# Time is Money: Building Your Financial Strategy

Name: ____________

Date: ____________

**The Challenge:** Alex is 25 years old with two goals: saving $15,000 for a car in 3 years, AND starting to build retirement savings for 40 years from now. Alex earns $45,000/year and can save $500/month. Should Alex use the same savings strategy for both goals? How would you advise Alex to divide the monthly savings and choose appropriate investment vehicles for each goal?

## Core Concepts: Time and Strategy

### Time Horizon

How long before you need the money determines your strategy:

- **Short-term (1-3 years):** Favor safety and liquidity
- **Medium-term (3-10 years):** Balance growth and protection
- **Long-term (10+ years):** Focus on growth potential

### Risk Tolerance

Your comfort level with financial uncertainty:

- **Conservative:** Protect principal first
- **Moderate:** Accept some risk for returns
- **Aggressive:** Maximum growth focus

### Inflation Impact

At 3% annual inflation:

- $100 today = $74 purchasing power in 10 years
- Long-term investments must outpace inflation
- Savings accounts often lose value to inflation

### Asset Classes

- **Fixed Income:** Bonds, CDs, savings (lower risk/return)
- **Equities:** Stocks, mutual funds (higher risk/return)
- **Diversification:** Mix assets to reduce risk

## Strategy Matching Reference

| Time Horizon | Appropriate Vehicles | Risk Level | Focus |
|---|---|---|---|
| **Short-Term** (1-3 years) | High-yield savings, Money market, Short-term CDs | Very Low | Liquidity, Capital preservation |
| **Medium-Term** (3-10 years) | Mix of CDs, Short-term bonds, Conservative stocks | Low to Moderate | Balance growth and preservation |
| **Long-Term** (10+ years) | Diverse portfolio: Stocks, Bonds, Mutual funds, ETFs | Moderate to Aggressive | Growth that outpaces inflation |

## Part A: Contrasting Strategies Analysis

### 🚗 Alex's Short-Term Strategy (Car in 3 Years)

| | |
|---|---|
| **Goal:** $15,000 for a car | **Time Horizon:** 3 years (Short-term) |
| **Risk Tolerance:** Conservative | **Strategy:** 60% High-yield savings, 40% Short-term CDs |

### ⛱️ Taylor's Long-Term Strategy (Retirement in 40 Years)

| | |
|---|---|
| **Goal:** Build retirement savings | **Time Horizon:** 40 years (Long-term) |
| **Risk Tolerance:** Moderately Aggressive | **Strategy:** 70% Stocks (index funds), 30% Bonds |

## Compare the Two Strategies

**1.** Why would Alex avoid investing in stocks for the car fund?

**2.** Why can Taylor afford to take more risk with retirement savings?

**3.** What would happen to Taylor's strategy if retirement were only 5 years away?

## Part B: Inflation Impact Calculator

### Calculate Inflation's Effect on Purchasing Power

Use the formula: Future Value ÷ (1.03)^years = Today's Purchasing Power

| Starting Amount | Years | At 3% Inflation, Purchasing Power Equals |
|---|---|---|
| $10,000 | 10 years | $10,000 ÷ 1.344 = $___________ |
| $10,000 | 20 years | $10,000 ÷ 1.806 = $___________ |
| $10,000 | 30 years | $10,000 ÷ 2.427 = $___________ |

**Key Insight:** If your investments earn less than inflation, you're actually losing purchasing power even though your account balance grows!

**4.** If a savings account pays 1% interest but inflation is 3%, what's happening to your money's real value?

**5.** Why does this make long-term "safe" savings accounts actually risky for retirement?

## Part C: Build Alex's Dual Strategy

### Solve the Opening Challenge

Alex has $500/month to save. Design strategies for BOTH goals: a car in 3 years AND retirement in 40 years.

| Monthly Allocation | Car Fund Strategy | Retirement Strategy |
| --- | --- | --- |
| Car Fund: $________/month<br>Retirement: $________/month<br>(Must total $500) | Vehicle 1: _________________<br>Vehicle 2: _________________<br>Allocation: _____% / _____% | Vehicle 1: _________________<br>Vehicle 2: _________________<br>Allocation: _____% / _____% |

**6.** Justify your car fund allocation and vehicle choices:

**7.** Justify your retirement allocation and vehicle choices:

**Consider:** At $417/month for 3 years at 4% APY, Alex would have approximately $15,600 for the car. This leaves $83/month for retirement—starting early is still valuable!

## Part D: Financial Strategy Blueprint

### Create Your Personal Blueprint

Design a financial strategy for one of YOUR goals. Consider time horizon, risk tolerance, and inflation.

**My Financial Goal:**

**Target Amount:** $______________

**Time Horizon:** _______ years

**Monthly Savings Possible:** $__________

**My Risk Tolerance:**

- ☐ Conservative
- ☐ Moderate
- ☐ Aggressive

**8.** Based on my time horizon and risk tolerance, my strategy includes:

| Investment Vehicle | Percentage | Why This Choice? |
|---|---|---|
| | | |
| | | |
| | | |

**9.** How will inflation affect my goal, and how does my strategy address this?

## Check Your Understanding

**1.** Which factor should MOST influence your choice between savings accounts and stock investments?

- [ ] A. How much money you're starting with
- [ ] B. How long until you need the money
- [ ] C. What your friends are doing
- [ ] D. Current stock market performance

**2.** Why might keeping all your retirement savings in a savings account be risky?

**3.** Maya is 22 and starts investing $200/month in a diversified portfolio for retirement. Her friend Jordan waits until age 32 to start investing $400/month. Who will likely have more at age 65, and why?

**4.** What does "diversification" mean, and why is it important?