YLAI Counts:
A Money Management Workbook

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At every stage of life, important financial decisions must be made, from how much to spend at the market to whether you should pursue advanced education, apply for a credit card or spend money on the latest mobile phone. How well you navigate these decisions depends on your ability to manage your financial resources effectively. With this workbook, you will learn more about budgeting, saving and goal setting to better manage your money today and for years to come.

Section Two: Understanding Savings and Scams

Once you have a better grasp of your own personal finances, it is important to understand how to grow your wealth. In this section, you will learn more about borrowing, saving and wealth creation.

Borrowing Money

Whenever an individual or financial institution lends money, there is a possibility that the borrower will not repay the sum. To compensate lenders for that risk, there must be a reward: interest. An interest rate is the percentage of a loan that the lender charges to those borrowing money.

Saving Money

When you deposit your money in certain financial institutions, it can earn interest. When interest rates fall, chances are you will earn less interest on your savings, but also pay less interest on any debt you take on. When interest rates increase, your payments on loans and credit cards may be higher, but your savings will also earn more money.

Where to Save?

It is important to be informed about all of your options when saving your money. Understanding the financial landscape in your country, the security of the institutions within it, and the costs associated with saving can help you to determine the best way to grow your money. There are risks and rewards for each place, so make sure to weigh each before deciding what is best for you.

LOCATION	BENEFITS	RISK
Home	• No costs to maintain • Convenient • Easy to access	• Can be lost, stolen or destroyed in a fire or natural disaster • Might put you at risk of a home invasion
Family member or friend	• No costs to maintain	• Can be lost, stolen or destroyed in a fire or natural disaster • Might put your friend or family member at risk of a home invasion • May put your money at risk if your friend or family member betrays your trust
Account at a financial institution (bank, credit union)	• Your money is protected if the institution is insured • If fraud occurs, you can retrieve your money more easily • Your money cannot be lost, stolen or destroyed in a fire or disaster	• You may be charged fees, such as overdraft fees, if you do not maintain a minimum balance • Potential limitations on flexibility of transactions

Risk and Reward

While the traditional rule of thumb is "the higher the risk, the higher the reward," a more accurate statement is, "the higher the risk, the higher the reward, and the less likely it will achieve the higher reward."

To better understand this relationship, you must know what your risk tolerance is and be able to assess the relative risk of a particular investment correctly. When you choose to put your money into riskier investments, you run a higher risk of not seeing a return on your investment.

Common Pitfalls

Sometimes people do not have the money to repay a loan and the interest it has accumulated when due. This can happen with short-term loans that have to be paid back in just one payment or a couple of payments. In this situation, some people take out another loan to pay off the first one.

It can be difficult to escape the cycle of borrowing to cover the loan payment and still be able to pay for other expenses like food, rent and transportation. If you are considering a short-term loan to meet an immediate need, it is important to think about how you will pay off the loan.

If you are short on cash, consider the following alternatives to borrowing small amounts of money for a short period of time:

- Negotiate for more time to pay off your original loan rather than taking out another.
- Think about what you are borrowing the money for. Is it a need, an obligation, or a want? If it is a want, consider whether it is possible to spend less money for it, not purchase it, or wait until you have the money for it.
- Use your own emergency savings.
- Discuss the situation with a credit counselor or financial coach.

Fraud

Financial scams come in many forms. One of the most common is an email, text message or other communication requesting that you wire funds to an individual or organization. Most of us have seen or heard of offers to receive millions of dollars from a foreign prince, jobs that say you can earn $80/hour while working from home, or prize announcements from a lottery you did not enter. <u>Unfortunately, if the opportunity appears too good to be true, it probably is!</u>

Tips to Avoid Being Scammed:

- Never send money to a stranger.
- Do not give out your financial information to anyone you do not know.
- Never open hyperlinks in emails from strangers.
- Create a strong password if banking online.

Now that you've learned a bit more about borrowing, saving and common financial scams, take a minute to answer the following questions.

What is one thing you learned in this section about borrowing or saving money?

What are some of the financial scams you've come across? How did you identify them?

What is one change that you can make today in the way that you invest your money?

Additional Resources

- The Importance Of Diversification (Source: Investopedia)