## BEHAVIOUR VS KNOWLEDGE

Being smart about money is just as much about our own behavior as it is about financial knowledge. All the knowledge in the world doesn't mean anything if your habits are undermining you (like staying healthy). The best thing that you can do for yourself in high school is to learn to spend less than you earn and get in the habit of saving money. Over time, you will have saved enough to start investing that money so that your money will grow.

Repelling the "keeping up with the Jones'" spiral is the challenge (also called lifestyle inflation). It's very easy to gradually spend the excess on more expensive clothes and entertainment but if you can resist that and invest more instead, you'll be well on your way to having financial security. *Exercise: Play Goalsetter quizzes from grade 3 - 12* and/or take the Khan Academy course on Personal Finances

## THE BASIC FINANCIAL CONCEPTS

Money is a social construct that enables society to exchange goods and services. Today money is created by governments and put in circulation to support the growth of the economy. This centralized model has been challenged by cryptocurrency**,** which is based on a technology called blockchain. Blockchain enables you to establish trust and validate transactions in a decentralized way and this is challenging government's current monopoly on money. Cryptocurrency is still in its infancy and its value is more volatile compared to traditional currencies. When you're ready to start investing, there are a few awesome finance concepts that are worth understanding. The most important of these is compound interest.

***(1) Compound interest:*** *Refers to earning interest on interest. Play around with a compound calculator online for 5 mins and you'll quickly appreciate why it's so hard for people with a lot of personal debt to get out of debt and why Einstein referred to compound interest as "the 7th wonder of the world". On the positive side— If you have a chunk of money (any amount), it becomes exponentially easier over time for that money to grow itself. It works in reverse for debt. Refer to examples of compound interest here*.

If you save $10 per week from age 15 until you are 30, you will have $7,800. If you put the same amount in a bank account that earns 2% of interest, you will have about $10,000. If you invest it in shares and earn 6% every year on that money, you will have about $12,600.

If you waited until you were 25 years old to start saving that $10 a week, you would have $2,600 when you're 30. If you earned 2% on that in a bank account you'd have $2700 and if you put it in shares instead and earned 6% on it, you'd have $3,000.

| | Earn 0% | Earn 2% | Earn 6% |
|---|---|---|---|
| Age 15-30 | $7,800 | $10,000 | $12,600 |
| Age 25-30 | $2,600 | $2,700 | $3,000 |

*Practical action: start saving and investing early.*

**(2) Asset allocation:** An asset is something of value that you can exchange. You can have liquid assets (no you can not drink that), which means that they are easy to exchange, examples are cash, stocks and bonds, and you can have illiquid assets that are difficult or sometimes impossible to exchange such as real estate and stocks in private companies. Cash, stocks, bonds and property are all examples of asset classes. In fact, they're the most common ones. They're considered a 'class' because the financial instruments all have similar properties, such as how risky they are, how easy they are to sell and their capacity to grow.
Asset allocation is determining what asset classes do I want in my portfolio, and how much of my money do I want to put in each. Considering that different assets have different risk profiles (ie bonds produce lower returns but have more guaranteed returns than shares), the proportion of each asset in your portfolio will depend on your risk profile (your investment timeframe, age, risk tolerance). For example, if you wanted to take no risk, make no returns and have inflation erode your savings, you'd be 100% cash. If your time horizon for needing the money is 30 years, you might be 100% in stocks.

**(3) Diversification:** Don't put all of your eggs in one basket!Different types of assets behave differently depending on what's happening in the economy so you want to be diversified within each asset class and you want to be diversified across different types of assets, meaning you have invest in a little bit of all of them.

For example, within equities (the stock market) you wouldn't just buy shares in a few companies - you could diversify by buying an index that tracks the top 200 companies and your returns will be the average of all of those companies' returns, plus some dividends.

Similarly, you're better off having some shares, bonds, property — and the proportions will depend on your risk profile (the proportions you choose is *asset allocation*.

Warren Buffet is one of the most successful investors and he has some simple advice here. And this interview with Jack Bogle (founder of Vanguard) explains why index funds work for some people because they make it easy to diversify your investments. The bottom line is that there is no right or wrong way to invest as long as you use your head and do your research. Ray Dalio is a very structured and analytical investor who have also been very successful, here is his advice. Making the right decisions in life is key to success and he wrote a book about these principles. Regardless of how you invest you need to understand that the market is cyclical and that no matter how good we get at analyzing the past, the future is not a linear extrapolation - its exponential and humans invent new things all the time.

**(4) Risk:** The biggest risk you face is not saving money to invest because that means you will never be able to retire. Just leaving your money in the bank is not a good solution due to inflation (cash loses value over time). Different asset classes has different risk profile e.g. stocks are considered more risky than bonds, and early stage private companies more risky than large cap established public companies. *invest in different asset classes so that you reduce the risk of losing your money.*

**(5) Dollar cost averaging:** The simple idea is that you should invest a bit of money out of each pay check so that sometimes you'll buy when the market is up and sometimes when the market is down but you'll end up with a satisfactory average return. This goes hand in hand with the idea that the average person should never bother trying to time the market You need to make sure that your transaction costs are not too high for this to work.

**(6) Reduce your taxes and turn into your own bank**
There are many different types of investment accounts that you can easily set up so that you can legally reduce your taxes. For example, you can save money into a Roth IRA. There are different types. By using a simple Roth IRA, you can deduct up to $6000/year from your taxes and invest them in e.g stocks. You can borrow against the Roth IRA which means that you turn into your own bank. That is also true for some Permanent *life insurances* working as a savings account the returns are tax deferred. Should you need cash e.g. for medical emergencies you can borrow it from the 'cash value" part of the policy.

## WHAT CAUSES ECONOMIC CYCLES

Watch Ray Dalio's short video explaining "How the Economic Machine Works" - it's better than any economics text book. Ray Dalio is the founder of one of the world's most successful hedge fund (fund that invests money). The video clearly explains the way that governments, financial regulators, central banks (The Federal Reserve) and individual consumers interact in economic cycles. Understanding these concepts will help you to make sense of the news (like panicked headlines about Federal Reserve interest rate hikes), avoid overspending in boom times and avoid panic during inevitable recessions. The video doesn't use the typical jargon in finance and economics, which makes it inaccessible to most people who haven't studied finance.

## READING MATERIALS ON THE MONEY GENDER GAP

- Sallie Krawcheck's "Mind the Gap".
- The Gender Gap That's Really Hurting Us.
- Forbes list of Female Billionaires
- Morgan Stanley's Investors Trillion $ blindspot

## BOOKS

"Principles" by Ray Dalio - also video about failing.
You can also download the "Principles App"
"Rich Dad Poor Dad"& "Cashflow" by Robert Kiyosaki
"Exponential Organizations" by Salim Ismail
"A Brief History of Humankind" by Yuval Noah Harari

## WEBSITES

- Khan academy
- Learnvest
- Ellevest
- Portfolia
- LearnVest
- Goalsetter
- Vanguard (beginner's guide to investing)
- How to invest in Real Estate
- Ashton Kutcher on why he invests
- Udemy stock, real estate

## FOLLOW ON SOCIAL MEDIA

- Sallie Krawcheck
- Jill Schlesinger
- Alexa von Tobel
- Goalsetter
- Pipeline Angels
- Astia
- Cowboy Venture
- Springboard Enterprise
- Female Equity

## KEY THINGS TO LEARN:

- To spend less than you earn
- What compounded interest is
- What it means to own shares in a company
- What a bond is
- What inflation is
- How to set up a stock trading account
- How to set up a retirement saving account
- How to establish a life insurance policy

## IM SCARED TO INVEST

There is no right or wrong way to invest. Just get started. Do your research and know you won't "win" every bet. However you will learn from your mistakes and get better over time. It will change your life for the better. You may even like it so much that you want to do it as a profession. ***Never investing isn't really an option if you want to ever stop working.*** Educating yourself on the basics will help you for the rest of your life. Remember that time is your biggest ally and when you're young, you have an advantage that seasoned investors don't have: **TIME**.

**What type of investor are you ?:** Some people like to rely on experts to do their investments and others wants more control. Today there are easy access to a lot of information that can cut out the middle man and reduce your fees. Because its mostly men in the financial industry, their recommendations may not fit your values. Impact investing is like changing the world by investing your money. Investing for the long haul is less research intense compared to day trading. **Start investing today**!