FCS 340 READINGS

Money Management

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Chapter 1: Financial Stewardship

Chapter 1: Financial Stewardship

Welcome to Chapter 1 of the FCS 340 Readings. In this chapter, we will discuss principles of financial stewardship, good financial practices, the basics of a financial plan, and budgeting techniques. Please consider the key terms below, as they will help you navigate this chapter.

Key Terms

Financial Stewardship: Managing financial resources responsibly and ethically.

Family Council: A structured forum for family members to discuss and make decisions on family matters.

Self Reliance: The ability to rely on oneself for financial and other needs.

Financial Plan: A comprehensive strategy outlining financial goals and the means to achieve them.

SWOT Analysis: Evaluation of Strengths, Weaknesses, Opportunities, and Threats to inform decision-making.

Budget: A financial plan allocating income towards expenses, savings, and investments.

Financial Stewardship

(The Church of Jesus Christ of Latter-day Saints, 2017a)

In the parable of the talents, Christ teaches us that we must take care of what we have been given. The Lord allows us to be caretakers—or stewards—over His gifts to us. To those who are faithful with His gifts, Christ promises, “Well done, thou good and faithful servant: thou

hast been faithful over a few things, I will make thee ruler over many things: enter thou into the joy of thy lord" (Matthew 25:21, New Testament, King James Version, 1611).

As part of our stewardship, we are encouraged to be wise with our finances. President Gordon B. Hinckley taught:

"I urge you … to look at the condition of your finances. I urge you to be modest in your expenditures; discipline yourselves in your purchases to avoid debt to the extent possible. Pay off debt as quickly as you can, and free yourselves from bondage.

"This is a part of the temporal gospel in which we believe. May the Lord bless you to set your houses in order. If you have paid your debts, if you have a reserve, even though it be small, then should storms howl about your head, you will have shelter for your [families] and peace in your hearts" (Hinckley, 1998).

As you strive to use your money wisely, your faith in Christ can increase, paving the way for future blessings.

Finances in Relationships

(The Church of Jesus Christ of Latter-day Saints, 2017a)

Whether you are preparing for marriage or are single, divorced, or widowed, wise financial stewardship can help you be ready for future relationships. Many new couples are burdened by debt and poor spending habits brought into the relationship, which can cause a difficult beginning to their marriage. Striving to develop good spending habits, build up savings, and reduce or eliminate debt will invite the Spirit into your relationship and create a bedrock for a successful marriage.

One of Satan's most prevalent and powerful tools for destroying families is financial carelessness and its accompanying stress. Because families are central to Heavenly Father's plan (see The Family: A Proclamation to the World), it is important that we avoid blame, distrust, and anger in our homes. Whether you are married or single, wise financial stewardship can bring loved ones closer to each other and to God, and can be a safeguard from evil; a unified approach to financial stewardship can ultimately bring gratitude, harmony, and peace.

Elder Marvin J. Ashton taught, "Management of family finances should be mutual between husband and wife in an attitude of openness and trust. Control of the money by one spouse as a source of power and authority causes inequality in the marriage and is inappropriate. Conversely, if a marriage partner voluntarily removes himself or herself entirely from family financial management, that is an abdication of necessary responsibility" (Ashton, 2006).

Spouses often come from different cultural, economic, and religious backgrounds. They may have different traditions, child-rearing techniques, and spending habits. One spouse may be naturally interested in tracking expenses and following a budget, and the other may find it tedious and burdensome. This may spark disagreements. However, embracing each other's

differences and truly listening with love and humility will foster an environment of unity. If you are single, it is important to be honest with yourself and to involve the Lord in your financial stewardship decisions.

Many couples believe that the solution to their financial problems is increasing their income. However, a divided approach to managing money can be far more damaging to a relationship than low income or lack of financial resources.

Becoming Wise Stewards

As outlined so far, becoming wise financial stewards involves managing resources responsibly and involving the Lord in our financial endeavors. Below are specific suggestions that individuals and families should incorporate into their financial goals in order to be more effective with their finances and become better financial stewards.

Hold Family Councils

(The Church of Jesus Christ of Latter-day Saints, 2017a)

Elder M. Russell Ballard shared the following about family councils: “I believe councils are the most effective way to get real results. Additionally, I know councils are the Lord’s way and that He created all things in the universe through a heavenly council, as mentioned in the holy scripture. Until now, however, I have never talked in general conference about the most basic and fundamental—and perhaps the most important—of all councils: the family council. Family councils have always been needed. They are, in fact, eternal. We belonged to a family council in the premortal existence, when we lived with our heavenly parents as their spirit children.

“A family council, when conducted with love and with Christlike attributes, will counter the impact of modern technology that often distracts us from spending quality time with each other and also tends to bring evil right into our homes. Please remember that family councils are different from family home evenings held on Mondays. Home evenings focus primarily on gospel instruction and family activities. Family councils, on the other hand, can be held on any day of the week, and they are primarily a meeting at which parents listen—to each other and to their children.

“I believe there are at least four types of family councils:

- First, a general family council consisting of the entire family.
- Second, an executive family council consisting of a mother and father.
- Third, a limited family council consisting of parents and one child.
- Fourth, a one-on-one family council consisting of one parent and one child” (Ballard, 2016).

A regular executive family council between husband and wife is the perfect setting to discuss financial stewardship. If you are single, choose a parent or other family member, roommate, mentor, or friend and hold a regular and honest council with the person about your finances. If you are married, you will probably need to have important discussions with your spouse throughout this course. After this course, holding regular family councils will help you continue to become more unified and more self-reliant.

If your family is not used to discussions between parents and children, consider easing into these conversations. It doesn’t have to happen all at once. Try bringing up some deeper conversations when you share a meal or work on a project together. Sometimes there can be fears about losing respect or creating undue conflict, but open communication can help relationships grow closer as family members gain a further understanding of each other's lives.

Parents sharing their financial constraints can help their kids understand why they live the way they do. Often this eye-opening experience can help children have more appreciation for the sacrifices their parents make so they can enjoy the life they have. Improving communication in this area is a way to build trust and strengthen parent-child relationships. This can also create a sense of accountability or motivation for parents to strive to be good financial stewards.

Be Honest About Money Problems

(ChatGPT, 2024)

Being honest about money problems is crucial for maintaining healthy relationships and financial well-being. Open communication about financial challenges fosters trust and understanding between individuals, whether it's within a family, partnership, or among friends. When people are transparent about their financial situation, it allows for better collaboration in finding solutions and making informed decisions.

Suppressing or hiding money issues can lead to stress, misunderstandings, and strained relationships. Money management should be a shared responsibility wherever possible. Transparency between husbands and wives in financial matters can feel intimidating but it can illuminate the ways to improve more effectively than having one spouse managing everything individually.

Honesty about financial struggles also encourages proactive problem-solving, helping individuals seek support, guidance, or professional advice when needed. Acknowledging and addressing money problems honestly is a fundamental step toward building strong, resilient financial foundations and fostering positive connections with others.

Elder Boyd K. Packer once said, “Your wife is your partner in the leadership of the family and should have full knowledge of and full participation in all decisions relating to your home” (in Conference Report, Apr. 1994, 26; or Ensign, May 1994, 21).

Get on the Same Page

(ChatGPT, 2024)

Foster a collaborative approach to financial decision-making. Couples should involve both partners in discussions about major purchases, investments, and budgeting. They should recognize and respect each other's financial perspectives and priorities, and aim for compromises that align with both individuals' values and goals. By working together to make financial decisions, couples can avoid conflicts and create a sense of shared responsibility for their financial well-being.

President Spencer W. Kimball stated, “We do not want our LDS women to be silent partners or limited partners in that eternal assignment! Please be a contributing and full partner” (“Privileges and Responsibilities of Sisters,” Ensign, Nov. 1978, 106).

Furthermore, President Howard W. Hunter said, “A man who holds the priesthood accepts his wife as a partner in the leadership of the home and family with full knowledge of and full participation in all decisions relating thereto. … The Lord intended that the wife be a helpmeet for man (meet means equal)—that is, a companion equal and necessary in full partnership” (in Conference Report, Oct. 1994, 68; or Ensign, Nov. 1994, 50–51).

For those who are single or not married, the same principles of collaboration and mutual respect apply. You may consider asking friends or family to help keep you accountable and have a part in financial decision making. Though they may look different for everyone, these partnerships should be actively involved in financial discussions and decisions to ensure that other perspectives are considered and valued. Building a foundation of open communication and joint decision-making fosters a sense of shared responsibility for financial matters and can provide valuable experience for future relationships.

Agree on Spending Limits

(ChatGPT, 2024)

Individuals and couples should prioritize establishing spending limits in their budgets, as this serves as a fundamental foundation for financial harmony and stability. Setting clear and agreed-upon spending limits helps promote open communication about financial goals, priorities, and expectations. It fosters a sense of shared responsibility and ensures that everyone—whether in a partnership or managing finances alone— is actively involved in making financial decisions.

There is no right or wrong answer when it comes to spending limits. An honest reflection of your current financial situation is the best place to start. It may be overwhelming for couples to notify each other about every spending decision. By having spending limits, couples can avoid potential conflicts arising from overspending or differing financial habits. This collaborative approach not only strengthens the financial health of the partnership but also builds trust and understanding between individuals. Ultimately, it allows couples to work together towards common financial objectives and navigate their financial journey with transparency and mutual respect. Similar benefits await individuals as they set spending

limits for themselves. Doing so can increase their confidence and trust in themselves that they are diligent financial stewards, and can help them effectively work toward their financial goals.

Continue Your Education

(ChatGPT, 2024)

Education is one of the most powerful tools for developing healthy relationships with money. Invest time in educating yourself about personal finance and exploring financial values and priorities. Attend financial literacy workshops , read relevant books, or consult with a financial advisor. Ensure that you and others involved in your finances have a clear understanding of the financial goals you are working towards. Aligning goals helps in creating a unified vision for the future and promotes a sense of purpose in managing finances. Being wise about seeking proper education from reputable sources is very important. Consult with trusted individuals in your life as you explore the various ways in which you can broaden your education.

Become Self Reliant

(The Church of Jesus Christ of Latter-day Saints, 2017a)

President Dieter F. Uchtdorf taught, “The Lord doesn’t expect us to work harder than we are able. He doesn’t (nor should we) compare our efforts to those of others. Our Heavenly Father only asks that we do the best we can. … Work is an antidote for anxiety, an ointment for sorrow, and a doorway to possibility. … When our wagon gets stuck in the mud, God is much more likely to assist the man who gets out to push than the man who merely raises his voice in prayer—no matter how eloquent the oration” (Uchtdorf, 2009).

When we become spiritually self-reliant, it is our duty to help others also become spiritually self-reliant. In the Doctrine and Covenants, we read, “And if any man among you be strong in the Spirit, let him take with him him that is weak, that he may be edified in all meekness, that he may become strong also” (D&C 84:106) (The Church of Jesus Christ of Latter Day Saints, 1835). Similarly, in the New Testament, Peter writes, “As every man hath received the gift, even so minister the same one to another, as good stewards of the manifold grace of God” (1 Peter 4:10) (The Holy Bible, King James Version, 1611).

When we become temporally self-reliant, it is our duty to help others also become temporally self-reliant. One of the best ways to help others become self-reliant is serving and giving to others. President Marion G. Romney taught: “There is an interdependence between those who have and those who have not. The process of giving exalts the poor and humbles the rich. In the process, both are sanctified. The poor, released from the bondage and limitations of poverty, are enabled as free men to rise to their full potential, both temporally and spiritually. [Those who have more], by imparting their surplus, participate in the eternal principle of giving. Once a person has been made whole, or self-reliant, he reaches out to aid others, and the cycle repeats itself” (Romney, 1982).

Counsel with the Lord

(The Church of Jesus Christ of Latter-day Saints, 2017a)

Amulek taught the poor among the Zoramites to “cry unto [the Lord] over the crops of your fields, that ye may prosper in them. Cry over the flocks of your fields, that they may increase” (Alma 34:24–25) (The Book of Mormon, 2013). As you counsel with the Lord about your temporal needs and challenges and work toward financial self-reliance, He will bless and strengthen you. Counseling with the Lord about your finances means praying to Heavenly Father and asking for guidance about financial matters.

(ChatGPT, 2024)

Reflect to align your financial choices with personal values and spiritual beliefs. You can turn to faith for wisdom and discernment, seeking clarity on how to steward your resources responsibly. Through prayer, you may find strength in facing financial challenges, gratitude for what you have, and inspiration for charitable actions. Aligning with the Lord in matters of finance can provide a sense of peace and assurance, fostering a belief that you are not alone in navigating the complexities of financial management. Ultimately, counseling with the Lord allows you to integrate your spirituality into your financial journey.

Prayerful Consideration

As you have been learning about being a wise financial steward by incorporating family councils, being honest and open with your finances, and involving the Savior in your money management, prayerfully consider how these principles can best be applied to your unique situation.

What Is a Financial Plan?

(ChatGPT, 2024)

A financial plan is a comprehensive roadmap that you create to manage your finances effectively and work towards specific goals. This structured document helps you make informed decisions about your money, align your spending and saving with your aspirations, and adapt to changing circumstances. A financial plan shouldn’t be viewed as a static document that outlines perfectly the rest of your life, but should be adaptable and ever-changing. By regularly revisiting and adjusting the financial plan, you can ensure that you stay on course toward achieving your financial objectives and maintaining long-term financial well-being.

A financial plan offers numerous benefits that contribute to overall financial well-being and peace of mind. Some key advantages include:

- Clarity and Organization: A financial plan provides a clear overview of your financial situation, including income, expenses, assets, and liabilities. This organization helps you better understand your financial standing and make informed decisions.

- Goal Achievement: By outlining specific financial goals and creating strategies to reach them, a financial plan serves as a roadmap for you to achieve your aspirations, whether it's buying a home, funding education, or retiring comfortably.
- Budgeting and Spending Control: A financial plan includes a budget that allows you to track your income and expenses. This helps in identifying areas for potential savings, controlling spending, and ensuring that resources are allocated efficiently. When implemented properly, a budget should be viewed as empowering and positive rather than restrictive and negative.
- Risk Management: Assessing and managing risks, such as emergencies, health issues, or unexpected financial setbacks, is a crucial component of financial planning. An emergency fund and appropriate insurance coverage are part of this risk management strategy.
- Investment Guidance: A well-constructed financial plan includes an investment strategy tailored to your goals and risk tolerance. This guidance can lead to sound investment decisions, potentially maximizing returns and minimizing risks.
- Debt Reduction: For those with debts, a financial plan offers a systematic approach to managing and reducing liabilities. It provides a roadmap for prioritizing debts and creating a repayment plan.
- Retirement Security: Planning for retirement is a critical aspect of financial planning. A well-thought-out retirement strategy ensures that individuals can retire comfortably and maintain their desired lifestyle.
- Adaptability to Changes: Financial plans are not static. They can be adjusted to accommodate life changes, such as marriage, the birth of a child, job changes, or unexpected financial challenges, ensuring continued relevance and effectiveness.

Elements of a Financial Plan

(ChatGPT, 2024)

A comprehensive financial plan is typically comprised of several key elements. These elements may vary depending on your specific needs, goals, and circumstances, but commonly include:

- Financial Goals: Identifying short-term and long-term financial objectives, such as saving for retirement, buying a house, or funding education.
- Budgeting: Understanding sources of income and tracking expenses to ensure that income covers expenses and leaves room for savings and investments.
- Emergency Fund: Setting aside funds to cover unexpected expenses or emergencies, typically equivalent to three to six months' worth of living expenses.

- Debt Management: Assessing and managing existing debts, such as loans or credit card balances, and developing strategies for repayment to minimize interest payments.
- Investments: Develop an investment plan aligned with financial goals, risk tolerance, and time horizon. This may include asset allocation, diversification, and selection of specific investment vehicles such as stocks, bonds, mutual funds, or other investments.
- Retirement: Estimating future retirement expenses, determining retirement income needs, and implementing strategies such as contributing to savings accounts.
- Risk Management & Insurance: Making plans to avoid financial hardship to protect your wealth. Transferring risk through insurance (e.g., life, health, disability, property) and ensuring adequate coverage to protect against unexpected events.
- Estate Planning: Creating a plan for what you leave behind and how your loved ones can fulfill your last wishes.
- Regular Review and Adjustment: Periodically reviewing and adjusting the financial plan in response to changes in goals, financial circumstances, or external factors such as economic conditions or tax laws.

By addressing these elements comprehensively, you can build a solid financial foundation and work towards achieving your financial objectives effectively.

The SWOT Analysis

(ChatGPT, 2024)

A Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis is a tool used to identify and evaluate these aspects within a financial plan. It's commonly used to assess your current position and to address ways in which you can improve in the future. A SWOT analysis is subjective in nature and is meant to act as a snapshot of information from which discussions and further decisions can be made. Typically, the information in a SWOT analysis is not highly detailed and is more focused on short, bullet-point discussion items. Even though everyone can interpret the SWOT elements differently, there are some structured fundamentals that should help guide the development of a SWOT analysis. Below is a breakdown of each component with some examples:

- Strengths: These are internal factors that contribute positively to your financial situation. Strengths might include things such as the following:
    - stable income streams
    - family harmony
    - low debt levels

  - a well-formulated budget
  - good risk management
  - high cash reserves
  - strong investment portfolio performance
- Weaknesses: These are areas in which internal improvement can be made. Identifying weaknesses allows for the development of strategies to address and mitigate them. Weaknesses could encompass aspects such as the following:
  - high levels of debt
  - low liquidity
  - poor investment choices
  - strained relationships
  - insufficient savings
  - lack of financial literacy
  - over-reliance on a single source of income
- Opportunities: Opportunities are items that are not currently implemented in your financial strategy but could be realistically achieved with some effort and focus. Recognizing these opportunities enables you to consider various ways to enhance your life. Opportunities may arise from multiple sources such as the following:
  - potential for investment growth
  - new income streams
  - focused effort on improving relationships
  - excess income to be utilized
  - save excess income for emergency funds or other goals
  - opportunities to reduce spending
- Threats: Threats are typically external forces that could jeopardize your plan regardless of what you do on your own. Identifying threats allows for proactive planning to minimize their impact through strategies like risk management, contingency planning, or diversification of income sources and investments. Some examples of threats are as follows:
  - economic downturns

- market volatility
- inflation
- regulatory changes
- unexpected expenses (health issues, theft, and so on)
- natural disasters (drought, disease, floods, and so on)
- job insecurity

A SWOT analysis can also be helpful in areas beyond a financial plan and serves as a foundation for developing effective financial strategies and making informed decisions to achieve long-term financial goals. An example table of a SWOT analysis can be found below.

SWOT Analysis Example

Strengths:	Weaknesses:
Stable income	High fixed expenses
Fully funded emergency fund	Inconsistent budgeting
High financial literacy	Insufficient retirement savings
Opportunities:	Threats:
Educational opportunities	No access to good healthcare
Government programs	Natural disasters
Side income	Economic downturn

The Basics of a Budget

(Boies, n.d.)

A budget is a very important part of your overall financial plan. It is one of the few parts that you will interact with on a regular basis. A budget is a plan you write down to decide how you will spend your money each month and helps you make sure you will have enough money every month. Without a budget, you might run out of money before your next paycheck.

A budget shows you:

- how much money you make

- how much you spend and what you spend your money on

A budget helps you decide:

- what you must spend your money on
- if you can spend less money on some things and more money on other things so you can reach your financial goals

For example, your budget might show that you spend 100 on clothes every month. You might decide you can spend 50 on clothes. You can use the remaining 50 to make extra debt payments or save towards a goal.

How Does a Budget Fit Into a Financial Plan?

(ChatGPT, 2024)

A budget is a crucial component of a comprehensive financial plan. It serves as a roadmap for managing and allocating financial resources to achieve specific financial goals. Here's how a budget fits into a financial plan:

- Income and Expenses: A budget helps you track your income sources and categorize your expenses. It provides a clear overview of where your money is coming from and where it's going.
- Expense Control: By analyzing your budget, you can identify areas where you may be overspending. This allows you to make informed decisions about cutting unnecessary expenses and reallocating funds to prioritize your financial goals.
- Savings and Investments: A budget allows you to allocate a portion of your income to savings and investments. This ensures that you are building an emergency fund, saving for specific goals (like buying a home or funding education), and investing for long-term wealth accumulation.
- Debt Management: If you have debts, a budget helps you allocate funds for debt repayment. It enables you to create a systematic plan for reducing and eventually eliminating debt, contributing to your overall financial health.
- Financial Goals: Your financial plan likely includes various short-term and long-term goals. A budget helps you allocate resources effectively to achieve these goals. Whether it's saving for a vacation, building an emergency fund, or planning for retirement, a budget ensures that you're making progress toward your objectives.
- Cash Flow Management: A budget helps you manage your cash flow by ensuring that you have enough funds to cover both regular and unexpected expenses. This prevents financial stress and allows for better financial stability.
- Financial Awareness: Creating and following a budget promotes financial awareness. You become more mindful of your spending habits, financial priorities, and the impact

of your financial decisions on your overall plan.

In summary, a budget is a practical tool that aligns your day-to-day financial activities with your broader financial goals. It provides the discipline and structure necessary to make informed financial decisions, ultimately contributing to the success of your overall financial plan.

How Can I Use My Budget?

(Boies, n.d.)

A budget is something you may interact with daily as you make decisions on spending but should be revisited monthly to make sure you are on track with your goals. Your budget can help you stay on top of your expenses and save money for the future. You should consider making savings one of your expenses, right after tithing, where circumstances allow. You might find ways to spend less money and you can use your budget every month:

- At the beginning of the month, make a plan for how you will spend your money that month. Write what you think you will earn and spend.
- Track all of your transactions to raise awareness and understand where your money is going. Try to do this every day.
- Spend some time each week to review your budget and check on progress.
- At the end of the month, see if you spent what you planned.
- Use the information to help you plan the next month’s budget.

Things to Keep in Mind When Getting Started with Your Budget

(Boies, n.d.)

Determine a Time Span for Your Budget

You can create your budget for a week, month, academic year, or calendar year though a month is most common. If you are currently attending college or career school, you may want to consider creating a monthly budget for an academic term, such as your fall semester. Keep in mind that your income may vary from month to month, and not all of your expenses will be the same each month. Larger expenses (such as car insurance and books) and seasonal expenses (such as a trip home during the holidays or a higher electricity bill in summer when the air conditioning is on) need to be incorporated into your budget.

Choose a Tool to Help You Manage Your Budget

To create a budget, you'll want to use a tool for tracking your income and expenses. You can use pen and paper, a simple automated spreadsheet, or a budgeting app/website. Many banks offer budgeting tools, so see what is available and works best for you.

Make Your Budget Realistic

(ChatGPT, 2024)

Budgeting for realistic and actual spending habits involves taking a close and honest look at your financial behaviors to create a budget that aligns with your lifestyle. Be honest about your financial goals and priorities, allocating resources accordingly. Creating a budget that mirrors your real spending habits allows for a more accurate and practical financial plan, increasing the likelihood of successful money management. If this is your first time budgeting, you may find it challenging, but as you persevere you will get better at understanding your financial situation and developing tracking systems that work for you.

How Do I Create a Budget?

(Boies, n.d.)

Creating a budget may sound complicated, but all you need to do to get started is set aside some time and get organized—the benefits will make the effort worthwhile. The following steps will help you set up your budget and manage your finances by helping you track your income and expenses. First, estimate how much money you will have coming in each month. It can be helpful to gather your pay stubs and other income documents. Here are some tips for assessing your income:

- Your income may come from sources such as your pay from work, financial contributions from family members, or financial aid (scholarships, grants, work-study, and loans).
- If you're working while in school, review your records to determine how much your take-home pay is each month. If you earn most of your money over the summer, you may want to estimate your yearly income and then divide it by 12.
- Include income from any financial aid credit balance refunds—money that may be left over for other expenses after your financial aid is applied toward tuition and fees.

Monthly Income Tracking Example:

Income Source	Monthly Income

Income from Work	1,200
Monthly support from parents and/or family members	250
Other income	100
Total Monthly Income	1,550

What If I Don't Get Paid Every Month?

(Boies, n.d.)

Some people do not get paid every month but income can have patterns that allow you to make estimates. If you recently had a job change, estimate on the safe side by planning for less income than you may receive. It is better to start low because you can always increase as needed, but if you start with high estimates, you may run into issues.

If you expect things to be like they have been in the past, do this:

- add all the money you earned last year
- divide that number by 12. This is about how much money you will have for each month

For Example

If last year your total income added up to 30,000.
30,000 ÷ 12 = 2,500
This means on average, you had about 2,500 each month.

If you don't have records of how much money you have earned in the past, do your best to estimate and plan accordingly. When are you most busy during the year? Are there particular seasons where you earn more money than others? A budget isn't a set, immovable object you cannot change. It is a living breathing plan that can and should be adjusted as your circumstances change.

Expenses

(Boies, n.d.)

Now, write down your expenses. Expenses are what you spend money on. It can be helpful to gather your bank statements or other information about your spending. To estimate your monthly expenses, you'll want to start by recording everything you spend money on in a month. This may be a bit time-consuming but will definitely be worthwhile in helping you understand where your money is going and how to better manage it. After that, gather your bank records and credit card statements that will show you other expenditures that may be automatically paid.

If you are currently attending college or career school or getting ready to go, you'll also need to estimate your college costs. In addition to tuition and fees, you'll want to make sure to include books and supplies, equipment and room materials, and travel expenses. Find details on what's included in the cost of college and tips on how to reduce college costs.

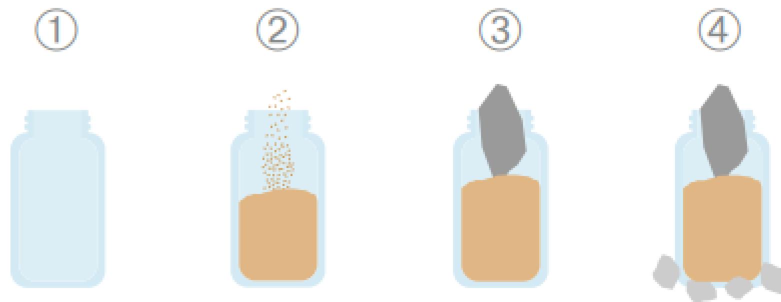
Once you've identified your expenses, you should group them into two categories—fixed expenses and variable expenses.

- Fixed expenses stay about the same each month and include items such as rent or mortgage payments, car payments, and insurance. These obligations are generally non-negotiable until you realize that you are spending too much money on rent and take steps to find a cheaper place! When creating a monthly budget, divide the amount due by the number of months the bill covers. For example, take your yearly 1,200 insurance bill that's paid in two 600 installments six months apart, and divide it by 12 to know you need to set aside 100 per month.

- Variable expenses are those that are flexible or controllable and can vary from month to month. Examples of variable expenses include groceries, clothing, eating out, and entertainment. You'll want to examine these expenses to make sure they stay under control and don't bust your budget at the end of the month.

When building your budget you should address your fixed expenses, prioritizing tithing and savings first, then use the remaining amount to spread over your variable expenses.

We will use the illustrations below of a jar, some rocks, and sand to show the wisdom of setting money aside first for the Lord and for our future self (see Stephen R. Covey, A. Roger Merrill, and Rebecca R. Merrill, First Things First: To Live, to Love, to Learn, to Leave a Legacy [1994], 88–89). The jar represents our income: a resource of limited size. We each have jars of different sizes, but the principle discussed here is the same for everyone. The rocks and the sand, when placed in the jar, represent the ways we can use our money. In this example, the big and small rocks represent our long-term priorities—setting aside money for the Lord and our future self—and the sand represents our current needs and wants. Let's place the items into the jar using the more common approach to financial stewardship.



Notice that when you pour the sand in first, there is not enough room for the rocks to all fit. Now let's place the items in the jar using the more self-reliant approach to financial

stewardship.

Notice that if you place the rocks in first, there is still room for all of the sand.

Below is an example of monthly expenses. Notice how tithing and savings are included amongst all of the other categories.

Monthly Expenses Example:

Fixed Expenses	Projected Cost
Tithing/Fast Offerings	170
Rent	500
Child care	70
Electricity	35
Gas and water	22
Cable and Internet	50
Car insurance (600 divided by 12 months)	50
Parking fee (84 divided by 12)	7
Car maintenance and repairs (480 divided by 12 months)	40
Cell phone	60

Car loan payment	125
Savings	50
Total Fixed Expenses	1,179

Variable Expenses	Projected Cost
Groceries	250
Dining out	50
Entertainment	50
Music streaming (Spotify, etc.)	20
Movies	48
Medical	40
Hair and nails	40
Clothing	50
Laundry and dry cleaning	10
Health club	40
Credit card monthly payment	25
Public transportation	25
Gas for car	60
Total Variable Expenses	708
Total Expenses	1,896

Weekly Budgeting For Variable Expenses

(ChatGPT, 2024)

Budgeting for variable expenses on a weekly basis involves planning for costs that fluctuate regularly, such as groceries, dining out, entertainment, and miscellaneous purchases. Start by identifying these variable expenses and estimating their weekly amounts based on past spending patterns. Set realistic spending limits for each category to ensure that you stay within your overall budget. Consider using cash envelopes or designated accounts for variable expenses to maintain discipline. Regularly review and adjust your weekly budget as needed, accommodating changes in income or spending priorities. Tracking your variable expenses weekly allows for better control and awareness of your financial habits, making it easier to adapt to fluctuating circumstances and maintain a balanced budget over time.

Tithing, Fast Offerings, and Saving for Emergencies

(Boies, n.d.)

It can be helpful to list Tithing, Fast Offerings, and Savings at the top of your list of expenses in your monthly budget. Do your best to pay the Lord and yourself first every month. Your savings can be used as an emergency fund to help you deal with unexpected expenses. The ideal amount of an emergency fund typically covers three to six months of your expenses.

Why Should I Save Money?

(Boies, n.d.)

It can be hard to save money. It is very hard when your expenses go up and your income does not. Saving money is very important. Here are some reasons to try to save money even when it is not easy.

- Emergencies: Saving small amounts of money now might help you later. Everyone has expenses they do not expect such as car or home repairs, natural disasters or sickness.
- Expensive things: Sometimes, we have to pay for expensive things – like a home, a car, a trip, or a security deposit on an apartment. You will have more choices if you have money to pay for those expensive things.
- Your goals: You might want to pay for college classes. Maybe you need to visit family in another country. You may want to go on a fun vacation and explore the world. You can plan for these goals and save money. Then you will likely have more money available to cover the expense when it occurs.

How Else Can I Save Money?

(Boies, n.d.)

You can try these ways to help save money:

- For one month, write down everything you spend. Small expenses, like a sandwich or smoothie, can add up to a lot of money. When you know where you are spending your money, you can decide what you might not want to buy or where you can decrease expenses.
- Pay with your credit card only if you can pay the full amount when the bill comes. That way, you do not pay interest on what you owe.
- Pay your bills when they are due. Enrolling in auto-pay is a great way to simplify and make sure you are covering your financial obligations. Otherwise, set up reminders so you stay on top of your bills. That way, you will not owe late fees or other charges.
- Keep the money you are saving separate from the money you spend. Consider opening a savings account in a bank.
- If you keep cash at home, keep the money you are saving separate from your spending money. Keep all your cash somewhere safe that is fire and water-resistant in case of a disaster.

For Example:

What I did not buy this month:

Music streaming (Spotify, etc.)	5.00
Shirt	30.00
Movie ticket	10.00
Top off gas tank	15.00
Lunch	12.00
What I saved this month:	72.00

Balance Your Budget

(Boies, n.d.)

Now that you've identified your sources of income and expenses, you'll want to compare the two to balance your budget. To do so, you simply subtract your expenses from your income.

Total Monthly Income	1,550
Minus Total Expenses	1,896
= + / – Difference	-346

If you have a positive balance, your income is greater than your expenses. In other words, you're earning more money than you're spending. If you have a positive balance, you shouldn't start looking at new ways to spend your money. Instead, focus on putting the extra money toward your savings to cover your emergency fund or to support future goals such as buying a car. Also, if you have a positive balance but you borrowed student loan funds, pay back some of your loans and consider borrowing less in the future.

If you have a negative balance, you are spending more money than you have. You'll want to balance your budget and ensure your expenses don't exceed your income. Balancing your budget may include monitoring your variable expenses, reducing your expenses, and/or finding ways to increase your income. Spending less can be a lot easier than earning more. Consider eating out less frequently and making your own lunch. Rent books rather than buying them, or buy books to download to your computer. Use a shopping list when grocery shopping, and buy only what you need. Ask yourself before buying anything, "Do I really need this?"

Think about how you spend money, besides paying your bills. For example, do you buy lunch every day? After a month, that lunch money could add up to an expense you can and should plan for. Tracking these common expenses can raise your awareness of how much money you spend over time and will help you decide if that is the best use of your money.

Try to have a zero-based budget where your income is perfectly offset by your savings and expenses. This ensures that you are being a good steward of your money by assigning a purpose to every dollar you earn.

Maintain and Update Your Budget

(Boies, n.d.)

Now that you've created your budget, you'll want to make sure it remains a living document and you update it over time. Here are some smart practices to keep in mind:

- Review your budget frequently but every month at a minimum. Regular review and maintenance of your budget will keep you on top of things and may help you avoid being blindsided by something unexpected.
- Forgive yourself for small spending mistakes and get back on track. Most people overspend because they buy things on impulse. The next time you're tempted to make an impulse buy, ask yourself the following questions:
- What do I need this for?
- Can I afford this item?
- If I buy this item now, will I still be happy that I bought it a month from now?
- Do I need to save this money for a financial goal?
- Will this item go on sale? Should I wait to buy it?

- Does it matter if I buy brand-name or can I get by with generic?

If you take a moment to think about what you're buying, you're more likely to make a choice that fits your budgeting goals.

Other Things To Consider

Throughout this chapter, we've learned about financial plans, how to create a good budget, and what your budget should look like. Here are a few more concepts to consider when handling your finances: being frugal versus being cheap, and two common budgeting methods that will make budgeting easier. Understanding these methods and philosophies can help you make informed decisions about how to manage your money.

Frugal Versus Cheap

(ChatGPT, 2024)

You may have heard the words frugal and cheap. While they sound similar, there is a difference between the two. The difference between being frugal and cheap lies in the underlying mindset and approach toward spending money.

Being frugal involves making thoughtful and intentional choices to maximize value and minimize waste. Frugal individuals prioritize efficiency, seeking quality items at reasonable prices and making wise investments in items that contribute to long-term savings.

On the other hand, being cheap often implies a reluctance to spend money altogether, even at the expense of quality or essential needs. Cheap individuals may prioritize immediate cost savings without considering the long-term value or the impact on overall well-being.

Frugality is about making wise financial decisions, while cheapness tends to focus solely on cutting costs without considering the broader context of value and quality.

The Envelope System

(The Church of Jesus Christ of Latter-day Saints, 2017a)

The cash envelope system is simple: immediately after being paid, you place the amount of money you have allotted to spend in each budget category into its own envelope.

For example, let's say you have budgeted 400 for the "groceries" category this month. When you receive your pay for the month or for the next few weeks, deposit that amount (in cash) into an envelope labeled "Groceries." No money—and this means no money—comes out of that envelope except to pay for food. If you go to the market and find you've left the envelope at home, go home and get the envelope! Keep a written record (in a simple notebook) of all expenses, so that you can later review it during your family council to remind you where your money is going.

In another envelope, place the budgeted amount for your transportation expenses. You will take from this second envelope when appropriate the portion needed for those costs, and track each expense in your notebook.

Divide each of your budget categories in this way: rent or mortgage payment in one envelope; utilities in another; tithing and fast offerings in another; medical; insurance; and so on—each in its own envelope.

Each time you get paid, deposit the appropriate portion of your monthly budgeted amount into each envelope so that the total amount placed in each envelope each month is the amount predetermined in your written budget.

Do not spend more than you have budgeted. When the envelope is empty, you are done! If you must spend more in that category, you will have to take it out of another envelope. For the first few months, this will require adjustments. Within that period you should gain a more accurate picture of whether your initial budgeted numbers are adequate—you'll learn the real average over a couple of months.

Some use the envelope system for everything. Others use this cash-only system for those categories that tend to tempt them to overspend, or for which it is easy to lose track or lose control, like food, restaurants, entertainment, gasoline, and clothing. Any leftovers should go toward your financial priority.

Digital Systems

(The Church of Jesus Christ of Latter-day Saints, 2017a)

If seeing extra cash tempts you to spend more than you otherwise would, then using a debit card may be your best option. As with the cash envelope method, a debit card draws from money already in your bank account.

When using a debit card, it is critical to track your expenses because, unlike the cash-envelope system, a debit card does not provide hard boundaries between budget categories. You can record your expenses with a pen and paper or with a mobile phone or computer application.

Numerous financial management apps are available for cell phones or other mobile devices. These apps can store and organize information for you, and you can then access it from your home computer or other devices, as well.

Spend some time this week researching the best apps available in your language and region, using "money management," "personal finance tools," or "budgeting apps" as search terms. Many very good ones are free or cost very little.

Remember, to keep your information secure, access your personal financial information only from your own devices, not from public computers.

Prayerful Consideration

In learning about a financial plan and budgeting, prayerfully consider how these principles can best be applied to your unique situation.

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W01 Case Study: The Chiramba Family

The Chiramba family, residing in a rural area near Bulawayo, Zimbabwe, faces financial challenges that significantly impact various aspects of their lives. Brother Chiramba, the sole breadwinner working as a laborer in the local agriculture sector, earns a modest income that is inconsistent due to the seasonal nature of the work. The region they live in is prone to droughts, flooding, and economic and political instability. Sister Chiramba manages the household, and they have three children aged 8, 12, and 15.

Financially, the Chirambas focus on daily needs but lack access to financial education for long-term stability. Living without a budget and with limited income streams, occasional financial strain is common. Their lower-class lifestyle in a basic dwelling presents difficulties in affording education beyond primary school and accessing healthcare. While their immediate concern is day-to-day survival, some other concerns and opportunities are present for the Chirambas, which you will learn about throughout the course.

The financial strain also takes a toll on the married relationship of Brother and Sister Chiramba. Communication challenges, limited quality time, shared responsibility stress, and the impact on emotional well-being create tension. The lack of financial resources hinders future planning, influencing family dynamics and decision-making, and primary educational opportunities for their children. Brother Chiramba also faces a loss of respect from his community if he is not able to provide for his family. In addition, some say that when poverty enters the door, love flies out the window, but the Chirambas are committed to preventing that from happening. They are sealed in the temple and deeply committed to each other. They have a deep desire to work together on raising their family in righteousness.

Chapter 2: Financial Goals

Welcome to Chapter 2 of the FCS 340 readings. This chapter will cover the concepts of goal setting; making SMART financial goals that are specific, measurable, achievable, relevant, and time-bound; determining your net worth; and discovering your financial assets. Please review the key terms for this chapter below.

Key Terms

SMART Goal: Specific, Measurable, Achievable, Relevant, and Time-bound objectives guiding effective goal setting.

Net Worth: The value of assets minus liabilities, representing one's financial position.

Assets: Resources owned with economic value, such as cash, property, or investments.

Debts/Liabilities: Financial obligations owed to others, including loans, mortgages, or credit card debt.

Goals

(The Church of Jesus Christ of Latter-day Saints, 2017a)

Elder M. Russell Ballard taught, “Let me tell you something about goal setting. I am so thoroughly convinced that if we don’t set goals in our life and learn how to master the technique of living to reach our goals, we can reach a ripe old age and look back on our life only to see that we reached but a small part of our full potential. When one learns to master the principle of setting a goal, he will then be able to make a great difference in the results he attains in this life” (Ballard, 1981).

(The Church of Jesus Christ of Latter-day Saints, 2017b)

“This is a gospel of repentance, and we need to be repenting and resolving. Indeed, the process of repenting, making commitments, and setting goals should be a continuous one… I commend the practice to you” (Hunter, 1992).

Goals should:

- Be specific and measurable.
- Be written down and placed where you can see them at least daily.
- Have set completion times.
- Have specific actions to take to accomplish the goal.
- Be constantly reviewed, reported, and updated.

The Importance of Goals

(ChatGPT, 2024)

Goals are important for several reasons:

- Direction and Focus: Goals provide a sense of direction and purpose. They help you focus your efforts on specific outcomes, guiding you toward what you want to achieve.
- Motivation: Having clear goals can be a powerful motivator. They give you a reason to work hard and stay committed, as progress toward achieving goals can be rewarding and fulfilling.
- Measurement of Progress: Goals serve as benchmarks for measuring progress. They allow you to track your accomplishments and assess how well you are moving toward your desired outcomes.
- Decision Making: Goals can influence decision-making processes by helping you prioritize tasks and activities that align with your needs and wants.
- Personal and Professional Development: Setting goals encourages personal and professional growth. It pushes you to learn new skills, overcome challenges, and develop the resilience needed to succeed.
- Clarity and Vision: Goals provide clarity on what needs to be achieved. They contribute to creating a vision for the future, helping you articulate what success looks like.
- Time Management: Goals assist in effective time management. When you have clear goals, you can allocate your time and resources more efficiently, focusing on activities that contribute to goal attainment.
- Accountability: Goals create a sense of accountability. When you set specific goals, you become responsible for your actions and progress toward those goals.
- Satisfaction and Well-Being: Achieving goals leads to a sense of satisfaction and accomplishment. This, in turn, contributes to overall well-being and a positive mindset.

SMART Goals

Regular goals are often broad and vague, such as wanting to get fit or hoping to improve certain skills. These goals lack specific details, making it hard to track progress or determine success. In contrast, SMART goals are designed to be more effective in helping individuals meet their aspirations. A SMART goal clarifies exactly what needs to be accomplished, how progress will be measured, and when the goal should be achieved, thereby increasing the likelihood of success.

What Are SMART Goals?

(University of California, 2016)

- Statements of the important results you are working to accomplish
- Designed in a way to foster clear and mutual understanding of what constitutes expected levels of performance and successful professional development

What Are the SMART Goal Criteria?

(University of California, 2016)

- S - Specific: What will be accomplished? What actions will you take?
- M - Measurable: What data will measure the goal? (How much? How well?)
- A - Achievable: Is the goal doable? Do you have the necessary skills and resources?
- R - Relevant: How does the goal align with broader goals? Why is the result important?
- T - Time-Bound: What is the time frame for accomplishing the goal?

How To Write Your S-M-A-R-T Goal

(University of California, 2016)

S – Specific

When setting a goal, be specific about what you want to accomplish. Think about this as the mission statement for your goal. This isn't a detailed list of how you're going to meet a goal, but it should include an answer to the popular 'w' questions:

- Who: Consider who needs to be involved to achieve the goal. You? Your spouse? Friends?
- What: Think about exactly what you are trying to accomplish and don't be afraid to get very detailed.

- When: You'll get more specific about this question under the "time-bound" section of defining S.M.A.R.T. goals, but you should at least set a time frame.
- Where: This question may not always apply, especially if you're setting personal goals, but if there's a location or relevant event, identify it here.
- Why: What is the reason for the goal?

M – Measurable

What metrics are you going to use to determine if you meet the goal? This makes a goal more tangible because it provides a way to measure progress. Financial goals are easier to measure than other goals because of the assigned value. For example, it can be simple to check in periodically to see how much money you have saved for your new car and determine if you are on track or need to save more.

- As the M in SMART states, there should be a source of information to measure or determine whether a goal has been achieved.
- The M is an indicator of what success for a particular goal will look like.
- Measurement methods can be both quantitative (money saved or earned, etc.) and qualitative (healthier emotions when debt-free, etc.).
- How do you know you have achieved your goal? What will you do to check in periodically to see how close you are?

A – Achievable

This focuses on how important a goal is to you and what you can do to make it attainable and may require developing new skills and changing attitudes. The goal is meant to inspire motivation, not discouragement. The achievable category in SMART goals focuses on setting realistic and attainable objectives. An achievable goal considers the current resources, constraints, and capabilities, ensuring that the goal is within reach with a reasonable amount of effort and resources. It's about balancing ambition with realism to avoid setting goals that are too far-fetched or impossible to reach. Think about:

- How to accomplish the goal,
- If you have the tools, skills, and means needed,
- If not, consider what it would take to attain them.

R – Relevant

Relevance refers to focusing on something that makes sense with your broader goals. This is the motivating factor within your goal. If you don't really care to achieve the goal, you probably won't make it very far. Consider questions such as:

- Is this a high priority for me?
- What other goals would I like to achieve before this one?

T – Time-Bound

Anyone can set goals, but if they lack realistic timing, chances are you're not going to succeed. Providing a target date for deliverables is imperative. Ask specific questions about the goal deadline and what can be accomplished within that time period. If the goal will take three months to complete, it's useful to define what should be achieved halfway through the process. Providing time constraints also creates a sense of urgency.

What Is a SMART Financial Goal?

(Stephens & ChatGPT, 2024)

A SMART financial goal is a SMART goal that includes a monetary element. Financial goals are among the easiest goals to track and achieve because there is a tangible amount that can tell you if you are on track to reaching your goal. Below is an example of how you can take a non-SMART financial goal and make it SMART by adding some key components:

Non-SMART Goal: Become more financially secure by setting up an emergency fund.

Now see how we can develop that goal into something more powerful by adding SMART components:

Specific:

- Clearly define the goal. Be precise about what you want to achieve.
- Example: Save 6,000 for an emergency fund in the next 12 months.

Measurable:

- Establish criteria for measuring progress toward the goal.
- Example: Save 500 per month to track progress toward the 6,000 goal.

Achievable:

- Ensure that the goal is realistic and attainable given your current financial situation.
- Example: Considering my monthly income and expenses, saving 500 per month is achievable.

Relevant:

- Align the goal with your overall financial objectives and priorities.
- Example: Building an emergency fund is relevant to my goal of achieving financial security.

Time-Bound:

- Set a specific timeframe for achieving the goal. This adds a sense of urgency.
- Example: Have a 6,000 emergency fund within the next 12 months.

Putting it all together, a SMART financial goal might look like this:

"To increase my financial security, I will save 6,000 for an emergency fund by saving 500 per month over the next 12 months."

This goal is specific (increase financial security by saving for an emergency fund), measurable (6,000), achievable (saving 500 per month), relevant (aligns with the goal of financial security), and time-bound (within the next 12 months).

How Goals Impact Your Financial Plan

(Stephens & ChatGPT, 2024)

Goals play a fundamental role in shaping and guiding a financial plan. They provide the overarching purpose and direction that steer financial decision-making. By establishing clear and specific financial goals, you can create a roadmap for allocating resources, managing expenses, and making strategic investment choices. Whether the goals are short-term, like saving for an emergency fund or a major purchase, or long-term, such as retirement planning or homeownership, they influence the structure and priorities of the financial plan.

Goals also act as benchmarks, allowing you to measure progress and adjust strategies accordingly. Additionally, the pursuit of financial goals instills discipline, encourages regular saving and investing, and fosters a sense of purpose in managing your finances. Goals serve as the foundation upon which a financial plan is built, providing focus, motivation, and a systematic approach to achieving financial well-being.

Short-Term Goals

(ChatGPT, 2024)

Short-term goals are objectives that can be achieved relatively quickly, typically within a time frame of a few months up to one year. These goals serve as stepping stones toward the accomplishment of larger, more long-term aspirations. Short-term goals are important for

providing immediate direction, motivation, and a sense of progress. They are dynamic and can be adjusted as circumstances change. They can provide you with a sense of accomplishment and progress, making the pursuit of larger, long-term objectives more manageable. Here are some examples of short-term goals:

Emergency Fund

- Goal: Save 6,000 for an emergency fund by saving 500 per month over the next 12 months.

Monthly Budgeting

- Goal: Create and stick to a monthly budget for the next three months to better manage expenses.

Pay Off High-Interest Debt

- Goal: Pay off 500 of credit card debt within the next two months by cutting down on eating out and paying 250 per month.

Save for a Specific Purchase

- Goal: Save 200 per month for four months to buy a 800 laptop to better help with my education.

Reduce Monthly Expenses

- Goal: Identify and implement strategies to reduce monthly expenses by 10% or roughly 360 over the next three months.

Side Hustle Income

- Goal: Generate an extra 300 per month through a side hustle for the next six months.

Contribute to Retirement Account

- Goal: Increase monthly contributions to a retirement account by 100 for the next three months.

Education or Training Investment

- Goal: Save 75 per month to pay for a 150 workshop in two months.

Insurance Review

- Goal: Review and update insurance policies to ensure adequate coverage within the next month.

Car Maintenance Fund

- Goal: Save 200 in a car maintenance fund within the next two months.

Home Repairs

- Goal: Set aside 300 for minor home repairs within the next three months.

Long-Term Goals

(Stephens & ChatGPT, 2024)

Long-term goals are often more complex and may require careful planning, persistence, and adaptation to changing circumstances. While short-term goals provide immediate direction, long-term goals offer a sense of purpose and vision for the future, guiding you toward a meaningful and fulfilling life.

Long-term goals are objectives that typically require a more extended period for achievement, often spanning years or even decades. They often involve a combination of saving, investing, and strategic financial decisions to achieve the desired outcomes. Setting clear and realistic long-term goals can help you stay focused and motivated on your financial journey. Here are some examples of long-term financial goals:

Retirement Savings

- Goal: Save 10% of my income to accumulate 1 million in a retirement savings account by the age of 65.

Homeownership

- Goal: Set aside 10% of my income to build up a 20% home down payment within the next five years.

Debt-Free Living

- Goal: Reduce expenses and pay an additional 20% towards debts to be debt-free within the next 10 years.

Investment Portfolio Growth

- Goal: Invest 20% of income in passive mutual funds to grow wealth over the next 20 years.

Small Business Ownership

- Goal: Set aside 500 per month to have 6,000 to start and grow a small business in one year.

Travel and Adventure Fund

- Goal: Save 200 per month to go on a road trip with my family in 3 months.

Career Advancement

- Goal: Budget 50 each month towards education and skill development to advance my career, leading to increased earning potential over the next 15 years.

Healthcare Savings

- Goal: Set aside 100 per month for 10 months so you can cover your 1,000 medical deductible.

Sabbatical or Early Financial Independence

- Goal: Save and invest 25% of your income so you don't have to work for money in 10 years.

(The Church of Jesus Christ of Latter-day Saints, 2017a)

You can choose to work toward other long-term goals in addition to your current financial priority, which may include saving for education, a mission, a car, a home, or a family vacation or other recreational expenses. There will be many temptations to choose the short-term perspective over the long-term perspective. Goals can give you a reason to say no now by giving you something to look forward to in the future.

Prayerful Consideration

Setting goals can be a challenging process but an effective tool in helping you fulfill your potential. Prayerfully consider how the principle of setting SMART goals can best be applied to your unique situation.

Net Worth

Now that you have an understanding of how goals, a budget, and a financial plan can help you get to where you want to be in the future, let's take a look at where you are now by developing your understanding of your net worth.

(Boies, n.d.)

In developing your financial plan, assessing the current situation, or figuring out where you are at present, is crucial. This assessment becomes the point of departure for any strategy. It becomes the mark from which any progress is measured, the principal from which any return is calculated. It can determine the practical or realistic goals to have and the strategies to achieve them. Eventually, the current situation becomes a time forgotten with the pride of success, or remembered with the regret of failure.

Understanding the current situation is not just a matter of measuring it, but also of putting it in perspective and context, relative to your past performance and future goals, and relative to the realities in the economic world around you. Tools for understanding your current situation are your accounting and financial statements.

In personal finance, a critical piece in assessing your current situation is your net worth. Your net worth is a snapshot of what you own (assets) and what you owe (debts) at a given point in time. It is not a record of change over a period of time, but simply a statement of where things stand at a certain moment.

Developing your net worth starts with a list of assets and their values offset by a list of debts and their values. For organizational purposes, assets and debts are commonly listed in order of descending value. For example, in the assets listed in a net worth statement, a house worth 100,000 would be listed before a bank account balance of 5,000. In the debts listed, a home loan (mortgage) of 50,000 would be listed before an auto loan of 2,000.

The difference between your assets and your debts is your net worth. Literally, net worth is the share that you own of everything that you have. It is the value of what you have net of (less) what you owe to others. Whatever asset value is left over after you meet your debt obligations is your own worth. It is the value of what you have that you can claim free and clear. Your net worth is really your financial ownership in your own life.

Assets – Debt = Net Worth

How Does Net Worth Play a Role in a Financial Plan?

(Stephens & ChatGPT, 2024)

Your net worth plays a central role in shaping and guiding your overall financial plan. It serves as a comprehensive measure of your financial health, encompassing both assets and liabilities. As a key metric, your net worth provides a baseline for setting and assessing financial goals. By tracking changes in your net worth over time, you can evaluate the effectiveness of your financial strategies, whether focused on saving, investing, or debt reduction.

Your net worth also informs budgeting decisions, helping you allocate resources strategically to achieve short-term and long-term objectives. For example, a positive trend in net worth may indicate successful wealth-building efforts, while a decline might signal a need for adjustments in spending or debt management. Ultimately, understanding your net worth is crucial for making informed financial decisions, managing risks, and building a solid foundation for a secure financial future.

Assets

(Stephens & ChatGPT, 2024)

An asset is something of value that you own or control with the expectation that it will provide current or future economic benefits. Assets can take various forms and are typically classified into different categories based on their nature and purpose. Here are common types of assets:

Financial Assets:

- Savings and Checking Accounts: Bank balances, and short-term investments that can be quickly converted to cash.
- Securities: Stocks, bonds, and other financial instruments representing ownership or debt in a company or government.
- Mutual Funds and Exchange Traded Funds (ETFs): Pooled funds from multiple investors invested in a diversified portfolio of stocks, bonds, or other securities.
- Retirement Accounts: Accounts such as government pensions or other individual retirement accounts that hold investments for retirement purposes.
- Loans: Lending money to someone with the understanding that it will be repaid with or without interest is an asset. Depending on the person to whom the money is lent, it could be highly risky or very safe.

Physical Assets:

- Real Estate: Land, buildings, and other properties.
- Currency: Cash, coins, and other currency that you physically possess.
- Vehicles and Equipment: Cars, machinery, and other tangible assets used for various purposes.
- Livestock: Cattle for meat or dairy production, poultry for meat or egg production, sheep for meat or wool production, beehives for honey production and pollination services.
- Precious Metals: Gold, silver, platinum, jewelry, and other metals are valued for their rarity and industrial uses.
- Energy Resources: Oil, natural gas, and other sources of energy.

Cryptocurrencies:

- Cryptocurrencies are digital or virtual currencies like Bitcoin and Ethereum that use cryptography for security and operate on decentralized networks.

Assets are essential as they contribute to wealth, generate income, and can be used as collateral for obtaining loans. It's important to note that while assets represent value, they

also come with associated liabilities and risks. For a comprehensive understanding of your financial position, both assets and debts need to be considered.

Debts

(Stephens & ChatGPT, 2024)

Debt is a financial obligation or liability that arises when someone borrows money from another person or organization, with the understanding that the borrowed amount must be repaid over time. In essence, debt is a form of financial borrowing in which the borrower agrees to repay the lender the principal amount borrowed, usually with interest, within a specified period.

Types of debt include:

- Secured Debt: Backed by collateral, such as a home or car. If the borrower fails to repay, the lender can take possession of the asset.
- Unsecured Debt: Not backed by specific collateral. Credit cards and personal loans are common examples. Lenders rely on the borrower's creditworthiness.
- Short-Term Debt: Typically has a repayment period of one year or less. Examples include short-term loans and credit card balances.
- Long-Term Debt: Has a repayment period extending beyond one year. Mortgage loans, student loans, and long-term bonds are examples.
- Corporate Debt: Issued by corporations to raise capital. It can take the form of bonds or loans.
- Government Debt: Issued by governments to fund public spending. It includes government bonds and treasury bills.

Debt can be used for various purposes, such as funding education, purchasing a home or car, starting or expanding a business, or addressing unexpected expenses. While debt can be a valuable financial tool, excessive or mismanaged debt can lead to financial difficulties. Individuals and organizations need to carefully manage their debt, considering factors like interest rates, repayment capabilities, and the overall impact on their financial well-being.

What If My Net Worth Is Low or Negative?

Having a negative net worth isn't necessarily a bad thing. Your net worth isn't reflective of your actual worth in any way. Many people spend a lot of time and money getting an education and finish their schooling with significant loans. Because they were likely not making much money while in school, they probably were not able to save and invest. This means they don't have many assets to offset their debts making their net worth negative.

However, because they went to school, they will hopefully be able to find a better paying job so they will be able to pay off their debts and grow their net worth over time. Current studies show that a college education has economic value because a college graduate earns more over a lifetime than a high school graduate.

(Boies, n.d.)

In some instances, if a person has significant debts and does not have enough income or assets to cover their debts, personal bankruptcy may occur. But because creditors would rather be paid eventually than never, the bankrupt is usually allowed to continue to earn income in the hopes of repaying the debt later or with easier terms. Often, the bankrupt is forced to liquidate (sell) some or all of its assets. Bankruptcy works in various ways around the world but these principles are often pretty standard.

Because debt is a legal as well as an economic obligation, there are laws governing bankruptcies that differ from state to state in the United States and from country to country. Although debt forgiveness was discussed in the Old Testament, throughout history it was not uncommon for bankrupts in many cultures to be put to death, maimed, enslaved, or imprisoned. The use of another's property or wealth is a serious responsibility, so debt is a serious obligation.

Tracking Net Worth Over Time

(Boies, n.d.)

It is a good practice to track your net worth over time. This allows you to see your progress from the decisions you have made. Focusing on your bank account balance or cash levels can be easy, but don't always paint the full picture. Tracking your net worth can be a powerful way to gain insights into what is working well and areas where you may want to improve. That insight can guide you in making future financial decisions, particularly in foreseeing the potential costs or benefits of a choice. Looking backward can be very helpful in looking forward.

Recordkeeping

(Porter & Kubin, 8/13)

As you are thinking about your net worth, now can be a great time to start organizing your important documents. Important papers prove certain events occurred and they are used to document financial transactions. They may be needed at various times during your life. For example, a birth certificate is used to prove age when starting school and to obtain a driver's license. It is also needed by relatives to obtain a death certificate.

A systematic plan for keeping track of important documents can save you hours of anxious searching for misplaced items. It can also help you reduce the amount of non-important papers cluttering your home.

Valuable papers can be sorted into two types: those needed for day-to-day use and those needed occasionally. Examples of valuable papers used frequently include a driver's license, credit cards, health insurance cards, bank account records, identification cards, and special health documentation such as for allergies, disabling conditions, and blood type.

Examples of valuable papers used occasionally include birth, marriage, and death certificates; deeds; leases; contracts; insurance policies; military papers; and divorce decrees.

It is important to carefully store valuable papers which would be difficult or time-consuming to replace. These include items like original birth and marriage certificates and property titles. These hard-to-replace documents are ideally kept in a safe deposit box or a fire-proof, water-proof, burglar proof home safe or lock box. Other important records may be filed at home or carried in a wallet or purse. These records and papers are those needed for identification purposes or for emergency medical treatment.

People often keep a combination of paper and digital records. Digital records are kept by storing electronic images on an electronic storage system like a computer hard drive or portable drive. Electronically stored records must be legible, readable, and accessible for the period of limitations required. It is important to back up electronic files in case of a computer malfunction.

Regardless of how records are stored, regular filing and review of documents is important. Making the decision on when to discard old files is often difficult.

Prayerful Consideration

Your available assets, debts, and record-keeping systems may be different than others. Prayerfully consider how these principles can best be applied to your unique situation.

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W02 Case Study: SMART Goals

W02 Case Study: SMART Goals

While the Chiramba's day-to-day challenges often consume them, they would like to move beyond to greater stability and focus on more than just their immediate needs. Brother and Sister Chiramba express aspirations such as improving daily necessities, accessing healthcare, and ensuring education beyond primary school for their three children. However, their lack of financial education and budgeting, inconsistent income streams, and some informal debt make it difficult to get beyond their immediate financial needs.

The table below lists the Chiramba Family's assets and debts. Use this information to help with your Week 2 case study activity worksheet.

Chiramba Family Net Worth Items

Description	Value	Interest Rate
Cash	500	
Farming Equipment	500	
Loan from John	150	3%
House	10,000	
Loan to Maria	100	2%

2 Bicycles	50	
Loan from Government	100	5%
Clothes	200	
Home Loan	1,300	6%
Household Items	450	
Tools	80	
Loan from Bank	200	8%
Coins/Precious Metals	150	
Seeds/Fertilizer	200	
School Supplies	150	

Chapter 3: Navigating Debt

Welcome to Chapter 3 of the FCS 340 readings. As discussed in the last chapter, debt is borrowing money from someone or an organization to pay it back according to certain terms. In this chapter, we will focus on more aspects of debt and how it can either be helpful or—if not treated with proper care—very harmful. We will also discuss the importance of emergency funds, the impact of debt, and strategies to pay off debt. Please review the key terms below to better internalize the concepts in this chapter.

Key Terms

Emergency Fund: Reserved funds for unforeseen expenses or financial emergencies.

Fixed Interest Rate: A set interest rate that remains constant over the life of a loan or investment.

Variable Interest Rate: An interest rate that fluctuates based on changes in the market or other factors.

Opportunity Cost: The potential benefits sacrificed when choosing one alternative over another.

Avalanche Method: A debt repayment strategy that prioritizes high-interest debts to minimize overall interest paid.

Snowball Method: A debt repayment strategy that focuses on paying off smaller debts first to build momentum.

The Purpose of an Emergency Fund

(The Church of Jesus Christ of Latter-day Saints, 2017)

Before learning more about debt, it is important to understand the purpose of an emergency fund. Like an emergency or fire escape plan, in the event of a financial crisis, you should have a course of action that is simple to follow. About managing trials, Elder Marvin J. Ashton asked, "Can you quietly sit down, review the facts, and list all the possible courses of action? Can you identify causes and determine remedies? Quiet contemplation can solve problems more quickly than frantic force" (Ashton, 1981). Determining how to handle financial crises beforehand will allow you to be emotionally and financially prepared when hardship strikes and can help you prevent some crises in the future.

Emergency Funds

(Consumer Financial Protection Bureau, 2024)

An emergency fund is a cash reserve that's specifically set aside for unplanned expenses or financial emergencies. Some common examples include car repairs, home repairs, medical bills, or a loss of income. Emergency savings can be used for large or small unplanned bills or payments that are not part of your routine monthly expenses and spending.

Why Do I Need It?

(Consumer Financial Protection Bureau, 2024).

Without savings, a financial shock—even minor—could set you back, and if it turns into debt, it can potentially have a lasting impact. An emergency fund's primary function is to keep you away from unnecessary debt if you experience a financial crisis.

Research suggests that individuals who struggle to recover from a financial shock have less savings to help protect against a future emergency. They may rely on credit cards or loans, which can lead to debt that's generally harder to pay off. They may also pull from other savings, like retirement funds, to cover these costs.

How Much Do I Need In It?

(Consumer Financial Protection Bureau, 2024).

The amount you need to have in an emergency savings fund depends on your situation. The typical recommendation is to have three to six months' worth of expenses saved up. However, it is important to think about your situation and how long you could survive without income. If you have transferable skills and experience, you may be able to find a new source of income faster than others who would need to do additional training or education. You can also think about the most common kind of unexpected expenses you've had in the past and how much they cost. This may help you set a goal for how much you want to have set aside. It is okay to start small and work up from there.

If you're living paycheck to paycheck or don't get paid the same amount each week or month, putting any money aside can feel difficult. But, even a small amount can provide some financial security.

How Do I Build It?

(Consumer Financial Protection Bureau, 2024)

There are different strategies to get your savings started. These strategies cover a range of situations, including if you have a limited ability to save or if your pay tends to fluctuate. It may be that you could use all of these strategies, but if you have a limited ability to save, managing your cash flow or putting away a lump sum are the easiest ways to get started.

Strategy: Create a Savings Habit

Building savings of any size is easier when you can consistently put money away. It's one of the fastest ways to see it grow. If you're not in a regular practice of saving, there are a few key principles to creating and sticking to a savings habit:

- Set a goal: Having a specific goal for your savings can help you stay motivated. Establishing your emergency fund may be that achievable goal that helps you stay on track, especially when you're initially getting started.
- Create a system for making consistent contributions: There are several different ways to save, and as you'll read below, setting up automatic recurring transfers is often one of the easiest. It may also be that you put a specific amount of cash aside each day, week, or payday period. Aim to make it a specific amount, and if you can occasionally afford to do more, you'll watch your savings grow even faster.
- Regularly monitor your progress: Find a way to check your savings regularly. Whether it's an automatic notification of your account balance or writing down a running total of your contributions, finding a way to watch your progress can offer gratification and encouragement to keep going.
- Celebrate your successes: If you're sticking with your savings habit, don't miss the opportunity to recognize what you've accomplished. Find a few ways that you can treat yourself, and if you've reached your goal, set your next one.

Who is this strategy helpful for: Anyone, but particularly those with consistent income. If you know you have a regular paycheck or money consistently coming in, you can create a habit to put some of that money towards an emergency savings fund.

Strategy: Manage Your Cash Flow

Your cash flow is essentially the timing of when your money is coming in (your income) and going out (your expenses and spending). If the timing is off, you can find yourself running short at the end of the week or month, but if you're actively tracking it, you'll start to see opportunities to adjust your spending and savings.

For example, you may be able to work with your creditors (like your landlord, utility companies, or credit card companies) to adjust the due dates for your bills, or you can use the weeks when you have more money available to move a little extra into savings.

Who is this strategy helpful for: Anyone. This is one important first step in managing your money, regardless of whether you're living paycheck to paycheck or have a tendency to

spend more than your budget allows.

Strategy: Take Advantage of One-Time Opportunities to Save

There may also be certain times during the year when you get an influx of money. For many Americans, a tax refund can be one of the largest checks they receive all year. For others, there may be other times of the year, like a holiday or birthday, when you receive a cash gift. While it's tempting to spend it, saving all or a portion of that money could help you quickly set up your emergency fund.

Who is this strategy helpful for: Anyone but particularly those with irregular income. If you receive a large check from a tax refund or for some other reason, it's always good to consider putting all or a portion of it away into savings.

Strategy: Make Your Savings Automatic

Saving automatically is one of the easiest ways to make your savings consistent so you start to see it build over time. One common way to do this is to set up recurring transfers through your bank or credit union so money is moved automatically from your checking account to your savings account. Many countries use cash for their everyday transactions. If this applies to you, consider using a change jar where instead of losing or forgetting about your money, put that change in a jar. Once a month take that to the bank. You may be surprised to see how much you can save! Use your current practices and circumstances to your own benefit. You get to decide how much and how often, but once you have it set up, you'll be making consistent contributions to your savings.

It's a good idea to be mindful of your balances, however, so you don't incur overdraft fees if there's not enough money in your checking account at the time of the automatic transaction. To help you stay mindful, consider setting up automatic notifications or calendar reminders to check your balance.

Who is this strategy helpful for: Anyone, but particularly those with consistent income. Again, you can determine how much and how often to have money transferred between accounts, but you want to make sure you have money coming in. If your situation changes or your income changes, you can always adjust it.

Strategy: Save Through Work

Another way to save automatically is through your employer. In addition to employer-based contributions for retirement, you may have an option to split your paycheck between your checking and savings accounts. If you receive your paycheck through direct deposit, check with your employer to see if it's possible to divide it between two accounts. If you're tempted to spend your paycheck when you get it, this is an easy way to put money aside without having to think twice.

Who is this strategy helpful for: Those with consistent income. Again, if you're getting a check from your employer on a regular basis, pay yourself first by putting a portion of it automatically into savings.

Where Should I Keep My Emergency Fund?

(Consumer Financial Protection Bureau, 2024)

Where you put your emergency fund depends on your situation. You want to make sure this fund is safe, accessible, and in a place where you're not tempted to spend it on non-emergencies.

Here are a few options for where to put your emergency savings, and you can choose the one that makes the most sense for you:

- **Bank or credit union account**: If you have an account with a bank or credit union—generally considered one of the safest places to put your money—it might make sense to have a dedicated account where you can keep and maintain these funds.

- **Prepaid card**: A prepaid card is a card that you can load money onto. It's not connected with a bank or credit union, and you can only spend the amount that's on your card

- **Cash**: Another option is keeping money on hand for emergencies, either in your home or with a trusted family member or friend. Keep in mind that cash can be stolen, lost, or destroyed.
- **Foreign Currency**: If inflation is a problem in your home country some people opt to save in foreign currencies, which are often more stable than your local currency.
- **Precious Metals**: Gold, silver, and other precious metals are traditional stores of value that are resistant to inflation.
- **Informal Savings Groups**: In many developing countries, informal savings groups or rotating savings and credit associations (ROSCAs) are prevalent. Members contribute money to a common pool, which is then loaned out to members on a rotating basis. These groups provide a means of saving and accessing funds without relying on banks.
- **Digital Payments & Mobile Money**: With the proliferation of mobile phones and digital payment platforms, many people in developing countries are turning to digital financial services to save and transfer money securely. Mobile money services allow individuals to store value digitally and conduct transactions without relying on physical cash.

When Should I Use It?

(Consumer Financial Protection Bureau, 2024)

Set some guidelines for yourself on what constitutes an emergency or unplanned expense. Not every unexpected expense is a dire emergency but try to stay consistent. Even if it's not a trip to the emergency room, you may need it to pay for a medical bill that wasn't covered by insurance.

Having a reserve fund for financial shocks can help you avoid relying on other forms of credit or loans that can turn into debt. If you use a credit card or take out a loan to pay for these expenses, your one-time emergency expense may grow significantly larger than your original bill because of interest and fees.

However, don't be afraid to use it if you need it. If you spend down what's in your emergency savings, just work to build it up again. Practicing your savings skills over time will make this easier.

Prayerful Consideration

There is no perfect answer as to how much you keep in your emergency fund. The same is true for where you choose to keep your funds. However, it is important to have an emergency fund of some sort. Prayerfully consider how these principles can best be applied to your unique situation.

Debt

Now that we have covered the concept of emergency funds, we are now ready to learn about debt, its impacts, and helpful strategies for paying it off. Let's begin by going over the specifics of what debt is and what its key components are.

Components of Debt

(Stephens & ChatGPT, 2024)

There are many different types of debt but they follow some key components for the most part.

Key components of debt include the following:

- Principal: The initial amount borrowed or the outstanding balance of the loan. This is the amount that needs to be repaid.
- Interest: The cost of borrowing money. Lenders charge interest as compensation for the risk and opportunity cost of lending funds. Interest is typically expressed as a percentage of the principal amount.
- Term: The life of the loan or the period over which the borrower is required to repay the debt. It can be short-term (e.g., a few months) or long-term (e.g., several years).

- Terms and Conditions: The specific terms and conditions of the loan agreement, including any covenants, repayment schedules, and other contractual details.

Good Versus Bad Debt

(The Church of Jesus Christ of Latter-day Saints, 2017)

Prophets have counseled that there are very few justifiable reasons to go into debt and that when you do incur debt you should pay it off as quickly as possible. President Gordon B. Hinckley taught that “reasonable debt for the purchase of an affordable home and perhaps for a few other necessary things is acceptable. But from where I sit, I see in a very vivid way the terrible tragedies of many who have unwisely borrowed for things they really do not need” (Hinckley, 1992).

(ChatGPT, 2024)

It is important to know that not all debt is treated equally. There are “good” or necessary debts that are more acceptable if you need them and “bad” or unnecessary debts that you should try to avoid wherever possible.

Good debt is generally considered to be an investment that has the potential to provide long-term financial benefits. This includes borrowing for education, as it can lead to increased earning potential, and taking out a mortgage to buy a home, which allows for building equity and potential property appreciation. Business loans for entrepreneurial endeavors are also often categorized as good debt, as they can contribute to future financial success.

On the other hand, bad debt is typically associated with borrowing for non-essential and depreciating items. Credit card debt is a common example, especially when used to finance a lifestyle beyond one's means, as high-interest rates can lead to significant long-term costs. Loans for rapidly depreciating assets like cars or consumer goods are also considered bad debt, as the interest paid may outweigh the value of the purchased items. Personal loans with high-interest rates for non-essential expenditures, such as vacations or luxury items, fall into the category of bad debt as well.

Ultimately, the key is to evaluate the purpose of the debt, its potential return on investment, and whether it aligns with your overall financial goals. Responsible debt management, understanding the terms and interest rates, and making timely payments are crucial practices regardless of the type of debt incurred.

Fixed Versus Variable Interest Rates

(Consumer Financial Protection Bureau, 2016)

Fixed-rate financing means the interest rate on your loan does not change over the life of your loan. Variable-rate financing is where the interest rate on your loan can change, based on various factors. Usually, variable rates are tied to the prime rate or another rate called an “index.”

With a fixed rate, you can see your payment for each month and the total you will pay over the life of a loan. You might prefer fixed rates if you are looking for a loan payment that won’t change.

With a variable-rate loan, the interest rate on the loan changes as the index rate changes, meaning that it could go up or down. Because your interest rate can go up, your monthly payment can also go up. The longer the term of the loan, the more risky a variable rate loan can be for a borrower because there is more time for rates to increase.

The Decision on Debt

(Stephens, 2024)

There is no right or wrong answer when it comes to debt. Much of it comes down to affordability and personal preference. Some people are comfortable with having debt while others avoid it like a plague. Neither one is right or wrong, just a balance between what your heart wants and what your wallet can afford. Like many topics in personal finance, there is a personal and emotional side just as there is a financial and mathematical side. Both of these are important in the decision-making process of whether to take on debt or not.

The Emotional Impact of Debt

(The Church of Jesus Christ of Latter-day Saints, 2017)

We have all likely made an impulsive or emotional purchase. Sometimes we spend money when we feel discouraged or angry. Sometimes we spend money because we feel that we are entitled to reward ourselves. Sometimes a sale or promotion tempts us into believing we need something when we really don't. There are many reasons why we spend money on things we don't really need at the expense of paying for the things that matter most.

It is natural for people to compare themselves with others, and we are bombarded with messages and advertisements encouraging us to purchase things we do not need. Sometimes we feel entitled to have things that we can't afford or don't really need. Giving in to coveting can quickly lead us to make unwise purchases.

(ChatGPT, 2024)

Having debt can evoke a range of emotional responses, with both positive and negative aspects. On the positive side, incurring debt for significant life investments like education or homeownership can bring a sense of accomplishment and satisfaction, as these endeavors often align with long-term goals and personal aspirations. Additionally, using debt strategically for business ventures or investments may generate feelings of empowerment and financial growth.

However, the emotional impact of debt is not solely positive. The burden of owing money, particularly when faced with high-interest rates or challenging financial circumstances, can lead to stress, anxiety, and a sense of financial insecurity. The pressure to meet monthly payments and the realization of long-term financial commitments may contribute to feelings of constraint and the postponement of other personal or lifestyle goals. Striking a balance between the positive and negative emotional aspects of debt involves thoughtful financial planning, responsible management, and a clear understanding of one's financial priorities and capabilities.

The Mathematical Impact of Debt

(Stephens & ChatGPT, 2024)

From a mathematical perspective, the use of debt presents both advantages and disadvantages. On the positive side, debt can provide access to resources that might not be immediately available, enabling you to make significant investments such as buying a home, starting a business, or pursuing education. In such cases, the mathematical advantage lies in leveraging borrowed funds to potentially generate returns that exceed the cost of the debt.

However, the cons are evident in the form of interest payments. Debt comes with associated interest costs, and the longer the debt persists, the more one may pay in interest over time, potentially outweighing the initial benefits. The compounding effect of high interest rates, especially with credit cards, can lead to a substantial increase in the total repayment amount. Mathematically evaluating the trade-off between the benefits and costs of debt is crucial to making informed financial decisions and managing one's overall financial health effectively.

Opportunity Cost

(Stephens & ChatGPT, 2024)

Opportunity cost is a fundamental concept that underscores the notion that every financial decision involves trade-offs. It refers to the potential benefits or opportunities foregone when a particular choice is made.

For instance, when allocating funds to pay off debt rather than investing in the stock market, the opportunity cost is the potential investment gains that could have been earned. Similarly, choosing to spend money on non-essential items instead of saving for future goals represents an opportunity cost in terms of future financial security. Understanding opportunity cost is crucial in making informed financial decisions, as it prompts you to weigh the benefits of one choice against the forgone benefits of alternative options. By considering opportunity cost, you can strive to allocate resources in a way that aligns with their priorities and long-term financial objectives, ultimately optimizing their financial well-being.

Paying Off Your Debt

(FINRA, 2014)

Debt doesn't have to be forever. Eliminating it will make a big difference in your quest for wealth. Use your budget to eliminate one debt at a time. When a single debt is eliminated, take the income you were using to service that debt and apply it to the next. Applying the funds you have budgeted for debt reduction in a focused, deliberate way will help you pay off debts more quickly. As your budgeting skills improve, you'll have more success paying off debts. There are two different strategies that can be used to reduce and eliminate debt: the mathematical [or avalanche] strategy and the psychological [or snowball] strategy.

Both advocate paying off debts completely; however, each strategy suggests paying them in a different order. Both strategies are effective; you'll need to find the one that works best for you. Also, both strategies rely on a calculation that determines a minimum monthly payment required to pay off a balance in a certain amount of time.

Avalanche or Mathematical Strategy

(FINRA, 2014)

Almost any financial advisor will suggest the avalanche approach to debt elimination. This strategy advises paying off debts by focusing on eliminating the debt with the highest interest rate first, then the next highest. This method makes mathematical sense because it focuses effort on paying off the debts that cost the most money in interest. Here's an example:

Taylor awakes one morning to realize that she's out of college, but she's in debt and needs to do something about it. She commits 700/month of her budget to eliminate her debt. Let's say she's facing the following debts:

- 20,000 college loan at 5% interest
- 8,000 credit card balance at 12% interest
- 2,000 computer loan at 10% interest
- 3,000 car loan at 4% interest.

Using the mathematical approach, Taylor would pay her debts in this order:

- 8,000 credit card balance at 12% interest
- 2,000 computer loan at 10% interest
- 20,000 college loan at 5% interest
- 3,000 car loan at 4% interest.

If she pays her debts in this order, Taylor minimizes the total she will eventually pay in interest. The end result is her paying off the debts for the least amount of money. Following the mathematical approach, paying off her debts from highest to lowest interest rate took Taylor 55 months (about 4.6 years) and cost her 4,575.85 in interest.

Snowball or Psychological Strategy

(FINRA, 2014)

The snowball strategy to debt elimination is similar to the avalanche strategy in that it advocates focusing on one debt at a time, throwing everything you have toward that debt until it is gone and then moving to the next until all debt is eliminated.

However, for some, achieving success sooner rather than later gives them the psychological reinforcement they may need to stay on track. For some, behavior modification is more important than saving extra interest. With this approach, you ignore interest rates when determining the order in which you'll pay off your debt and order the debts from lowest to highest balance. This should get those small debts paid off quickly, so you'll start to see your plan is working soon after you begin. Using Taylor's example from the avalanche approach, she would pay off her debts in this order:

- 2,000 computer loan at 10% interest
- 3,000 car loan at 4% interest
- 8,000 credit card balance at 12% interest

- 20,000 college loan at 5% interest.

By paying off debts in this order, Taylor eliminates the smallest balance in the shortest time, giving her a sense of accomplishment. This approach will eventually cost Taylor more in total interest paid, but it will yield results quickly, which may be the difference between success and failure. Using the snowball strategy, paying off her debts in order from lowest to highest balance took Taylor 56 months (about 4.7 years) and cost her 5,200.71 in total interest.

Avalanche & Snowball Comparison

(FINRA, 2014)

When the two strategies are compared, we can see that there is only a one-month difference in how long it took Taylor to pay off all of her debts, but there is a monetary difference of 624.86. Even though the snowball strategy costs more over time, Taylor started seeing her debts eliminated at a much faster pace. Some would argue that the 624.86 could be considered wasted; others would say that succeeding more quickly was just the boost Taylor may have needed to stay on track. Regardless of the approach, the goal is the same: eliminating debt. Both methods are designed to accomplish this. The important thing is to pick the approach that works best for you, make a plan, and stick to it!

The Impact of Debt on a Financial Plan

(Stephens & ChatGPT, 2024)

Debt plays a pivotal role in shaping your overall financial plan, influencing both short-term and long-term financial goals. On the positive side, carefully using debt can facilitate major life milestones, such as purchasing a home or funding education, which might otherwise be challenging to achieve with cash alone. However, the impact of debt extends beyond the immediate benefits, as it introduces a layer of financial responsibility and obligation that must be carefully managed. The type of debt, interest rates, and repayment terms all contribute to the overall financial landscape, requiring you to strike a delicate balance between using debt for necessary investments and avoiding excessive financial strain.

The burden of debt can shape the trajectory of your financial future. Excessive or high-interest debt can limit your budget, hindering the ability to save for emergencies, invest in wealth-building opportunities, or contribute to long-term retirement goals. The interest payments on debt represent a continuous outflow of funds that could otherwise be allocated to wealth accumulation or other financial priorities. As such, effective debt management becomes integral to a financial plan, necessitating a thoughtful approach to borrowing, regular assessment of debt levels, and adjustments to ensure that debt aligns with broader financial objectives rather than serving as a hindrance to your financial well-being.

Prayerful Consideration

Debt can be a great thing or a terrible danger depending on your situation. As you consider how these principles can best be applied to your unique situation, pray for guidance on what approach will help you pay off any debts you currently have and how much—if any—debt you should incur.

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W03 Case Study: Eliminating Debt

W03 Case Study: Eliminating Debt

In addition to the concerns related to the Chiramba's day-to-day survival, the lack of financial goals and the burden of informal debts contribute to their fragile financial situation. However, there are opportunities to chip away at their debts. Small-scale entrepreneurship opportunities, such as cultivating a home garden, raising chickens, or engaging in small-scale farming, present avenues to generate additional income that can be directed toward debt reduction. By adopting a proactive stance, the Chirambas can begin to foster a sense of financial liberation. Eliminating these debts is not merely a financial endeavor; it's a transformative step towards unlocking the potential for future investments and securing a more resilient financial foundation for the family's well-being.

The table below lists the Chiramba Family's assets and debts. Use this information to help with your Week 3 case study activity worksheet.

Chiramba Family Net Worth Items

Description	Value	Interest Rate
Cash	500	
Farming Equipment	500	
Loan from John	150	3%
House	10,000	

Loan to Maria	100	2%
2 Bicycles	50	
Loan from Government	100	5%
Clothes	200	
Home Loan	1,300	6%
Household Items	450	
Tools	80	
Loan from Bank	200	8%
Coins/Precious Metals	150	
Seeds/Fertilizer	200	
School Supplies	150	

Chapter 4: Protecting Your Family From Financial Hardship

Welcome to Chapter 4 of the FCS 340 readings. In this chapter, we will cover the concepts of risk, insurance, and cost-benefit analyses, and how this knowledge can help you protect your family financially. The key terms below will help you as you study this chapter.

Key Terms

Risk: The possibility of loss or uncertainty in achieving financial goals.

Avoidance: Eliminating exposure to certain risks.

Reduction: Decreasing the likelihood or impact of risks.

Transfer: Shifting risk to another party, such as through insurance.

Acceptance: Acknowledging and tolerating certain risks.

Insurance: Financial protection against specified risks, typically provided by contractual agreements.

Cost-benefit Analysis: Evaluation of potential gains versus sacrifices or costs associated with a decision or action.

Risk

(ChatGPT, 2024)

Risk is the potential for an event or outcome to deviate from what is expected or desired, involving uncertainty and the possibility of both positive and negative consequences.

In our daily lives, risk is an ever-present factor that influences the decisions we make. Whether it's deciding to invest in the stock market, launch a new business venture, or even cross the street, we constantly encounter situations where outcomes are uncertain. Risk

encompasses the chance of events not going as planned, introducing the potential for both gains and losses.

It is a fundamental aspect of decision-making that requires individuals, businesses, and organizations to assess, manage, and sometimes embrace uncertainty. From financial markets to personal health choices, the concept of risk underscores the dynamic nature of our world, prompting us to navigate the delicate balance between potential rewards and the inherent unpredictability of future events.

Managing Risk

(ChatGPT, 2024)

Risk management involves identifying, assessing, and prioritizing risks, followed by the application of resources to minimize or control the impact of those risks. There are various approaches to managing risks, and different sources may present different categorizations. However, a common framework includes four primary ways to manage risk:

Avoidance:

- This strategy involves taking actions to eliminate or avoid the risk altogether.
- You may choose not to engage in certain activities or projects that pose significant risks.
- While effective, avoidance may also mean missing out on potential opportunities.
- Example: Jane is concerned about the potential health risks associated with smoking. To avoid these risks, she decides not to start smoking and actively discourages her friends and family from smoking as well.

Reduction:

- This involves taking steps to reduce the likelihood or impact of a risk.
- This may include implementing safety measures, redundancies, or using protective technologies.
- By reducing the severity or probability of an adverse event, you can minimize potential losses.
- Example: Alex enjoys outdoor activities, including cycling. To reduce the risk of injury, he invests in high-quality safety gear, such as a well-fitted helmet, knee pads, and reflective clothing. These precautions help reduce the potential impact of accidents while cycling.

Transfer:

- This strategy involves shifting the responsibility for the risk to another party.
- Common methods of risk transfer include purchasing insurance.
- While the risk is not eliminated, it is transferred to another entity that is often better equipped to handle it.
- Example: Emily is planning a destination wedding in a tropical location. Concerned about the possibility of unexpected weather disruptions, she purchases wedding insurance that covers unforeseen events such as hurricanes or venue closures, transferring the financial risk to the insurance provider.

Acceptance:

- Sometimes, you choose to accept certain risks without taking specific actions to reduce or transfer them.
- This strategy is often employed when the cost or effort of managing the risk exceeds the potential impact.
- It's essential to make informed decisions about which risks to accept, and monitoring is usually in place to identify any changes in the risk landscape.
- Example: Mike is passionate about starting his own business. He understands the inherent risks of entrepreneurship, including financial uncertainties and market fluctuations. Despite these risks, he accepts the challenge and starts his business, embracing the potential rewards along with the acknowledged risks.

It's important to note that these strategies are not mutually exclusive, and a combination of them may be used to navigate risk. The specific approach depends on the nature of the risk, organizational goals, and the resources available. Additionally, continuous monitoring and reassessment are crucial to adapting risk management strategies as circumstances change.

Insurance

(The Church of Jesus Christ of Latter-day Saints, 2017)

Preparation is a powerful gospel principle. The Lord promises that “if ye are prepared ye shall not fear” (D&C 38:30). After our obligation to pay the Lord first through tithing and other offerings, our second obligation is to work to protect our families from hardship. We can do this only if we develop a long-term perspective.

How would it impact you or your family financially if one of you became very ill, or disabled, or perhaps even passed away? What would be the financial impact of something like a house fire or a serious car accident? These types of hardships happen, and if we are not prepared, they can cause major financial problems. A good source of protection against possible hardship is insurance. Insurance is an arrangement in which an organization

(typically an insurance agency) guarantees to compensate an individual for specific hardships in exchange for a fixed payment.

President N. Eldon Tanner taught, “Nothing seems so certain as the unexpected in our lives. With rising medical costs, health insurance is the only way most families can meet serious accidents, illnesses, or maternity costs. … Life insurance provides income continuation when the provider prematurely dies. Every family should make provision for proper health and life insurance” (Tanner, 1979).

Insurance can help protect you from the financial devastation that accidents and other hardships can bring.

You do not need to insure all things—that is why you are building an emergency fund and other savings. However, it is critical that you protect yourself from hardship that could be financially devastating. President Marion G. Romney taught that “we have … been counseled [to] have a reserve of cash to meet emergencies and to carry adequate health, home, and life insurance” (Romney, 1981).

Types of Insurance

(ChatGPT, 2024)

In today's world, insurance is readily available for a wide array of scenarios, offering protection against potential risks and uncertainties. From life and health insurance to coverage for homes, cars, and even specific events, the market provides a comprehensive array of policies. However, the decision to acquire insurance should be approached thoughtfully. While insurance offers a safety net and financial security, it's crucial to assess individual needs and circumstances.

Acquiring insurance for every possible scenario can lead to unnecessary expenses, as some risks may be negligible or easily manageable without coverage. Striking the right balance involves evaluating the likelihood and impact of potential risks, considering personal financial resilience, and making informed decisions about the necessity of specific insurance policies. In essence, while insurance is a valuable tool for mitigating risks, prudent judgment should guide individuals in determining the extent of coverage needed for their unique situations.

Here is a list of common types of insurance:

(Boies, n.d.)

- Health insurance—helps pay your doctor’s visits and other health care expenses
- Disability insurance—replaces some of your income if an injury or illness prevents you from working
- Life insurance—helps pay bills and your family’s future financial needs after you die
- Auto insurance—protects you against financial loss if you have a car accident

- Homeowner's insurance—pays you if there is damage to your home, or for loss of personal property due to damage or theft
- Flood insurance—protects you against property loss from flooding
- Renter's insurance—pays claims for damage or loss of your personal property as a renter
- Pet insurance—helps pay veterinary bills for your pet
- Crop and livestock insurance—protect your farm from loss due to natural disasters or declining prices
- Catastrophic health care insurance—covers certain types of expensive medical care, like hospitalizations
- College tuition insurance—refunds college tuition if you must withdraw because of a serious injury or illness
- Dental and vision insurance—helps pay your dental or vision care expenses
- Identity theft insurance—reimburses you for the cost of restoring your identity and repairing credit reports if you're a victim of identity theft. This insurance may be part of your homeowner's insurance policy or a stand-alone policy.
- International health care insurance—provides health coverage no matter where you are in the world. The policy term is flexible, so you can purchase it only for the time you will be out of the country.
- Liability insurance—pays if you are sued for negligence or injury to another person
- Host protection insurance—protects you if you rent your home out or use your car to drive others for a fee
- Travel insurance—protects against losses during travel. There are four kinds of travel insurance: travel cancellation insurance, baggage or personal effects coverage, emergency medical coverage, and accidental death.
- Umbrella insurance—supplements the insurance you already have for home, auto, and other personal property. Umbrella insurance can help cover costs that exceed the limits of other policies.

Shop for Insurance

(Boies, n.d.)

Before you buy insurance, do your homework. Research the insurance company to be sure that the company is financially sound and provides good service. Unfortunately, there are scams and fraudulent activities related to insurance so do your best to make sure you are

not falling for a scam. Once you have found a good company to get insurance through, find out what factors matter so that you can get the coverage you need at the best price.

Find the Best Rates:

- Compare quotes from several companies to get the best deal.
- Ask your insurance company representative about discounts. You may be able to get a lower premium if you have safety features in your home, such as deadbolt locks, smoke detectors, an alarm system, storm shutters, or fire-retardant roofing material. Similarly, you may save on car insurance based on your vehicle's safety features, the number of miles you drive, your age, good grades if you're a student, and your driving record. You might also be able to get discounts if you're a member of civic or alumni associations, or have multiple policies with the same company.
- Consider a higher deductible. Increasing your deductible by just a few hundred dollars can make a big difference in your premiums.

Insurance Costs

(The Church of Jesus Christ of Latter-day Saints, 2017)

Now that we have a basic understanding of insurance and some of its potential benefits, let's discuss some of the costs. The two primary types of costs or expenses associated with insurance are the premium and the deductible.

- A premium represents the price of the insurance—or the money you pay directly (often monthly or annually) to the insurance company in exchange for the coverage.
- A deductible represents the amount of money that you pay toward your expenses (such as medical expenses or automobile repair costs) before the insurance company will cover the remaining costs.

The Cost-Benefit Analysis

(The Church of Jesus Christ of Latter-day Saints, 2017)

When comparing insurance plans, you are essentially trying to compare what the plan could potentially cost you versus what it could potentially provide in coverage. It may be helpful to compare best-case to worst-case scenarios.

- Annual Minimum Cost (The Best-Case Scenario): To calculate the annual minimum cost, simply multiply your monthly premium by 12 months (12 x the monthly premium), or look at the annual premium if you are billed just once a year. This scenario assumes that you do not have an insurable event in the year.
- Annual Maximum Cost (The Worst-Case Scenario): To calculate your annual maximum cost, add your annual minimum cost to the annual deductible ([12 x the monthly

premium] + deductible). This scenario assumes that the expenses of the insurable event exceed your annual deductible.

Imagine that you are comparing two renters insurance plans: a plan with a high deductible of 2,000 which costs 10 each month, and a plan with a lower deductible of 500 that costs 40 each month. Calculating the Annual Minimum and Annual Maximum Costs would look like this:

	Annual Minimum Cost	Annual Maximum Cost
High-deductible plan	10 x 12 = 120	120 + 2,000 = 2,120
Low-deductible plan	40 x 12 = 480	480 + 500 = 980

Notice that in the best-case scenario, the high-deductible plan will save you 360. This means that even if you have to cover up to 360 in rent property-related expenses out of your own pocket, it is still less expensive to go with the high-deductible plan, for this situation. However, this is not true in the worst-case scenario.

In the worst-case scenario, where you had to pay out the maximum annual cost, you would save almost twice as much (over 1,000) by choosing the lower-deductible plan. As you try to decide between insurance plans and options, consider your situation or that of your family in order to choose the plan that best fits your needs.

Over-Insured or Under-Insured

(ChatGPT, 2024)

Determining if you have too much or too little insurance involves a careful evaluation of your specific circumstances and needs. Here are some general guidelines to help you assess your insurance coverage:

Signs you may have too much insurance:

- Excessive Premiums: If you find yourself struggling to meet premium payments and your coverage exceeds your actual needs, you might have too much insurance.
- Redundancy: If you have multiple policies that cover the same risks, you may be over insured. Reevaluate whether each policy provides unique and necessary coverage.
- Low-Risk Tolerance: If you are risk-averse and have extensive coverage for unlikely events, you might be overestimating the potential risks. Consider whether the cost of the premiums justifies the level of protection.

Signs you may have may have too little insurance:

- Limited Coverage for Essential Risks: If your insurance coverage doesn't adequately address essential risks such as health, property, or income protection, you may be underinsured.

- Insufficient Coverage Limits: If the coverage limits on your policies are too low, you might not be adequately protected against potential financial losses. Ensure that your coverage aligns with the potential costs associated with various risks.
- Life Changes: Significant life events, such as marriage, having children, or buying a home, can change your insurance needs. If you haven't adjusted your coverage to reflect these changes, you may be underinsured.
- Inadequate Emergency Fund: If you lack a sufficient emergency fund to cover unexpected expenses, you might be relying too heavily on insurance to protect you from financial setbacks.

To find the right balance, regularly assess your insurance needs, considering changes in your life, financial situation, and risk tolerance. Consult with insurance professionals or financial advisors to get personalized advice based on your unique circumstances. Remember that the goal is to have enough coverage to provide financial security without paying for unnecessary protection.

How Does Insurance Play Into a Financial Plan?

(ChatGPT, 2024)

Insurance is a cornerstone of a comprehensive financial plan as it directly addresses and manages various risks that you may encounter. By transferring the financial burden of certain risks to insurance providers, you can protect your assets and maintain financial stability in the face of unforeseen events.

Effectively integrating insurance into a financial plan requires thoughtful consideration of individual risk tolerance, current circumstances, and long-term financial goals. Regularly reassessing and adjusting insurance coverage is crucial to maintaining a resilient financial strategy that addresses evolving risks.

Prayerful Consideration

While there are many different options for insurance, you may not have all or any of them available where you live. Prayerfully consider how these principles can best be applied to your unique situation.

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W04 Case Study: Protecting Against Financial Hardship

W04 Case Study: Protecting Against Financial Hardship

As the Chirambas make progress in alleviating their debt burden, the focus shifts towards exploring opportunities to develop greater stability. At present, the Chirambas also have only limited access to healthcare and do not have an emergency fund. Small-scale entrepreneurship initiatives, initiated in the previous phase, such as cultivating a home garden, raising chickens, or engaging in small-scale farming, can now evolve into potential income-generating assets. The prospect of selling surplus produce or poultry in the local market opens avenues for additional revenue. This additional revenue, if used wisely, can help protect the Chirambas from financial hardship. However, they will need to navigate the challenges of balancing immediate, daily needs (living hand to mouth, eating what you earn each day) and long-term goals that can provide greater stability.

The Chiramba Family has variable income and expenses that make it difficult to know how much to budget for each month and how much to keep in an emergency fund. Use the table below to help with your Week 4 case study activity worksheet.

Chiramba Family Prior Year Cash Flow

	January	February	March	April	May	June	July	August	September	October	November	December
Net Income												
Farming	325	350	425	500	475	425	315	275	350	415	475	400
Misc.	10	5	10	30	30	10	20	25	5	10	20	5
Total Income	**335**	**355**	**435**	**530**	**505**	**435**	**335**	**300**	**355**	**425**	**495**	**405**
Expenses												
Tithing/Fast Offerings	35	37	45	54	52	45	35	31	37	44	51	41
Home Loan	100	100	100	100	100	100	100	100	100	100	100	100
Other Debts	20	20	20	20	20	20	20	20	20	20	20	20
Food	150	120	135	125	115	100	130	120	130	125	115	110
Transportation	10	12	16	20	24	10	10	13	18	20	21	10
Phone	32	30	30	37	33	30	32	30	30	35	31	30
Education	30	35	30	40	30	30	30	35	30	35	30	40
Misc.	10	20	15	20	10	5	10	20	10	15	10	10
Total Expenses	387	374	391	416	384	340	367	369	375	394	378	361
Net Cash Flow	**-52**	**-19**	**44**	**114**	**121**	**95**	**-32**	**-69**	**-20**	**31**	**117**	**44**

Chapter 5: Making Your Money Work For You

Welcome to Chapter 5 of the FCS 340 readings, where we will explore the concept of making your money work for you. In this chapter, we will learn about stocks, bonds, and mutual funds, as well as specific strategies to help you master the art of investing and saving wisely. Below are key terms that will help you as you navigate this chapter.

Key Terms

Investing: Allocating resources with the expectation of generating returns or income over time.

Saving: Setting aside income for future use or emergencies.

Stock: Ownership in a corporation, representing a share of its assets and earnings.

Bond: A debt security representing a loan made by an investor to a borrower (typically corporate or governmental) for a defined period, with fixed or variable interest payments.

Asset Allocation: Distribution of investments across various asset classes to manage risk and achieve financial goals.

Speculating: Engaging in risky financial transactions with the expectation of significant short-term gains.

Diversification: Spreading investments across different assets to reduce risk exposure.

Financial Professionals: Individuals or firms providing financial advice, planning, and management services.

How Can My Money Work For Me?

Money isn't just a means to an end; with the right knowledge and strategies, it can be a tool that works tirelessly on your behalf. Understanding how to make your money work for you

involves strategic planning and smart investment. First, let's address some basics regarding money, how to accumulate it, and the ways it can work for you.

Two Ways To Make Money

(Office of Investor Education and Advocacy Securities and Exchange Commission, 2015)

There are basically two ways to make money.

1. You work for money: Someone pays you to work for them or you have your own business.

2. Your money works for you: You take your money and you save or invest it.

Your Money Can Work For You In Two Ways

(Office of Investor Education and Advocacy Securities and Exchange Commission, 2015)

1. Your money earns money: When your money goes to work, it may earn a steady paycheck. Someone pays you to use your money for a period of time. When you get your money back, you get it back plus interest. Or, if you buy stock in a company that pays dividends to shareholders, the company may pay you a portion of its earnings on a regular basis. Your money can make an income, just like you. You can make more money when you and your money work.

2. You buy something with your money that could increase in value: You become an owner of something that you hope increases in value over time. When you need your money back, you sell it, hoping someone else will pay you more for it. For instance, you buy a piece of land thinking it will increase in value as more businesses or people move into your town. You expect to sell the land in five, ten, or twenty years when someone will buy it from you for a lot more money than you paid. And sometimes, your money can do both at the same time—earn a steady paycheck and increase in value

This concept of allowing your money to work for you can become a great asset in your journey to financial success.

Investing Versus Saving

While saving and investing both involve the strategic allocation of your money, they serve distinct purposes and carry varying levels of risk and reward. Saving typically entails depositing money into secure accounts with minimal risk, ensuring that you have funds for your immediate needs. On the other hand, investing involves putting your money into something that offers the potential for growth over time with greater risk.

Investing

(The Church of Jesus Christ of Latter-day Saints, 2017)

When people hear the term investing, they may think of a loud and chaotic trading floor with people selling stocks and bonds. While that may be part of investing, investing is also the act of putting time, effort, or money into something and expecting some type of a return.

(The Office of Financial Readiness, 2020)

Let's start with a basic understanding of investing. In simple terms, investing is using money to try to make a profit or produce income. Investing money is different from saving money. Saving involves setting money aside in safe, relatively low-interest paying accounts so it's there when you need it. Investing is about taking calculated risks with your money to try to earn more with it. Most people invest to achieve a goal, whether it be a long-term goal like retirement or a short-term goal like saving for a down payment on a house.

Saving

(The Church of Jesus Christ of Latter-day Saints, 2017)

One of the easiest ways to invest is to save money. You have been working to build an emergency fund, starting with one month's worth of expenses and then building up to having three to six months' worth of expenses. Imagine the possibilities if you continue to save even after establishing a strong emergency fund.

Elder L. Tom Perry taught, "Pay yourself a predetermined amount directly into savings. … It is amazing to me that so many people work all of their lives for the grocer, the landlord, the power company, the automobile salesman, and the bank, and yet think so little of their own efforts that they pay themselves nothing" (Perry, 1991).

(Office of Investor Education and Advocacy Securities and Exchange Commission, 2015)

Your savings are usually put into the safest places, or products, that allow you access to your money at any time. Savings products include savings accounts, checking accounts, and certificates of deposit. In the U.S., some deposits in these products may be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration. But there's a tradeoff for security and ready availability. Your money is paid a low wage as it works for you.

After paying off credit cards or other high-interest debt, most smart investors put enough money in a savings product to cover an emergency, like sudden unemployment. Some make sure they have up to six months of their income in savings so that they know it will absolutely be there for them when they need it.

But how safe is a savings account if you leave all of your money there for a long time, and the interest it earns doesn't keep up with inflation? Inflation is the increase in the general price of goods and services over a period of time.

Think back to when you were a young child. How much did your favorite candy cost back then? How much does that same candy cost today? It likely costs more today than it did

when you were younger. This is due to inflation. This is why many people put some of their money in savings, but look to investing so they can earn more over long periods of time, say three years or longer.

Education

(The Church of Jesus Christ of Latter-day Saints, 2017)

Education is another form of investing. Typically, additional training or education will have a cost. If you are going to invest in education, ensure that it will lead to better work so there is a good return on your investment.

President Gordon B. Hinckley counseled that the “world will in large measure pay you what it thinks you are worth, and your worth will increase as you gain education and proficiency in your chosen field” (Hinckley, 2001).

Sometimes it may be appropriate to incur debt to gain education, but there are also many other ways to pay for school. Explore all other options before turning to debt. If you do go into debt for education, strive to pay it off as quickly as possible.

Why Should I Invest?

(The Office of Financial Readiness, 2020)

Even with the potential benefits of investing, it’s important to understand that you could lose money doing it. Given the fact that you’re not guaranteed to make more than if you saved your money, why invest at all?

Here are 3 good reasons why:

1. Potential for Higher Returns: Investing gives you the chance to earn higher returns. The larger your returns, the more money you’ll have in the future.

2. Achieving Long-Term Goals: Savings alone might not allow you to accumulate enough to reach your goals. Investing those same dollars can increase those chances, or at least position you to accumulate more money over time.

3. Inflation: Inflation affects goals that are years in the future. Expect things to cost more in the future than they do today. Investing offers the potential to keep up with—and even outpace—inflation.

Types of Investments

Now that we’ve gone over the differences between investing and saving, and why it is important to invest, this next section will give us a basic understanding of the specific types

of investing. The image below contains the different kinds of investing in order of highest risk to lowest risk.

(The Office of Financial Readiness, 2020)

Stocks

(The Office of Financial Readiness, 2020)

A stock—also known as a share or equity—is a type of investment representing ownership in a company. Companies sell stock to raise money to fund their business. You become a shareholder and own part of the company when you buy stock. As a shareholder, you share in the company's profits if it chooses to distribute periodic payments called dividends.

If the company is successful, then the stock may become more valuable and can be sold for a profit. On the other hand, if the company has problems, then the shares in the company might become less valuable or become completely worthless, and an investor can lose money from the original investment.

Bonds

(The Office of Financial Readiness, 2020)

A bond is an investment representing a loan made by an investor to a borrower—typically a business or government entity. The borrower promises the debt will be paid back with interest at a specific time. Bonds are typically issued by companies, municipalities, states, and sovereign governments to finance projects and operations.

Cash

(The Office of Financial Readiness, 2020)

Cash and cash equivalents such as savings accounts, money markets, and certificates of deposit (CDs) are intended to be relatively safe and accessible. They tend to offer relatively low yields and returns because there's not as much risk associated with these products, like with stocks or bonds. This typically makes cash and cash equivalent products a poor choice for long-term goals because many of them won't even keep up with inflation.

Why Some Investments Make Money And Others Don't

There are many contributing factors that determine whether or not you will make profit, and it is important to know these factors so you can make the best decision before you invest in certain stocks. In order to know when an investment has the potential to make money and when it doesn't, below are certain things to look for before you invest:

(Office of Investor Education and Advocacy Securities and Exchange Commission, 2015)

Potential Profits:

- The company performs better than its competitors.
- Other investors recognize it's a good company so that when it comes time to sell your investment, others want to buy it.
- The company makes profits, meaning they make enough money to pay you interest for your bond, or maybe dividends on your stock.

Potential Losses:

- The company's competitors are better than it is.
- Consumers don't want to buy the company's products or services.

- The company's officers fail at managing the business well, they spend too much money, and their expenses are larger than their profits.
- Other investors that you would need to sell to think the company's stock is too expensive given its performance and future outlook.
- The people running the company are dishonest. They use your money to buy homes, clothes, and vacations, instead of using your money on the business.
- They lie about any aspect of the business. They claim past or future profits that do not exist, claim it has contracts to sell its products when it doesn't, or make up fake numbers on its finances to dupe investors.
- The brokers who sell the company's stock manipulate the price so that it doesn't reflect the true value of the company. After they pump up the price, these brokers dump the stock, the price falls, and investors lose their money.
- For whatever reason, you have to sell your investment when the market is down.

Other Kinds of Investments

(The Office of Financial Readiness, 2020)

If you think back to elementary school, you may remember learning about the three primary colors: red, yellow, and blue. You can create thousands of other colors by using these three colors as a foundation. This concept also works pretty well when you think of investing. Using the basic investments from above—cash, bonds, and stocks—you are able to create thousands of other investments. Below are some of the other possible investments:

Mutual Funds

(Office of Investor Education and Advocacy Securities and Exchange Commission, 2015)

A mutual fund is a pool of money run by a professional or group of professionals called the investment adviser. In a managed mutual fund, after investigating the prospects of many companies, the fund's investment adviser will pick the stocks or bonds of companies and put them into a fund. Investors can buy shares of the fund, and their shares rise or fall in value as the values of the stocks and bonds in the fund rise and fall. Investors may typically pay a fee when they buy or sell their shares in the fund, and those fees in part pay the salaries and expenses of the professionals who manage the fund.

Exchange-Traded Funds (ETF)

(The Office of Financial Readiness, 2020)

An ETF, or exchange-traded fund, is an investment that tracks a particular set of equities, similar to an index. It's similar to a mutual fund but trades just as a normal stock would on

an exchange, and its price adjusts throughout the day rather than at market close. ETFs can track stocks in a single industry, such as energy, or an entire index of equities like the S&P 500. Note that the Standard and Poor's (S&P) 500 is a stock market index that tracks the stock performance of 500 of the largest companies in the United States.

Funds Without Active Management

(Office of Investor Education and Advocacy Securities and Exchange Commission, 2015)

One way that investors can obtain for themselves nearly the full returns of the market is to invest in an index fund. This is a fund that does not attempt to pick and choose stocks of individual companies based upon the research of the mutual fund managers or to try to time the market's movements. An index fund seeks to equal the returns of a major stock index, such as the S&P 500, the Wilshire 5000, or the Russell 3000. Through computer-programmed buying and selling, an index fund tracks the holdings of a chosen index, and so shows the same returns as an index minus, of course, the annual fees involved in running the fund. The fees for index mutual funds generally are much lower than the fees for managed mutual funds.

Historical data shows that index funds have, primarily because of their lower fees, enjoyed higher returns than the average managed mutual fund. But, like any investment, index funds involve risk.

Asset Allocation

(Office of Investor Education and Advocacy, 2009)

Asset allocation involves dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash. The process of determining which mix of assets to hold in your portfolio is a very personal one. The asset allocation that works best for you at any given point in your life will depend largely on your time horizon and your ability to tolerate risk.

- Time Horizon: Your time horizon is the expected number of months, years, or decades you will be investing to achieve a particular financial goal. An investor with a longer time horizon may feel more comfortable taking on a riskier, or more volatile, investment because he or she can wait out slow economic cycles and the inevitable ups and downs of our markets. By contrast, an investor saving up for a teenager's college education would likely take on less risk because he or she has a shorter time horizon.

- Risk Tolerance: Risk tolerance is your ability and willingness to lose some or all of your original investment in exchange for greater potential returns. An aggressive investor, or one with a high-risk tolerance, is more likely to risk losing money in order to get better results. A conservative investor, or one with a low-risk tolerance, tends to favor investments that will preserve his or her original investment. In the words of the

famous saying, conservative investors keep a "bird in the hand," while aggressive investors seek "two in the bush."

Risk Versus Reward

(Office of Investor Education and Advocacy, 2009)Having explained risk tolerance, we can now talk about risk and reward. When it comes to investing, risk and reward are inextricably entwined. You've probably heard the phrase ‘no pain, no gain.’ Those words come close to summing up the relationship between risk and reward. Don't let anyone tell you otherwise; All investments involve some degree of risk. If you intend to purchase securities—such as stocks, bonds, or mutual funds—it's important that you understand before you invest that you could lose some or all of your money.

The reward for taking on risk is the potential for a greater investment return. If you have a financial goal with a long time horizon, you are likely to make more money by carefully investing in asset categories with greater risk, like stocks or bonds, rather than restricting your investments to assets with less risk, like cash equivalents. On the other hand, investing solely in cash investments may be appropriate for short-term financial goals.

Why Asset Allocation Is So Important

(Office of Investor Education and Advocacy, 2009)

By including asset categories with investment returns that move up and down under different market conditions within a portfolio, an investor can protect against significant losses. Historically, the returns of the three major asset categories have not moved up and down at the same time. Market conditions that cause one asset category to do well often cause another asset category to have average or poor returns.

By investing in more than one asset category, you'll reduce the risk that you'll lose money and your portfolio's overall investment returns will have a smoother ride. If one asset category's investment return falls, you'll be in a position to counteract your losses in that asset category with better investment returns in another asset category.

In addition, asset allocation is important because it has a major impact on whether you will meet your financial goals. If you don't include enough risk in your portfolio, your investments may not earn a large enough return to meet your goal.

For example, if you are saving for a long-term goal, such as retirement or college, most financial experts agree that you will likely need to include at least some stock or stock mutual funds in your portfolio. On the other hand, if you include too much risk in your portfolio, the money for your goal may not be there when you need it. A portfolio heavily weighted in stock or stock mutual funds, for instance, would be inappropriate for a short-term goal, such as saving for a family's summer vacation.

What Are The Best Investments For Me?

(Office of Investor Education and Advocacy Securities and Exchange Commission, 2015)

The answer [of which investments are right for you] depends on when you will need the money, your goals, and if you will be able to sleep at night if you purchase a risky investment where you could lose your principal.

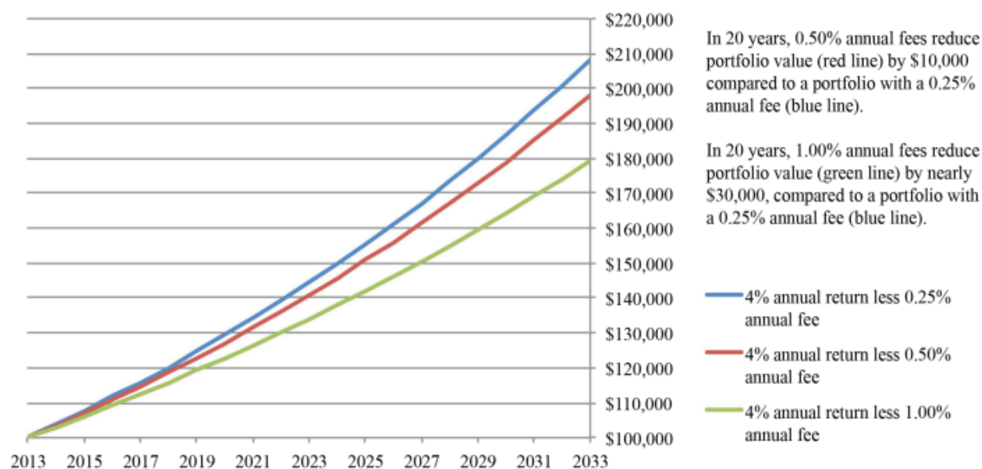
For instance, if you are saving for retirement, and you have 35 years before you retire, you may want to consider riskier investment products, knowing that if you stick to only the savings products or to less risky investment products, your money will grow too slowly—or, given inflation and taxes, you may lose the purchasing power of your money. A frequent mistake people make is putting money they will not need for a very long time in investments that pay a low amount of interest.

On the other hand, if you are saving for a short-term goal, five years or less, you don't want to choose risky investments, because when it's time to sell, you may have to take a loss. Since investments often move up and down in value rapidly, you want to make sure that you can wait and sell at the best possible time.

Fees

(Office of Investor Education and Advocacy, 2019)

As with anything you buy, there are fees and costs associated with investment products and services. These fees may seem small, but over time they can have a major impact on your investment portfolio. The following chart shows an investment portfolio with a 4% annual return over 20 years when the investment either has an ongoing fee of 0.25%, 0.50%, or 1%. Notice how the fees affect the investment portfolio over 20 years.



Along with the other factors you think about when choosing either a financial professional or a particular investment, be sure you understand and compare the fees you'll be charged. It could save you a lot of money in the long run.

Investing Versus Speculating

(Stephens & ChatGPT, 2024)

You may have heard of someone making a lot of money in a short period with some sort of investment. While this can happen, you should be wary of stories like these.. Usually, in these instances, the individual could have lost just as much (if not more) than they initially invested and likely took higher risks for a higher reward. With this in mind, it is important to understand the difference between investing and speculating.

- Investing: Investing is a long-term strategy designed to build wealth over time. Investors typically have a lower tolerance for risk, aiming to preserve capital and achieve financial goals such as retirement or education.
- Speculating: Speculation involves taking higher risks for the potential of short-term profits. Speculators have a higher tolerance for risk, accepting the possibility of significant losses in pursuit of potential high returns. Speculators typically have a shorter time horizon, seeking quick gains and frequently engaging in buying and selling within short time frames.

Strategies to Help with Investing

As we have learned throughout this chapter, wise investing requires a strategic approach that balances risk and reward while maintaining a long-term perspective. The following strategies are designed to help you navigate the complexities of investing:

Invest Regularly

(The Office of Financial Readiness, 2020)

Invest a set amount of money regularly whether investment markets are moving up or down —a strategy known as dollar cost averaging. When prices are high, your regular contributions buy fewer shares (units of ownership in a company or mutual fund); when prices are low, your contributions buy more. This strategy tends to spread investment risk over time. Keep in mind that dollar-cost averaging does not ensure a profit or protect against loss in a declining market. Although dollar cost averaging will not protect you against losses when the stock or bond markets are declining, it does reduce your risk of investing by ensuring that stock and bond purchases are made at a variety of prices, buying more shares at lower prices and fewer at higher prices. Dollar-cost averaging also eliminates the risk of investing all of your money in the stock or bond market at market peaks. You should also consider your ability to invest continuously through periods when the market is down.

Invest for the Long Term

(The Office of Financial Readiness, 2020)

The more time you give your investment to grow and compound, the more likely you are to reach your financial goals. History shows that patient investors who focus on long-term goals can generally withstand fluctuations in the stock market. Use time, not timing. If you start early and invest regularly, you will likely be able to use time to your advantage. Do not try timing decisions to buy and sell based on market fluctuations. It is extremely difficult to predict the market fluctuations over the long term accurately.

Keep Emotions Out Of Your Actions

(The Office of Financial Readiness, 2020)

Investors' decisions tend to be influenced by short-term variables and the latest news. Think and act intellectually, not emotionally. Investing success requires patience, determination, and an unemotional approach. Do your homework then stay on course. Increase your knowledge. Learn all you can about investing and specific investments by regularly reading reputable business periodicals, investment books, and annual reports of companies whose securities you might want to purchase. There is no shortage of opinion about investing and the market, be disciplined and use facts to guide your decisions.

Avoid High-Risk Investments

(The Office of Financial Readiness, 2020)

Avoid futures, commodities, and other risky forms of investing—at least until you have an established, diversified portfolio, you know all about them, and you are willing and able to accept their increased risks. Remember, you are investing, not speculating.

Avoid Chasing Performance

(The Office of Financial Readiness, 2020)

If you choose your investments by leaping into whatever is currently doing very well, you may be setting yourself up for recurring losses over time. Oftentimes, the best-performing stock in one year becomes one of the worst in subsequent years.

Diversify

(The Office of Financial Readiness, 2020)

Select a wide variety of securities for your portfolio to minimize investment risks. Investing in several unrelated assets will produce a return based on the average of your various investment returns, rather than relying completely upon the return of one investment.

(Office of Investor Education and Advocacy, 2009)

Have you ever noticed that street vendors often sell seemingly unrelated products—such as umbrellas and sunglasses? Initially, that may seem odd. After all, when would a person buy both items at the same time? Probably never—and that's the point. Street vendors know that when it's raining, it's easier to sell umbrellas but harder to sell sunglasses. And when it's sunny, the reverse is true. By selling both items—in other words, by diversifying the product line—the vendor can reduce the risk of losing money on any given day.

Evaluate Your Investment Plan

(The Office of Financial Readiness, 2020)

You should evaluate your investment plan at least annually or at times of significant life events. If necessary, rebalance your portfolio to ensure your mix of investments aligns with your goals, risk tolerance, and time horizon.

Stick to Your Plan.

(Schock, n.d.)

If you have the right investment plan, you shouldn’t need to make rash decisions during times of market volatility. A plan that takes into account your long-term financial goals and risk tolerance and includes a portfolio of diverse assets, will better prepare you for inevitable market changes. Most importantly, whatever you do, don’t panic, plan it!

Financial Professionals

Sometimes investing can feel scary, intimidating, or confusing. There are a lot of emotions involved and the consequences can be steep. If you feel too overwhelmed or you simply don’t have the time, you could consider finding a financial professional to help. If you’re considering bringing on a financial advisor, below is some information to use during the selection process to help set you up for success.

What Type of Financial Services Do They Provide?

(Calpers, 2023)

While retirement planning is the most notable planning assistance a financial advisor can provide, an advisor who gives guidance on other aspects of your finances is worth considering. Questions on budgeting, debt repayment, and insurance product suggestions are additional areas you may need to turn to them for. If you have a complex financial situation, these added services can serve as a great item to factor in during your selection

process. However, if you’re single or don’t have significant debt, you might only need basic planning services.

Are They Bound by a Fiduciary Duty?

(Calpers, 2023)

Unfortunately, there aren’t regulations that outline the duties of a financial advisor. The U.S. Securities and Exchange Commission (SEC) is trying to change this, though, by only allowing the use of the advisor title to those who hold themselves to a fiduciary standard—This means they are legally required to work in your best financial interest. Understanding if a financial advisor is obligated to a fiduciary duty is a crucial part of the selection process.

In addition, it’s a good idea to find a financial advisor who is a certified financial planner (CFP), as they have in-depth financial planning knowledge and are always held to a fiduciary standard. CFPs are required to have several years’ experience in the financial planning field and must pass the CFP exam and adhere to strict ethical standards set by the Certified Financial Planner Board of Standards. You’ll find that some CFPs may specialize in specific areas like divorce or retirement planning, while others may choose to work with specific clients like small business owners or retirees.

Other advisors may only be held to a suitability standard, meaning they’ll suggest products that are suitable for you, but the products may be more expensive while also earning them a higher commission. In other words, they are not legally obligated to work in your best financial interest.

How Do They Earn Their Money?

(Calpers, 2023)

There are two ways in which financial advisors earn their income. There are fee-only financial advisors who earn money from the fees you pay for their services. For example, you may be charged a percentage of the assets they manage for you, or you may be charged an hourly rate or even a flat rate. Typically, financial advisors who are paid in this manner are almost always fiduciaries.

There are also financial advisors who are commission-based. This means they earn their money from third parties, which is why they’ll advertise themselves as “free” because you aren’t charged a fee to use their services. If a financial advisor is commission-based, they aren’t fiduciaries but rather work in a sales capacity for investment and insurance brokerages.

Some financial advisors may even work as a combination of the two, such as those who offer advice on products like life insurance.

Watch Out for Red Flags

It is important, when talking with potential financial advisors, to be on the alert. Sometimes, those who claim to be financial professionals are dishonest and will try to cheat you out of your money.

(Office of Investor Education and Advocacy, 2019)

Fraudsters use different means, including promotional videos, social media, email, phone conversations, and in-person meetings, to lure victims into scams. If it seems too good to be true, it probably is.

One of the most common tricks con artists use is to promise investors that they will make a lot of money in a short period of time—that they will get rich quick. Con artists may trick investors into believing that they will make tons of money with little or no effort (for example, for purchasing products or for performing trivial tasks, such as clicking on digital ads each day). This tactic often uses images of lavish lifestyles and luxury items to create the illusion of future riches (for example, wealth, fancy cars, mansions, yachts, vacations, etc.).

Check the background of anyone selling or offering you an investment and confirm that the person is currently registered or licensed. It only takes a few minutes using the free and simple search tools. Before you hand over any money or share your contact information, verify that the person is currently registered or licensed and find out if he or she has a disciplinary history.

(Office of Investor Education and Advocacy, 2021)

Regardless of whether someone claims to be registered with proper authorities, beware if you spot these warning signs of an investment scam:

- Guaranteed High Investment Returns: Promises of high investment returns – often accompanied by a guarantee of little or no risk—is a classic sign of fraud. Every investment has risk, and the potential for high returns usually comes with high risk.

- Unsolicited Offers: Unsolicited offers (you didn't ask for it and don't know the sender) to earn investment returns that seem too good to be true may be part of a scam.

- Urgency: Con artists often claim an investment opportunity will be gone tomorrow. They create a false sense of urgency so investors turn over money right now, without researching the investment. They may trick investors into believing that the investment opportunity is limited to a certain number of investors who can get in on it or has a deadline triggered by an event that will soon occur.

- Fake Testimonials:Con artists may pay people to post fake online reviews or appear in videos falsely claiming to have gotten rich from some investment opportunity. Even testimonials that appear to be independent and unbiased reviews—for example on a website purporting to review products and investment opportunities—may be part of the scam.

Red flags in Payment Methods for Investments

(Office of Investor Education and Advocacy, 2021)

- Credit Cards: Most licensed and registered investment firms do not allow their customers to use credit cards to invest.
- Digital Asset Wallets and 'Cryptocurrencies': Licensed and registered financial firms typically do not require their customers to use digital asset wallets or digital assets, including so-called cryptocurrencies, to invest.
- Wire Transfers and Checks: If you pay for an investment by wire transfer or check, be suspicious if you're being asked to send or to make the payment out to a person or to a different firm, the address is suspicious (for example, an online search for the address suggests it is not an office building where the firm operates), or you are told to note that the payment is for a purpose unrelated to the investment (for example, medical expenses or a loan to a family member).

Alternative Ways to Invest

(Stephens, 2024)

Depending on your circumstances, you may or may not have access to reliably investing in the ways mentioned above. Below is a list of common investments that you may also find helpful.

- Foreign Currency Accounts: Some people opt to save in foreign currencies, which are often more stable than their local currency. They may open bank accounts denominated in US dollars, euros, or other stable currencies to protect their savings from inflation.
- Precious Metals: Gold, silver, and other precious metals are traditional stores of value that are resistant to inflation. People may invest in these commodities or purchase jewelry as a way to safeguard their wealth.
- Real Estate: Investing in real estate can be a hedge against inflation in developing countries. Property values tend to rise over time, providing a relatively stable store of wealth compared to cash. Additionally, rental income can provide a regular source of revenue.
- Informal Savings Groups: In many developing countries, informal savings groups or rotating savings and credit associations (ROSCAs) are prevalent. Members contribute money to a common pool, which is then loaned out to members on a rotating basis. These groups provide a means of saving and accessing funds without relying on banks.

- Digital Payments and Mobile Money: With the proliferation of mobile phones and digital payment platforms, many people in developing countries are turning to digital financial services to save and transfer money securely. Mobile money services allow individuals to store value digitally and conduct transactions without relying on physical cash.
- Investments in Livestock or Agricultural Products: In rural areas, people may invest in livestock or agricultural products as a way to preserve wealth. These assets can provide a source of income through sales or breeding, and they are less susceptible to inflation than cash.
- Microfinance and Savings Accounts: Microfinance institutions offer savings accounts and other financial services tailored to the needs of low-income individuals. These accounts often provide higher interest rates than traditional banks and may offer protection against inflation.

How Does Investing Impact Your Overall Financial Plan?

(ChatGPT, 2024)

Investing plays a crucial role in a financial plan, contributing to wealth accumulation, goal achievement, and long-term financial security. By strategically allocating funds to a diversified portfolio of assets such as stocks, bonds, and cash, you have the potential to generate returns that outpace inflation, ensuring the preservation and growth of your wealth over time. A well-thought-out investment strategy is tailored to your financial goals, risk tolerance, and time horizons, providing a foundation for building and sustaining wealth.

Investing serves as a means to achieve specific financial objectives, whether it's funding a comfortable retirement, purchasing a home, or funding a child's education. A carefully crafted investment plan considers factors such as risk tolerance and time horizon. Regular monitoring and adjustments to your investments can help adapt to changing market conditions and evolving financial goals. Ultimately, a thoughtfully integrated investment strategy forms a cornerstone of a financial plan, offering the potential for long-term financial growth and stability.

Prayerful Consideration

There are countless ways to invest. However, you may be limited in your available options because of where you live. Prayerfully consider how these principles can best be applied to your unique situation.

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W05 Case Study: Opportunities to Invest

W05 Case Study: Opportunities to Invest

With the Chiramba's progress, they feel more confidence and connection in their marital relationship. They recognize that as they have become more self-reliant it has had a direct positive impact on their marriage and family. However, they know that their family has faced poverty for generations and that it will take more than short-term improvement to change the trajectory of the Chiramba family line. They must also become effective teachers for their children and they begin to feel the need to teach their children some of the principles of money management and self-reliance.

Chapter 6: Planning for the Future

Welcome to Chapter 6 of the FCS 340 readings. This chapter will cover the vital concepts of planning for retirement, defined contribution plans, and the impact of retirement on a financial plan. Please read this chapter carefully, using the key terms below for guidance.

Key Terms

Retirement: The period of life after ceasing employment, typically characterized by reliance on accumulated savings or pensions for income.

Compound Interest: Interest earned on both the initial principal and the accumulated interest.

Retirement Income: Regular income streams during retirement, often from pensions, savings, or investments.

Estate Planning: Arranging for the transfer of assets upon death to intended beneficiaries while minimizing taxes and legal complications.

Retirement

(The Church of Jesus Christ of Latter-day Saints, 2017)

In the previous chapter, we learned that investing is putting time, effort, or money into something and expecting some type of return. One of the reasons we may invest money is to have enough when we retire.

President Ezra Taft Benson taught, “As you move through life toward retirement and the decades which follow, we invite all … to plan frugally for the years following full-time employment”(The Church of Jesus Christ of Latter-day Saints, 2014). There may be government or social programs available to help you during retirement, but you will likely need to supplement the money available from these programs with your own savings or investments. If you fail to plan now, you may not have enough income or savings to be self-reliant after you retire.

Envision Your Retirement

(U.S Department of Labor, 2015)

Make retirement a priority! This needs to be among your goals regardless of your age. Some goals you may be able to borrow for, such as college, but you can’t borrow for retirement.

Retirement is a state of mind as well as a financial issue. You are not so much retiring from work as you are moving into another stage of your life. Some people call retirement a “new career.”

What do you want to do at that stage? Travel? Relax? Move to a retirement community or to be near grandchildren? Pursue a favorite hobby? Go fishing or join a country club? Work part-time or do volunteer work? Go back to school? What is the outlook for your health? Do you expect your family to take care of you if you are unable to care for yourself? Do you want to enter this stage of your life earlier than the normal retirement age or later?

The answers to these questions are crucial when determining how much money you will need for the retirement you desire – and how much you'll need to save between now and then. Let's say you plan to retire early, with no plans to work even part-time. You'll need to build a larger nest egg than if you retire later because you'll have to depend on it far longer

Start Now

(The Church of Jesus Christ of Latter-day Saints, 2017)

Once you have established an emergency fund and paid off your consumer debt, you should begin saving for retirement as soon as possible. The sooner you begin saving for retirement, the longer your money has to grow and the more money you are likely to have available for retirement.

(U.S Department of Labor, 2015)

Retirement probably seems vague and far-off at this stage of your life. Besides, you have other things to buy right now. Yet there are some crucial reasons to start preparing now for retirement. You'll probably have to pay for more of your own retirement than earlier generations. The sooner you get started, the better.

You can start small and grow. Even setting aside a small portion of your paycheck each month will pay off in big dollars later. Company retirement plans are the easiest way to save. If you're not already in your employer's plan, sign up. You can afford to invest more aggressively. You have years to overcome the inevitable ups and downs of the stock market. Developing the habit of saving for retirement is easier when you are young.

(U.S Department of Labor, 2021)

If you are already saving, whether for retirement or another goal, keep going! You know that saving is a rewarding habit. If you're not saving, it's time to get started. Start small if you have to and try to increase the amount you save each month. The sooner you start saving, the more time your money has to grow (see the chart below). Make saving for retirement a priority. Devise a plan, stick to it, and set goals. Remember, it's never too early or too late to start saving.

Compound Interest

The main reason for starting your savings as early as possible is compound interest. There are two common ways in which interest is calculated, simple and compounding.

(ChatGPT, 2024)

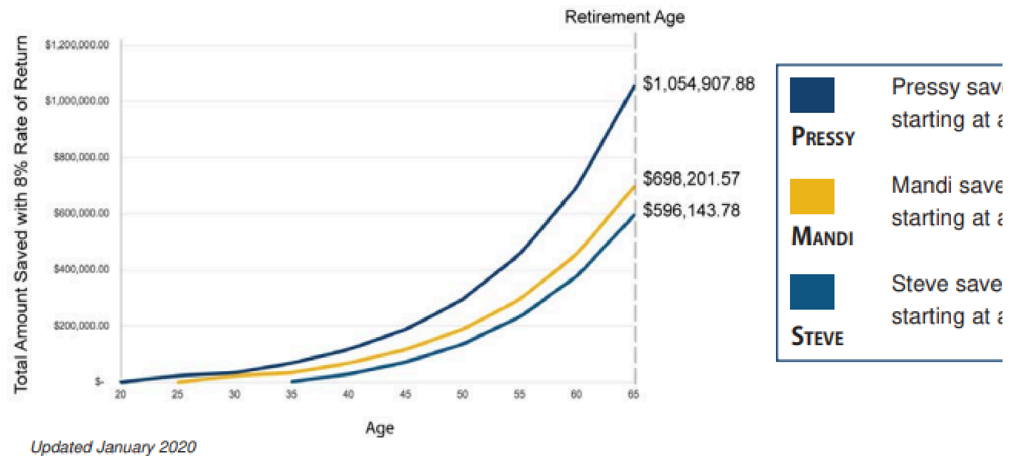
Simple interest is calculated only on the initial principal amount. The interest earned each period is constant and does not change over time. For example, if you invest 1000 at an annual interest rate of 5%, with simple interest, you would earn 50 in interest every year (1000 * 0.05) even though the amount of the account is growing over time.

(The Church of Jesus Christ of Latter-day Saints, 2017)

Compound interest can be one of the keys to having enough money for retirement. Compound interest is earning additional interest on interest, and it is typically represented as a percentage or rate of return. Once you earn your first interest payment, it is added to the principal balance. Then that larger balance continues to grow.

(The Office of Financial Readiness, 2020)

Here is an example to help illustrate the power of compound interest and why it's important to start early. Pressy, Mandi, and Steve all want to save for retirement. Pressy starts at age 20 saving 200 per month. Mandi starts at age 25 saving the same 200 per month. Steve waits until age 35 and tries to play catch-up by saving 400 per month. Assuming the same 8% rate of return for each of them, see the chart below for their results. Even though Pressy only saves 12,000 (2,400 for 5 years) more than Mandi, she ends up with over 350,000 more by age 65. Steve, by age 65 has significantly less than both despite trying to save more.



Estimate How Much You Need to Save for Retirement

(U.S Department of Labor, 2015)

Now that you have a clearer picture of your retirement goal, it's time to estimate how large your retirement nest egg will need to be and how much you need to save each month to buy that goal. This step is critical!

The vast majority of people never take this step, yet it is very difficult to save adequately for retirement if you don't at least have a rough idea of how much you need to save every month. There are numerous worksheets and software programs that can help you calculate approximately how much you'll need to save. Do an online search for resources applicable to you. Professional financial planners and other financial advisors can help as well.

Here are some of the basic questions and assumptions to keep in mind when thinking about your retirement:

How Much Retirement Income Will I Need?

(U.S Department of Labor, 2015)

An easy rule of thumb is that you'll need to replace about 80 percent of your pre-retirement income. If you're making 50,000 a year (before taxes), you might need about 40,000 a year in retirement income to enjoy the same standard of living you had before retirement. Think of this as your annual cost of retirement.

However, no rule of thumb fits everyone. Expenses typically decline for retirees: taxes are smaller (though not always) and work-related costs usually disappear. But overall expenses may not decline much if you still have a home and other debts to pay off. Large medical bills may keep your retirement costs high. Much will depend on the kind of retirement you want to enjoy. Someone who plans to live a quiet, modest retirement in a low-cost part of the country will need a lot less money than someone who plans to be active, take expensive vacations, and live in an expensive region.

For younger people in the early stages of their working life, estimating income needs that may be 30 to 40 years in the future is obviously difficult. Every year or two, review your retirement plan and adjust your retirement savings estimate as your annual earnings grow and your vision of retirement begins to come into focus.

How Long Will I Live In Retirement?

(U.S Department of Labor, 2015)

Based on current estimates, a U.S. male retiring at age 65 today can expect to live approximately 19 years in retirement (age 84). A female retiring today at age 65 can expect to live approximately 21 years (age 86). These are average figures for the U.S. and may be different for your situation.

How long you can expect to live will depend on factors such as your general health and family history. But using today's average or past history may not give you a complete picture. People are living longer today than they did in the past, and virtually all expert opinion expects the trend toward living longer to continue.

Will I Have Other Sources of Income?

(U.S Department of Labor, 2015)

When it comes to income sources in retirement, the more, the merrier. As we discussed in the prior chapter about diversification in your investments, the same is true for retirement income sources. It would be great to have saved up everything you need in retirement yourself, but it would be great to have other income streams as well.

Look into what resources your country provides. Does your government have a retirement income plan like Social Security in the United States or the Canada Pension Plan in Canada? Are you currently qualified for the benefits? If not, what do you need to do to be able to rely on those resources?

What if you also had the capability of renting another home you own to have consistent rental income? Investing in rental properties to generate passive income through rental payments from tenants can provide a steady cash flow and potential long-term appreciation of property value.

What Adjustments Must Be Made for Inflation?

(U.S Department of Labor, 2015)

The cost of retirement will likely go up every year due to inflation—that is, 40,000 won't buy as much in year 5 of your retirement as it will the first year because the cost of living usually rises. Estimates of how much income you need each year—and how much you'll need to save to provide that income—must be adjusted for inflation. When planning for your retirement it is always safer to assume a higher, rather than a lower, rate and have your money buy more than you previously thought.

What Will My Investments Return?

(U.S Department of Labor, 2015)

Any calculation must take into account what annual rate of return you expect to earn on the savings you've already accumulated and on the savings you intend to make in the future. You also need to determine the rate of return on your savings after you retire. It's important to choose realistic annual returns when making your estimates. Most financial planners recommend that you stick with the historical rates of return based on the types of investments you choose or even slightly lower.

How Much Should I Save Each Month?

(U.S Department of Labor, 2015)

Once you determine the number of years until you retire and the size of the nest egg you need to "buy" in order to provide the income not provided by other sources, you can estimate how much you need to save each month. It's a good idea to revisit this number at least every year or two. Your vision of retirement, your earnings, and your financial circumstances may change. You'll also want to check periodically to be sure you are achieving your objectives along the way.

How to Prepare for Retirement When There's Little Time Left

(U.S Department of Labor, 2015)

What if retirement is just around the corner and you haven't saved enough? Here are some tips. Some are painful, but they'll help you toward your goal.

- It's never too late to start. It's only too late if you don't start at all.
- Sock it away. Pump everything you can into your savings. Try to put away at least 20 percent of your income.
- Reduce expenses. Funnel the savings into your nest egg.
- Take a second job or work extra hours.
- Make sure your investments are part of the solution, not part of the problem. To boost your returns, diversify your holdings and keep an eye on fees. But don't take risks you can't afford and don't trade too much.
- Retire later. You may not need to work full-time beyond your planned retirement age. Part-time may be enough.
- Refine your goal. You may have to live a less expensive lifestyle in retirement.
- Make use of your home. Rent out a room or move to a less expensive home and save the profits.
- Sell assets that are not producing much income or growth, such as undeveloped land or a vacation home, and invest in income-producing assets.

Using Employer-Based Retirement Plans

(U.S Department of Labor, 2015)

Does your employer provide a retirement plan? If so, say, retirement experts … grab it! Employer-based plans are the most effective way to save for your future. What's more, you may gain certain tax benefits. In the United States, employer-based plans come in one of two varieties (some employers provide both): defined benefit and defined contribution. These may not be directly applicable to your situation but you may find comparable plans where you live.

Defined Benefit Plans

(U.S Department of Labor, 2015)

These plans pay a lump sum upon retirement or a guaranteed monthly benefit. The amount of payout is typically based on a set formula, such as the number of years you have worked for the employer times a percentage of your highest earnings on the job. Usually, the employer funds the plan – commonly called a traditional pension plan – though in some plans workers also contribute. Most defined benefit plans are insured by the federal government.

Defined Contribution Plans

(U.S Department of Labor, 2015)

The popular 401(k) plan is one type of defined contribution plan. Unlike a defined benefit plan, this type of savings arrangement does not guarantee a specified amount for retirement. Instead, the amount you have available in the plan to help fund your retirement will depend on how long you participate in the plan, how much is invested, and how well the investments do over the years. The federal government does not guarantee how much you accumulate in your account, but it does protect the account assets from misuse by the employer.

How to Make the Most of a Defined Contribution Plan

(U.S Department of Labor, 2015)

- Study your employee handbook and talk to your benefits administrator to see what plan is offered and what its rules are. Read the summary plan description for specifics. Plans must follow federal law, but they can still vary widely in contribution limitations, investment options, employer matches, and other features.
- Join as soon as you become eligible.
- Put in the maximum amount allowed.
- If you can't afford the maximum, try to contribute enough to maximize any employer matching funds. This is free money!
- Study carefully the menu of investment choices. Some plans offer only a few choices, while others may offer hundreds. The more you know about the choices, investing, and your investment goals, the more likely you will choose wisely.
- Many companies match employee contributions with stock instead of cash. Financial experts often recommend that you don't let your account get overloaded with company stock, particularly if the account makes up most of your retirement nest egg. Too much of a single stock increases risk.

- Plan fees and expenses reduce the amount of retirement benefits you ultimately receive from plans where you direct the investments. It's in your interest to learn as much as you can about your plan's administrative fees, investment fees, and service fees. Read the plan documents carefully.

The Impact of Retirement on Your Financial Plan

(ChatGPT, 2024)

Retirement planning plays a pivotal role in your financial plan, as it ensures long-term financial security and stability during an exciting yet vulnerable time of life. By actively preparing for retirement, you can effectively manage your savings, investments, and expenses to meet future needs and aspirations. Planning ahead allows for the accumulation of sufficient retirement funds through vehicles like employer-sponsored plans and personal savings, ensuring a comfortable lifestyle post-employment. Strategic retirement planning enables you to account for potential healthcare costs, inflation, and unforeseen expenses, mitigating financial risks in retirement.

Beyond financial considerations, retirement planning also involves envisioning desired lifestyles, goals, and activities during retirement, facilitating a smoother transition into this phase of life. Integrating retirement planning into your financial plan provides peace of mind, empowering you to pursue your passions, enjoy leisure time, and maintain financial independence throughout your retirement years.

Prayerful Consideration

Retirement planning can be complex, with many moving pieces. Prayerfully consider how these principles can best be applied to your unique situation.

Planning for When You Are Gone

(Stephens & ChatGPT, 2024)

When we enter this life, one of the sure things we will experience is leaving life by experiencing death. Thinking about the ones you leave behind before you pass away is one of the greatest gifts you can leave behind. Your loved ones will be grieving their loss and the last thing anyone would want to do in that situation is dig through files looking for important documents or passwords to accounts. The process of arranging and managing your assets and affairs during your lifetime to help those you leave behind is called estate planning.

While there are various legal and tax systems to navigate through, some of the most important principles of estate planning come from the root of attempting to make your desires for your assets as clear as possible so those you leave behind don't run into issues. Proper estate planning can be a real blessing to those you care about most.

Lack of good estate planning has the potential to tear apart families after you are gone due to relatives arguing over money or possessions. Making your wishes clear through documentation and working with third-party witnesses can help clarify any disagreements that may arise. Here are some questions to consider when thinking about estate planning:

- What are my assets? Make a list of all your assets, including real estate, investments, retirement accounts, bank accounts, life insurance policies, and personal property.
- Who are my beneficiaries? Identify the individuals or organizations you want to inherit your assets. Consider how you want your assets distributed among your family members, friends, charities, or other entities.

- Do I have minor children or dependents? If you have minor children, think about who you would want to serve as their guardian if you and their other parent were unable to care for them.
- Are there specific items or sentimental belongings I want to pass on to certain individuals? Consider any sentimental or valuable items you want to designate for specific beneficiaries.
- Do I have any debts or liabilities? Determine if you have outstanding debts or liabilities that need to be addressed in your estate plan, such as mortgages, loans, or credit card debt.
- Who will manage my affairs if I become incapacitated? Think about who you would trust to make financial and healthcare decisions on your behalf if you were unable to do so yourself.
- What are my wishes for end-of-life care? Consider your preferences regarding medical treatment, life support, and other end-of-life decisions.
- Have I updated my estate plan to reflect major life changes? Regularly review and update your estate plan to account for changes in your family situation, financial circumstances, and relevant laws.
- Do I have any charitable intentions? Consider if you want to leave a legacy through charitable giving or philanthropic endeavors and how you can incorporate these goals into your estate plan.

These questions can serve as a starting point for your estate planning process and help ensure that your estate plan accurately reflects your wishes and priorities. Consulting with legal and financial professionals experienced in estate planning can provide further guidance and assistance tailored to your specific needs and circumstances.

While it is never fun to face the possibility of death, estate planning should not be delayed. It may not ever feel urgent but it is important to have plans and instructions in place because we never know what can happen.

While estate planning usually is indicative of death, it doesn't necessarily have to be that way. There are countless examples of circumstances where individuals became incapacitated in some way and were unable to continue with the management of their family finances. By staying organized and letting your spouse or other family members know where to find your important information and documents, they will be able to help as needed regardless of the situation.

The Impact of Estate Planning on Your Financial Plan

(ChatGPT, 2024)

Estate planning is a critical component of your financial plan, as it profoundly influences how your assets are managed and distributed during and after your lifetime. By carefully crafting an estate plan, you can ensure that your wealth is transferred to intended beneficiaries efficiently, minimizing the burden of taxes and administrative expenses.

Moreover, estate planning allows you to protect your assets and provide for your loved ones, including spouses, children, and dependents, according to your wishes. It also enables you to plan for contingencies such as incapacity, ensuring that trusted individuals are empowered to make financial and healthcare decisions on your behalf. Estate planning can foster peace of mind, knowing that your legacy and values will be preserved and carried forward. Integrating estate planning into your financial plan helps you achieve your long-term financial goals, protect your wealth, and leave a lasting impact on future generations.

Prayerful Consideration

No one likes thinking of the end of their life, but it is important to have a plan in place for those you leave behind. Prayerfully consider how these principles can best be applied to your unique situation.

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W06 Case Study: Planning for the Future

As the Chirambas secure an emergency fund and continue to increase their income through their various revenue streams (sometimes by saving money by not having to purchase from others, sometimes by selling their excess), their confidence begins to increase. Their revenue streams include cultivating a home garden, raising chickens, and engaging in small-scale farming. Sister Chiramba is also skilled in artisanal crafts and sewing but has never profited from these skills, but it is something that she is now considering. Furthermore, this progress introduces the family to accessible and straightforward investing opportunities, including savings accounts, livestock farming, and precious metals. By embracing these opportunities, the Chirambas can gradually build a diversified portfolio that aligns with their risk tolerance and long-term financial goals, providing a pathway toward financial empowerment and stability.

In this final phase, the Chirambas explore opportunities beyond their immediate financial needs, shifting their focus towards giving back to their community and planning for their retirement years. Encouraged by the progress made in their financial stability journey, the family can consider additional opportunities to give back, beyond their payment of tithes. Simultaneously, retirement planning takes center stage, even on a small scale. Establishing a modest retirement fund, whether through savings or accessible investment options, becomes a crucial step in ensuring the Chirambas' financial security in their later years. This phase underscores the importance of not only securing their immediate future but also creating a legacy of support and stability for generations to come. The commitment of Brother and Sister Chiramba to each other and their family becomes a driving force in shaping their holistic financial well-being, fostering a sense of fulfillment and security for the entire family.

Chapter 7: Putting it all Together

Key Terms

Money - A medium of exchange for goods and services, serving as a store of value and unit of account.

Education - The process of acquiring knowledge, skills, and understanding, often through formal instruction or training.

Teaching Others - Sharing knowledge or skills with others to promote learning and development.

Include the Savior - Incorporating principles taught by Jesus Christ in financial decision-making and stewardship.

Money: The Good and the Bad

(ChatGPT, 2024)

Money can be viewed as a double-edged sword, capable of both positive and negative impacts depending on how it is acquired, managed, and utilized.

On the positive side, money serves as a powerful tool for good when used to provide opportunities for personal and family growth, support charitable causes, and foster generosity and sharing within communities. It enables you to pursue your passions, achieve financial security, and contribute to the well-being of others through acts of kindness and philanthropy. Moreover, money can drive innovation, entrepreneurship, and economic progress by funding research, infrastructure projects, and initiatives that benefit society as a whole.

Money also has the potential to breed greed, corruption, and injustice when you prioritize personal gain over the welfare of others. Materialism and consumerism can lead to an unhealthy obsession with wealth and possessions. Money can be used to exploit and manipulate others, perpetuate systems of oppression, and perpetrate crimes such as fraud

and theft. Financial struggles can also take a toll on emotional and mental health, leading to stress, anxiety, and feelings of inadequacy. These emotions have the potential to tear apart families and other relationships.

Money is a neutral tool that can be a force for both good and evil in the world. By working to be a good financial steward and encouraging others to do the same, you can harness the positive potential of money while mitigating its negative impacts. It's essential to cultivate a healthy relationship with money.

In this course, you have been introduced to how to become a wise financial steward. We should strive to care for all we have been given. Being good financial stewards can help strengthen our relationships. Improving our communications with spouses, parents, and children in a family council can be a great setting in which we can coordinate our efforts. Always striving to be honest with our money management struggles and getting on the same page with our loved ones can provide the opportunity to progress and improve our behaviors. Striving to become self reliant and including the Savior in our plans will provide the motivation and humility needed to be successful. One of the culminating tools for you to become a better steward is a financial plan, which can provide you with a roadmap detailing how you can achieve your goals.

A crucial element to a financial plan is creating and sticking to your budget. There are many different ways to adapt your budget to meet your unique needs. Doing your best to create a realistic budget will make it easier to follow. As you continue to track your income and expenses over time, you will develop a clearer understanding of where your money is coming from and where it is going. You will be able to fine tune your budget as you progress making it more impactful. Don’t forget to prioritize the Lord, your own goals, then other matters.

Developing your goals will help you live your full potential in this life. They can provide clarity, motivation, and when measured, accountability. Implementing the SMART goal framework can help your short and long-term goals become more effective.

You have learned how measuring your assets against your debts to produce your net worth statement can be beneficial in understanding your current financial situation. Following this same pattern to track your net worth overtime can help you understand how you are progressing towards achieving your goals.

We have discussed how an emergency fund can help prevent you from going in to debt when disaster strikes. Determining how much and where to keep your emergency fund is a personal decision that should be adapted to your circumstances.

Debt can be a force for good or evil depending on how it is used. Be cautious with debt. Ensure you understand the terms and conditions of any money borrowed from any individual or organization. Try to use fixed interest rates where possible as they are much easier to plan for. If you do have debt, the snowball or avalanche payoff methods can help you determine how to best payoff your obligations.

There are always risks in life and it is up to us on how we decide to manage those risks. We can avoid, reduce, transfer, or accept the various risks we encounter. Insurance can help

protect you and your loved ones against possible hardships. With many different insurance possibilities available, you don't need to find coverage for all aspects of your life, but you should try to find protection in the areas that could be financially devastating.

You learned how investing can be a powerful way to grow your wealth over time and help you achieve your long-term goals. Investing allows your money to work for you. There are countless ways to invest from simply saving to complex portfolios. Investments work with a risk and reward tradeoff relationship. When investing in the market, you should put effort into determining your tolerance for risk, fees, asset allocation before deciding on how to invest. Remember to keep your behavior in check when the emotional rides of the market make you doubt how you invested. Beware of scams and the red flags that you may encounter.

Finally, you learned how important it is to think of retirement now no matter your age or financial situation. The power of compound interest cannot be emphazised more. Examine the resources available to you and keep revisiting your plans as changes occur. In the event of your death, make sure you clarify your wishes and make things as easy as possible for your loved ones to follow so your wishes are met.

Continue Your Education

Now that you have this framework in place, it is up to you to continue building your knowledge in these areas as well as others as applicable to your situation. Education is a very powerful tool, especially regarding money management.

(ChatGPT, 2024)

Education provides you with the necessary knowledge and skills to understand financial concepts like the ones we covered in this course. Having higher financial literacy enables you to make informed decisions about your money.

Education also fosters critical thinking skills, allowing you to evaluate your financial options, assess risks, and make reasoned decisions. By critically analyzing financial products and services, you can avoid scams and make sound financial choices.

Education plays a fundamental role in empowering you to make better financial decisions so you can live the life you want and serve in God's kingdom.

Teaching others

(ChatGPT, 2024)

Teaching others can significantly enhance your learning process in various ways. When you teach a concept to someone else, you must organize your thoughts and articulate ideas clearly, reinforcing your understanding of the material. This act of explaining complex topics in simpler terms helps solidify your knowledge. Teaching reveals any knowledge gaps you

may have as questions or confusion from students prompt you to revisit and clarify certain topics, deepening your comprehension.

Moreover, teaching requires you to apply theoretical knowledge to real-life situations or examples, fostering a deeper understanding of how concepts work in practice. As you engage in this application of knowledge, you develop stronger connections between theory and application, which aids in retention and recall. Teaching also provides opportunities for feedback and correction, as those you are teaching may point out misconceptions or errors, leading to a process of continuous learning and improvement.

Teaching enhances communication skills. Through teaching, you not only communicate ideas effectively but also gain confidence in your own expertise as you witness others benefiting from your knowledge. Moreover, teaching exposes you to different perspectives as you see the material through the eyes of others. This can offer fresh insights and deepen your understanding of the subject matter.

Overall, teaching others is a mutually beneficial endeavor that not only helps others learn but also enriches your own learning experience.

Let's say you're teaching a friend about budgeting. As you explain the concept, you realize that you need to break down your own budgeting process step by step to make it understandable for them. This exercise forces you to critically evaluate your own budget, ensuring that it's comprehensive and well-organized.

While teaching, your friend might ask questions or express confusion about certain aspects of budgeting, prompting you to revisit those areas and clarify them further. This process helps you identify any weaknesses or areas of uncertainty in your own budgeting knowledge and practices.

Moreover, as you provide examples and scenarios to illustrate budgeting principles for your friend, you may find yourself reflecting on your own spending habits and financial decisions. This reflection can lead to insights and realizations about where you might be overspending, areas where you could save more effectively, or strategies you could implement to better manage your finances. Through this process, you may encounter new budgeting techniques or approaches that you hadn't previously considered, enriching your own budgeting toolkit.

Overall, teaching someone else about budgeting not only helps reinforce your own understanding of the topic but also provides an opportunity for self-reflection, identification of areas for improvement, and exposure to new ideas and strategies. Through this process, you become more adept at budgeting and more conscientious about managing your own finances effectively.

Include the Savior

(Passey, 2022)

The Prophet Joseph Smith taught, “The fundamental principles of our religion are the testimony of the Apostles and Prophets, concerning Jesus Christ, that He died, was buried, and rose again the third day, and ascended into heaven; and all other things which pertain to our religion are only appendages to it.”

For better or for worse, almost anywhere you go in the world, people are making decisions with money every day. At times, it can be easy to separate our money from our spirituality as money is a man-made construct allowing us to more easily buy and sell goods and services than historically possible.

While good money management may not feel like a spiritual endeavor, it should definitely be considered one of the “appendages” mentioned by Joseph Smith. One of the fundamental aspects of being a good financial steward is including the Savior in your financial matters. The Savior wants to bless you and help you have joy. Having financial stability and growing your wealth over time are profound ways in which you can find joy.

Does this mean that including the Savior in your financial choices will make you wealthy? Not necessarily, but there is a lot of power in aligning our faith with all aspects of our lives. Whenever we do anything prayerfully and truly aspire to have our desired outcome match heaven’s desired outcome, miracles happen.

As you continue to expand on the things you have learned throughout this course, you will progress further on your journey to being a good financial steward. You will further equip yourself with the tools necessary to become financially stable and fulfil your potential in this life. Take comfort that your Savior is aware of your situation and is there helping you along the way.

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W07 Case Study: Financial Plan

Complete Case Study

W07 Case Study: Financial Plan

In this final phase, the Chirambas explore opportunities beyond their immediate financial needs, shifting their focus towards giving back to their community and planning for their retirement years. Encouraged by the progress made in their financial stability journey, the family can consider additional opportunities to give back, beyond their payment of tithes. Simultaneously, retirement planning takes center stage, even on a small scale. Establishing a modest retirement fund, whether through savings or accessible investment options, becomes a crucial step in ensuring the Chirambas' financial security in their later years. This phase underscores the importance of not only securing their immediate future but also creating a legacy of support and stability for generations to come. The commitment of Brother and Sister Chiramba to each other and their family becomes a driving force in shaping their holistic financial well-being, fostering a sense of fulfillment and security for the entire family.

Complete Case Study