

# Personal finance

or How to sail safely through the  
world of finance



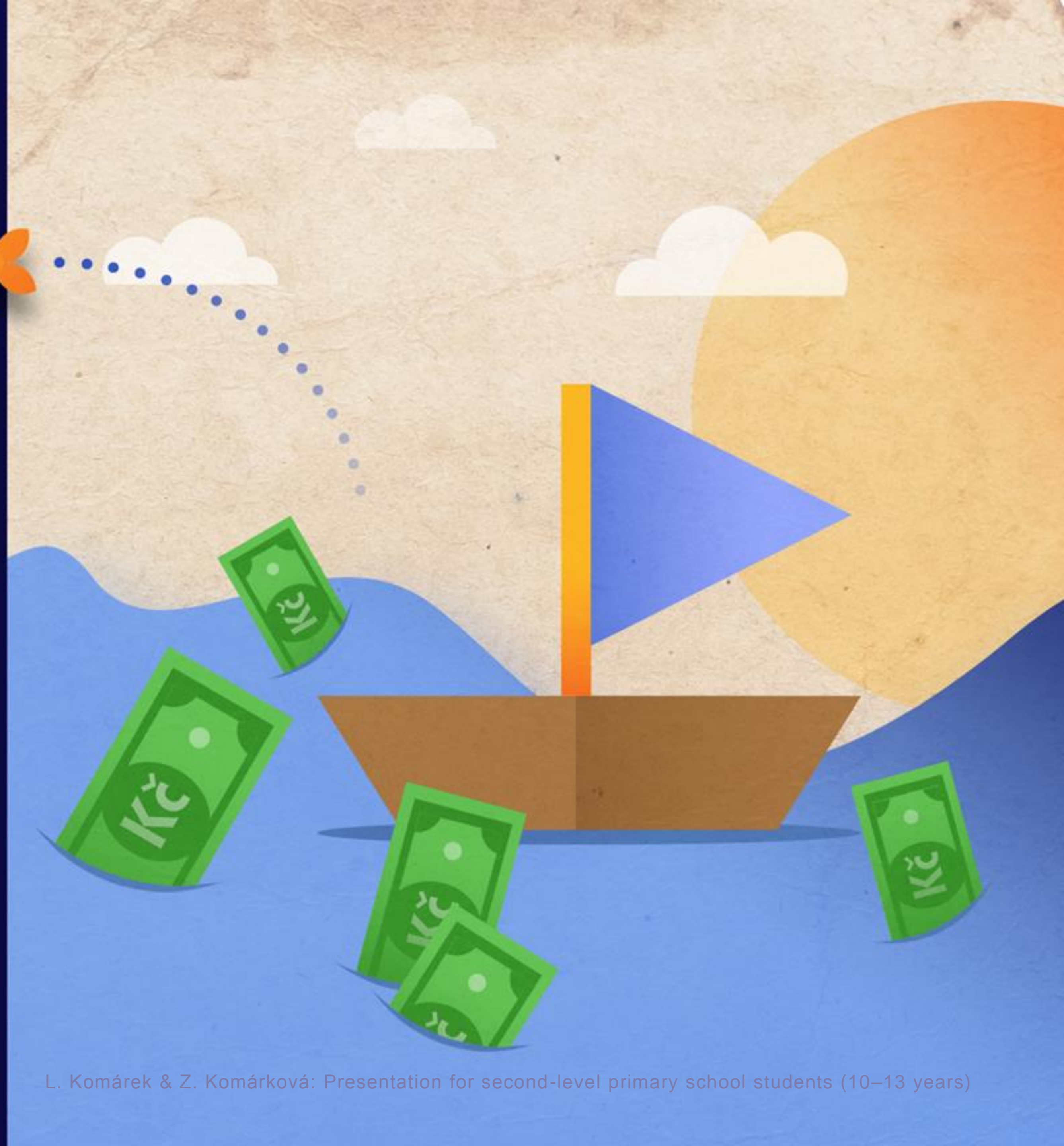
by

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# Contents



**MONEY**



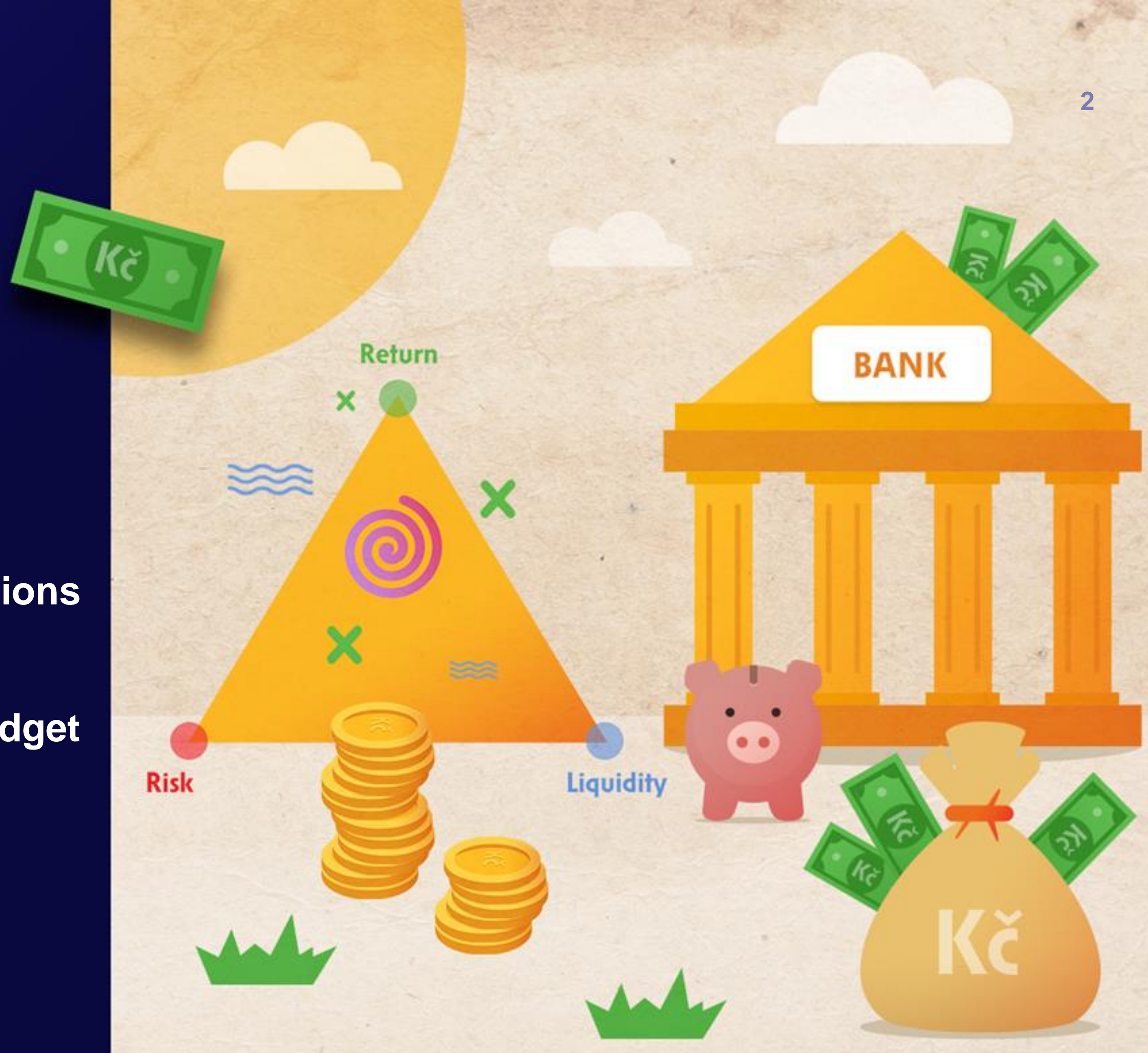
**BANKS and other financial institutions**



**PERSONAL FINANCE and your budget**



**THE TRIANGLE OF FINANCE**





# Money

The world revolves around money.

- Money accompanies you throughout your life.
- Buying and selling things would be difficult without money.
- Money is the lifeblood of the economy.
- Money differs from country to country; currencies are converted using exchange rates.





# Money

and its various sorts of value

## Properties of money

divisibility, fungibility, portability, durability

## Functions of money

medium of exchange, unit of account, store of value

## Which banknote would you choose?

- a) 100 euros?
- b) 1,000 Czech korunas?
- c) 100,000,000,000,000 Zimbabwean dollars?





# Money

## and what you can buy for it

### The purchasing power of money

The number of zeros on a banknote doesn't matter. What matters is what you can buy for it.

### Prices should rise only very gradually

- What would be the risk if prices rose rapidly?
- What would be the risk if they fell?

**NB!** Beware of rapid price changes (inflation/deflation).





# Money

is a part of your assets

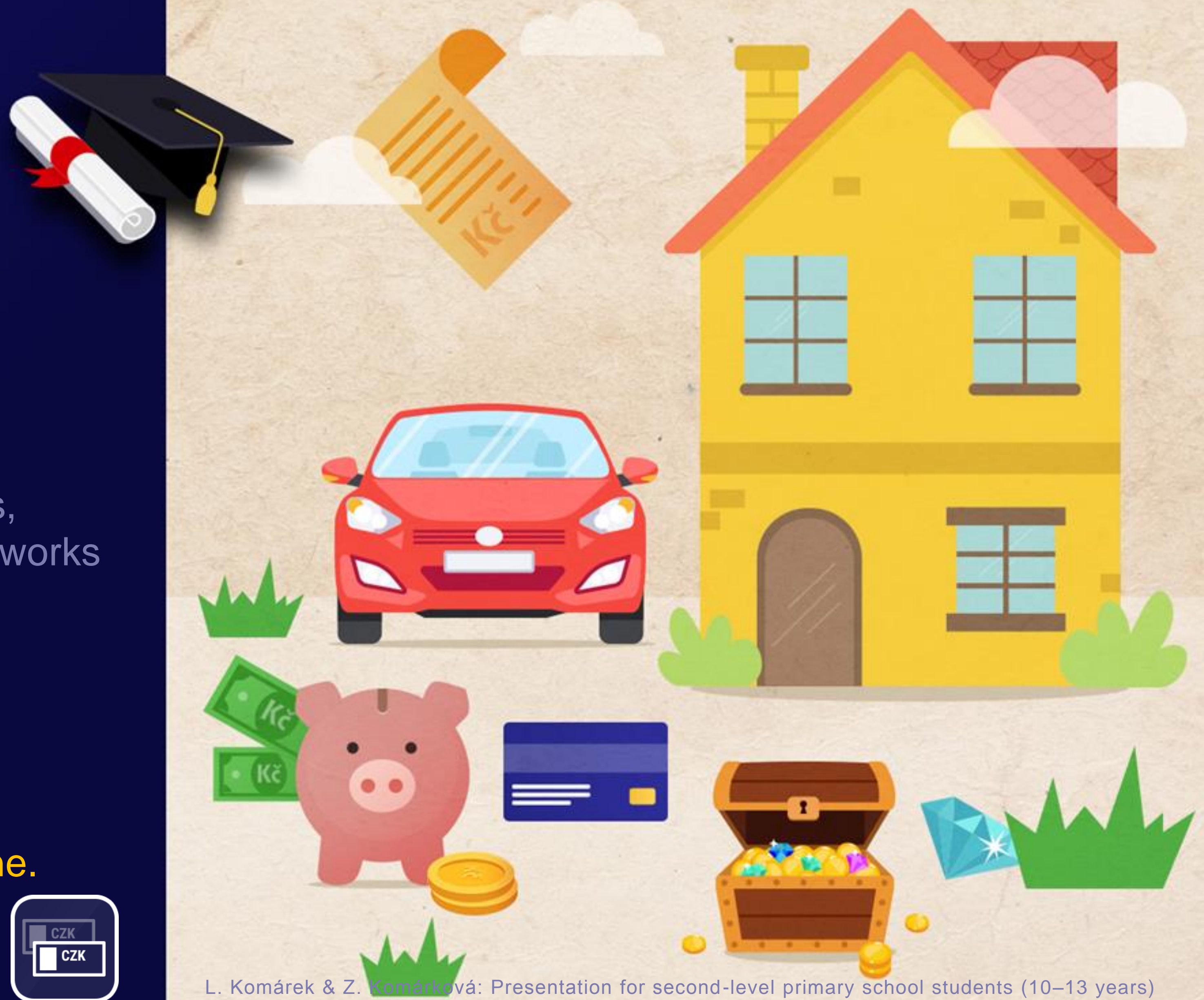
## Assets

are everything you own.

## What do they include?

Banknotes and coins, money on accounts, securities, real property, gold and jewels, works of art, antiques, etc.

**NB!** Wealth doesn't consist of assets alone.





# Money

## Where does money come from?

### Employees

receive a wage in return for their labour.

### Firm owners

have a share in profits.

### Income from past labour

rental income, share dividends, bond yields, interest on deposits, etc.

### Inheritance, gifts etc. 😊

what you receive from your ancestors or relatives.

**NB! No pain, no gain.**





# Money

## Where does money go?

- Most often onto a current account at a bank.
- Anyone can open a current account.
- A bank is like a money box or a safe.

**NB!** Banks usually charge a fee for maintaining an account.





# Money

## How to pay with money?

### By cash (banknotes and coins)

You can withdraw cash by card from a cashpoint (ATM) or at a bank counter.

### Directly (money on an account)

You can pay by bank transfer or card from your account to someone else's. You can also pay using a computer, mobile phone, smart watch, etc.

**NB!** There's a difference between a debit card and a credit card!





# Banks

You can save with a bank.

## Money on an account $\approx$ deposit

A current account is used for making current payments.

A savings account is used to create savings and reserves for the future.

- Money is deposited on a savings account at a bank (a deposit).
- People (depositors) are in a creditor position.
- The bank is in a debtor position.
- The bank pays interest on money deposited on savings accounts.





# Banks

You can save with a bank.

## Example:

You deposit CZK 100 on a savings account at a bank today, i.e. you lend to the bank. In a year's time, the bank adds CZK 2 to the original CZK 100. This extra amount is called interest. The bank pays it to people for lending to it (depositing with it).

What is the interest rate on your deposit in this example?

How much interest would you get if you kept the deposit at the bank for two years?





# Banks

You can borrow from a bank.

- A bank can lend money (provide a loan).
- The bank is in a creditor position.
- People are in a debtor position.
- Interest on the loan is paid to the bank.
- For larger loans, banks require collateral (property) or a guarantee (from a friend).

## Loan account with a bank $\approx$ loan

A housing loan (mortgage) is used to buy property.

Consumer credit is used to buy current goods.





# Banks

You can borrow from a bank.

## Example:

You borrow CZK 100 from a bank today. In a year's time, you must pay the bank CZK 103. The extra CZK 3 is the bank's reward for lending you the money (the interest you pay the bank for the loan).

What is the interest rate on your loan in this example?

Do you know what "principal" is?



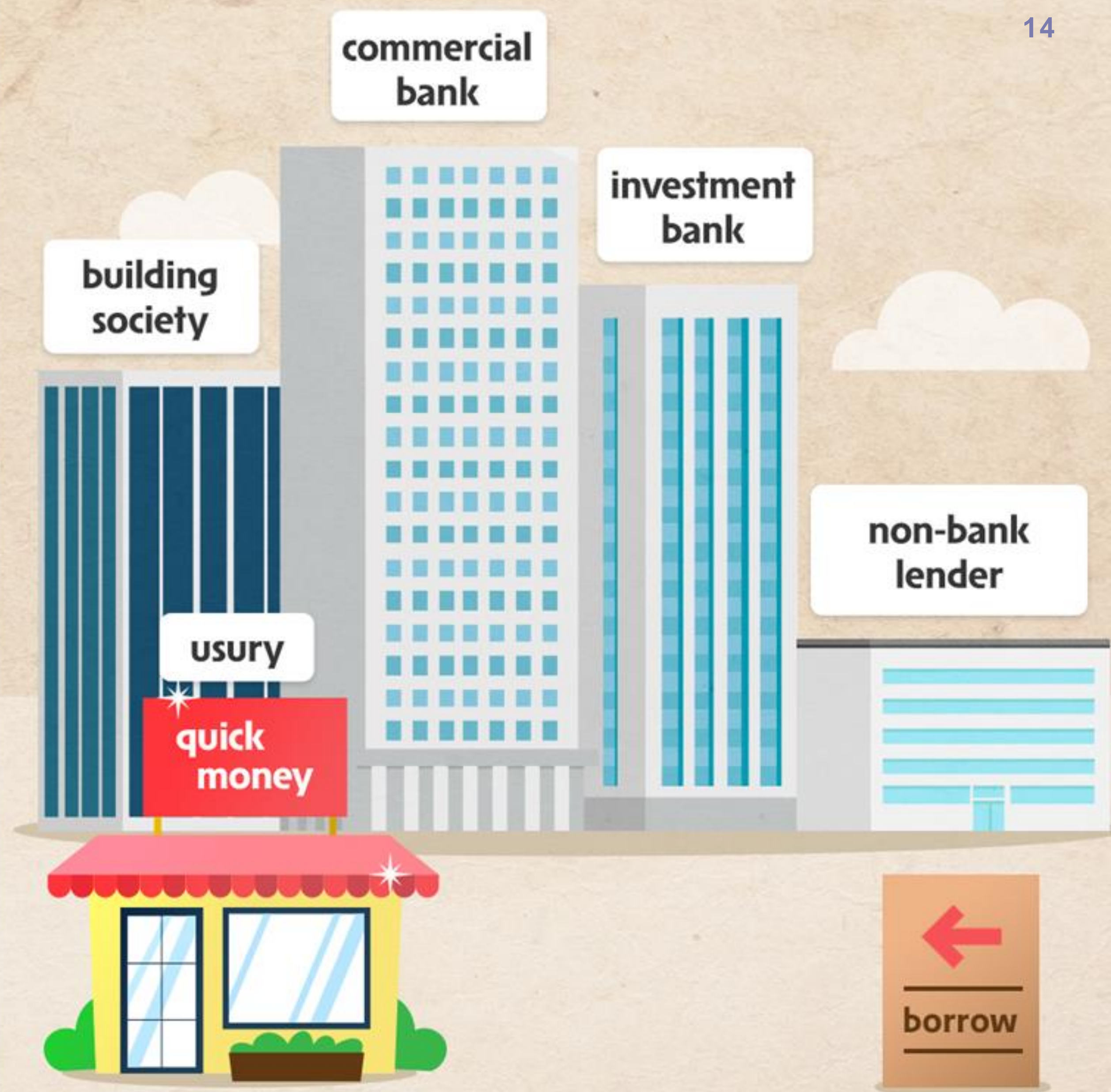


# Banks

## and other financial institutions

- You can also borrow from lenders other than banks.
- Consider very carefully who you borrow from.
- Calculate very carefully how much you will have to pay on top of what you borrow.

**NB!** Banks will not lend to everyone.





# Personal finance

Your dilemma: borrow, save or invest?

## Two main situations

You are short of money.

You have an excess of money.

When are you short of money,  
and when do you have an excess of it?

???





# Personal finance

Money arrives on your current account.

Then you follow a simple spending rule:

**7:2:1**

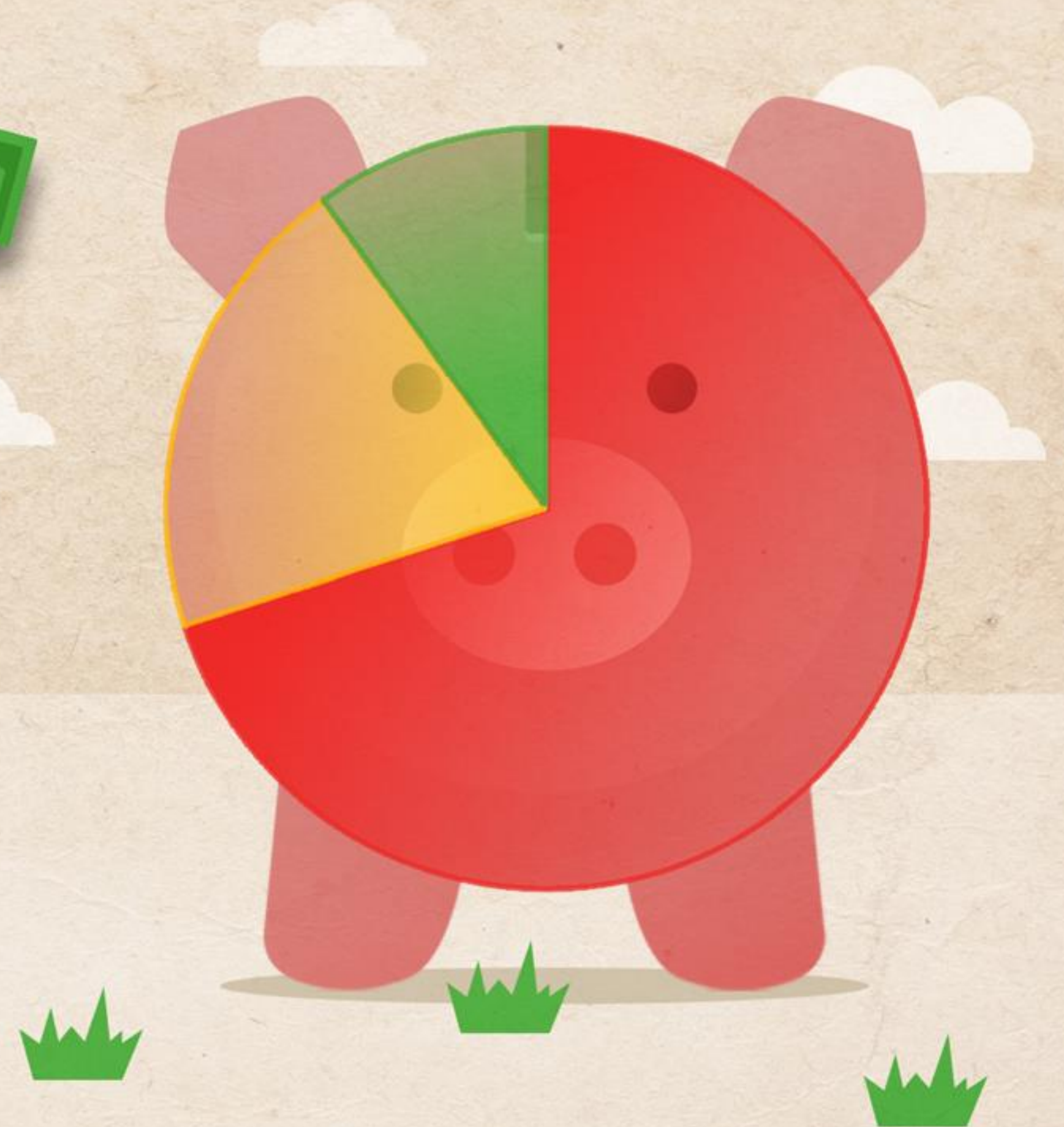
7...for everyday life

2...your “nest egg”

1...the occasional treat

...is there anything left?

**NB!** Everyone wants your money.





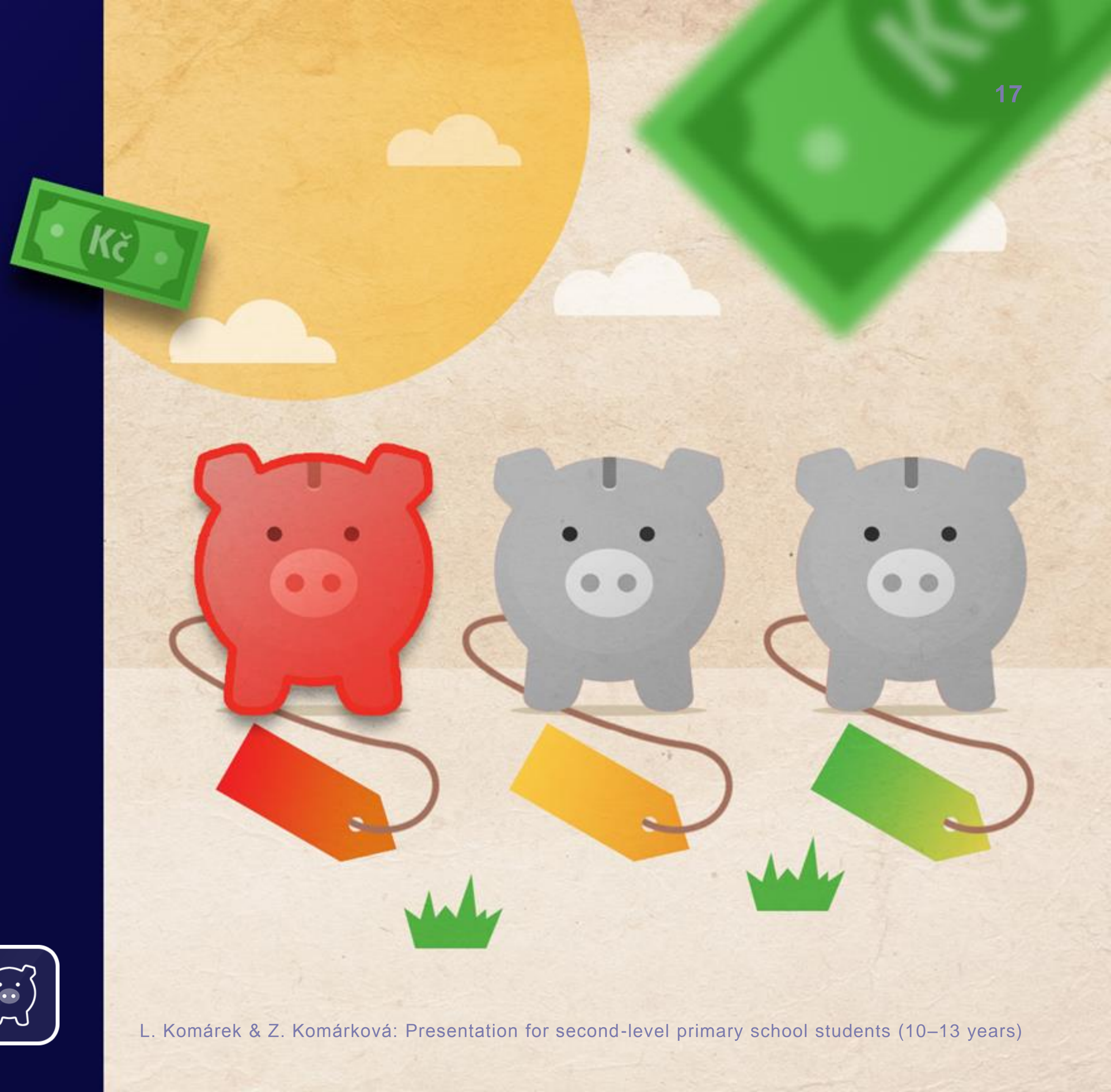
# Personal finance

## Red, yellow and green piggy banks

### 1. MANDATORY

- Taxes
- Debt payments
- Electricity, gas
- Rent
- Mandatory fees (TV, radio...)
- Mandatory insurance
- Basic food items
- Necessary clothes

...by law and under contract.



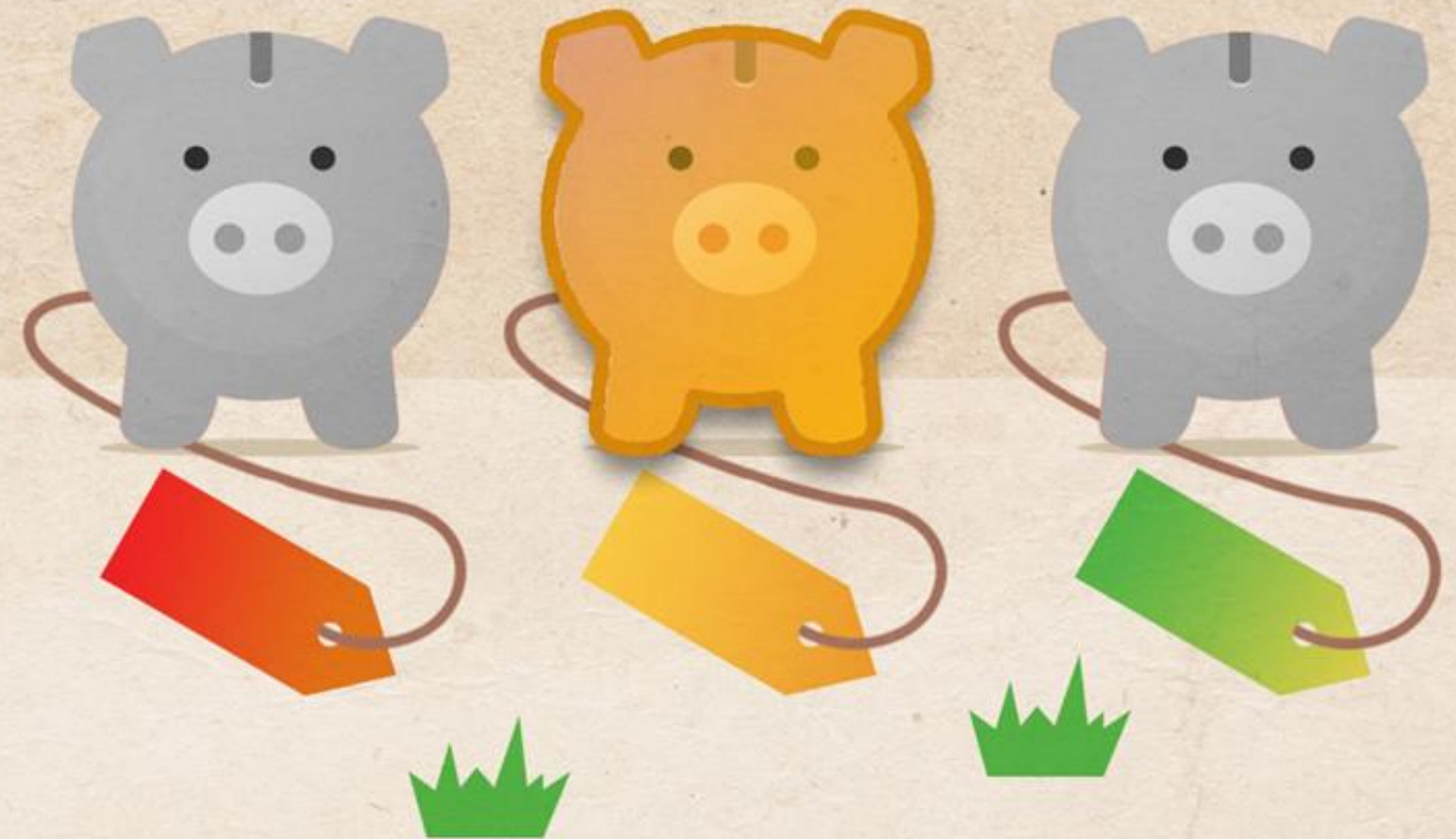


# Personal finance

## Red, yellow and green piggy banks

### 2. ESSENTIAL

- Cash on your current account (to pay for repairing washing machine, car, etc.)
- Savings for a rainy day (temporary loss of job...)
- Retirement savings
- Transport
- Medicines





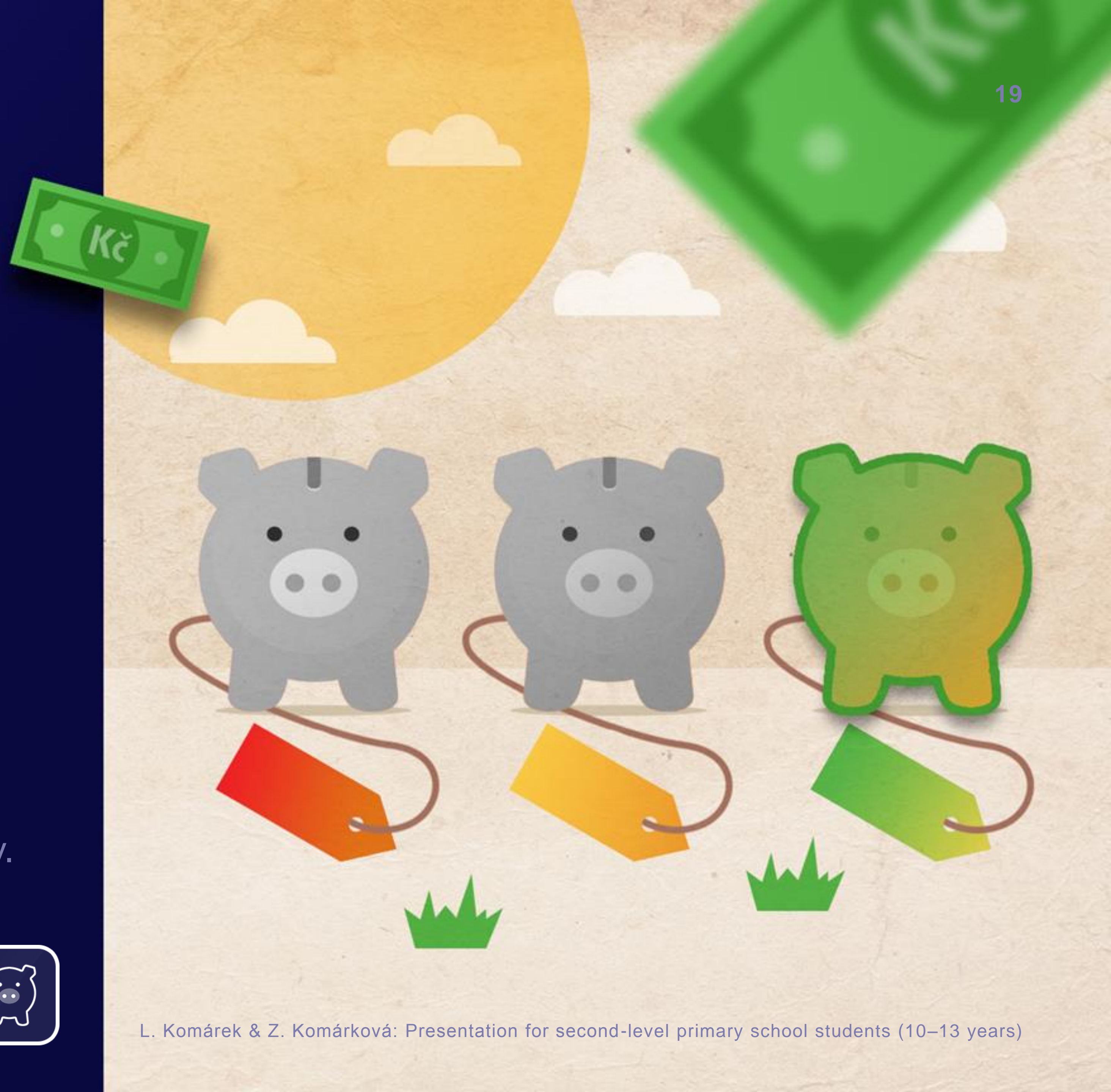
# Personal finance

## Red, yellow and green piggy banks

### 3. NON-ESSENTIAL

- Luxury holiday
- Luxury car
- Expensive electronic items
- Cinema, magazines
- Cigarettes, alcohol
- Lottery
- Risky investments and speculation

...this is where you can save the most money.





# Personal finance

If you are short of money

## 1. Reduce your current spending

...and more money will stay in your pocket.

## 2. Start working more

...to increase your income.

## 3. Take out a loan

...only if reducing your spending and increasing your income hasn't helped.

**NB!** Borrowing money is very tempting.





# Personal finance

If you are short of money

**When to borrow?**

...if you need it for something truly urgently.

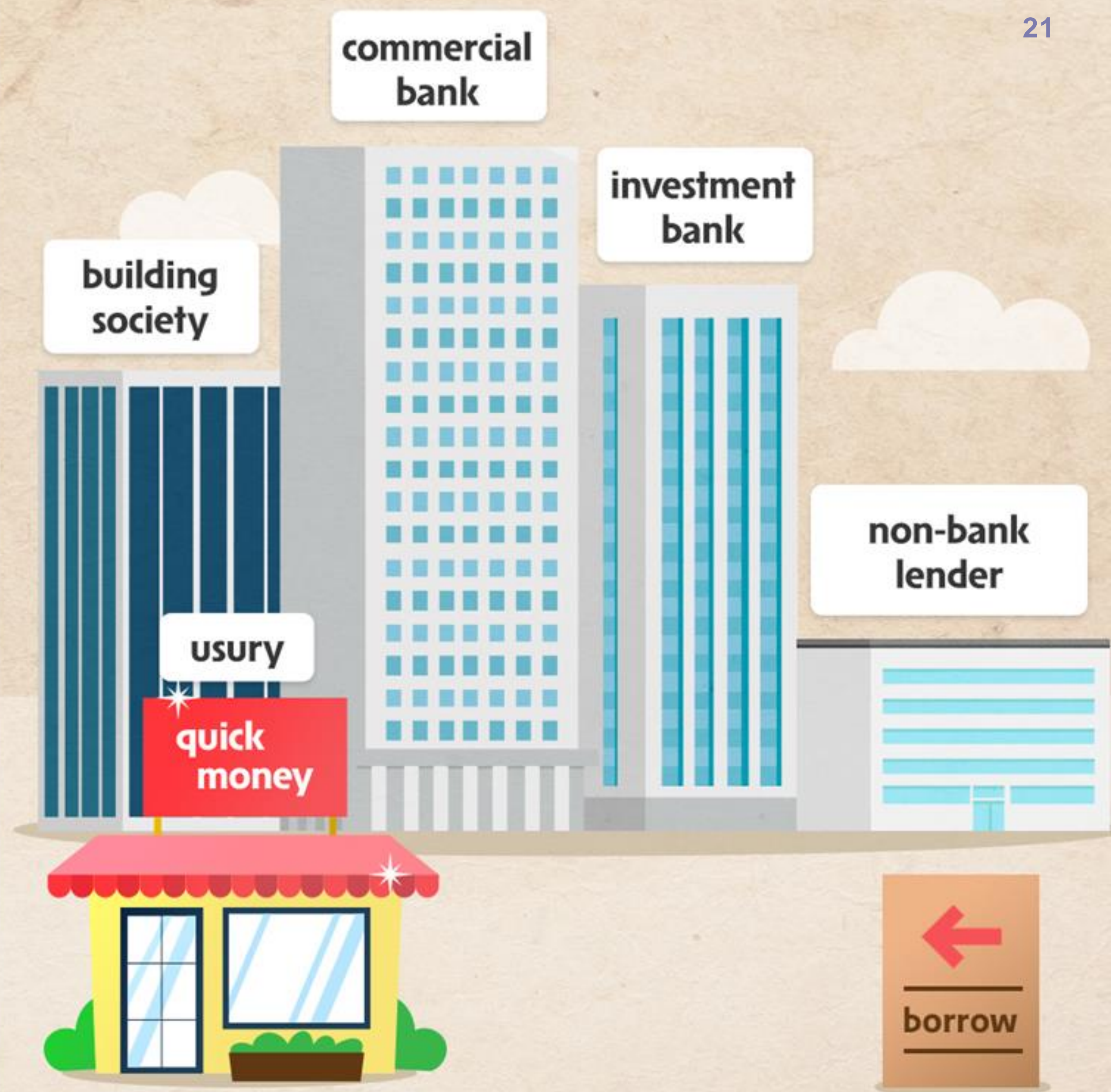
**What to borrow for?**

...sensible stuff (housing, studies, business).

**Never borrow for...**

...holidays, Christmas presents and things out of your reach.

**NB!** Every loan must be repaid.





# Personal finance

## If you are short of money

- Before you apply for a loan, think and count!
- Can you repay the monthly instalments, even for several years?
- Keep some money for a rainy day, in case you lose your job, become ill...

**NB!** Beware of “quick money”.





# Personal finance

If you are short of money

**What do you really need to know?**

How much will I actually pay for the loan.

**You will pay for services**

Bear in mind that you will pay the bank for services connected with the loan.

**It's vital to know the APRC**

The interest on the loan plus all lending-related fees.

**NB!** There's no such thing as a free lunch.



%

%

APRC

ANNUAL PERCENTAGE RATE OF CHARGE





# Personal finance

If you are short of money

## A loan

...can be a good servant

...need not become a nightmare

## Remember this for the rest of your life!

Even a small loan can lead to foreclosure if you fail to address your repayment problems in time! Communicate with your lender (the bank)!

**NB!** Never play possum with the bank.





# Personal finance

If you have an excess of money

## Saving

savings account with a bank, pension savings with a pension fund, state saving bonds

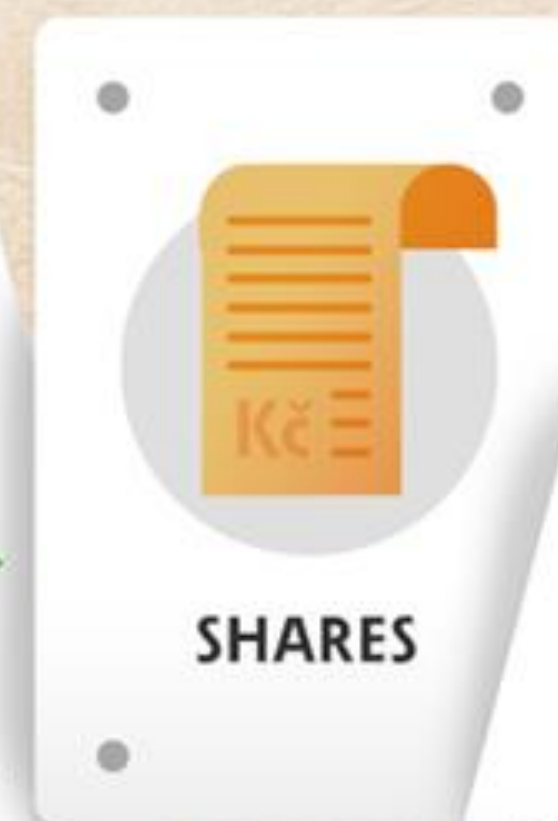
## Investment

corporate bonds, investment funds, equities, derivatives, property, works of art, antiquities, jewels, gold, foreign currencies, etc.

## Understand your investments

Don't put all your eggs in one basket.

**NB!** Keeping your money under a pillow isn't a good idea!





# Triangle of finance

The most important diagram for life:

**RETURN**

(positive, negative, zero)



**RISK**

(high, low, zero)

**LIQUIDITY**

(high, low, zero)

**NB!** The higher the yield promised, the higher the risk of losing your investment.





# Triangle of finance

RETURN • GAIN • PROFIT

Every investment is associated with a promised (expected) return.

- Different investments have different returns (dividends, interest, rent).
- Savings will bring you the lowest returns.
- The expected return isn't always positive.

**NB!** Beware of suspiciously good offers with highly tempting returns.





# Triangle of finance

**RISK • UNCERTAINTY • DANGER**

Every investment is associated with a risk of losing your money.

- The risk stems from uncertainty in the future.
- Taking on sensible risks is normal.
- Each of us can bear a different level of risk.
- Riskier investments don't guarantee higher returns.
- Saving is the least risky (e.g. bank deposits of up to €100,000 are 100% insured).

**NB!** It's prudent to consider the worst scenarios you can think of.





# Triangle of finance

LIQUIDITY • SPEED • TIME

It takes time to convert an investment back into money.

- Take into account that it may take longer to convert your investment back into money.
- Finding the best buyer and not selling too cheaply takes time.
- Savings on a current account are the most liquid.
- How long does it take to sell a house, shares, gold?

**NB!** Selling quickly can mean selling too cheaply.





# To conclude

- **Education:** Educating yourself makes sense and is of great value – a higher level of education will ensure you a better position in life.
- **Health:** Take care of yourself – money can't buy you good health.
- **Time:** Don't waste your time – time is money too 😊

**NB!** Money isn't everything in life, but you can't do without it.





# Authors of the presentation

## Personal finance



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