



MAKING *CENTS* OF YOUR MONEY



RBC Wealth Management®



**“The art is not in making money,
but in keeping it”**

Proverb



Almost everything you do in the adult world costs money. So when you enter the next phase of your life, you will need to pay attention to how you earn and spend money. Because you will likely begin to have many expenses such as:

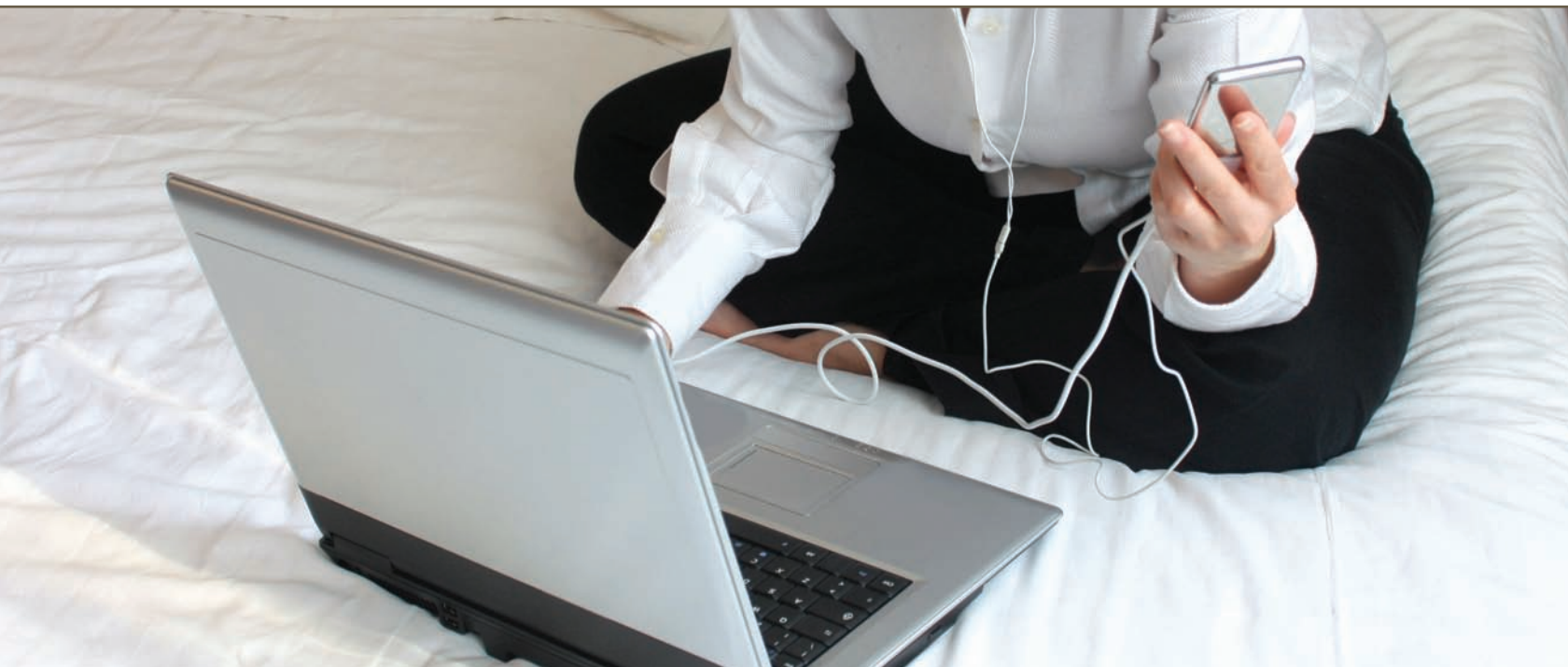
- Rent
- Car payments
- Gas and car maintenance
- Insurance
- Student loans
- Groceries

This list might sound overwhelming — and when you think about your parents and other adults paying all these bills, you might just wonder: “How do they do it?”

After graduating, most people get jobs to earn an income. The amount of money they earn depends on their level of education, natural skills, career path and willingness to work hard, among other things.

Many adults not only use the income they earn to pay their bills, they also save and invest for their long-term goals, such as preparing for retirement. They can meet their current financial needs while preparing for their financial future because they have learned to *budget*, *save* and *invest* — and the earlier you learn these skills, the more successful you will be at managing your money.

That is why we have prepared this booklet — to help you develop money management habits that can pay off throughout your life.



Needs vs. Wants

Many of us — adults as well as teenagers — spend too much money on things we don't really need. The more money we make, the more we tend to spend. This endless cycle of materialism has led many people to confuse the word “need” with the word “want.”

“We need a big-screen TV for our new home theater.”

“I need a new pair of shoes to go with my new outfit.”

But do we really need the TV or the shoes, or did we just want them? Before you buy something, ask yourself “Do I need it?” If the answer is “no,” consider passing on that purchase. A good way to start a healthy financial habit is to avoid buying on impulse.

Try this:

Write your *want* on a piece of paper and pin it to the wall. Look at it every day for a week. If, at the end of the week, you still think you need it, then consider purchasing it. And if you realize you do not need this item, do not buy it — and save your money for something you really do need.



Pay Yourself First

If you do not put aside some money for yourself before paying any bills or buying things you want, you will end up like many other people — spending every cent you earn or even overspending, every month. And if that happens, you will not have the money available for the bigger things in life, such as a down payment on a house, vacations, and, eventually, retirement.

That is why you need to pay yourself first. Every time you get a paycheck, put aside some money, even if it is just a small amount, into some type of savings or investment account — one that you do not use for your everyday expenses. Over time, you may be surprised at how much money you have accumulated.

Try this:

For every \$100 dollars you earn, or receive as a gift, try to stash away \$10. Put the money in a savings account or investment account.



“No act of kindness, no matter how small, is ever wasted.”

— Aesop (550 B.C.)

Sharing Your Good Fortune

You may feel like the money you get from your allowance or part-time job is hardly enough to save, let alone give to someone in need. But did you know that half the world — that’s nearly 3 billion people — live on less than two dollars a day?*

Given what the average American spends annually on entertainment alone, compared to others we are quite fortunate indeed. What good can you do to help improve another person’s quality of life? You can share your money, time or material things.

Try this:

- Share your money by participating in a fundraiser for your favorite charity.
- Volunteer your time to rake leaves, shovel snow, mow lawns, etc. for a senior citizen.
- Give your possessions, by donating gently used clothes, toys and games you’ve outgrown to a local social services organization.

* Source: Globalissues.org



Credit Cards vs. Debit Cards

How do you pay for the things you buy?

The key difference between credit cards and debit cards is that a debit card is attached to your checking account. When you make a purchase on your debit card, the amount of your purchase is deducted from your checking account. It is essentially paying cash, but with plastic. On the other hand, when you make a purchase on a credit card you are borrowing money from the credit card issuer.

Between seven and ten percent of freshmen entering college will drop out of school before graduating because of credit problems, according to Dr. Robert Manning, author of the book *Credit Card Nation*. This is more than the percentage of college students who leave college because of academic disqualification.

Choose Debt Wisely

Debt is a part of life for most people. But the most successful people are the ones who avoid “bad debt” and who use “good debt” to support their lifestyles in a reasonable manner.

How can you tell the difference between good debt and bad debt? Let’s look at the pros and cons of a few examples.

Credit cards -

- **Pros:** Opening a credit card account and using it responsibly (i.e., only using it for needs — not wants — and paying off your balance each month) will help you build a good credit history that will help you qualify for credit and loans.
- **Cons:** When you use a credit card and do not pay it off in full, you build up a balance plus interest. Which means you end up paying more than the original price. So if you’re not careful, that cup of coffee or pair of jeans could really get expensive when you pay with your credit card.

Loan for a new car -

- **Pros:** Can help you develop a good credit history, if you make all your payments on time.
- **Cons:** A new car loses much of its value when you drive it off the lot and continues to lose value while you own it. Which means your new car may not be worth what you are putting into it. An inexpensive used car may be a smarter financial choice for you at this stage in your life.

Mortgage -

- **Pros:** You use a mortgage as a loan to pay for a house — and your house is likely to be the biggest investment you ever make. Of course, you are hoping that your home appreciates in value, so you can eventually make a profit when you sell it.
- **Cons:** Some people get into financial difficulty when they buy more house than they can afford and/or get into mortgages that charge high (or variable) interest rates. When you are ready to buy a house, talk to successful home owners to learn about their experiences with mortgages.

Student loan -

- **Pros:** A college education is an investment in yourself that may pay off in terms of higher potential earning power over the course of your career.
- **Cons:** Like a home mortgage, if you try to finance more education than you can afford with student loans, you can wind up paying for college for many years after you graduate. If you use student loans, be very careful to use them for education expenses. Study hard, get good grades and graduate quickly.

Try this:

When evaluating whether debt is good or bad, ask yourself this question: *Will taking on this debt enable me to invest in something that is worthwhile?*

If you cannot answer yes to this question, then you may be pondering a bad debt decision — one that you would be better off avoiding.

Take Time to Plan Now!

We have looked at understanding needs versus wants, saving, sharing, and the pros and cons of debt. The important concept that ties all these topics together is planning, and more importantly, not putting off planning. To illustrate the importance of planning, let's take a look at how two different students plan on paying for college.

Sophomore Year

Yeah, I am going to college in a few years. I'm an ok student, so I'm sure I'll get plenty of scholarships. I don't really need to save much. Anyway, I heard college is pretty cheap.



Wow! The College Board says the average cost is more than \$13,000 for one year at a public, four-year college — and that's if you stay in state! It's a good thing I've got three years to save.



Senior Year

I'll probably just go to my first choice for college. Can't wait to get there next fall! And my parents just filled out the FAFSA stuff, so I know I'll be getting plenty of financial aid. So I think I'll use the money from my job for a cool used car.



I've been saving for two years now, and I've applied for lots of scholarships. I may still have to take out student loans, but at least I won't need to borrow to pay for my entire college education.



Turn the page to find out what happens before college starts



One Month Before College

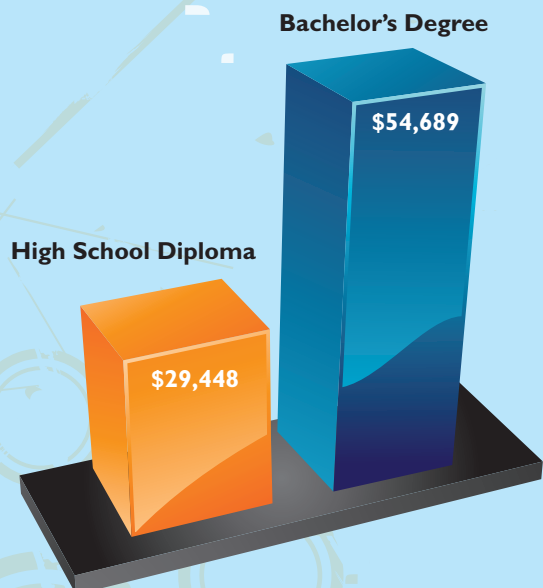
Yikes! The FAFSA report says my parents are able to afford to put in \$20,000 a year for my college. They might not be able to pay that much! I didn't bother applying for scholarships and I don't have any savings, because all my money goes to fix my car. School starts in one month — what am I going to do?

School starts next month! Between my savings and scholarships, my work-study and what my parents could afford to chip in, I didn't have to borrow that much at all — which means I won't be leaving college burdened with debt.



As you can see, one of these students has a plan to save for college — while the other has a plan that basically amounts to nothing. These illustrations show the importance of planning and saving.

Average Annual Earnings of Adults 18 and Over



To accomplish any financial goal, you need to plan for it — which means you'll need to make reasonable assumptions about costs — and you will need to be a good saver. To be a good saver, you need to know where your money is going. Once you have got a grip on how you are spending your money, you can decide how much you can afford to save and how long you will need to save for any specific goal.

A college graduate's average lifetime earnings are more than \$1 million greater than the average lifetime earnings of a high school graduate according to figures from the U.S. Census Bureau.

Planning Financial Goals

We have already talked about how important it is to plan for your goals. Now, let's dive a little deeper to see what it takes to achieve those goals.

Take a few moments to fill out this page. You may find it helpful in learning how to prioritize your goals.

Step 1

Identify Your Goals.

A car? College? A new pair of jeans? Most people have more than one goal. Because you will need to approach all your goals with different strategies, you'll want to spell them out individually.

Step 2

Create a Timeline.

Use these time frames as a general guideline.

IMMEDIATE TERM - less than 6 months

SHORT TERM - less than 1 year

MEDIUM TERM - 1 year to 5 years

LONG TERM - 5+ years

Step 3

Develop Your Strategy.

- What steps do you need to take to reach these goals?
- How are you going to fund this goal?
- Will you borrow money from your parents, save up, or take out a loan?
- If you borrow money, how will you pay it back?

Step 1 - Identify Your Goals	Example: Laptop Computer	Goal 1:	Goal 2:	Goal 3:
Amount	\$1,300			
Step 2 - Create a Timeline				
Length of Time	Medium Term			
Step 3 - Develop Your Strategy				
Save	\$900			
Loan: Amount From Whom?	\$450 From Dad			
Repayment Plan				

Patience Is a Virtue

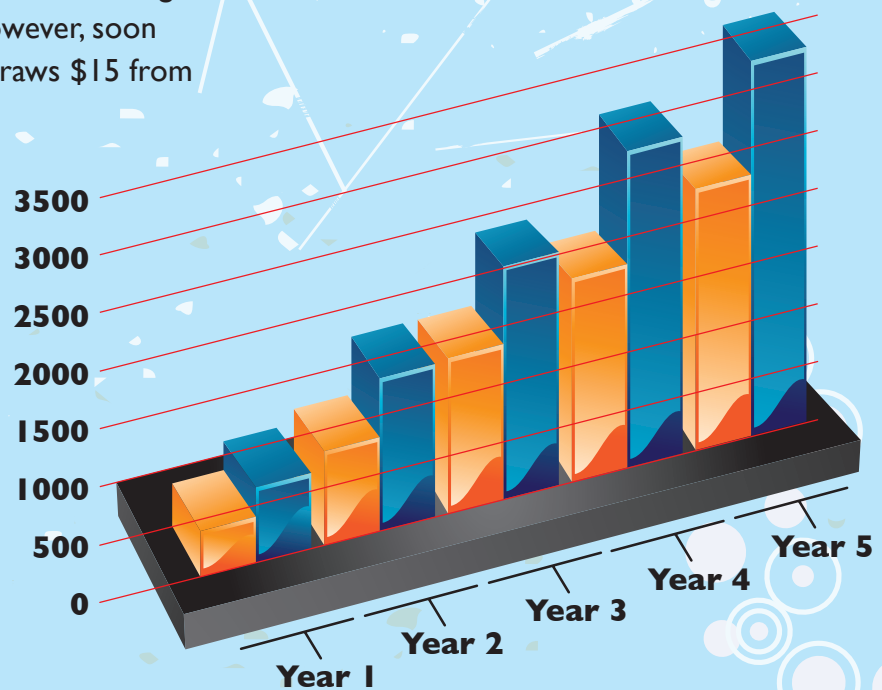
If you want your money to grow, you need *patience* and *discipline*. To be precise, you need to invest your money — and you need to keep investing it over a period of many years. Furthermore, you need to avoid touching that money while it is invested.

To illustrate, let's look at Jane and Joe.

Each month, Jane puts \$50 a month into a savings account that earns 3% interest. However, soon after making her deposit, she withdraws \$15 from the account, figuring “it won't hurt my savings that much.” After following this deposit/withdrawal pattern each month for five years, Jane, who now wants to buy a car, looks at her account and finds **\$2,262**.

Joe also puts \$50 a month into a savings account that earns 3% interest. However, after making his deposits, he leaves the money alone. After five years, Joe, who wants to purchase a new computer, has **\$3,232** — nearly \$1,000 more than Jane.

	Jane	Joe
Year 1	\$438.00	\$618.00
Year 2	\$850.00	\$1,295.00
Year 3	\$1,300.00	\$2,000.00
Year 4	\$1,776.00	\$2,600.00
Year 5	\$2,262.00	\$3,232.00



Clearly, even seemingly small lapses of patience and discipline can be costly. So, if you're putting money away on a regular basis for long-term goals, let your money be. The results will be worth it.



Start Saving Early

A few years ago, one of the most popular shows on television was “Who Wants To Be a Millionaire?” Of course, in real life, the answer is probably everyone.

And a great many people do become millionaires. In fact, there are currently more than 9 million millionaires in the United States.* Some of these people were born rich, while others have worked their way to high-paying jobs. But a lot of them accumulated their wealth over time — and the earlier they started, the less they had to save each month.

To understand the importance of starting to save early, check out the chart:

To Be A Millionaire By Retirement**	
Starting Age	Monthly Investment
16	\$112.00
25	\$247.00
35	\$611.00
45	\$1,629.00
55	\$5,485.00

* Source: Forbes.com

** Source: John Hancock

** A note on returns: 9% is our assumed rate of return because, historically, it has been a reasonable long-term rate of return on a stock portfolio. There is no guarantee that future returns will match past returns. We also use a steady return to make the examples easier to understand (and calculate), a real investment will have positive and negative years.

** Average retirement age of 65

Clearly, if you want to be a millionaire, you need to keep this rule in mind: **Save early and save often.**



Saving and Investing

As we have seen, it is a great idea to start saving and investing early. But where should you put your money?

Here are the main types of savings and investment vehicles:

Savings accounts

- Generally insured by the government.
- Safe place to keep enough cash for emergencies and day-to-day expenses.
- Generally don't pay out much interest.

CDs (Certificates of Deposit)

- Offer a higher rate of interest than a regular savings account.
- When you purchase a CD, you invest a fixed sum of money for a fixed period of time.
- Usually, the longer the time period, the higher the interest rate.
- Penalty for early withdrawals.

Bonds

- Loaning money to a company or government, which, in return, agrees to pay you interest and eventually pay back the entire amount you lent.
- Generally safe investments.
- Low returns.

Mutual Funds

- A collection of individual investments, such as stocks, bonds and government securities, that allow for diversification.
- A professional money manager selects specific investments for you.

Individual Stocks

- When you purchase the stock of a company, you become a part owner of that business.
- Stock prices constantly rise and fall — no guarantee you will make any money.
- Depending on the stock, you might receive dividends, which are profits that the company shares with its owners.



Risk vs. Reward

When you start investing regularly, keep this in mind:

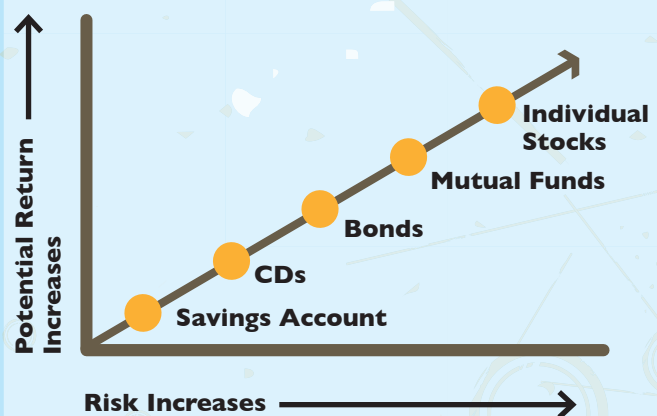
The higher an investment's risk, the higher the potential reward.

Savings accounts carry very little risk, but they offer little in the way of reward because they do not pay much interest. At the other end of the scale, stocks can offer investors very good returns — but they also carry a high degree of risk, because there is no guarantee you won't lose your money in a stock.

This risk/reward relationship is central to the decision-making process of every investor. Some investors are by nature more aggressive and are willing to take bigger chances in exchange for potentially higher returns. On the other hand,

conservative investors prefer investments that are unlikely to lose money — even if they do not make much money, either.

This diagram shows the risk/reward relationship of the various investment classes we've described





What to Do Now...

After going through this booklet, how would you evaluate your financial decision-making skills? Which one describes you?

I Have No Idea What To Do

- I'm not putting my money anywhere.
- I don't have a clue about investing.
- I spend most of the money I earn.
- I have no idea how to budget.

Ideas for Next Steps

1. Open a savings account at your local bank and start saving 10% of everything you earn each month.
2. Track where your money goes using the Monthly Budget Tracking Sheet in the back of

this booklet. Evaluate it after a month and see where you can make adjustments that will benefit you financially.

3. Complete the Planning Financial Goals on page 9, identifying important financial goals and set monthly targets that will help you reach your goal.

I Need Some Help

- I have a grasp on investing, but I wouldn't know where to begin doing so.
- I understand how to budget fairly well.
- I have a savings account and put money in there every once in a while.
- Not quite sure how I am going to pay for college.

Ideas for Next Steps

1. Make sure you are budgeting and putting at least 10% in saving. If you have extra money to put away, try opening a Certificate of Deposit (CD).

2. Talk to your parent/guardian about paying for college and if they can help you. You can also start looking for scholarships and apply for financial aid. You can speak with your local bank about taking out a loan as well.
3. Take advantage of classes on investing through your local community education programs. These classes typically cover the basic concepts of budgeting and investing.

I Think I Have This Under Control

- I am already saving money and budgeting.
- I am already doing some investing.
- I have some financial goals set.
- I am currently figuring out how to pay for college.

Ideas for Next Steps

1. Depending on what types of investments you currently have, do some research on other types of investments such as bonds or mutual funds and possible options for your next investment.
2. Look at ways you can donate or give some of your money to local charities or organizations. Sharing can never hurt.
3. Once you reach an age where you have a considerable amount of assets, speak with a financial advisor to help get you on the road to financial independence.

Making the Right Choices

After going through this booklet, you should now have some good ideas on how to manage your money successfully throughout your life. And keep this in mind: As a young person, you own the most valuable asset in the world: *time*. You have time to dream, time to plan — and time to make those dreams and plans come true. So, when it comes to money, think carefully about your choices — and make the right ones.



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