



Personal Finance Cheat Sheet Version 1

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Experience your financial future and gain personal finance skills in a GoVenture simulation.

Goal Setting

The main personal finance goals are growing your **Net Worth** and managing **Cash Flow**.

$$\text{Net Worth} = \text{Assets} - \text{Liabilities}$$

$$\text{Cash Flow} = \text{Income} - \text{Expenses}$$

Life Goals include: Education • Family • Career • Lifestyle • Home • Transportation • Vacations • Retirement

Risk profile determines how much risk you are willing to take to generate a desired return. Make a list of your goals. Consider:

- The amount of money you want to make.
- The minimum amount of money you need.
- When you need the money.
- The amount of loss you can tolerate.
- Your knowledge level as an investor.

Making Money Grow

Four things you can do with your money:
Spend, Store, Invest, or Gamble.

Savings and Debt Investments

Depositing money in a bank savings account is lending your money to the bank. Similarly, purchasing a Bond is lending money to the Bond issuer. Type of return: Interest or Discount on Face Value.

Equity Investments

Stocks, Mutual Funds, Commodities, Precious Metals, Derivatives, and Capital Assets such as Real Estate, Art and Collectibles, Gems, and other Property. Type of return: Dividend or Capital Gain.

Qualified Retirement Plans

Allow you to make certain investments while deferring income tax due.

Banking

Account Types

Checking and Savings. Access accounts via bank branches, ATMs, Internet, and phone.

Debit Card

Provides access to your bank accounts and can be used to make purchases. PIN: Personal Identification Number (password) used to access a Debit Card.

Non-Sufficient Funds (NSF)

Occurs when you write a check but do not have sufficient funds in your account to cover the amount.

Overdraft Protection

A feature offered with checking accounts where the bank will honor checks you write even if your account has insufficient funds.

Deposit Insurance

Federal government guarantees your bank savings (up to a certain amount) in the event of bank bankruptcy.

Savings and Debt

5-Year growth with compound interest.



Savings—Initial deposit of \$50 with a 3.5% interest rate compounded monthly. Small monthly deposits made as shown.

Debt—Starting balance of \$1,000 with 18% interest rate compounded monthly.

Credit

Credit

Has three different common definitions:

- Similar to Debt or Loan.
- Your capacity to borrow, or the maximum amount of money you can borrow.
- A refund or reduction in what you owe.

Credit Card

A card (usually plastic) that can be used to borrow money or make purchases.

Line of Credit

A pre-authorized loan with your bank or financial institution that you can access as needed.

Revolving Credit

Debt arrangement that allows you to borrow and repay and then borrow again.

Credit History

Your past record of making payments on your liabilities. Good credit means you have a history of paying your debts on time.

Credit Rating

Your capacity to borrow, often expressed as a score, such as FICO[®]. Credit bureaus track credit history and assign credit ratings. You can request your credit history report for free.

Insurance

A contract, called a *policy*, that protects against financial loss. Most common types are Life, Health, Automobile, and Property.

Tax

Consumption tax, such as *Sales Tax*, is levied on goods and services you purchase.

Income tax is assessed on your earnings. *Capital Gains* tax arises from the sale of assets.

Wealth tax is based upon your net worth.

Retirement

The time in life where you no longer work to generate income.

Definitions

Asset

An item of economic value, which you own, and which is cash or could be sold for cash.

Liability

Money or debt that you owe someone else, such as a loan or bill.

Income

Money in. *Earned* income is from employment wages. *Unearned* income is from all other sources, like investments, interest on savings, etc.

Expense

Money out. *Cost of living* expenses include housing, transportation, food, and clothing. *Discretionary* expenses are entertainment, extra clothes, hobbies, education, donations—items not required for you to live.

Borrow, Debt, or Loan

To receive something of value, with a promise of giving something of equal or greater value back at some point in the future. A *secured loan* requires you to pledge another asset against the debt, which you will lose if you default. An *unsecured loan* has no pledged assets. A *Demand Loan* must be repaid in full upon request by the lender.

Mortgage

A loan to finance the purchase of real estate.

Creditor or Lender

An individual or organization that is owed money or other item of value. The borrower is often called the Debtor.

Principal

The amount borrowed.

Interest

The fee charged to a borrower by a lender. Sometimes referred to as *Prime Rate* for a bank loan and *Coupon Rate* for a bond.

Default

Failing to meet a financial obligation.

Rent or Lease

An agreement to pay for the use of an asset.

Budget

A list of estimated expenditures and the expected ways to pay for them.

Appreciation

An increase in value of an item.

Depreciation

A decrease in value of an item.

Foreign Exchange Rate

Value of a country's currency compared to another country's currency.

Financial Market

A market that facilitates the buying and selling of financial securities, such as stocks, bonds, mutual funds, and precious metals.

Investing Definitions

Investments

Assets which you have obtained in order to provide future increases in value. This may be periodic payments received from interest income or dividends, or from appreciation.

Portfolio

A collection of investments.

Liquidity

The ability of an asset to be converted to cash quickly and without any price discount.

Dividend

A portion of company profits distributed to its shareholders.

Bull Market

Period of rising prices.

Bear Market

Period of declining prices.

Investment Concepts

Risk and Return

Risk is uncertainty in how much of an investment could be lost. Generally, the higher the risk the higher the return and vice versa.

Time Value of Money

Inflation

As time passes, and costs of goods increase, a dollar will usually buy less and less value. The opposite of Inflation is Deflation.

Opportunity Cost

An estimate of the value you did not get from other possible uses of your money.

Return on Investment (ROI)

The extra value earned from an investment. There are three type of ROI: *Interest Income*, *Dividends*, and *Capital Gains*.

$$ROI = \left(\frac{\text{Future Value}}{\text{Starting Value}} \right) - 1$$

$$\text{Future Value} = \text{Starting Value} \times (\text{Rate of Return} + 1)$$

Rate of Return (ROR)

Simple ROR

ROI as a % of the original investment

$$= \left(\frac{\text{Future Value} - \text{Starting Value}}{\text{Starting Value}} \right) \times 100\%$$

Simple Annual ROR

Divide the Simple ROR by the number of years of the investment.

Compound Annual ROR

 Y = Years

$$= \left(\left(\frac{\text{Future Value}}{\text{Starting Value}} \right)^{\frac{1}{Y}} \right) - 1$$

Multiply the result above by 100%

$$\text{Future Value} = \text{Starting Value} \times \left(1 + \frac{\text{ROR}}{100\%} \right)^Y$$

Rule of 72

$72 \div \text{ROR} =$ number of years it will take an investment or debt to double.

Common Investments

Common Investments

Stocks, Bonds, Mutual Funds, Real Estate, Precious Metals, and Money Market.

Stock is ownership in a corporation.

Bond is lending money to an organization.

Common Portfolio Management Issues

Liquidity, Investment Income, Growth/Capital Gain, Risk, and Tax Planning.

Economic Influences

Interest Rate

Affects the cost of borrowing. High interest tends to slow new investments because borrowing is more expensive.

Inflation

Affects the price of goods and cost of living.

Foreign Exchange Rates

Affect the cost of travel, imported goods and services, and exported goods and services.

Financial Markets

Affect the price of stocks, bonds, mutual funds, precious metals, commodities, and other types of investments.

Government Spending and Policy

Governments use various "levers" to speed up or slow down economic growth, such as tax, interest rates, and government spending.

Global Events

Affect the quantity and costs of imports and exports, foreign investments, and government's access to funds.

Economic Indicators

An Economic Indicator is a set of statistical data that shows trends in the economy. A *Leading Indicator* helps predict trends of what may happen *before* the economy has actually changed. A *Lagging Indicator* shows trends of change *after* the change has occurred. Common indicators are described below.

Gross Domestic Product - Economic Growth

GDP is the total of all goods and services produced in a nation in a given year. *Nominal GDP* includes inflation. *Real GDP* does not.

Unemployment Rate

The percentage of individuals in a nation who are *actively* seeking employment but do not currently have a full-time or part-time job.

Consumer Price Index

CPI measures the rate of inflation by monitoring the average change in the price of several hundred goods and services in the country.

Prime Rate

Interest rate set by major banks for loans to their best customers. Most people are offered interest rates at "Prime plus" some amount.

Other Economic Indicators

Employment Growth, Housing Starts, Motor Vehicle Sales, Personal Savings Rate, Value of the Dollar.

Currency

Faces on Money (US, Canada)

\$5 Abraham Lincoln, Sir Wilfrid Laurier
\$10 Alex. Hamilton, Sir John A. MacDonald
\$20 Andrew Jackson, Queen Elizabeth II
\$50 Ulysses S. Grant, W. L. MacKenzie King
\$100 Benjamin Franklin, Sir Robert Borden

US Federal Reserve

Acts as a bank to the banks by:

- Setting and implementing monetary policy, including the Federal Funds Rate and Discount Rate.
- Acting as the government's bank.
- Supervising and regulating banks and financial institutions.
- Providing banking services to banks and financial institutions.

The Board of Governors and 12 Banks serve different regions: Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, San Francisco. In Canada, the Bank of Canada performs the same role.

Discount Rate

Interest rate at which banks borrow money from the government. In Canada, it is called the Bank Rate.

Federal Funds Rate

Interest rate at which banks borrow money from other banks. In Canada, it is called the Overnight Rate.

Prime Rate

Interest rate banks provide to their best customers. Each bank sets its own Prime Rate, but it is often based on (but higher than) the Discount and Federal Funds Rates.

Reserve Requirement

Minimum level of cash a bank must have available for depositor withdrawals.

Consumer Protection

Unethical Business Practices

Bait and Switch Advertising, Greenwashing, Shilling, Spamming, Pyramid Scheme.

Common Frauds and Scams

Telemarketers promising prizes, Opportunities to invest in fraudulent schemes, Bank Examiner con, Travel Companies giving free trips, the Pigeon Drop, Funeral Chasers, Home Repair, Stolen Checks, Fake Contests.

Online Frauds and Scams

Virus, Worm, Spam, Phishing, Spyware.

Protection from Identity Theft

- Protect your Social Security Number, bank account, credit card numbers, PINs, passwords, and other personal information.
- Don't throw away financial documents without shredding them first.
- Never send financial information via email. Only use trusted websites that are secure.