

WHAT ALL KIDS SHOULD KNOW ABOUT...

AND
ADULTS
TOO

SAVING & INVESTING



BY ROB PIVNICK

**WHAT ALL KIDS
SHOULD
KNOW ABOUT...**

**AND
ADULTS
TOO**



SAVING & INVESTING

BY ROB PIVNICK

WHAT ALL KIDS SHOULD KNOW ABOUT... AND ADULTS TOO SAVING & INVESTING

BY ROB PIVNICK

Copyright © 2011 Rob Pivnick

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, without the express prior written permission of the author, except in the case of brief quotations embodied in critical reviews and certain other noncommercial uses permitted by copyright law. All rights reserved.

All trademarks, trade names, logos, sources and credits mentioned or used herein are the property of their respective owners. Every effort has been made to properly identify and attribute such marks and credits to their respective owners. The author is not a partner, affiliate, or licensee with any such sources.

LIMITATION OF LIABILITY/DISCLAIMER OF WARRANTY. The author makes no representation or warranty, either express or implied, with respect to the accuracy or completeness of the contents of this work and specifically disclaims all warranties, including without limitation, the implied warranties of merchantability or fitness for a particular purpose. No warranty is or may be created or extended by sales, donations or promotional materials. The advice and strategies contained herein may not be suitable for every person or situation. The end user of the material contained herein acknowledges and understands that the author is not rendering legal, accounting, investing or other professional advice or services. If professional assistance is required, the end user should engage a competent professional service provider. The author is not liable for damages arising herefrom. The fact that a source or work is cited herein does not mean that the author endorses such information or its source or recommends the same. End users should be aware that Web addresses listed herein may have changed or disappeared.

Summary: Simply the basics that all middle grade/YA and adults should know about saving, investing and becoming financially independent.

ISBN-13: 978-1500912321

ISBN-10: 1500912328

whatallkids@gmail.com; www.whatallkidsshouldknow.com; Twitter: @RPivnick

Table of Contents

1. Savings.....	1
a) Why Save?	1
b) Global Household Savings Rates.....	1
c) Compounding.....	2
d) 401K Plans and IRAs	4
e) Rule of 72.....	4
2. Budgeting, Debt and Setting Goals.....	5
a) Federal Debt and Deficit	5
b) Consumer Debt	5
c) Budgeting.....	6
3. Negotiation and Making Deals	8
4. Risk v. Reward	11
a) How Much Risk Should You Take?	11
b) Investment Horizon.....	13
c) Liquidity	13
d) Asset Allocation.....	13
▪ Asset Classes: Stocks, Bonds, Cash	13
5. Active v. Passive – Which is Better?	15
a) Active	15
b) Passive/Indexes	16
c) Efficient Market Hypothesis.....	17
d) Do Not Try to Time the Market.....	19
▪ Buy and Hold	19
e) Dollar Cost Averaging	21
f) Automatic Investment Plans	21
g) Do Not Chase Returns – Stay Diversified	22
h) Reversion to Mean.....	23
i) Minimize Costs/Expenses.....	24
j) A Note on Inflation	26
6. Diversification	27
a) Portfolio Theory/Efficient Frontier.....	28
b) Building a Diversified Portfolio.....	28
Final Exam Questions	33
7. Money is Not Everything.....	34

TAKEAWAYS

1. START SAVING EARLY; LET COMPOUNDING WORK WONDERS FOR YOU!
2. SET GOALS; MAKE A BUDGET AND STICK TO IT.
3. PAY CREDIT CARD DEBT EVERY MONTH IN FULL.
4. EVERYTHING IS NEGOTIABLE.
5. FIND OUT WHAT IS IMPORTANT TO THE OTHER PERSON – ASK “WHY” QUESTIONS.
6. INVEST YOUR MONEY IN SAFE INVESTMENTS IF YOU DO NOT HAVE A LOT OF TIME TO MAKE YOUR MONEY BACK OR IF YOU NEED THE CASH QUICKLY. TAKE MORE RISK (FOR HIGHER REWARD) FOR LONGER TERM SAVINGS GOALS.
7. INVEST IN INDEXES; DON'T BE A FOOL AND TRY TO BEAT THE MARKET!
8. DO NOT TRY TO TIME THE MARKET – YOU CAN'T! BUY AND HOLD IS THE BEST LONG TERM STRATEGY.
9. DO NOT CHASE RETURNS!
10. THE MARKET ALWAYS REVERTS TO THE MEAN.
11. MINIMIZE EXPENSES, INVEST IN LOW-COST INDEX FUNDS.
12. DON'T PUT ALL YOUR EGGS IN ONE BASKET. STAY DIVERSIFIED AND FOLLOW A PLAN.
13. WHILE YOU SHOULD ABSOLUTELY PLAN FOR THE FUTURE, DON'T LOSE SIGHT OF THE PRESENT. ENJOY YOUR LIFE NOW. IT'S NOT ALL ABOUT MONEY.
14. PURSUE YOUR PASSION RATHER THAN MONEY – ODDS ARE YOU'LL END UP BOTH HAPPY AND FINANCIALLY SECURE ANYWAY.

Chapter 1

SAVINGS

Why Save?

whoever
they
are ...

The **experts** say that good saving habits can begin in children as early as three years old . . . so if you are old enough to read this, you are old enough to have some of these habits.

Financial skills are one of the most important skills you will need to navigate your life and those skills start with learning to save and budget.



Unfortunately, at least here in the United States, saving is not a part of most people's behavior. Maybe it's because they did not develop savings habits when they were young - so let's change that.

Why do you need to save money? Because you need money to buy things. Maybe you are saving for a new bike, a new phone, your first car or just spending money. Maybe you are saving for college. Maybe you are thinking long term and you are saving for your first car or your first house. Or perhaps you are smart enough to start saving for retirement even though you haven't even gotten your first job. Or, maybe you know that you should always have an emergency fund for unexpected costs.



Research has shown that the more you save, the more you want to save. So, build good money habits now and those good habits will stick with you for the rest of your life. Avoid the bad habits that will get you in trouble later.

Global Household Savings Rates

Do yourself a favor and do not follow the lead of most Americans when it comes to saving money. Compared to our neighbors elsewhere on the globe, we save terribly.

China and India top the list with a whopping household savings rate around 34%. The global average is 20%. The United States is near the very bottom at 4%. That means, on average, Americans save only 4¢ out of every dollar earned. That's pathetic. Do not be like the average American!

So, how much of every dollar you make should you save? The professionals recommend that you shoot to save between 15-20% of your income. Surely you can at least match the global average.

Did you Know?

Nearly one-third of American adults have no savings at all for retirement. Almost one-half of all U.S. adults are not even thinking about saving for retirement. And, believe it or not, 21% of American adults actually think that winning the lottery is the best strategy for saving money for their retirement!



Compounding



The sooner you start saving, the better off you'll be . . . not just because you will have saved more, but because not only are you making money on your initial investment, but you'll also be making money on more money. How so? Well, it's called "compounding" – and it is the power of compounding that will make you lots of money. Compounding is when you make money on an investment, and that money is added to the original investment which in turn makes even more money.

Let's take an example . . . if your rate of **return** is 10% per year on your original investment of \$1,000, you make \$100 per year. After three years you have a total of \$1,300. But let's say that each year you reinvest the \$100 you made the prior year . . . after three years you would have \$1,331. This is because after the first year, the 10% return applies to \$1,100 rather than just \$1,000. And the second year, the 10% applies to \$1,210. So the total is \$1,331.

return

this is the amount you earn on your investment – usually expressed as a percentage

Fun Fact!

The power of compounding was said to be the eighth wonder of the world by Albert Einstein.



An additional \$31 might not sound like that much money, but what if we increase the numbers and use a real life example by comparing two savers . . . One (let's call him Chris) who starts saving when he is 20 years old and the other (we'll call her Katie) who waits until she is 30 years old. Each one saves \$100 per month until they are 60 years old. They both get the same **annual** rate of return of 8.5%.

annual
this means yearly

Chris is smart. He read this book and started saving \$100 per month when he was 20 years old and reinvests all earnings. When Chris is 60, he will have an astounding \$406,825!

Katie . . . well . . . she is not so smart. She didn't start saving as early and waited until she was 30 years old. She saves \$100 per month and also invests all earnings. When she turns 60 she will only have \$166,339.

Chris actually invested only \$12,000 more than Katie (\$100 per month times ten years) but has accumulated a whopping \$240,486 more than Katie! That is the power of compounding. And the earlier you start, the more compounding can work for you. So . . . **START SAVING NOW!** Seriously . . . start now.



Did You Know?

A 401K is a savings plan set up by an employer for the benefit of its employees. In many cases, the employer will match a portion of the money the employee saves! So if you ever work for a company that offers a matching contribution to a 401K, make sure you take advantage of the matching amount the employer gives. **Its free money!!**

An IRA (individual retirement account) is a retirement account that is similar to a 401K, but it isn't through your employer - you can set it up yourself. It provides tax savings that might enable your money to grow **tax free**. As soon as you have a job and earn "taxable income" you can set up an IRA. And remember . . . the earlier the better.

Fun Fact!

The "Rule of 72" is a quick method to determine how long it will take for you to double your money. You simply divide the return rate into 72. The result is the approximate number of years that it will take for your investment to double. Similarly, if you flip it by dividing the number of years within which you want to double your money into 72, the result is the approximate return you'll need to earn. For example, if you want to know how long it will take to double your money at 8% interest, divide 8 into 72 . . . the answer is 9 years.

TAKEAWAY #1:

START SAVING EARLY; LET COMPOUNDING WORK WONDERS FOR YOU!