MONEY CONFIDENT Kids®

Presented by T. Rowe Price®

TIME HORIZON LESSONS
Recommended for Grades 6–8

Conclusion

LESSON 12

Congratulations!

You've completed the Money Confident Kids Program.

You've had the opportunity to work through the five financial concepts: Goal Setting, Decision-Making, Inflation, Asset Allocation, and Diversification. Kids have learned to think about their time horizon for their financial goals that will help them plan for a successful future.

1 **What's the secret to achieving long-term financial goals?** Explain that it's not a secret anymore because students have learned the importance of sorting out their financial goals over short-, medium-, and long-term time horizons and strategies to achieve them. And once their goals are set, it's just a matter of being disciplined at making trade-off decisions and focusing on saving for the important things. Remind them that it's never too early to learn good money habits and to plan for the future.

2 **Share** the Language of Money Glossary as a reference for terms in the program.

3 **Show What You Know** Conclude by handing out the Final Assessment.

SHORT-TERM HORIZON

SNEAKERS

VIDEO GAME

MEDIUM-TERM HORIZON

COLLEGE

LONG-TERM HORIZON

BUY A HOUSE

RETIREMENT

All investments are subject to market risk, including the possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market.

Glossary

Language of Money

Money words help you talk dollars and cents. As you learn more about creating realistic goals and investing your money, you'll encounter a lot of new words. Learning the "language of money" can help you make smart financial decisions and talk about money with others—like your family and other adults.

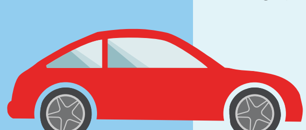
MONEY WORDS GLOSSARY

A **401(k) plan** is a savings plan companies offer that allows their employees to prepare for retirement. Employees make contributions to the plan from their salary, which may be matched by their employer. Any gains in employee accounts are not taxed until the employee withdraws their money, so the account can grow tax-free until retirement.

An **account** is a place to put your money. You can have an account at a bank, credit union, or other financial institution. A checking account is a bank account used for cash deposits and withdrawals on a day-to-day basis. A savings account is also a bank account, but it is used primarily to save money and potentially earn interest.

An **allowance** is money given to a person on a regular basis for his or her personal spending. Many kids are given an allowance by their parents for doing chores at home.

An **asset** is anything that has a financial worth. Cash, savings accounts, stocks, bonds, mutual funds, houses, and cars are examples of assets.



Asset allocation is how your money is divided among stocks, bonds, and short-term investments. For instance, you can put some of your money in a savings account and invest some money in stocks, bonds, and mutual funds. If you have a long-term goal, consider investing most of your money in stocks. As the goal gets closer, you may want to hold less in stocks and more in bonds and short-term investments.

A **bond** is an asset issued by the federal government, state governments, or corporations. When you buy bonds, you are lending your money to the organization. Bonds generally pay interest (usually more than a savings account) every six months, and you receive the original amount you loaned the organization plus interest earned at the end of a specified time. Unlike a savings account at a bank or credit union, state and corporate bonds are subject to risk—which means you could lose some or all of the money you invested. Federal bonds are backed by the United States government.

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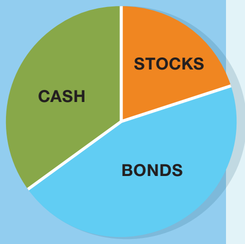
Glossary



A **budget** is a plan of how much money a person or business has to spend and how it will be spent. For instance, your home budget might include rent, utilities, food, clothing, health care, car payment, pet care, and insurance.

A **credit card** is a small plastic card issued by a bank or business that lets you buy goods or services with the promise that you'll pay at a later date. When you "charge" goods or services on a credit card, you are borrowing someone else's money—and you have to pay it back, usually with interest.

A **credit rating** measures the probability that you will repay a debt such as a credit card bill, auto loan, or mortgage. The higher your credit rating, the more likely you will be able to get a loan or credit.

Debt is money you owe when you buy on credit or borrow from someone else. Any money you have to pay back can be considered debt.

A **deposit** is money you put in your account.

Diversification means having lots of different kinds of investments (different types of stocks, different types of bonds, etc.). For example, if you invest in skateboard stock and kids stop buying skateboards, you could lose all the money you have invested. Instead, if you invest money in skateboards, pizza, and computers, and kids stop buying skateboards, you might lose only the money you invested in skateboards—not all of it. Diversification cannot guarantee that your investments will make money or protect against loss if the market goes down.

A **down payment** is a partial payment made at the time you make a purchase, with the remainder due over a given time period. This is used primarily for larger purchases such as a house or car.

Expenses are the amount you pay for purchases such as food and clothing; also includes payments for rent, a mortgage, or other regularly scheduled bills.

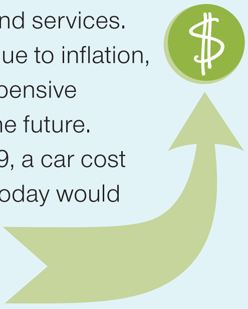
Financial planning is deciding on the most important goals for your future and carefully saving and investing so you can meet these goals.

Financial strategy is planning that helps secure your financial future; it may include your daily expenses along with larger items such as a house, car, and retirement savings. A financial strategy also includes a plan for saving and investing your money.

Income is the amount of money you regularly receive from sources such as your job, investments, pensions, and Social Security.

Industry sector is a group of companies that produce similar products or services; for example, agriculture, mining, banking, and financial services.

Inflation is the general increase in the price of goods and services. Money loses value due to inflation, so it will be more expensive to buy products in the future. For example, in 1939, a car cost $400. A similar car today would cost almost $30,000 at a 3% rate of inflation.



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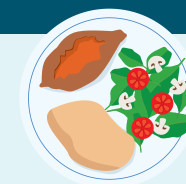

Insurance helps protect individuals or companies by paying them if they suffer losses due to fire, theft, or injury. Individuals can also buy life insurance to pay their dependents in case they die.

Interest is an amount of money an investment earns or an amount of money that is added to money you borrowed. If you have a savings account, your money can earn interest—and then you'll have even more money. However, if you borrow money (like using a credit card), you will have to pay interest on top of what you borrowed. That's expensive.

You **invest** by buying assets (such as stocks, bonds, or mutual funds) that help you reach your financial goals.

An **investment** is anything that you buy in hopes that it will increase in value.

A **loan** is money that's borrowed and expected to be repaid, usually with added interest.

A **luxury** is something you don't need. It can be a material object or a service that you want but could live without. For example, you need shoes to wear, but you don't need to buy the most expensive pair or a new pair every month.

A **mutual fund** combines the money of many investors who have common financial goals into a professionally managed portfolio. Mutual funds take the money and buy many different stocks, bonds, and/or short-term investments (depending on what kind of mutual fund it is), giving small investors access to a well-diversified portfolio. Each investor shares in the gain or loss of money in the mutual fund.

Needs are the basic things necessary to live or do your job (such as a place to live, food, clothes, or transportation to work). Needs are often confused with wants. For instance, you may need transportation to work and school, but you don't need a $40,000 sports car. You may want a sports car, but you don't need it.

A **portfolio** is a group of investments owned by a person, investment company, or financial institution. Your portfolio should include different types of investments.

Retirement is the period in someone's life after they have stopped working because they have reached a particular age.

A **return** is the gain (or loss) of money from an investment in a particular time period.

Risk comes in many different forms. Two types of risks are the risk of losing money and the risk of not gaining enough to reach your goal. Your asset allocation helps you keep the right balance of these risks for your goal. Another risk you'll face is having most or all of your money in an investment that does worse than your other choices. Diversification helps reduce how much of this risk you have.

Savings are how much money you have in your bank account, brokerage accounts, and retirement accounts (such as a 401(k) plan).

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Glossary

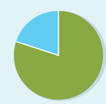
A **savings account** is one place to put your money to help achieve your financial goals. When you put your money in a savings account, the bank "borrows" your money and pays you interest. Please note that while money invested in savings accounts is usually insured against loss, you earn a very low interest rate.

A **stock** is a share of a company that is sold to the public. Companies sell stocks to raise money to finance business operations. Stock prices can change daily. As an investment, stocks have produced the highest long-term returns over the past several decades. They also have had the biggest swings in performance and are subject to much greater short-term risk of losing money. Of course, just because something happened in the past doesn't mean it will happen again.

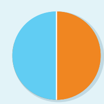
The **stock market** is where shares of stock of different companies are bought and sold.

A **stockholder** (or shareholder) is a person who owns stock (shares) in a company.

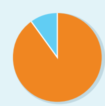
Time horizon is how long it is before you plan to spend your money on a specific goal. This determines how your money should be divided between stocks, bonds, and short-term investments.



Something you need immediately or within a few years (under four years) has a **short-term time horizon**.



Something you save for over several years (between five and 10 years) has a **medium-term time horizon**.



Something you save for that will happen many years or decades in the future (over 10 years), like retirement, has a **long-term time horizon**.

Wants are things you don't need to live or do your job. For example, you might want to eat out every day, but you don't need to. A want can also be considered a luxury.

FINAL ASSESSMENT

Name____________________

Congratulations!

You've completed the Money Confident Kids Program.

You've had the opportunity to follow Nikki as she prepared for her education and career, taking the proper financial steps to succeed in her dream career. I hope what you've learned about saving and making wise spending decisions will help you plan for a successful future.

Show What You Know

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1. List two examples of goals that have a short-, medium-, and long-term time horizon.

Short Term (1–4 years)

Medium Term (5–10 years)

Long Term (11 or more years)

2. How can a budget help you meet your goals?

3. Why do you have to consider inflation when you plan financial goals?

Name____________________________

Show What You Know

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(Continued)

4. Why do you need to consider diversification when you invest money?

5. Why would you want to adjust your allocation of cash, bonds, and stocks as you get older and have a shorter retirement time horizon?

6. What would you suggest to a person whose only investment is $500,000 of stock in the company she works for?

Answer Key: (1) Answers will vary. Short: Groceries, a new jacket. Medium: College, car. Long: Buying a home, retirement. (2) Remember that Savings = Income - Expenses. Keeping a record of your income, expenses, and savings can help you find opportunities to reduce your expenses, increase your income, and save more money. (3) If you don't consider inflation, you might find that something you've been saving for over the long term has gone up in price and you can't afford it. Diversification reduces risk. (4) Without adequate diversification, the value of your investments might suffer if a certain company or type of company declines in value. (5) As people get closer to retirement, they tend to allocate more to bonds and less to stocks. This reduces their risk, since they will need the money pretty soon and won't have a lot of time to bounce back if their stocks decrease in value. (6) Having an investment in the stock of a single company is risky. If the company's business doesn't do well, then the stock will lose some or all of its value. If a person's investments are diversified, then a loss in one company won't be as devastating.

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