MONEY CONFIDENT Kids™

Presented by T. Rowe Price®

Student Workbook

GOAL SETTING

DECISION-MAKING

MONEY & INFLATION

ASSET ALLOCATION

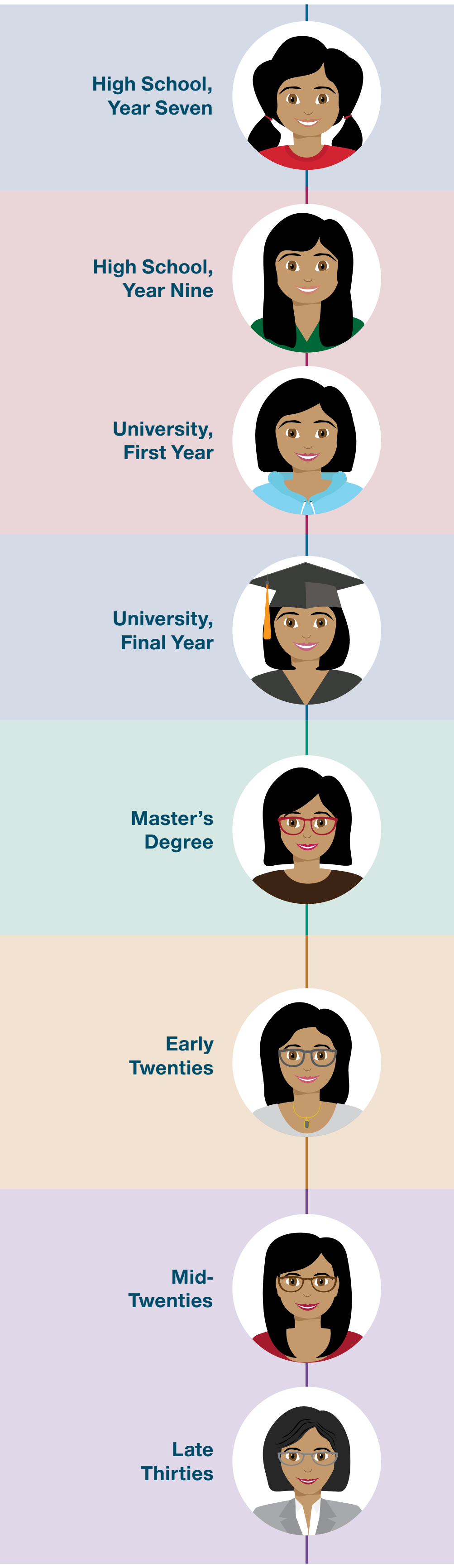
DIVERSIFICATION

THIS WORKBOOK BELONGS TO:

Name ______________________________

Table of Contents

Nikki's Time Horizon



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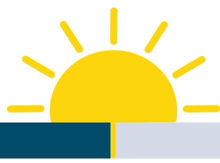
Welcome

Hello

Welcome to Money Confident Kids™, a financial education programme that helps kids understand that every financial decision is associated with a **time horizon**. We follow Nikki from the Year 7 to her university graduation and beyond. Along the way, you'll get to know Nikki and her family and share her journey as she sets important **financial goals** along her time horizon and works to achieve them.

Nikki's story is told through real-life financial situations that range from deciding whether she should buy expensive running shoes to deciding if completing a master's degree is a good career **investment**. You'll see how Nikki uses what she's learned about money to create realistic goals and achieve them by creating a **budget**. In addition, you'll have a chance to set your own goals and create a workable strategy to achieve them.

Making smart, informed decisions about money is a valuable skill that will help you throughout your life. The sooner you get money confident, the more opportunities you'll have to save for the things that are really important to you.



GOAL

OVERVIEW

Learning how to save and invest your money and the importance of spending it wisely are essential life skills. Start your financial adventure today.

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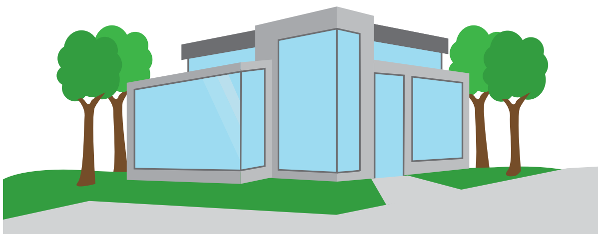
Introduction

Meet Nikki!

Hi! I'm Nikki, and I'm in Year 7. I do athletics, play the guitar and am head of the Code Club at school. I live with my mum, my dad, my sister—who's at university—and my brother—who's finishing high school. Our house is alway buzzing, and I love every minute of it!

My mum is a preschool teacher, and my dad is a nurse. Together, they take care of our **needs**. Dad says that careful **financial planning** is the key.

And guess what? My grandparents live down the street. They're retired, so we get to spend lots of time with them. My grandfather knows I love to geek out over electronics, so he lets me tinker with all of the equipment in his garage whenever I want.



My **career** goal is to run a large software company. Mum says I'd better start practicing for the future by making smart money choices now. I get pocket money and earn money babysitting, but after paying for new guitar strings, running shoes and snacks, I never seem to have any money left. I definitely need to figure things out!

THE STORY

Learn how to manage money by reading about a girl who goes from typical teen to financial whiz by working hard and making smart money decisions. Follow Nikki and her family as she learns how financial education is key to planning and achieving her long-term goals.

High School, Year 7

High School, Junior Year

Sorting Out Nikki's Goals

Nikki would feel better about money if she understood that each financial goal has a different **time horizon** (the length of time between now and when she'll achieve the goal).

SHORT-TERM TIME HORIZON

Buying new running shoes might be *weeks* or *months* in the future. Nikki has time to find the best and save for the purchase.

RUNNING SHOES

VIDEO GAME

LAPTOP

MEDIUM-TERM TIME HORIZON

University is expensive, and Nikki has to help pay for it. She'll go to university in seven years, so the time horizon for that goal is medium. Even though it's years away, Nikki knows she needs to start planning now.

UNIVERSITY

LONG-TERM TIME HORIZON

Nikki has other goals that have an even longer time horizon—*decades*! She wants to buy a house, have a career, travel and retire after her career is over.

BUY A HOUSE

RETIREMENT

WHAT'S THE
Big Idea?

Some financial decisions have an immediate time horizon, while others happen over months, years and even decades.

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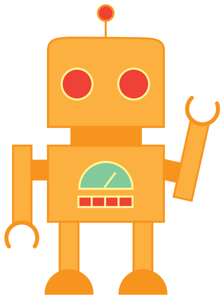
Goal Setting

1

LESSON 1

Goal Setting helps you envision why you are saving and what you are saving for—and creating goals is the essential first step toward money confidence.

Better Set a Budget



I'm so excited! The science competition is in 10 weeks' time and I've decided to design, build and programme a robot that can build other robots! How cool is that? I'll win first prize for sure! I shopped around and the parts will cost me $140.

I went over to Grandad's house to have him check out my design and give me advice on raising the money I need. But he didn't want to talk about money first. He wanted to start with my goal. He said that people and businesses often use a process called *SMART goals* to make decisions. Goals need to be **S**pecific, **M**easurable (meaning there's a way to tell if you succeeded or failed), **A**chievable (meaning doable), **R**elevant (meaning appropriate or fitting for your current lifestyle) and **T**ime-specific (meaning there's a deadline).

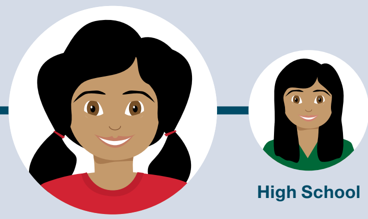
Specific — Your goal is clearly defined and states exactly what you are going to achieve.

Measurable — Track your progress and know when your goal is met.

Achievable — Your goal challenges you but is also something realistic.

Relevant — Your goal is connected to what is valuable and important to you.

Time-specific — Your goal includes a date you will have achieved it by.



High School, Year 7

High School

To check the 'Achievable' part of the SMART goals test, Grandad helped me figure out whether or not I could pay for the parts I'd need for my robot. Here's a list of my weekly **income**, **expenses** and **savings**:

- My **pocket money** is $10.00 each week.
- I babysit little Matilda Moore two hours per week and am paid $30.00.
- I buy a $1.50 bag of chips each day at school.
- I spend $12.00 per week playing video games.
- I give $20.50 to Mum to pay her back for my new guitar strings.

Grandad and I added up my weekly income and expenses:

NIKKI'S INCOME & EXPENSES

INCOME		EXPENSES	
Pocket Money	$10.00	Snacks	$7.50
Babysitting	$30.00	Video Games	$12.00
		Guitar Strings Loan	$20.50
	$40.00		$40.00

Income ($40.00) – Expenses ($40.00) =
Nothing left for the science competition!

Grandad said I could save up the money I need by increasing my income and cutting my expenses. So, I should write down my new plan—my ***budget***—to make sure I stick to it.

WHAT'S THE
Big Idea?

Income – Expenses = Savings. Drawing up and following a budget can help you increase your income, reduce your expenses and end up with more savings.

Name____________________

GOAL SETTING ACTIVITY SHEET

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It's in the Budget!

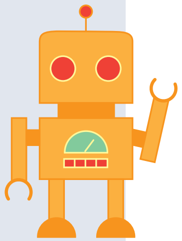
1

Nikki needs $140 in the next 10 weeks for her awesome robot project. Right now, she spends all the money she earns and doesn't save anything. Here is a chart of her current weekly income and expenses:

Income – Expenses = Savings $0

Income	
Pocket Money	$10.00
Babysitting	$30.00
Total Income	**$40.00**

Expenses	
Snacks	$7.50
Video Games	$12.00
Guitar Strings Loan	$20.50
Total Expenses	**$40.00**



Nikki has two money-making opportunities:

- Mrs. Moore has asked Nikki to babysit for an additional two hours per week at *$15* per hour.
- Nikki's dad has offered her *$40* to clean out the garage.

1. Make suggestions for Nikki to increase her income and lower her expenses:

____

____

____

2. Prepare a new weekly budget for Nikki that includes your suggestions:

Income	
	$
	$
	$
	$
Total Income	$

Expenses	
	$
	$
	$
	$
Total Expenses	$

Total Income – Total Expenses = $ Savings

$__________ – $__________ = $__________

3. If Nikki follows your suggestions, how many weeks will it take her to save $140?

____

Answer Key: (1) Reducing or eliminating snacks and video games to reduce expenses; working for her dad and for Mrs. Moore to increase her income. (2) Answers will vary, but income minus expenses should equal a positive number for savings. (3) Answers will vary, but $140 divided by weekly savings will equal the number of weeks.

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Notice

Note to Reader

You have just completed *Goal Setting Lesson 1* and learned about Nikki in high school and the short-term goals she was able to achieve.

OPTION 1

To keep a consistent flow with Nikki's time horizon and the financial decisions she could face as she moves through high school and her early university years, you can skip to the next module—*Decision-Making*—that lays the foundation for her long-term goals.

Afterward, come back here to *Goal Setting Lesson 2* and learn how Nikki is planning for her long-term goals as she finishes up university and looks ahead to the future.

OPTION 2

Continue with *Goal Setting Lesson 2* and jump ahead in Nikki's time horizon to learn how she is planning for her long-term goals as she finishes up university and looks ahead to the future.

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Decision-Making

2

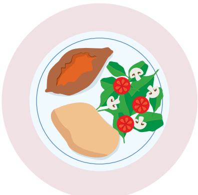
Get It for Less

Hi guys, it's Nikki! Can you believe I'm in year 9 already? This year, I'm volunteering at the community centre. I'm teaching people how to make digital photo albums and use social media. My classes would be so much better if I could teach on a new laptop. I found one for $760 at my local electronics store, but I only have $650 in my **savings account**—and I also want to buy some video games. So I went to my sister, April, for help.

The first thing April made me do was define my goal. That's easy—I want to buy a new laptop. Then she told me that the fun part is figuring out what decisions to make to reach my goal. April always says purchases are either 'needs' or 'wants'.

NEEDS

Needs are the things you must have to survive—like food, water and medicine—or *things that will help you achieve your financial goals*.



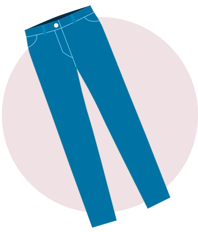
FOOD

WATER

MEDICINE

WANTS

Wants are the things you would like to have (but don't really need) that can set you back from reaching your goals, like a cool pair of jeans or a new phone cover.



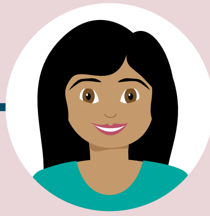
JEANS

NEW PHONE COVER

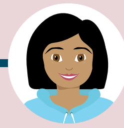
But needs and wants can be tricky. Sometimes, it isn't so easy to tell the difference. For example: A grown-up could *need* a car to drive to work but might *want* that car to be a super-expensive 4WD.

LESSON 1

Decision-Making
To get the most value for your money, think through your spending decisions carefully and resist buying on impulse.



High School, Year 9



University, Second Year

So, the first step is to decide if my goal is a need or a want. If it's a want, then there's no rush. I can wait until I have enough money to buy wants or choose not to buy them at all. April thought the laptop is more of a need because having better technology would help me develop my career. Video games are a want. Playing them is fun but I don't need them to reach my goals. I decided to skip the video games and save my money for the laptop. April pointed out another important choice I could make: *shopping around*, since shops and websites often sell the same product at different prices and sometimes even have sales.

She was right! I found out the laptop was $760 at the local store but $690 at another place that also offered a 10% discount for students. Guess where I bought my laptop? I only paid $620!

WHAT'S THE

Big Idea?

To reach your financial goals, you have to make good decisions along the way. You can save money by holding off on buying things you don't need and by shopping around to get the best deal on the things you do buy.

Name____________________________

DECISION-MAKING ACTIVITY SHEET 1

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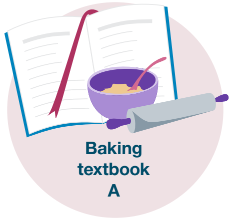
But I Really Want It!

2

Want or Need?

Nikki's big brother, Marcus, is going to cookery school and his dream is to own a bakery someday. Not surprisingly, he loves any kind of sweet treat! He also loves skateboarding. Marcus wants Nikki to go shopping with him for things he thinks he needs next semester.

1. Look at Marcus's shopping list. Are these *wants* or *needs*?

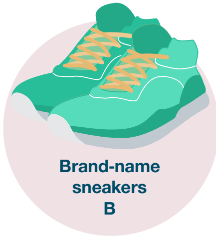


Want or need? ________________

Explain your thinking:

____

____

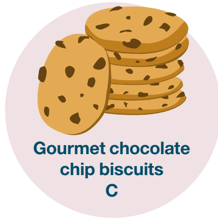


Want or need? ________________

Explain your thinking:

____

____



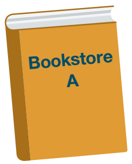
Want or need? ________________

Explain your thinking:

____

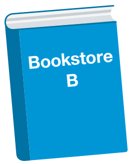
____

2. Marcus couldn't find the textbook in town, but he and Nikki found several options online:



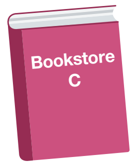
New, with free shipping

$150



New, with free shipping

$135



Used, with $15 shipping fee

$72

Which book should Marcus buy? ________________

Explain your thinking:

____

____

Answer Key: (1a) A need, because Marcus must have the book for his baking class; his culinary education is an investment in his future career. (1b) While shoes can be a need, expensive sneakers are definitely a want. (1c) Food can be a need but a gourmet snack is a want. (2) Bookstore C. The used book is the cheapest, even after shipping costs are included.

Name________________________________

DECISION-MAKING GAME SHEET 1

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Plan Your Party

2

Planning a Budget

Nikki's parents are celebrating their 30th wedding anniversary next month. Nikki, April and Marcus decide to throw a surprise party for them. The guest list includes nine people: Nikki's parents, the three kids, and both sets of grandparents.

The kids have to apply good decision-making techniques to make sure they meet their goal: planning the best possible party that fits their budget!

Nikki suggests that each sibling contribute $40. She thinks that will be enough to buy food and drinks for everyone. Marcus grumbles a bit because he thinks a party is more of a want than a need. But April reminds him that it's important to celebrate family events—and that he needs to put in his $40!

Nikki researches prices for different foods they could serve at the party and other fun items. Here are her options:

PARTY ITEM OPTIONS

Item	Shop A	Shop B	Shop C
Fruit juice (serves 4)	Two for $6.00	$4.60	$3.80
Bottled water (serves 1)	$0.80	12 pack for $7.35	$0.90
Water from the tap (free!)	0	0	0
Pizza (serves 3)	$8.35	$7.50	Two for $10.00
Chicken burgers (pack of 10)	9 pack for $6.00	5 pack for $6.25	4 pack for $7.79
Fresh sandwich platter (serves 10)	$25.00	$27.50	$26.00
Cake (serves 10)	$33.00	$30.00	$29.00
Ice cream	2 litre $4.50	0.5 litre $5.00	1 litre $7.50
Giant-size wedding picture	$27.00	$30.00	$35.00
Flowers	$18.00	$28.00	$30.00
Greeting card	$4.50	$6.95	$5.00
Slideshow editing ($120 fee)	N/A	N/A	N/A
Magician ($100 fee)	N/A	N/A	N/A

Name________________________

DECISION-MAKING GAME SHEET 1

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Plan Your Party

2

Planning a Budget

(Continued)

Directions: You have $120 to spend on a party that Nikki's parents will remember forever! Plan a menu, making sure there's enough food for everyone, and stay within your budget. (Note: You may have to buy more than you need for some items because of the package sizes.)

Nikki's Parents' 30th Anniversary Party

PARTY ITEMS BUDGET

	Item and Quantity	Shop	Amount Paid
example	Greeting Card	Shop A	$4.50
		Total	$

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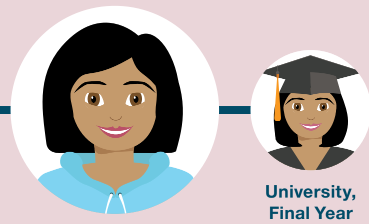
Decision-Making

2

LESSON 2

Decision-Making
An important step in making wise financial decisions is understanding the relationship between spending practices and achieving financial goals.



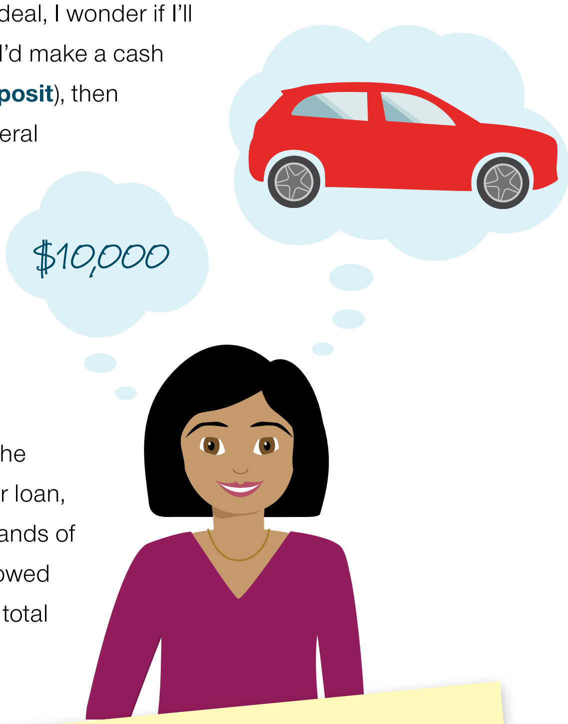
University, Second Year

University, Final Year

A Dollar Saved...

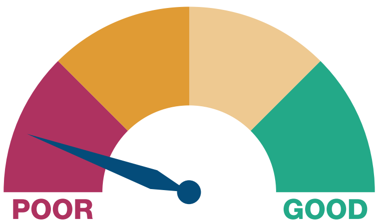
Wow, time flies! I'm at university, already in my second year of a software engineering programme. I also have a part-time job at Batt Software. Since I'm only working 15 hours a week, I'm making $21,450 a year. I use that money to help pay university costs and living expenses. Plus, I've been saving part of every pay to help me reach one of my short-term goals—buying a car. I'll need to buy a car soon so I can commute to work, but I also want to make sure I still have some savings for other goals too. I just checked my savings **account**, and I have a whopping $10,000!

Whilst I'm shopping around for the best deal, I wonder if I'll have to take out a car loan. With a **loan**, I'd make a cash payment for part of the cost (called a **deposit**), then pay the rest—a bit each month—over several years. I learned that there are pros and cons to taking out a car loan. A loan helps people buy an expensive item immediately rather than having to wait months or years whilst they save for it. But, in addition to the amount of your purchase, **interest** fees—charges for borrowing the money—are added to the loan each month. Over a four- or five-year loan, interest fees can add hundreds or thousands of dollars to the cost. For example, if I borrowed $10,000 for five years at 7% interest, my total payments would add up to $11,186.



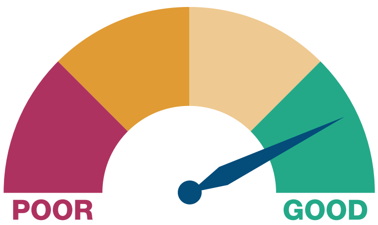
Mum said I also need to establish a good **credit rating**. A credit rating is a number based on your history of paying back loans. If I make my payments on time, I'll get a higher credit rating and it will be easier for me to get a loan when I want to borrow again, like to buy a house. If I mess up by not making my payments on time, I'll end up with a bad credit rating and it will be harder for me to borrow money in the future (and I might even have to pay a higher interest rate).

POOR CREDIT RATING



- Miss payments
- Hard to borrow money
- Higher interest rate

GOOD CREDIT RATING



- Make all your payments
- Easier to borrow money
- Lower interest rate

WHAT'S THE Big Idea?

If a loan is necessary to help pay for an expensive need, you have to consider interest fees. You must make payments on time to keep a good credit rating.

Name________________________

DECISION-MAKING ACTIVITY SHEET 2

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How Interesting!

2

Deciding to use a **credit card** or take out a loan from a bank are important financial decisions. If you have time to save for your goal, that is usually the best option. But sometimes purchasing on credit is necessary. Do you really know how much you'll pay for an item you purchase on credit? The cost can vary depending on what type of credit you use and how you pay it back! You pay interest to a credit card company when you put purchases on a credit card or to a bank when you borrow money via a loan.

Interest payments on credit card purchases or **bank loans** will most often be calculated as an annual percentage of the original amount loaned—for instance, paying 16.5% interest on $100 on a credit card. To find out the dollar amount of the interest you'd owe after one year, multiply the original amount of money ($100) by the interest rate (in this case, 16.5%, which is 0.165 when converted to a decimal for easier multiplying).

$100 x 0.165 = $16.50 After the interest payment, you would owe $116.50.

Directions: Calculate the amount of annual interest:

1. **$200** on a credit card that charges **16.5%** interest ____________

2. A **$500** loan that charges **3%** ____________

3. A **$1,200** loan that charges **7.5%** ____________

4. A **$7,500** loan that charges **6.8%** ____________

Now Try This: A borrower paid **$66** on a **$600** loan. What was the interest rate? ____________

Answer Key: (1) $33.00. (2) $15.00. (3) $90.00. (4) $510.00. Now Try This: 11% ($66 ÷ $600 = 0.11 = 11%).

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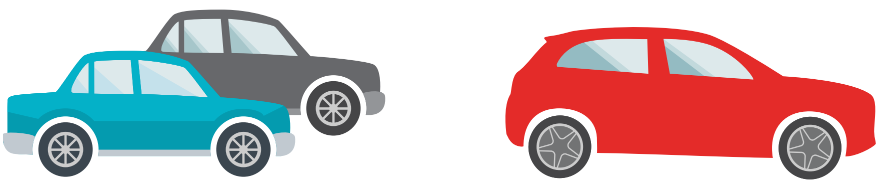
Decision-Making

2

But I Love That New Car Smell

Time to go car shopping! I started by researching different types of cars online, both new and used, to narrow down the models that I'm interested in. Then, I headed over to a few local dealerships to look at cars in person. I couldn't stop thinking about the Mitsubishi ASX. It's a small SUV automatic, bright red and super cute! I *want* that car!



The dealer was selling a mid-range model for $29,000 drive away and offering six-year loan at 3%. Using an online calculator, I figured that if I paid a $5,000 deposit, all I would have to do is make 72 monthly payments of $364.65. I know the interest rate is high, but I *really* want that SUV.

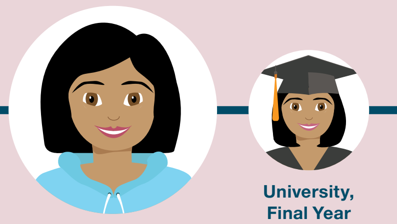
When I told my parents about it, they pointed out that even though I want that SUV, I definitely need something more practical. Dad helped me do the maths to figure out the cost of my dream car. I would pay more than $2,200 in interest over the six-year life of the loan *and* I would use up a big chunk of my savings for the deposit. And there were those other expenses I hadn't even considered: petrol, maintenance, car insurance and **unexpected costs** for repairs. Mum explained that **insurance** can cost hundreds of dollars a month—and that I *absolutely* need it to protect myself from the financial **risk** of expensive repairs and damages if I ever have an accident.

CAR EXPENSES

	Other Expenses
Car	Insurance
Deposit	Petrol
Monthly Car Payment	Maintenance
	Unexpected Repairs

LESSON 3

Decision-Making
Staying on track to reach financial goals involves making trade-off decisions for spending on things we don't really need. Understanding how to make smart spending, saving and investing decisions now helps set you up for a more secure financial future.



University, Second Year

University, Final Year

Nikki's Car Purchase Analysis

Car Fund (Savings):	$10,000
Less Down Payment:	$5,000
Remaining Savings:	$5,000

Car Price–New	$29,000
Deposit	$5,000
Amount of Loan	$24,000
Loan Period	72 months (6 years)
Interest Rate	3%
Monthly Payment	$364.65

Actual Total Cost of Car = $29,720!
($29,000 + $720 interest)

Car Fund (Savings):	$10,000
Less Cash Purchase:	$6,950
Remaining Savings:	$3,050

Car Price–Used	$6,950
Pay Cash	$6,950
Amount of Loan	$0
Loan Period	None
Interest Rate	0%
Monthly Payment	$0

Actual Total Cost of Car = $6,950

Remember that recurring costs (petrol, maintenance, insurance) and unexpected costs (repairs) will add expenses to your monthly budget.

Thanks, Mum and Dad! You've convinced me to spend wisely! I went back to the dealer and test-drove a safe secondhand hatchback that cost $6,950, an amount I could pay out of my savings. I had Grandad check out the mechanics, and he approved. Sold!

WHAT'S THE
Big Idea?

If we keep our focus on what we really need rather than what we want when we buy things, we'll have more money in the long run and a more secure financial future.

Name________________________________

DECISION-MAKING GAME SHEET 2

MONEY CONFIDENT Kids™
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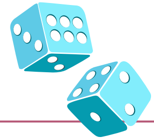
Is It Covered?

Comprehensive property car insurance isn't required by law. But would it be worth the risk to drive without it? Simulate seven years of insurance payments and driving experience and see what happens!

Each year, you will pay about $1,800 in car insurance (already printed on your game card). In real life, insurance costs could increase or decrease over time. For example, your rate may go up if you get in an accident, but, if you don't, it could also go down for every year you are a good driver. And remember, the costs of accidents and damages can increase over time as well.

Directions: For each year, roll two dice, add the numbers together and look at the chart to see what your cost of accidents and damages would have been without insurance. Record that amount on the Dice Roll Chart. After seven years, compare the cost of car insurance with the cost of not having car insurance.



Dice Total	Result
2	Face $80,000 in damages
3	Pay $4,500 in repairs
4	Pay $25,000 for a new car after theft of old one
5-6-7-8-9	No accidents or damages
10	Pay $16,000 in repairs
11	Pay $7,500 in repairs
12	Pay $1,372 in damages

Year Number	Car Insurance Cost	Cost of Accidents and Damages
1	$1,800	
2	$1,800	
3	$1,800	
4	$1,800	
5	$1,800	
6	$1,800	
7	$1,800	
TOTAL	$12,600	

Name________________________

DECISION-MAKING ASSESSMENT

MONEY CONFIDENT Kids

Presented by T.RowePrice

Show What You Know

2

We all have limited time and money, and resisting impulse buys is a key **financial strategy**. 'Saving' is really just planning to 'spend later.' It's all spending, but the difference is whether you're planning to spend now or spend later: *Do you really need to buy something now or can it wait?*

Here's a quick quiz that reviews some of the important points we've covered. See how much you've learned about money and managing your finances.

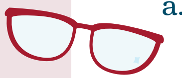
1. What are three things a person can do to reduce their expenses?

____

____

____

2. Expenses can be classified as "needs" or "wants." Decide whether you think the following items are needs or wants. Please explain your answer. *For an extra challenge, identify a situation in which each expense below is a need AND a situation when it's a want.*



a.) A visit to Nikki's optician for new glasses.

Want or need? ______________

Why?

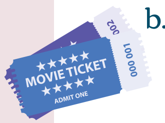
____

c.) Expensive running shoes to help Nikki exercise.

Want or need? ______________

Why?

____



b.) Movie tickets for Nikki and a friend.

Want or need? ______________

Why?

____

d.) A new computer for Nikki's software engineering course.

Want or need? ______________

Why?

____

3. Fill in the blanks with words from the word bank to make the statement true:

WORD BANK Interest Expenses Savings Income

______________ – ______________ = ______________

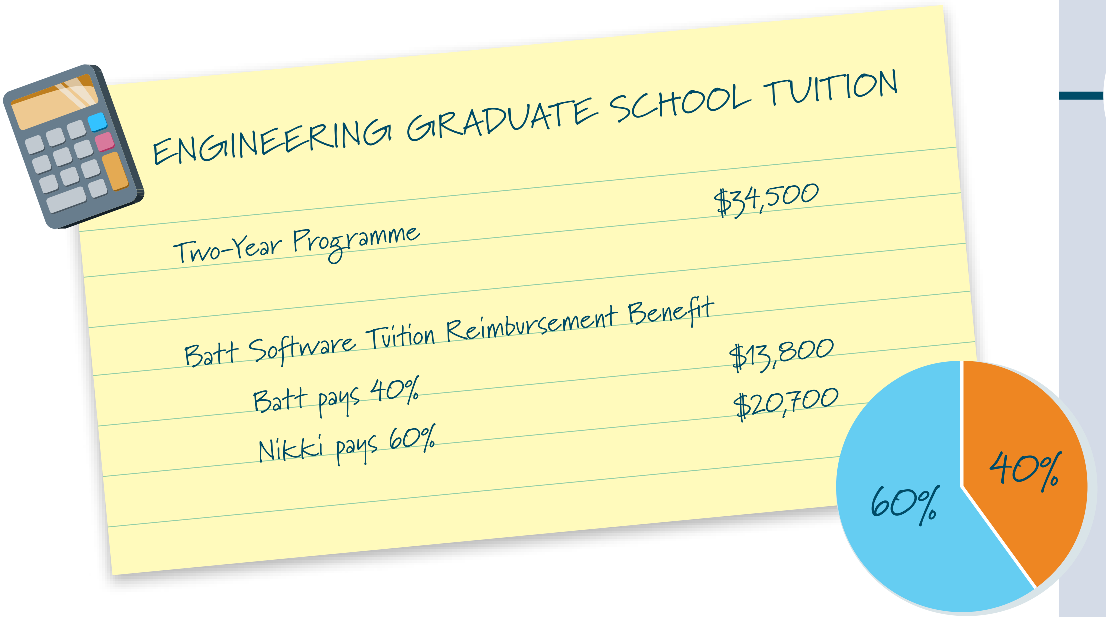
Answer key: (1) Compare prices from different sellers; think about reducing, eliminating or deferring expenses that are considered wants; look into buying a used item if it will suit your purpose. (2a) need; (2b) want; (2c) want; (2d) probably a need, but 'fancy,' school supplies could be considered a want. (3) Income – Expenses = Savings.

Goal Setting

Get the Big Picture

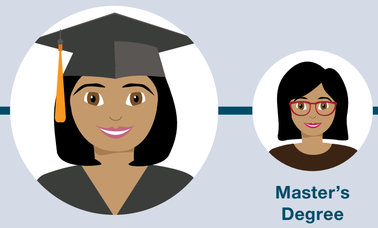
I just started my third year at university! The manager of my part-time job at Batt Software has offered me a full-time position after graduation, with an annual **salary** of $60,000. But she also advised me to complete a master's degree in software engineering. She said that at Batt, engineers with **graduate degrees** typically make $20,000 more each year.

Total tuition for the two-year programme is $34,500—blimey! Batt Software employees have a tuition reimbursement benefit that covers 40% of tuition costs. I would have to pay 60% of the total tuition cost. That's $20,700 ($34,500 – 40% of $34,500)! I would definitely need to add that to my higher education contribution scheme (HECS) **debt**.



LESSON 2

Goal Setting helps you envision why and what you are saving for and when you want to achieve it. Knowing how long you need to save for your financial goal is called a 'time horizon'.



University, Final Year

Master's Degree

I called my sister, April, and we figured out that I basically have three choices:

CHOICE 1

WORK

Work for Batt right away and skip doing my master's. I would make $60,000 a year and save $20,700 in HECS debt. But that might mean giving up a higher salary in the future.

CHOICE 2

SCHOOL

Go to university full time then work for Batt after I get my master's degree. I would finish the degree more quickly and not have to work and study at the same time. But I would be giving up two years of salary, and Batt wouldn't pay for any of my tuition.

CHOICE 3

WORK & SCHOOL

Work full time for Batt and go to university part time. I would have to add $20,700 to my HECS debt but Mum said it would be a good **investment** in my future. The debt I incur for my education now will lead to financial gains later on. If my salary goes up by $20,000 when I finish, I'll be able to pay off my HECS a lot quicker.

My decision: I'm going to work full time for Batt and go to university part time. I'll be very busy, but my plan gives me the possibility of a higher salary with the least amount of debt. Wish me luck!

WHAT'S THE

Big Idea?

Investing in yourself by furthering your education might seem difficult, but it can pay off in the future. Be realistic about whether going into more debt for your education is a good idea based on the salary you are likely to earn after you graduate.

Name ______________________

GOAL SETTING ACTIVITY SHEET

MONEY CONFIDENT Kids™
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Start With a Goal

1

Time horizons

Financial goals have different time horizons. Here are a few examples:

- 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 ten years) has a **medium-term horizon**.

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

Because Nikki is a few months away from graduating from university, she sat down and listed her goals. Determine whether each goal has a short-, medium- or long-term time horizon and estimate how many years you think each goal will take.

1. Replacing her university car with a newer model.

Time horizon ____________

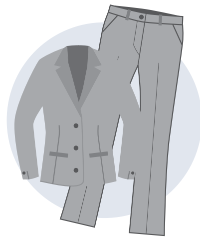
Explain your thinking:

____

____

____

2. Buying work clothes for her new job.



Time horizon ____________

Explain your thinking:

____

____

____

3. Deciding on whether to make a donation to a charity.

Time horizon ____________

Explain your thinking:

____

____

____

4. Retiring using her **superannuation** programme.

Time horizon ____________

Explain your thinking:

____

____

____

Answer key: (1) Medium term, 5–10 years. (2) Short term, 1–4 years or less. (3) Short term, 1–4 years or less. (4) Long term, 11–30+ years.

Name

GOAL SETTING ASSESSMENT

MONEY CONFIDENT Kids™
Presented by T.RowePrice®

Show What You Know

1

Congratulations! You've learned about the importance of setting financial goals that are specific, measurable and have a definite deadline.

Specific
Measurable
Achievable
Relevant
Time-specific

Visualising your goal is one way to stay focused on what you want to achieve. In the space below, create a poster, comic or drawing of one or more of your long-term financial goals.

Reflect: What are four specific, measurable steps you'll take to achieve your goal? What is your intended deadline for each of those steps? How will your visual reminder help you achieve your goal?

Money & Inflation

3

A Place of My Own

Hi, it's Nikki! I can't believe that I'm about to graduate from university. I'm so proud of my hard work and my new job title: robotic applications programmer! Thanks to my good salary—and the fact that I've been able to save money by living with my parents—I've paid off a good chunk of my HECS debt. Hurray!

I've also set new goals. As much as I love my family, I think it's time I lived on my own. I am a grown-up after all! When I said I wanted to buy a house or a flat with my savings, Grandma explained that almost no one can afford to buy a home that way. She told me I'd have to make a cash **deposit** (usually equal to 20% of the cost of the home) and then borrow the rest from a bank.

MORTGAGE

This loan is called a **mortgage**, and most people pay it off over 30 years. That's a long-term commitment!

There's one apartment I absolutely adore; it's selling for $300,000. It has parklands all around it and is only about 40 minutes from my job in the city! A deposit, or 20% of this price, would be $60,000. I have about $12,000 in savings now so I'd have to save $48,000 more before I could purchase it.

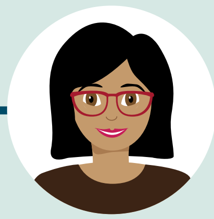
SHORT-TERM TIME HORIZON

SAVING FOR HOUSE DEPOSIT

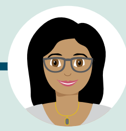
I figure my time horizon to save for the deposit will only take me three years!

LESSON 1

Inflation is the increase in the price of goods and services over time, which means that long-term financial goals will likely cost more than they do today.



Master's Degree



Early Twenties

But then Grandma put a damper on my plans when she told me about **inflation**, which is the increase in prices over time. She explained that three years from now, my dream apartment will likely have gone up in value—which means my deposit would also rise. So, if the price of my $300,000 flat increases by 8% per year, it will cost over $377,900 in three years. At that point, a 20% deposit will be $75,580 and not $60,000! I'll have to save even more than I thought. I'm glad I'm learning this now!

To calculate the effects of inflation over several years:

1. First, **convert the percentage** to a decimal.
(2% is equivalent to .02.)

2. Then **add 1 or100%** to the percentage increase.
(So, for a 2% inflation rate, use 1.02%.)

3. Finally, **multiply the decimal** times the current cost.

4. For inflation over more than one year, **multiply the calculation for year 1** by the decimal. Repeat this operation—multiplying the result by the decimal once for each year.

Example: A $200 item has a projected 2% inflation rate. After three years, the cost will be $212.24 (rounded to the nearest cent). Year 1: $200 x 1.02 = $204; Year 2: $204 x 1.02 = $208.08; Year 3: $208.08 x 1.02 = $212.24.

WHAT'S THE
Big Idea?

When you're planning for a financial goal with a long-term time horizon, you need to consider and plan for the effects of inflation.

Name____________________

MONEY AND INFLATION ACTIVITY SHEET 1

MONEY CONFIDENT Kids

Presented by T.RowePrice

When Prices Rise

3

Nikki is still dreaming about one of her biggest goals—owning her own apartment—but the reality of inflation is really throwing a spanner in the works! She wonders how she will plan for rising property prices, along with all the other expenses that come with home ownership—like council rates, utilities (gas, electricity, water) and insurance. Plus, as Grandma reminded her, there are unexpected costs, like replacing broken appliances or worn-out furniture. Although many mortgages have payments that stay the same for the life of the loan, all of the other costs could increase due to inflation.

Nikki budgeted $1,461 per month for home ownership costs. If she takes inflation into account, will $1,461 be enough for all of her housing needs? If not, how much will she need to budget?

Hint: Inflation is an economic force that reduces **purchasing power**, meaning that a dollar buys less than it used to. Inflation is expressed as a percentage increase. If the price of an item was $100 on 1st January 2019 and $110 on 1 January 2020, the annual **inflation rate** for that item was 10%.

Directions to calculate inflation are on page 25 (second page of Money & Inflation Lesson 1)

NIKKI'S MONTHLY HOUSE BUDGET

Expense Type	Current Year Cost	Projected Annual Inflation Rate	Cost Three Years From Now
Mortgage	$2,000	None	________
Council rates	$225	2%	________
Strata fees	$125	2%	________
Gas	$50	1%	________
Electricity	$130	2%	________
Water	$35	3%	________
Contents insurance	$40	5%	________
TOTAL	$2,605		

How does Nikki's budget compare with the final housing costs after inflation?

Answer Key (third column): Mortgage, $1,071; Council rates, $106.12; Strata fees, $132.65; Gas, $51.61; Electricity, $137.966; Water, $38.25; Contents insurance, $46.31; Total: $1,583.90.07. Nikki's housing budget of $2,605 is sufficient for the current year, but it will be less than her projected costs in the third year, when she will have to increase her housing budget to $1,600 per month.

Name_______________________

MONEY AND INFLATION ACTIVITY SHEET 2

MONEY CONFIDENT Kids
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The Cost of Higher Education

3

One long-term expense that you (and your parents!) might face in the next 4–6 years is university fees. Due to inflation, university grows more and more expensive each year. These days, tuition can be even over $10,000 per year, without considering other day-to-day expenses. Private universities are even more expensive. And consider this inflation fact: The price of tuition has been increasing at a rate of about 6% per year!

Directions: Take a look at the chart below and compare the cost of university for Nikki's family members. Then, predict what the cost of tuition might be when you're ready to head off to university.

COST OF TUITION INCREASE

Family Member	Year	Costs*	Average Annual Percentage Increase
Grandad	1971	$405	N/A
Grandma	1972	$430	6.1%
Dad	1990	$1,910	8.6%
Mum	1993	$2,540	10.0%
April	2015	$9,430	6.2%
Nikki	2019	$10,440	0.5%

% per year

*Assumes 9 months of living expenses during the university term.

*One-year public college tuition and fees
https://www.topuniversities.com/student-info/student-finance/how-much-does-it-cost-study-australia.

Name____________________________

MONEY AND INFLATION ACTIVITY SHEET 2

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3

The Cost of Higher Education

Consider Your College Costs

(Continued)

What will college cost when you're ready to go? Look ahead, and start planning today.

Consider: The average cost of university for one year is around $10,500.

What do you think the cost will be in five years? ____________________________

Take It Further! If your teacher asks, visit the website of a university you would like to attend to determine the current cost of tuition. What will tuition cost when you are ready for university?

I hope to attend (name of university) ____________________________ in __________ (four, five or six) years.

Today annual tuition is $____________________________.

Taking inflation into account, tuition will be $______________ when I'm ready to attend.

Reflect: How does inflation affect your thinking as you plan to pay for future university costs? Do you have any strategies that might help you prepare for your medium-term time horizon?

Answer Key: Answers will vary based on research and individual choices. Reflect: Individual answers will vary, but you can deal with the increase in tuition costs with a combination of comparison shopping and increasing savings by cutting costs and increasing income. You may also have to consider financial assistance to cover tuition.

Name______________________

MONEY AND INFLATION ASSESSMENT

MONEY CONFIDENT Kids™
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Show What You Know

3

You might know the price of something today, but because of **inflation**, it could change a lot in the future!

PART 1

Directions: Here are the 1999 prices for five common items. Draw a line to match up the price with the item in 2019. Notice the effect of inflation on the price and how the cost of some items has increased more than others.

ITEM	1999 Price (22 Years Ago)	2021 Price (Price Today)]
Home	$191,800.00	$11.00
Chocolate bar (50 grams)	$0.50	$2.00
New car	$20,686.00	$573,700.00
Milk (1 litre)	$1.30	$32,185.00
Movie ticket	$7.00	$2.00

Answer key: (2019 Price): Home, $573,700; Car, $32,185; Movie ticket, $11.00; Chocolate bar, $2.00 Milk, $2.00.

Name_______________________________

MONEY AND INFLATION ASSESSMENT

MONEY CONFIDENT Kids™
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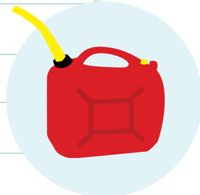
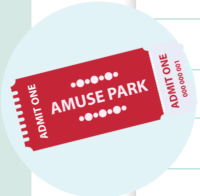
Show What You Know

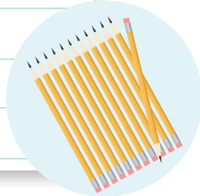
3

PART 2

Directions: Calculate the annual percentage increase for the items below. (Remember: To find a percentage increase, subtract the original price from the new price and divide the difference by the original price. Don't forget to convert your answer to a percentage.)







ITEM	2021 Price (Price Today)	2020 Price (1 Year Ago)	Inflation Rate
Winter coat	$100	$74.00	________ %
Petrol (4 litres)	$6.00	$5.60	________ %
Theme park admission	$82.39	$77.00	________ %
Pencils (1 dozen)	$2.31	$2.10	________ %

Answer Key (rounded): Winter coat, 35.1%; Petrol, 7%; Theme park admission, 7%; Pencils, 10%.

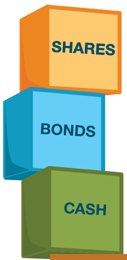
MONEY CONFIDENT Kids
Presented by T. Rowe Price

Asset Allocation

4

Taking a Sensible Risk

Hi guys, it's Nikki! It's been two years since I finished university, received a promotion at work and bought my first home! It's within my budget, near my family and perfect for one person! Five or 10 years down the road, I'll want my own family and a bigger house, so I'll have to plan for even more expenses! Especially when my longer-term goals are to start my own software company and fund a scholarship at my university!



At lunch yesterday, my company gave a talk on 'Personal Financial Planning and Asset Allocation'. They mentioned that there are three basic building blocks to develop an asset allocation strategy: cash, **bonds** and **shares**. Each investment type has a risk (the danger of losing money) but also a reward (the chance to make money).

BUILDING BLOCKS FOR ASSET ALLOCATION

CASH

Cash is money kept in savings, transaction or other accounts at a financial institution like a bank or credit union. These accounts have a low reward since they pay little or no interest, but they are also low risk because bank accounts are guaranteed (up to certain limits) by the federal government.

BONDS

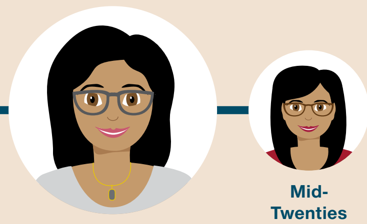
Bonds are like a loan to a company that promises to pay back the loan plus interest. Because interest rates on bonds are higher than rates given by cash accounts, the potential reward is higher. But there is also a risk of losing money if the company goes out of business or fails to make payments on the bonds.

SHARES

Shares give you part ownership of a company. The value of your share in the company can go up or down depending on changes in the **share market**. Over time, shares have given the highest financial rewards, but there is the risk of losing some or all of your investment if the company does poorly or goes out of business, or if the share market declines.

LESSON 1

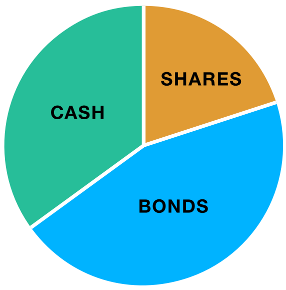
Asset Allocation is how your money is divided among shares, bonds and cash according to your financial time horizon and is key to achieving long-term goals.



It's a good thing I was having dinner with Mum and Dad and could learn even more about investing! Mum said that smart **asset allocation**—or having the right combination of cash, bonds and shares—is key to successful investing. Her investment account has grown nicely over the years because her asset allocation strategy was to invest more in shares. But, she said, strategies can shift depending on your time horizon. Since she's approaching retirement, she'll probably want to rebalance her investments for less risk by increasing bonds and reducing shares. I was confused about why she'd change her strategy if she was making money. She explained that the closer you get to *needing* your money, the more you should reduce the risk of losing it. Great advice!

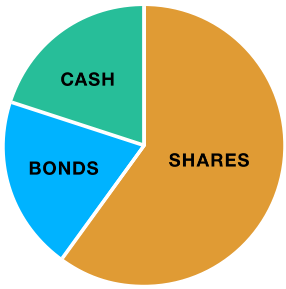
ASSET ALLOCATION MIX

SHORT-TERM TIME HORIZON



A financial goal with a short-term time horizon means that you'll need your money soon. Reduce risk by limiting the amount you have in shares and investing more in cash and bond options, which are less risky.

LONG-TERM TIME HORIZON



A financial goal with a long-term time horizon means that you won't need your money right away and can accept more risk by investing more in shares (shares have the potential to earn more money, but they can also lose more money too).

Mum said an easy way to start investing is to use managed funds. **Managed funds** are a collection of a number of different shares, bonds and other investments. Since the mix of investments in managed funds comes in different shapes and sizes, they meet the needs of different investment strategies. Some managed funds have only bonds, some only shares and some have a mix! I can't wait to get started!

WHAT'S THE
Big Idea?

Having an asset allocation strategy based on your time horizon helps you save for long-term financial goals by using three major building blocks: cash, bonds and shares.

Name________________________

ASSET ALLOCATION ACTIVITY SHEET 1

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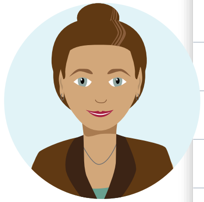
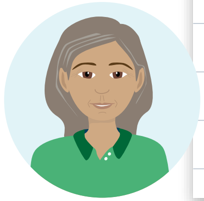
Can You Handle the Risk?

4

All investments have risks. For example, if you own shares in a company that goes out of business, that share will lose value and you'll lose money. On the other hand, if you buy shares in a company that really takes off, your share will go up in value and you'll make money.

Many young people—like Nikki—are willing to take on higher-risk investments because even if they lose money, they know they have many years to make up for the loss. Someone like Nikki's mum, who is closer to retirement, will typically reallocate to lower-risk investments, since she will need to withdraw her money soon.

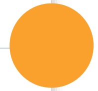
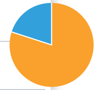
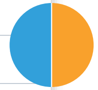
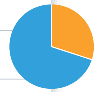




Directions: Match the person with the appropriate investments.

Person

1. Desmond, an 85-year-old retiree
2. Carmen, a 30-year-old attorney
3. Indira, a 55-year-old electrician who expects to retire in 10 years

Investments

a. 100% invested in a managed fund

b. Managed funds with 80% shares, 20% bonds

c. Managed funds with 50% shares, 50% bonds

d. Managed funds with 30% shares and 70% bonds


SHARES
BONDS

Explain your answer:

Desmond: ____________________

Carmen: ____________________

Indira: ____________________

Answer key (explanations will vary): (1d) Desmond needs the income and relative safety that a higher percentage of bond funds gives him because he no longer has income from a job. He keeps a smaller percentage of shares to guard against the effects of inflation. (2b) Carmen can afford to accept the higher risks but higher potential reward of shares because she has a high-paying job and has many years until retirement to weather the ups and downs of the share market. (3c) Even if the share market declines over the next 10 years, Indira still has a good-size investment in bonds that will give her a secure income as she enters retirement.

MONEY CONFIDENT Kids™

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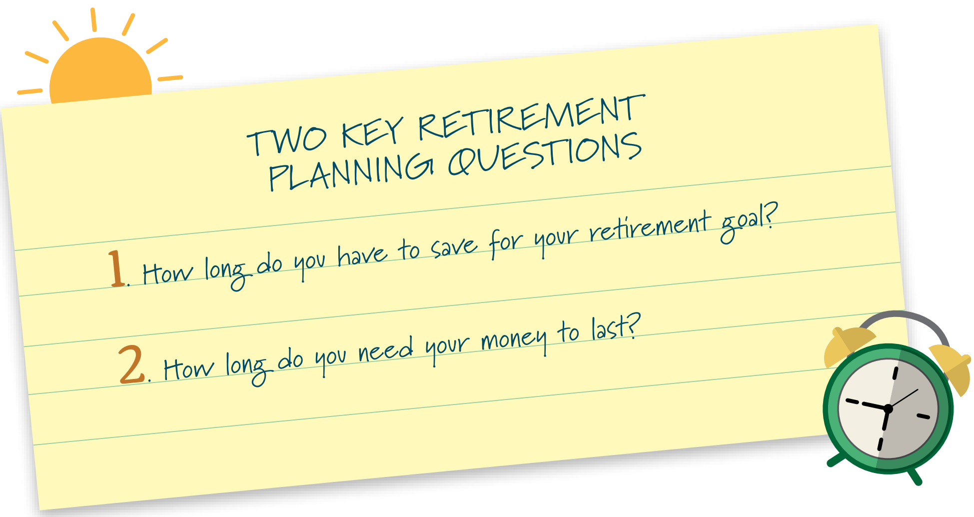
Asset Allocation

4

Finding the Right Mix

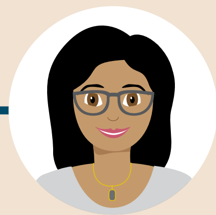
Hi everyone—Nikki here! Even though I'm grown up now, I still ask my grandparents for advice—especially about retirement. It seems far away, but they say it's never too early to start saving! With my promotion, I'm able to put more money into my **superannuation**. I'm excited to invest in my future! Superannuation is a special retirement account that lets you invest money you earn now to have an income stream when you retire. I decided to ask my grandparents for advice. I went to their house with information about my pay and the brochures from some **super funds**.

Grandma said that the key to a comfortable retirement is planning and saving early. She asked me two key retirement planning questions: (1) How long do you have to save for your goal (retirement)? and (2) How long do you need your money to last? She always asks tough questions! Well, I'm about 40 years away from retirement—which is a really long time horizon—and we figured I'll need money to last me at least another 30+ years after I retire to cover me into my old age. So glad I'm starting early!

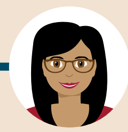


LESSON 2

Asset Allocation
Long-term goals may seem far away, but starting to save early is important, and you'll need a mix of investments to achieve them.

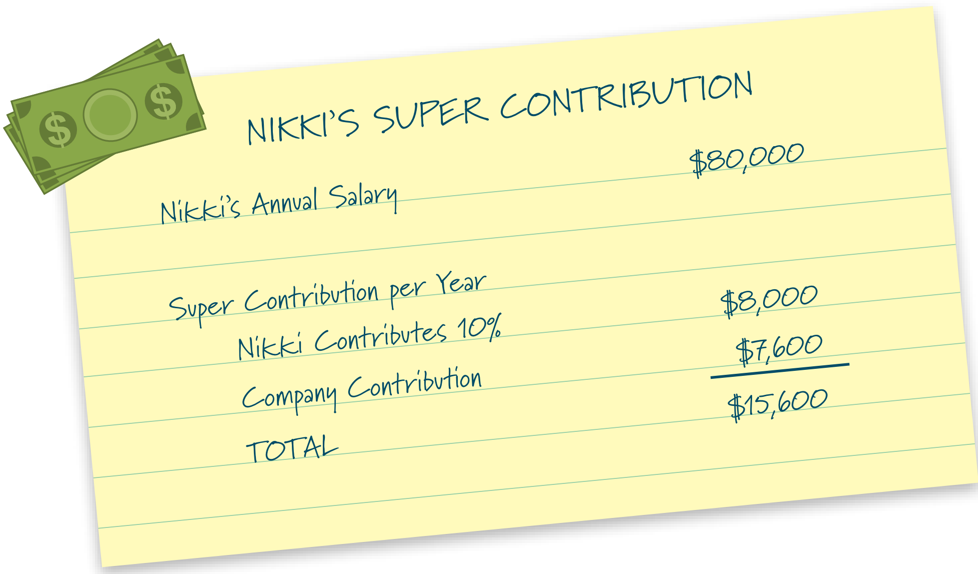


Early Twenties



Mid-Twenties

We went through the brochures and my pay slips. Contributions to my super are paid directly by my employer but I can also make voluntary contributions. I make $80,000 a year, so if I put 10% of my salary into my super, I could contribute $8,000 in addition to the $7,600 my company would contribute.



Then, we started to look at the managed fund investment options offered by the superannuation company. Some of the companies included shares, some bonds and some a mix of the two. As I get older, like Mum, I'll rebalance my investments to include a greater percentage of bonds because they are generally less risky, and I won't have as much time to recover any losses. Great advice, Grandma and Grandad!

WHAT'S THE

Big Idea?

Even though some of your financial goals seem like a long way off, if you start investing early and consider your time horizon when choosing investments, you'll have a better chance of having enough money when you need it.

Name______________________________

ASSET ALLOCATION
GAME SHEET 1

MONEY CONFIDENT Kids™
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$10,000 Investment Game

4

Play the $10,000 Investment Game

You have $10,000 to invest.

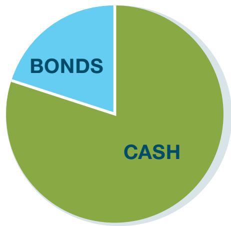
Review the Asset Allocation Models and the Investment Chart to the right.

Then select investments from the Investment Chart that best represent each asset allocation mix.

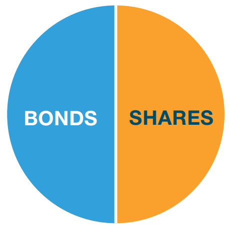
On the next page, choose how you want to allocate the $10,000 across the investments you selected (see example at top of next page).

(Continues on next page.)

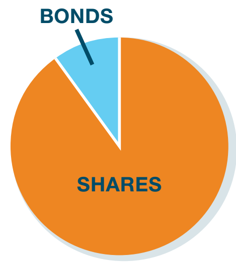
Asset Allocation Models



Short-Term Time Horizon
80% Cash, 20% Bonds

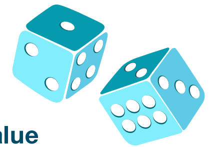


Medium-Term Time Horizon
50% Shares, 50% Bonds



Long-Term Time Horizon
90% Shares, 10% Bonds

Investment Chart



Dice Roll Value

Risk	Investment Type	2	3–4	5–6	7–8	9–10	11	12
Low	CASH*	+ 2%	+ 2%	+ 2%	+ 2%	+ 2%	+ 2%	+ 2%
Risk	BONDS	+ 8%	+ 6%	+ 6%	+ 4%	+ 3%	0%	- 1%
High	SHARES	- 25%	- 11%	- 5%	+ 12%	+ 16%	+ 21%	+ 30%

*Cash is a bank savings account or money market account.

Name________________________

ASSET ALLOCATION GAME SHEET 1

MONEY CONFIDENT Kids
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$10,000 Investment Game

4

Play the $10,000 Investment Game
(Continued)

Select investments from the Investment Chart on the previous page that are appropriate for the time horizons in the chart to the right.

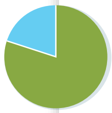
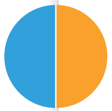
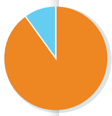
Roll the dice* to see how your investments perform by matching the dice roll value with your investments.

Then calculate your gain or loss by multiplying your investment by the percentage increase or decrease found in the chart on the previous page.

Extra Credit Analyse the Investment Chart on the prior page. As the investment risk increases, what trends do you see in the performance percentages? How did this affect the year-end values of your investments for the different time horizons?

*Use real dice or an online dice application.

Track Your Money

Time Horizon	Dice Roll	Investment Type	Risk	Amount	% Change	Gain (Loss)	Year-End Value
Short-term example	6	Cash	Low	$8,000	+ 2%	$160	$8,160
	6	Bonds	Moderate	$2,000	+ 6%	$120	$2,120
Short Term							
Medium Term							
Long Term							

Answer Key: Answers will vary, but low- and moderate-risk investments should have more consistent returns. Higher-risk investments have the potential for larger gains but also larger losses.

Name______________________________

ASSET ALLOCATION ASSESSMENT

Having an asset allocation strategy that is in sync with your time horizon is key to achieving long-term goals.

MONEY CONFIDENT Kids™

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Show What You Know

4

1. If your child were heading off to university in a year—a short-term time horizon—would it be a good idea to invest 100% of the money set aside for moving out in shares?

YES NO

____

2. To reach long-term goals, why should a person invest in a mix of shares and bonds and not just a savings account?

____

____

____

3. Why is it a good idea to review your asset allocation as you get older?

____

____

____

4. Why would a younger person want to have a higher percentage of shares in their **portfolio** than a person getting close to retirement age?

____

____

____

Answer Key: (1) No. Shares go up and down. If the share market had a major decline, the value of the fund might not be enough. For goals with a short-term time horizon, low-risk investments are best. (2) A savings account alone will not earn enough money to outpace the effects of inflation on purchasing power or enable one to reach long-term goals. Shares offer the chance of higher returns but can also lose value. Bonds can still carry some risk but offer more consistent interest income and tend to have lower investment returns than shares. (3) As people age and get closer to retirement, they usually want to increase their overall percentage of bonds. They should periodically check their allocation percentages to make sure they're close to their target. If, for example, share values increase a lot, they might want to sell some shares and buy more bonds. (4) With investments, risk means that there is a chance that the value of the investments will decline. As people approach retirement, there isn't as much time to recover from significant investment losses, and income from investments is an important source of income for retirees.

MONEY CONFIDENT Kids
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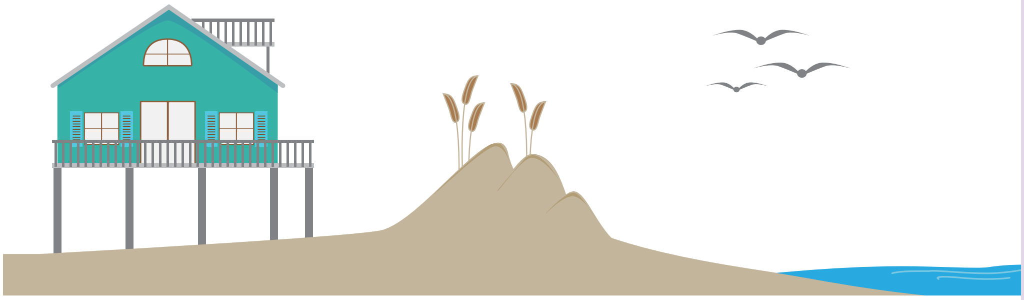
Diversification

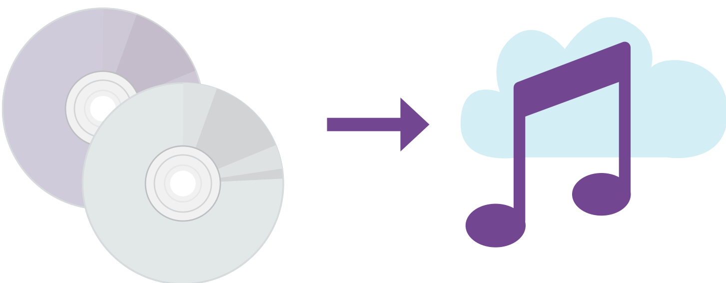
5

Investment Choices, Part A

Hi, Nikki here! I'm 25 years old and already dreaming of the future: retiring to a beach house! I'm relieved that I have a good superannuation fund to help me save for the ultimate long-term goal: retirement. I've been learning more about the share market, and I think I'm ready to do more investing. I went to Grandma and Grandad's for breakfast this morning to talk it over.

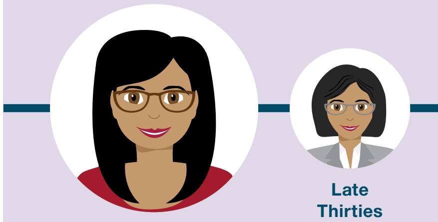


I asked if I should invest my money in Batt shares. After all, our sales have been growing and the share price of the share keeps increasing! But Grandad pointed out that just because the company is doing well now, that may not be true in the future so it would be a bad idea to invest *everything* in Batt. What if the company suddenly loses a lot of money? The share would go down, and I would probably lose lots of money too! He gave me a great example to explain. There were once companies that had stores that sold CDs. Their shares were very popular. Unfortunately, music streaming services made CDs seem old hat, and investors in those companies lost a lot of money. Grandma chimed in to say I'd be smart to **diversify** (buy a variety of shares) so that if one share's price drops, it won't seriously damage my finances. But how can I afford to buy a whole bunch of shares? Grandma reminded me that I invest in managed funds as part of my superannuation plan. Because each fund owns many shares, it gives me built-in diversification. It's kind of like buying a premixed salad!



LESSON 1

Diversification
Ever heard the old saying, Don't put all your eggs in one basket? That's the idea behind diversification, which is really just another way of saying you should be putting your money in different types of investments to help reduce risk.



Mid-Twenties

Late Thirties

WHAT'S THE
Big Idea?

Diversifying your investments by owning different types of companies can help reduce the risk of your investments losing value when economic or political events hurt a particular industry or company.

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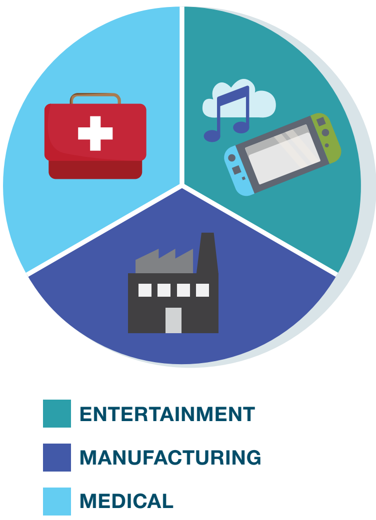
Diversification

Investment Choices, Part B

After doing more reading on diversification, I feel like I should talk to someone closer to my own age about where to start! Last night, I called my sister April for more advice. She's a doctor now, and although she's older than me, we have similar financial time horizons. Plus, she's really smart and has been investing for several years! She loves to talk about money matters.

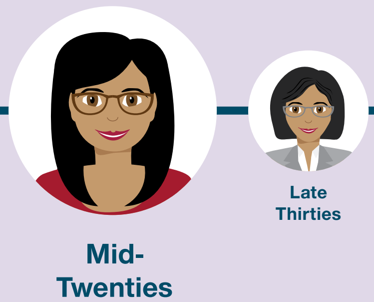
April said that since I'm 25 and have many years to handle the ups and downs of the share market, that it is okay to invest in shares for my long-term goals.



She wouldn't let me off the phone without reminding me of one more thing: If you use a managed fund as part of your diversification strategy, make sure to research the managed fund to understand the different types of shares it holds. The last thing you want is to have most of your money invested in one type of company or industry. For example, if you only invested in companies that made sweets and they lost a lot of money because bad weather wiped out the sugarcane crop, then you will likely lose a lot of money too when their share plummets. However, if your investments were spread over different types of industries and companies—such as technology companies, health care companies, manufacturing companies, etc.—then your investment would be diversified and your losses would likely be less because the fund spreads your money across different types of share. Geez! This was getting really complex. I decided to take notes on my laptop while April explained that it's important to have a mix of:

LESSON 2

Diversification
When it's time to invest your hard-earned money and help it grow for the future, you don't want to make your financial future dependent on a single investment.



DIVERSIFICATION MIX

SHARES FROM DIFFERENT INDUSTRY SECTORS

INDUSTRIES

Sometimes events happen that help or hurt almost all the companies in a specific industry. For example, if the price of oil declines, many shares in the oil industry could suffer.

INTERNATIONAL SHARES AND DOMESTIC SHARES

INTERNATIONAL AND DOMESTIC

Consider a mix of companies based in Australia and other countries.

SHARES OF DIFFERENT-SIZED COMPANIES

DIFFERENT-SIZED COMPANIES

It's good to have a mix of funds with the shares of small, medium-sized, and large companies.

Wow, thanks for the info, April! Looks like I have a lot more research to do!

WHAT'S THE
Big Idea?

Managed funds offer some built-in diversification because they contain more than one type of share; however, there are many different types of managed funds, and it's important to understand what types of investments they hold.

Name________________________

DIVERSIFICATION ACTIVITY SHEET 1

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Spread It Around!

5

Economic Scenarios

The prices of shares go up and down for many different reasons. If a company introduces an exciting new product or has good earnings results, the share of that company usually increases. The opposite happens with bad news for that company.

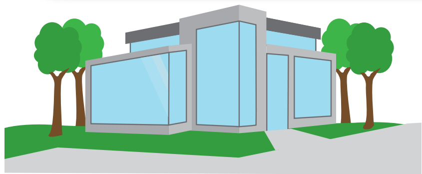
Sometimes, news affects an entire industry. If more people are buying products online, the shares of companies that sell their products through retail stores might decline. Political unrest or a natural disaster in one country might cause many shares located in that country to decline. Then there are events that cause most shares to increase or decrease. Prospects for good economic times usually lift most shares, while fears of hard times depress the price of most shares.

Because it's impossible to know what the future holds, it is important to diversify so that bad times for some companies don't sink your whole portfolio.

This chart shows how managed fund returns can change from year to year depending on factors such as economic conditions.

PERFORMANCE CHART

Type of Fund	Year 1	Year 2	Year 3	Year 4	Year 5
Small Biotechnology Companies	17%	-37%	+22%	+10%	+32%
Medium-Sized Airline Companies	+19%	-28%	+22%	+5%	+11%
Large Companies From Many Industries	+11%	-6%	+20%	+7%	+8%
International—Large Consumer Products Companies	+6%	-2%	+17%	-5%	+6%



Review the chart above, then read through the five scenarios on the next page.

Name____________________

DIVERSIFICATION ACTIVITY SHEET 1

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Spread It Around!

5

Economic Scenarios

(Continued)

Read the five scenarios for each year, and match them to the mutual fund Performance Chart on the previous page. Notice how the economic scenarios impact whether the returns are positive or negative.

Year 1: All four funds had positive returns in a fairly stable market environment.

Year 2: The world entered a major **economic recession**, which caused a broad decline in global markets.

Year 3: Markets everywhere had significant gains, thanks to a broad-based global economic recovery.

Year 4: Australia experienced moderate economic growth, but other economies around the world declined.

Year 5: While all five funds had positive returns, the biotechnology fund soared, thanks to the introduction of exciting new biotechnology products.

Considering the industry fluctuations from year to year, explain why it is important to have a diversified portfolio.

____

____

____

Answers will vary but should explain that the shares of different types of companies perform differently depending on economic conditions. With a diversified portfolio, losses in some areas can be offset by gains in others.

Name________________________

DIVERSIFICATION ACTIVITY SHEET 2

MONEY CONFIDENT Kids™
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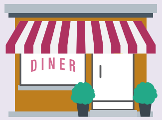
Can This Portfolio Be Saved?

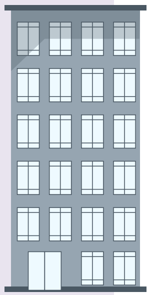
5

Diversified Portfolio

As an investor, you want to make sure that your share portfolio is adequately diversified. A good way to do this is to invest in a managed fund.



The share portion of the portfolios of three imaginary managed funds are presented to the right. The shares are not spread out amongst different industries and don't have a good mix of domestic and international companies, nor a mix of small, medium-sized and large companies.



Directions: Review the managed fund portfolios and consider how they can be more diversified amongst different industries. Now go to the next page and find a list of recommended shares to pick from.

(Continues on next page)

Managed Fund A

Company	Industry	Size	Domestic or International
LMN Pharmaceutical	Health Care	Small	Domestic
NVM Bank	Financials	Large	International
JL Therapeutics	Health Care	Small	Domestic
Magnum Bank	Financials	Large	Domestic
GR Biomedical	Health Care	Medium	Domestic

Managed Fund B

Company	Industry	Size	Domestic or International
Magnum Bank	Financials	Large	Domestic
Gilmore Systems	Technology	Large	Domestic
Ledman Applications	Technology	Large	Domestic
TLT Dynamics	Technology	Large	Domestic
GR Biomedical	Health Care	Medium	Domestic

Managed Fund C

Company	Industry	Size	Domestic or International
LLL Electric and Gas	Utilities	Medium	Domestic
TLT Dynamics	Technology	Large	Domestic
Giant Manufacturing	Manufacturing	Large	International
YY Products	Consumer Goods	Small	International
Northwest Gas	Utilities	Large	Domestic

Name________________________

DIVERSIFICATION ACTIVITY SHEET 2

MONEY CONFIDENT Kids™
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Can This Portfolio Be Saved?

5

Diversified Portfolio

Instructions: Review these managed fund portfolios for proper diversification. To improve diversification, consider substituting up to three of the shares in the portfolios for shares on an investment firm's list of recommended shares.

(Continues on next page)

RECOMMENDED SHARE LIST

Company	Industry	Size	Domestic or International
NVM Bank	Financials	Large	International
Overlord Exploration	Energy	Small	Domestic
LLL Electric and Gas	Utilities	Medium	Domestic
Samson Development	Real Estate	Small	Domestic
Giant Manufacturing	Manufacturing	Large	International
Peter Networks	Telecommunications	Medium	Domestic
GR Biomedical	Health Care	Medium	Domestic
Crown Mining	Materials	Large	Domestic
TLT Dynamics	Technology	Large	Domestic
YY Products	Consumer Goods	Small	International

These are the changes I would make to each managed fund's portfolio. (Explain your thinking.)

Managed Fund A

Name________________________

DIVERSIFICATION ACTIVITY SHEET 2

MONEY CONFIDENT Kids™

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Can This Portfolio Be Saved?

5

Diversified Portfolio

Instructions: See instructions on page 45 to make changes to the portfolios shown here.

These are the changes I would make to each managed fund's portfolio. (Explain your thinking.)

Managed Fund B

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Managed Fund C

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Answer Key: Managed Fund A's financial assets are too heavily concentrated in the health care and financial industries. Consider subtracting JL Therapeutics, LMN Pharmaceutical and Magnum Bank and adding three from the following: Overlord Exploration, LLL Electric and Gas, Samson Development, Peter Networks, Crown Mining or YY Products.

Managed Fund B's financial assets are too heavily concentrated in large, domestic companies in the information technology industry. Consider subtracting Ledman Applications and Gilmore Systems and adding three from the following: Overlord Exploration, LLL Electric and Gas, Samson Development, Giant Manufacturing, GR Biomedical or YY Products.

Managed Fund C has a fairly diversified portfolio already, but her assets are too heavily concentrated in utilities. Consider subtracting Northwest Gas and adding one of the domestic companies.

Name________________________________

DIVERSIFICATION ASSESSMENT

MONEY CONFIDENT Kids™
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Show What You Know

5

You don't want your financial future to be dependent on a single investment. You've learned the concept of diversification as a strategy to reduce the risk of your investments losing value when negative events hurt a particular industry or company.

1. You have worked for a popular social media company for 15 years. During that time, you participated in the company's **share ownership plan** and the value of your account now totals $600,000. This represents 80% of the value of your total investments. The company is doing very well and expects to do well in the future. Are your investments diversified? Explain the risk in this scenario.

____

____

____

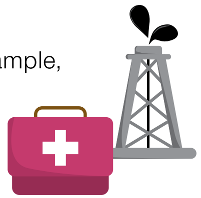
2. What types of shares should you consider owning to help you diversify your investments?

a.) Large, medium-sized and small companies

b.) Domestic and international companies

c.) Companies in a variety of industries; for example, health care, energy, technology, etc.

d.) All of the above



3. Why might an investor want to own shares in companies located outside Australia?

____

____

Answer Key: See next page.

Name________________________________

DIVERSIFICATION ASSESSMENT

MONEY CONFIDENT Kids™
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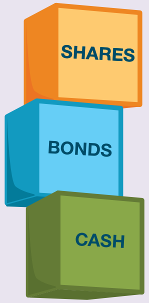
Show What You Know

5



4. Why is it important to diversify your investments?

____

____

____

5. Why should an investor consider buying a managed share fund rather than buying the share of a single company?

____

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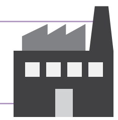

Answer Key: (1) The portfolio is not diversified, hence some of the shares should be sold so that managed funds in many types of companies can be purchased; (2) d; (3) To diversify. If the Australian economy slows, economies of other countries might be picking up and the shares of companies based overseas might be better performers; (4) To reduce risk. (5) If someone invests in one or even just a few shares, then if those companies go bankrupt or lose value, the investor can lose a tremendous amount of money.

Name________________________________

FINAL ASSESSMENT

MONEY CONFIDENT Kids™

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Show What You Know

Congratulations! You've completed the Money Confident Kids Programme.

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.

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

______________	______________	______________
______________	______________	______________

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

____

____

____

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

____

____

____

Name________________________

FINAL ASSESSMENT

MONEY CONFIDENT Kids™

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Show What You Know

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 shares 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 shares in the company she works for?

Answer Key: (1.) Answers will vary. Short: Groceries, a new jacket. Medium: Holiday, 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 helps to reduce 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 or cash and less to shares. This helps reduce their risk, since they will need the money pretty soon and won't have a lot of time to bounce back if their shares decrease in value. (6.) Having an investment in the share of a single company is risky. If the company's business doesn't do well, then the share 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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Conclusions

Goodbye and Good Luck

Hey guys, it's Nikki...and guess what? I just got the best birthday present EVER! I was named CEO of Batt Software. I achieved my career goal at 38! Now I have dreams of developing products that help people around the world and keep the company financially strong. I've also managed to reach my personal financial goals. I have enough cash in savings in case an unexpected expense like a car repair or a medical bill comes up, and my investments—including my retirement account—are doing well. Sometimes they go up and sometimes they go down, but I don't stress about it because I'm properly diversified *and* because I won't need to use the money for many years until retirement. I moved into a house that's big enough for my family, and I'm making timely mortgage payments whilst building a good credit rating. And I'm happy to tell you that I have two wonderful children! They're young now, but I've already started saving for their university education. I can't wait to teach them about how to make smart money choices the way my family taught me.

What's my secret? Well, I started by sorting out my goals when I was in high school—like you—and focusing on what was important to me over short-, medium- and long-term time horizons. I received lots of advice from people with experience in financial matters. And once I set my goals and learned how to achieve them, it was a matter of hard work and discipline. I gave up the momentary pleasure of things that really didn't matter to save for the important things.

And let me tell you, changing my habits and planning for the future was SO worth it! I'm proof that it's never too early to learn good money habits. I know that you can do it too!

GOAL

THANK YOU

We hope you enjoyed this programme and are inspired to think about your future and how careful financial planning can help you reach your goals.

Late Thirties

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Glossary

Language of Money

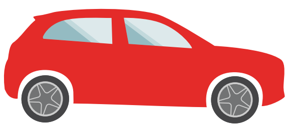
Money words help you talk dollars and cents. As you learn more about creating realistic goals and investing your money, you'll encounter a lot of new words. Learning the 'language of money' can help you make smart financial decisions and talk about money with others—like your family and other adults.

MONEY WORDS GLOSSARY

An **account** is a place to put your money. You can have an account at a bank, credit union or other financial institution. A transaction 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.

Annual interest rate is the annual percentage you will pay when taking out a loan or earn when you invest money, for example, in a bank account. Rates vary, and for loans, rates are generally higher for riskier loans. Rates may be fixed for the life of the loan or may change over time (a variable rate).

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



Asset allocation is how you invest your money amongst shares, bonds and short-term investments. If you have a long-term goal, consider investing most of your money in shares to help keep up with inflation. As your goal gets closer, you may want to hold less in shares and more in bonds and short-term investments.

Bank loan is a loan that is often used to buy items such as a house or car. Money is borrowed and paid back with interest (often in monthly payments) over a specified time period.

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 Australian government.

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.

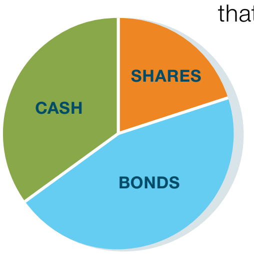
Credit purchase is credit that allows a customer to purchase goods or services by agreeing to pay the money at a later date, usually with interest. The credit may come from a supplier, a store credit card or a bank credit card.

A **credit rating** measures the probability that you will repay a debt such as a credit card bill, car 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 paid as the first installment when purchasing an item or as a show of good faith when promising to buy an item such as a house. The deposit is deducted from the purchase price, with the balance payable later.

Diversification means having lots of different kinds of investments (different types of shares, different types of bonds, etc.). For example, if you invest in skateboard shares 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.



Domestic shares are the shares of Australian companies traded on the Australian Stock Exchange.

An **economic recession** is a significant decline in economic activity, real gross domestic product, real income, employment, industrial production and sales following a decline in the aggregate demand for at least two quarters.

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

Financial goals are the priorities and targets you set for spending and saving your money. For example, planning to buy a house or retire early. Also, planning to save a certain percentage of your income to achieve these goals.

Financial future is the outcome of the financial goals you set for saving and spending your money.

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

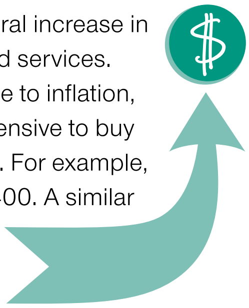
Financial strategy is a financial plan that helps secure your financial future that includes your daily expenses along with larger items such as a house, a car, and saving for retirement. This strategy includes a plan for saving and investing your money.

Higher Education Contribution Scheme (HECS) is the annual charge levied by the Australian government on students undertaking a tertiary course.

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

Industry sector is the segment of the economy that produces a certain type of goods or products, for example: agriculture, construction, fisheries, forestry and manufacturing.

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.



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 can be 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.

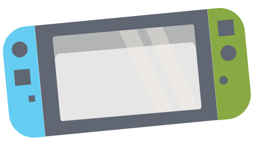
International shares are the shares of foreign companies traded on the Australian Stock Exchange.

You **invest** by putting money into assets (such as shares, bonds or managed funds) to help you reach your financial goals.

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

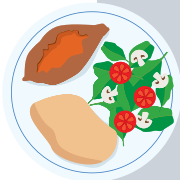
A **loan** is money that's borrowed and expected to be repaid, usually with added interest.

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.



Managed funds are funds that combine money from many investors who have common financial goals into a professionally managed portfolio. Managed funds take the money and buy many different shares, 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.



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

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

Projected annual inflation rate is the anticipated percent change of the consumer price index compared with the same month of the previous year.

Purchasing power is the financial ability for an individual or company to buy products and services.

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 (a superannuation, for example).

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.

Share/stock price is a portion of a company that is sold to the public. Companies sell shares to raise money to finance business operations. Share prices can change daily. As an investment, shares have produced the highest long-term returns over the past several decades. They've also 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 term 'share' and 'stock' are interchangeable; however, share is a more widely used term in Australia.

Shareholder (or stockholder) is a person who owns shares (stocks) in a company.

Share market is the place where shares of various companies are bought and sold.

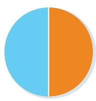
Share ownership plan is a plan that gives company employees the opportunity to buy shares in their company. Other terms to describe this plan include an 'employee share purchase plan' or an 'employee equity scheme'.

Superannuation is an account that lets employees of Australian firms save for retirement. Employers pay 9.5% of the employee's salary into a super fund—employees can also contribute to their account. The money is invested and grows tax-free until it is withdrawn, beginning at age 59½.

Super fund is the investment portfolio in your name that manages the money set aside for your retirement by your 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 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.

NOTES

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