personal finance

*The study of personal and family*

*resources considered important in*

*achieving financial success; it involves*

*how people spend, save, protect, and*

*invest their financial resources.*

financial literacy

*Knowledge of facts, concepts,*

*principles,*

*and technological tools*

*that are fundamental to being smart*

*about money.*

financial well-being

*A state of being wherein a person can*

*fully meet current and ongoing financial*

*obligations, can feel secure in their*

*financial future, and make choices that*

*allow them to enjoy life.*

financially responsible

*Means that you are accountable for*

*your future financial well-being and*

*that you strive to make wise personal*

*financial decisions.*

you can! Most people realize that the key to long-term financial stability and

success is to live below your means, have an emergency fund to handle financial

surprises, pay off credit cards and student loans, and save and invest for your

future. But it is tough to accomplish today with all the demands on your money.

In the years ahead many opportunities will arise for you to take smart

actions to help assure your future financial success. Financial success may

seem like a far-off prospect when you are in your twenties. But the personal

finance patterns you put into practice while enrolled in your personal

finance course and immediately after graduation will help you manage, as

well as accumulate,

money in the years ahead.

This book is your ticket for a financially successful life! You can have it

all by becoming a wealth builder. You can become financially responsible

and economically independent. And you will learn to handle any financial

surprises along the way.

Personal finance is the study of personal and family resources considered

important in achieving financial success. It involves how people spend, save,

protect, and invest their financial resources. A good understanding of personal

finance topics offers you a great chance of success in facing the financial challenges,

responsibilities, and opportunities of life.

At the heart of it, personal finance is totally about money. On the question of

“What makes the world go around, love or money?” The answer: “Love makes it

very special. But without money you are in serious trouble. And the trouble is so

bad that it is like being up the proverbial creek without a paddle.” So, please, continue

reading and get started on how to be very smart in your personal finances.

This book provides prudent guidance for every step of the way. Careful

study will enhance your financial literacy, which is your knowledge of

facts, concepts, principles, and technological tools that are fundamental to being smart

about money. Financial literacy empowers you. It improves your ability to handle dayto-

day financial matters, helps you avoid the consequences of poor financial decisions

that could take years to overcome, helps you make informed and confident personal

money decisions, and makes you more financially responsible.

Financial well-being, says the federal government, is a state of being wherein a

person can fully meet current and ongoing financial obligations, can feel secure in their

financial future, and is able to make choices that allow them to enjoy life. To achieve

financial well-being, one must be financially responsible. This means that you are

accountable for your future financial well-being and that you strive to make good decisions

in personal finance. The best example of not being financially responsible is to live

like you are rich *before* you are. Being financially responsible means you will control your

personal financial destiny and be successful.

At the beginning of each chapter, we provide a short case vignette titled “What Do

You Recommend?” Each story focuses on the financial challenges that can be experienced

by someone who has not learned about the material in that chapter. You will be

asked to think about what advice you might give the person as you study the chapter. At

the end of each chapter, you will again be asked to provide more informed advice based

on what you have learned. The question at that point is “What Do You Recommend

NOW?” You will be much better informed then!

**1.1 ACHIEVING PERSONAL FINANCIAL**

**SUCCESS**

Today’s marketplace provides a constant barrage of messages suggesting that you can spend

and borrow your way to financial success, security, and wealth. Well, they are wrong because

you can’t. These messages are very enticing for those starting out in their financial lives. It is

hard to resist the immediate gratification of spending. In truth, however, overspending and

overuse of consumer credit seriously impedes financial success.

The fact is that “you” are the result of your financial decisions. If you regularly purchase

things you cannot afford, that is who you are. There is a right and a wrong way,

and that is the wrong way. If this sounds like you, then you must learn to make better

financial decisions.

Many people think that being wealthy is a function of how much one earns or inherits.

In

reality, it is much more closely related to your ability to make good decisions that generate

wealth for you. The most important point in this book is to realize that you must live within

your means, save some of what you earn, and avoid the temptation of having to purchase

every new thing your friends buy.

You must have the discipline to delay gratification and make the right decisions to

succeed in your finances. You have to do only a *few* things right in personal finance

during your lifetime, as long as you don’t do too many things wrong. Personal finance

is not rocket science. You can succeed very well in your personal finances by making

appropriate plans and taking sensible actions to implement those plans.

**1.1a** The Five Fundamental Steps in the Financial Planning

Process

There are five fundamental steps to the personal financial planning process, and these

are examined in this chapter and the two that follow:

(1) Evaluate your financial condition relative to your education and career

choice;

(2) Define your financial goals;

(3) Develop a plan of action to achieve your goals;

(4) Periodically develop and implement spending plans to monitor and control

progress toward goals; and

(5) Review your financial progress and make changes as appropriate.

**1.1b** You Must Plan for Financial Success and Happiness

Financial success is the achievement of financial aspirations that are desired, planned,

or attempted. Success is defined by the person who seeks it. Some define financial success

as being able to actually live according to one’s standard of living. Many seek financial

security, which provides the comfortable feeling that your financial resources will be

adequate

to fulfill any needs you have as well as most of your wants. Others want to be

**wealthy** and have an abundance of money, property, investments, and other resources.

Financial happiness encompasses a lot more than just making money. It is the experience

you have when you are satisfied with your money matters. People who are happy

about their finances are likely to be spending within a budget and taking steps to achieve

their goals, and this happiness spills over in a positive way to feelings about their overall

enjoyment of life. Financial happiness is in part a result of practicing good financial

behaviors. Examples of such behaviors include paying bills on time, spending less than

you earn, knowing where your money goes, and investing some money for the future.

The more good financial behaviors you practice, the greater your financial happiness. In

fact, simply setting financial goals contributes to financial happiness.

**1.1c** You Must Spend Less So You Can Save and Invest More

Financial objectives are rarely achieved without forgoing or sacrificing current

**consumption**

(spending on goods and services). This restraint is accomplished by

putting

money into savings (income not spent on current consumption) for use in

achieving future goals. Some savings are actually investments (assets purchased with

the goal of providing additional future income from the asset itself). By saving and

investing, people are much more likely to have funds available for future consumption.

If you save for tomorrow, you will be happier today *and* tomorrow.

Effective financial management often separates the *haves* from the *have-nots.* The haves

are those people who learn to live on less than they earn and are the savers and investors of

society. The have-nots are the spenders who live paycheck-to-paycheck, usually

with high

consumer debt. They fail to manage money and as a result money manages them

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