Wednesday September 27, 2017

1. Away work
2. Test writers from last week
3. Lesson: Saving, Investing, Debt, Credit
4. Assigned work

What happens when spending gets out of control?

Budgeting, Saving, Investing, Debt, Credit

What did we learn from that episode of *Til Debt Do Us Part?*

- Budgeting is extremely important.
- Budgeting is needed to help you manage your income (the money you make) and your expenses (the money you spend).
- It helps you to pay off debt and not overspend on unnecessary things.

The importance of saving & investing

SAVING

Typically low returns with poor interest rates

HIGH 1.75%   LOW 0.80%

- The rate may be fixed or variable.

stays the same ← → may fluctuate

Examples of low risk, short-term investment options:

GIC: Guaranteed Investment Certificate

secure investment; guaranteed no loss of principal

CDIC - Canadian Deposit Insurance Corporation

protects your deposits in financial institutions (banks/ credit unions)

Canada Savings Bonds (CSBs): long-term savings

2 interest options: simple or compound

available through payroll deduction

INVESTING OPTIONS

Mutual funds - a group of investors investing in a pool of different companies - fund is managed by a money manager

RISK: lower than investing in one stock - combination of companies spreads out the risk

RETURN: lower than investing in one stock

Stocks - an individual or group invests in one company and obtains shares of that one company

2 types: common (majority sold), offers growth through rising share prices and dividends and preferred - regular income through fixed dividends, more stable than common stock

RISK: high - you can lose your initial investment or a portion of it

RETURN - higher potential than mutual funds

Real Estate - good - a long-term investment

Profit potential is good over a long period of time but depends on market factors (the real estate market has highs and lows)

RISKS - depends on the market; rental properties run the risk of poor tenants

BORROWING

Unsecured line of credit - usually for ongoing expenses, usually begins around $5000

BENEFITS: ongoing access to funds, access to credit with a quick approval process, no security required, variable rate of interest (typical 3.85%), open repayment schedule - meet minimum payment required and can pay off the rest as soon as you like

Secured line of credit - greater sums of money, longer approval process, security required (ex. lien on house if you miss payments), lower interest rate if secured against your home or other valuable assets (art, jewellery, other real estate), ongoing access to funds for larger projects (renos, debt consolidation) → one large loan obtained to pay off several debts.

Personal loans - large, one-time purchases, with option of fixed/variable interest rates, minimum loan amount usually required, borrower must make payments according to agreed-upon schedule, frequency of payments affects total interest paid (more frequent payments lowers total interest). Example: buying a car

Mortgages - loans used to buy real estate, amount of interest paid depends on principal borrowed, amortization period (typically 25 years), and interest rate

DEBIT/CREDIT CARDS

Debit card - issued to one person for their bank account (chequing and/or savings)

convenient alternative to cash, payments come directly out of the bank account (spending your own money)

Some fees may apply depending on the bank.

Credit card- The credit card user is using the bank's money for purchases and then reimburses the bank by paying their statement by the due date.

PROS - good for emergencies, large purchases (laptop, etc), a must-have for a hotel reservation or car rental or online purchases, incredibly convenient, can earn points through rewards programs.

CONS - minimum age 18 years, very high interest rates (19.9%), balance is due at the end of the grace period (21 days), interest rate goes up (28.8%) if you do not have a clean repayment record, penalties for late payments.

Homework (handouts)

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