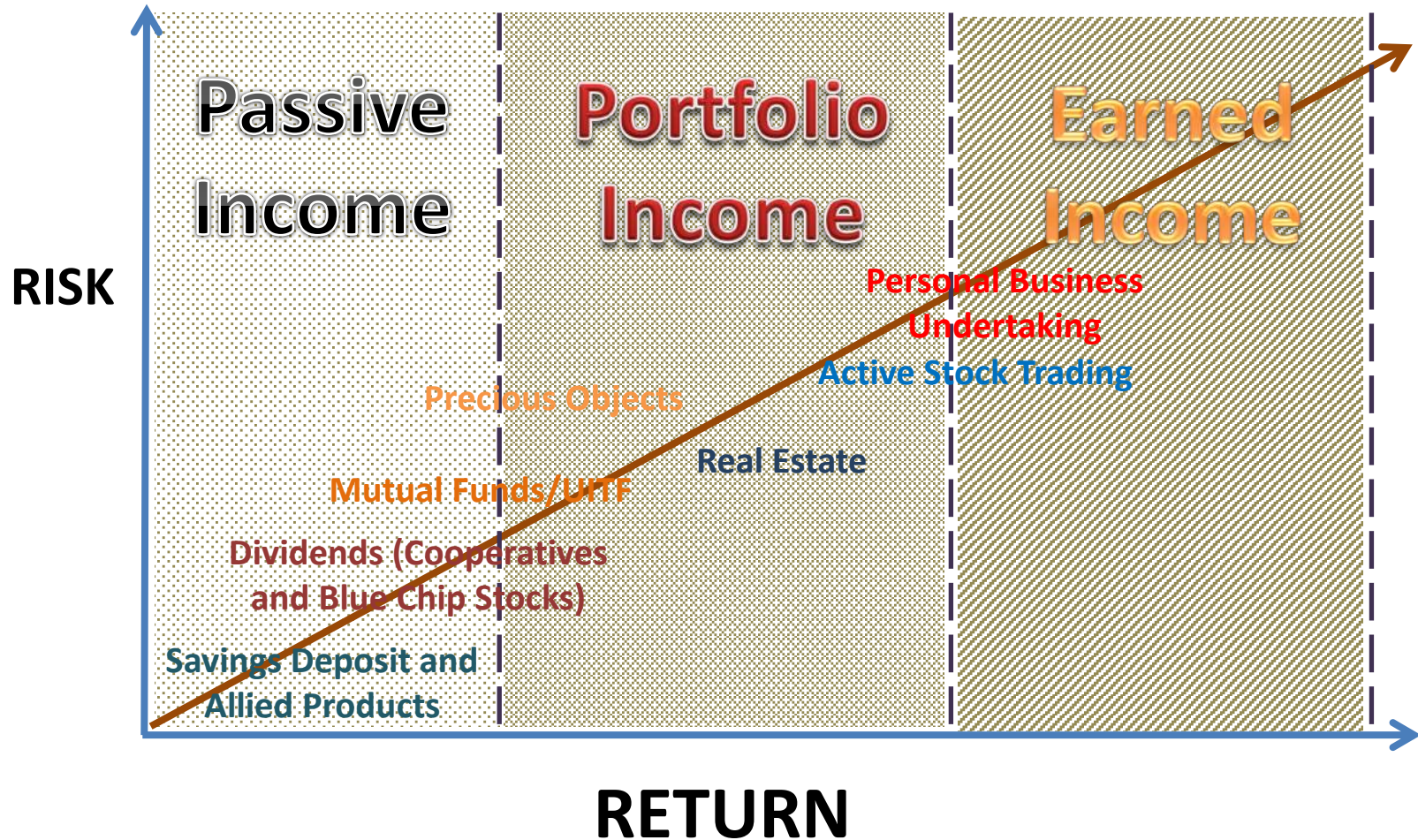
# Guiding Principle

**72** **divided** by the interest rate  
approximately equals the number of  
**years** it will take for money will **double**

$$72 \div \% = \begin{array}{l} \text{\# Years} \\ \text{Money} \\ \text{Doubles} \end{array}$$

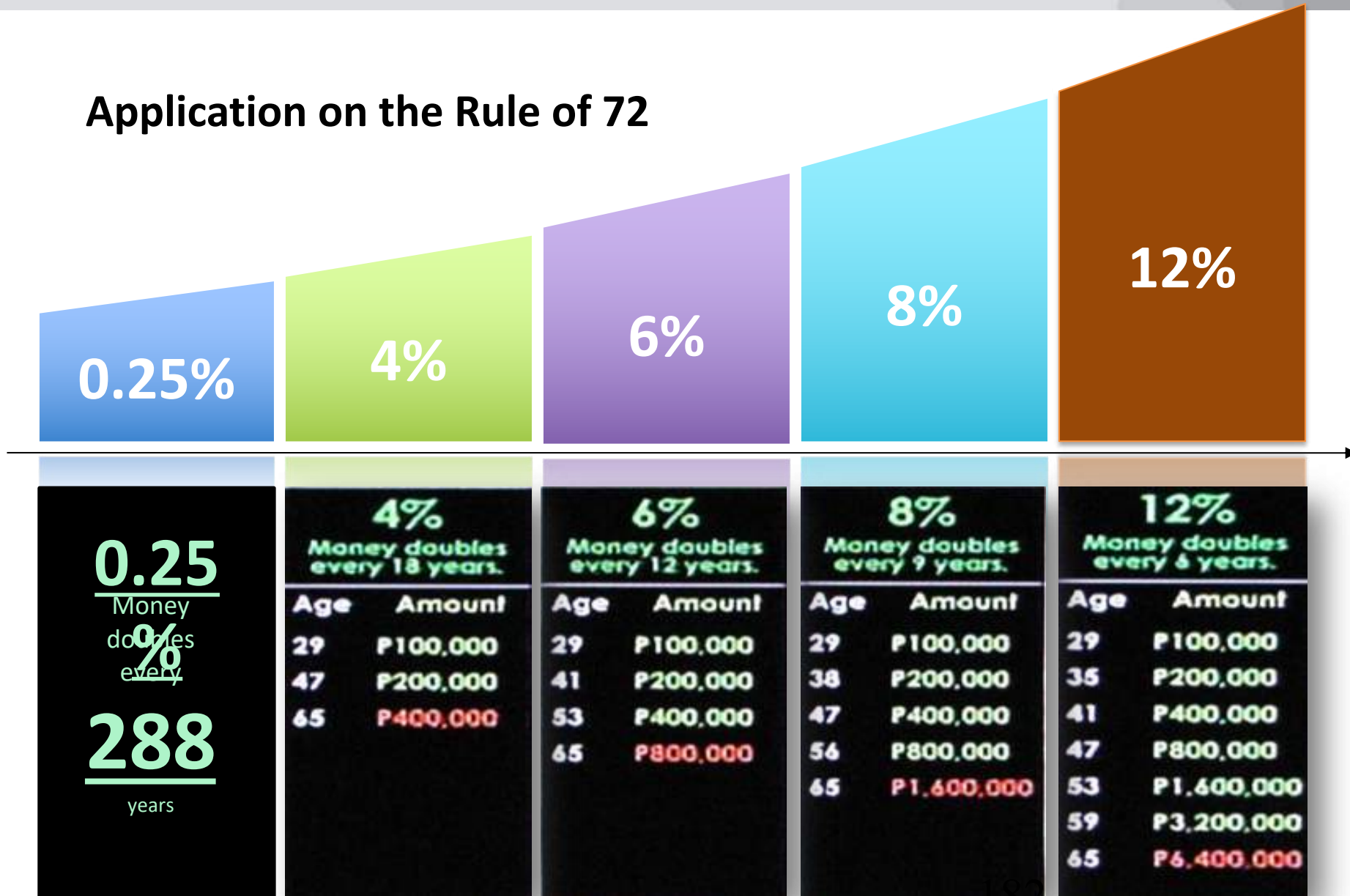
(Absolute  
number  
Interest Rate)

# Risks, Returns and Opportunities



# Financial Strategy for Saving & Investment

## Application on the Rule of 72



## The Power of Compounding Interest with Value of TIME

START EARLY			START LATE		
AGE	YEARLY CONTRIBUTION	TOTAL ACCUMULATION	AGE	YEARLY CONTRIBUTION	TOTAL ACCUMULATION
	@	6%		@	6%
22	20,000.00	22,400.00		0	0
23	20,000.00	44,944.00		0	0
24	20,000.00	68,840.64		0	0
25	20,000.00	94,171.08		0	0
26	20,000.00	121,021.34		0	0
27	20,000.00	149,482.62		0	0
28	-	158,451.58		20,000.00	21,200.00
29	-	167,958.68		20,000.00	43,672.00
30	-	178,036.20		20,000.00	67,492.32
31	-	188,718.37		20,000.00	92,741.86
32	-	200,041.47		20,000.00	119,506.37
33	-	212,043.96		20,000.00	147,876.75
34	-	224,766.60		-	156,749.36
35	-	238,252.59		-	166,154.32
36	-	252,547.75		-	176,123.58
37	-	267,700.61		-	186,690.99
38	-	283,762.65		-	197,892.45
39	-	300,788.41		-	209,766.00
40	-	318,835.71		-	222,351.96
41	-	337,965.86		-	235,693.08
42	-	358,243.81		-	249,834.66
43	-	379,738.43		-	264,824.74
44	-	402,522.74		-	280,714.23
45	-	426,674.11		-	297,557.08
46	-	452,274.55		-	315,410.51
47	-	479,411.02		-	334,335.14
48	-	508,175.69		-	354,395.24
49	-	538,666.23		-	375,658.96
50	-	570,986.20		-	398,198.50
51	-	605,245.37		-	422,090.41
52	-	641,560.10		-	447,415.83
53	-	680,053.70		-	474,260.78
54	-	720,856.92		-	502,716.43
55	-	764,108.34		-	532,879.41
56	-	809,954.84		-	564,852.18
57	-	858,552.13		-	598,743.31
58	-	910,065.26		-	634,667.91
59	-	964,669.17		-	672,747.98
60	-	1,022,549.32		-	713,112.86
61	-	1,083,902.28		-	755,899.63
62	-	1,148,936.42		-	801,253.61
63	-	1,217,872.60		-	849,328.83
64	-	1,290,944.96		-	900,288.56
65	-	1,368,401.66		-	954,305.87



*Time is  
precious  
so waste  
it wisely !!*

*... Starting late  
or Procrastination  
is mainly the cause  
of many failures*

# THE COMPLETE FORMULA FOR WEALTH

**MONEY**

**+ TIME**

**+ / - RATE OF RETURN**

**- INFLATION**

**- TAXES**



---

# WEALTH

# Outpace Inflation & Taxation

## EXAMPLE 1:

If you save..... P10,000  
at 2% Interest..... + 200  
Pay Tax at 20%..... - P40  
(Withholding Tax).....  
Net After Tax..... P10,160  
Inflation at 5%..... - 500  
Actual Return..... P 9,660  
(After Tax & Inflation)

*You Lose!*

## EXAMPLE 2:

If you save..... P 10,000  
at 7% Interest..... + 700  
Pay Tax at 20%..... - 140  
(Withholding Tax).....  
Net After Tax..... P 10,560  
Inflation at 5%..... - 500  
Actual Return..... P 10,060  
(After Tax & Inflation)

*You must get about 7% or more  
in interest to beat taxes and inflation.*

# Risks, Returns and Opportunities



The characters for “**risk**” in Japanese also pertains to “**opportunities/venture**”



# Factors to consider in Investing

- **High risk = High returns**

- ☐ Invest on assets based on your risk appetite
  - *There are numerous investment options that suits your risk appetite and the time you allot in monitoring your investments*
- ☐ When investing in high risk investments, follow the rule: *“Invest the money your are prepared to lose”*

# Factors to consider in Investing

## Factor the inflation rate in making investment decisions

- Inflation rate is at 4.12% (Eswatini 2020 average)
- You might be losing the value of your money without even noticing it

# Factors to consider in Investing

## Inform yourself

- Learn at least the concept of Return-on-Investment (ROI), Payback period, and the time value of money
- ***“A Lilangeni today may not be equal to a Lilangeni tomorrow”***

# Factors to consider in Investing

## The concept of underlying assets and the “to-good-to-be-true”

- Investment opportunities promise returns based on the business they make out of the productive assets they have – the underlying assets
- Make sure if the underlying assets can produce the promised returns they will give you
- If it is too good to be true (get rich quick scheme), think twice, do a due diligence

# In Summary...

- Investing/investment is the prudent act of putting in personal resources on something at present that will bring fruits/results in the future.
- Financial investing is the prudent act of putting your financial resources (cash and non-cash) in order have income (more cash).



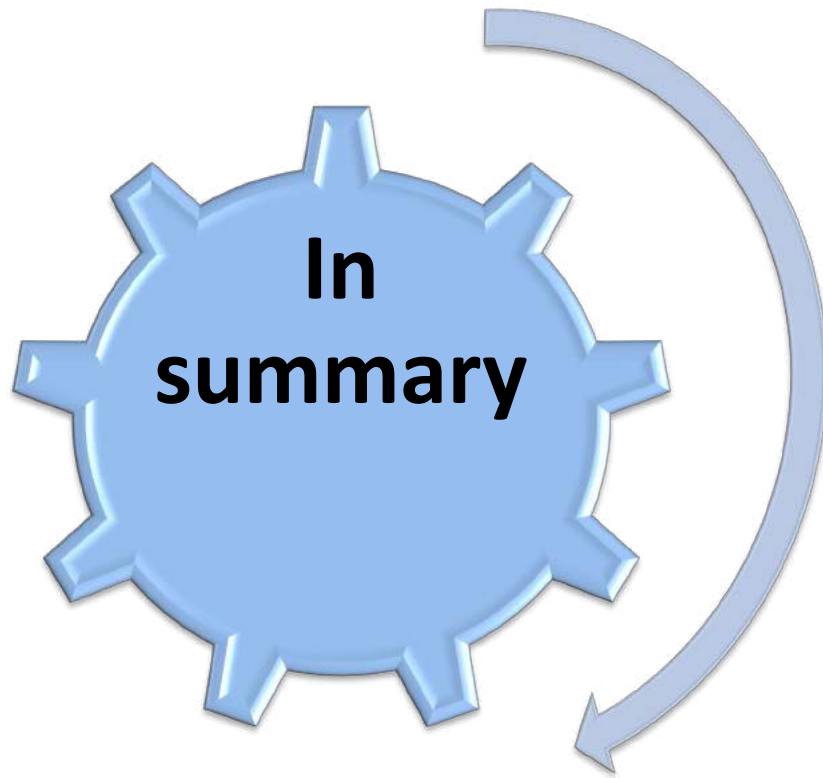
# In Summary

- Investment is not:
  - Not always high yielding
  - Not about acquiring assets
  - Not about buying BIG items
  - Can NOT be your children
  - Does Not always require HUGE amount to start
  - Not always about money/financial, but produces CASH
  - Not only for the rich or those with lots of money
- The power of 72 or the principle of compounding interest/yield



# Five Steps to an Effective Financial Plan

## Using the 7 financial skills



- Budget Successfully
- Eliminate debts Build an Emergency Fund
- Save for retirement
- Invest & Diversify

**Refer to Handout # 17: Five Steps to an Effective Financial Plan for further reading**