

FINANCIAL LITERACY PROGRAM



BUILDING SOUND FINANCIAL MANAGEMENT SKILLS

Financial Literacy 101

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Wealth
Management

Interest

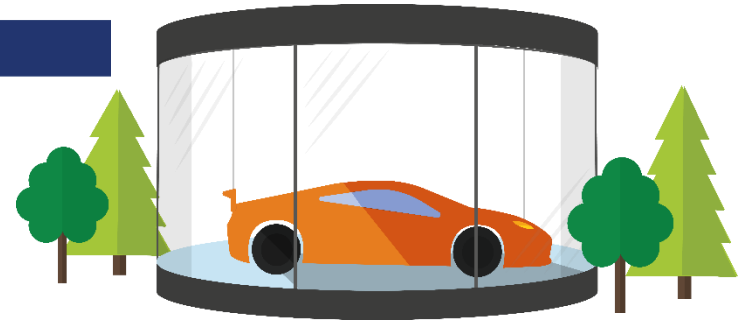


What is interest? Key Definitions



BORROWER

Someone using someone else's money.



LENDER

Someone allowing someone else to use their money.



INTEREST

The charge (or expense) someone pays for using (borrowing) someone else's money.

OR

The income someone receives when someone else uses their money.

How does interest work?

Lender's example – An investment earning interest



“The lenders”:
Susan & Ray

“The borrower”:
Bank

The Bank pays interest to Susan & Ray on the value of the GIC (“the principal”)

SURPLUS FUNDS AVAILABLE



INVESTING TO EARN INTEREST

How does interest work?

Borrower's example – A car loan with interest



“The borrowers”:
Max & Julie



“The lender”:
Bank



Pay interest to the bank on the value of the car loan

Repay the bank the money (“the principal”) over a certain number of years (“the term”).



**TOTAL
PURCHASE COST**



AVAILABLE FUNDS



**BORROWING WITH
INTEREST**

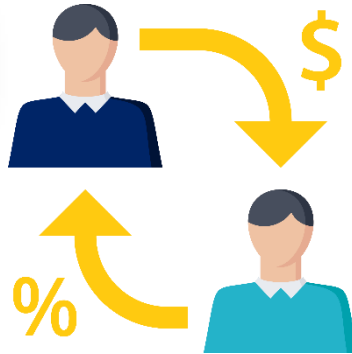
Credit



What is credit?

Borrower

Someone using someone else's money.



Lender

Someone allowing someone else to use their money.

Credit



Borrower's ability to obtain something on a promise to repay

Principal

The amount borrowed.



Interest

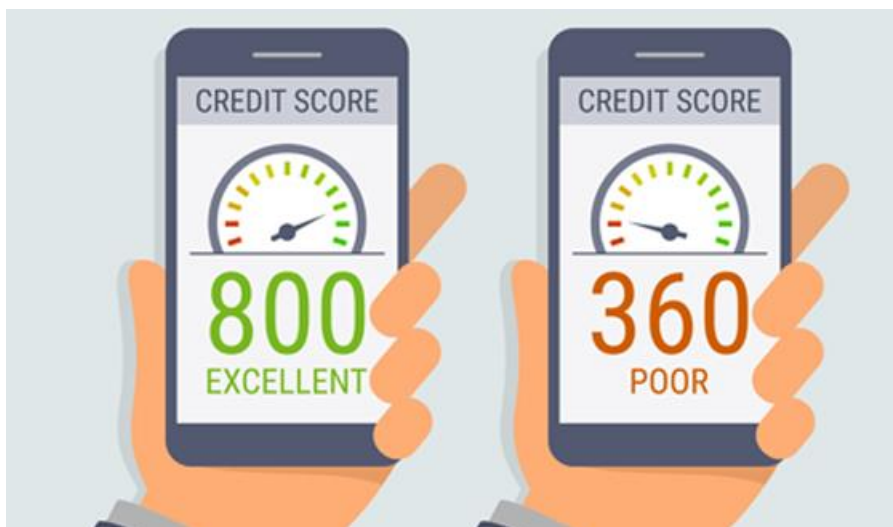
The lender's charge for the risk of lending their money.

When you borrow, you must pay back the lender (e.g. the bank or a car dealership) the principal plus interest.

Credit score

Credit score

A number assigned to a person that indicates to the lenders their capacity to repay a loan.



Range of scores:
300-900

650

TransUnion website screenshot showing a credit score of 743 and a 32% goal. The page includes navigation links for PERSONAL, BUSINESS, ABOUT, CONSUMER SUPPORT, MEMBER LOGIN, and ENGLISH. A search bar and a 'GET YOUR CREDIT REPORT & SCORE' button are also visible. The main content area features the text 'Get your Canadian credit score & report*' and a 'CLICK HERE' button. A tablet in the foreground displays a credit score of 743 and a 32% goal.

Consider checking your credit score periodically!




Credit score

How to build – and maintain – a strong credit history

Five primary factors affect your credit score:

-  Your payment history *Do you pay back on time?*
-  How much you owe *Do you owe more than 35% of the credit?*
-  Your length of credit history *How long you have been using credit?*
-  Credit applications *How often do you apply for new credit?*
-  Types of credit *Do you manage several types of credit?*

Types of personal credit

	 Credit card	 Personal loan	 Line of credit
Purpose	<ul style="list-style-type: none"> • Short-term borrowing • Online payments 	<ul style="list-style-type: none"> • Longer-term borrowing • Major purchases or expenses 	<ul style="list-style-type: none"> • Short or longer-term borrowing • On demand, ad hoc
Term	< 1 year	1 – 5 years	Flexible
Interest*	High	Moderate	Low - Moderate
Secured	No	Sometimes	Sometimes

*Reflects typical lending behavior of most financial institutions; rates will fluctuate and will vary by institution.

Investment Account Types



Where to open an account?

Bank



VS.

Brokerage Firm



Everyday banking needs

Short-term savings

Frequent transactions – chequing accounts

Debit and credit cards

*Personal loans / home mortgages /
line of credit*

Some investment options

Long-term savings

Investment accounts

*Conducts market analysis and provides
investment research*

*Broker-dealer – facilitates trading transactions
(stocks, funds, etc.)*

*Planning – Investment, financial, tax, retirement and
estate advice*

Non-Registered vs. Registered

So, *how do you most efficiently save* when the government taxes your money?

NON-REGISTERED ACCOUNTS (taxable)

1. Bank Accounts

2. Investment Accounts

INCOME IS
TAXED
ANNUALLY



REGISTERED ACCOUNTS (taxed later / tax-deferred)

4. Pension Plans

4. Retirement Savings Plans

5. Education Savings Plans

6. Disability Savings Plans

7. Tax Free Savings Accounts

8. First Home Saver Account

TAXED IN
YEAR OF
WITHDRAWAL

NEVER
TAXED

Registered Accounts

Registered Retirement Savings Plan (RRSP)

Allows individuals to
SAVE FUNDS
for their retirement

Tax deduction when you put the money in the account

No annual taxes on income earning in the account

Any money withdrawn is fully taxable in the year it is withdrawn

Maximum contributions amounts apply



Registered Accounts

Registered Education Savings Plans (RESP)

A savings plan for education funding
FOR YOU
or your children

*Funds grow without tax
until withdrawn*

*The government contributes
grant money into the account*



Registered Accounts

TFSA – Tax Free Savings Account

No tax deduction for contributions, so you are investing after-tax income

Can hold most types of investment securities in the account

No annual taxes on investment income and funds are not taxed when withdrawn



Registered Accounts

FHSA – First Home Savings Account

Tax deduction for contributions, so you are investing pre-tax income

Can hold most types of investment securities in the account

No annual taxes on investment income and funds are not taxed when withdrawn



Group Discussion – What Account?

WHAT ACCOUNT would you choose if.....



*Saving to
buy your
first house*



*Saving for a
day at the spa*



*Saving for
going back
to school*



*Saving for a
trip around
the world*

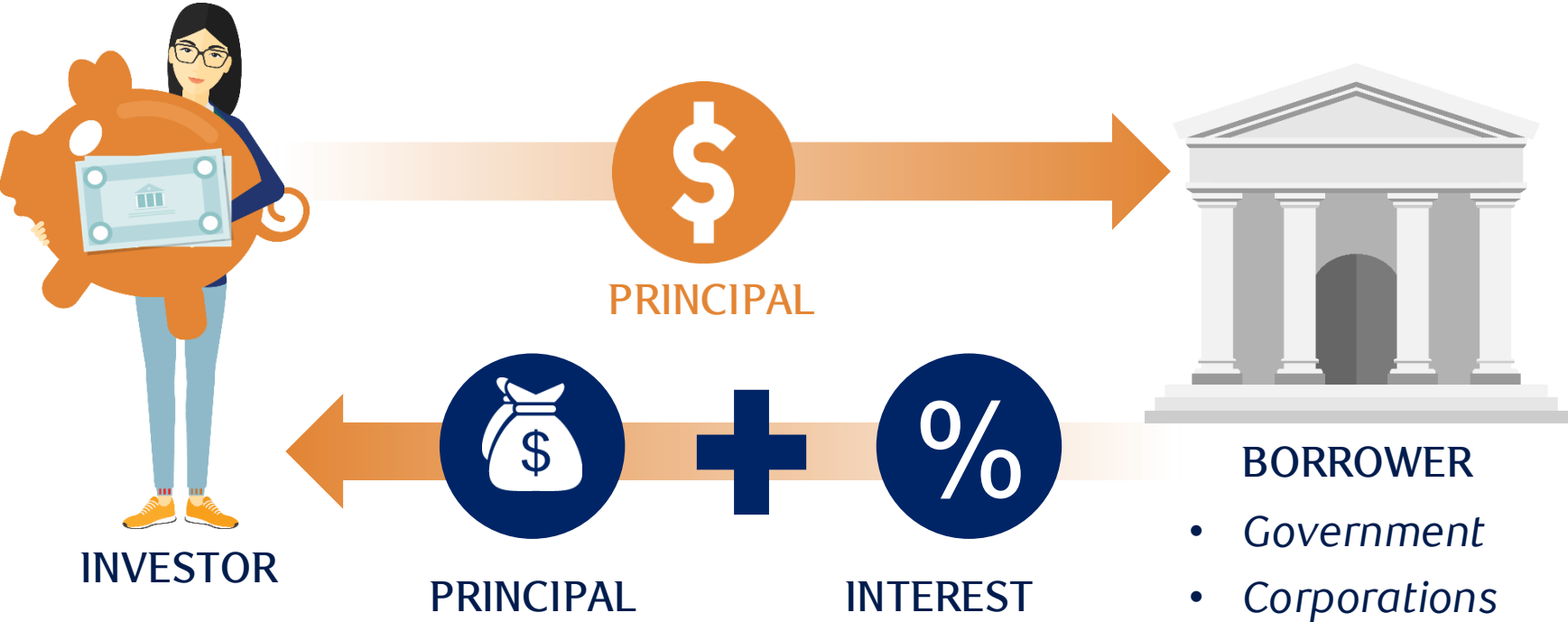
Investments



Bonds: What is a Bond?

BOND (Fixed Income)

An investment where money is lent to a borrower for a period of time in exchange for a return of interest and principal.



Stocks: What is a Stock?

STOCK

A type of security that signifies a partial ownership stake in the shares of a corporation, entitling the holder certain privileges.



COMMON STOCK



PREFERRED STOCK

Stocks: Investing in Stocks

**Rate of return is not guaranteed.*

How can you **make money** buying stocks?

1 Capital Gains



2 Dividend Payments



Risk vs. Return: Finding the Right Balance

Cash
usually held in short-term
money market or T-bill
investments

Fixed income
typically refers to bonds or
credit issued by
governments or
corporations

Equity
refers to shares of publicly
traded companies

Expected
return

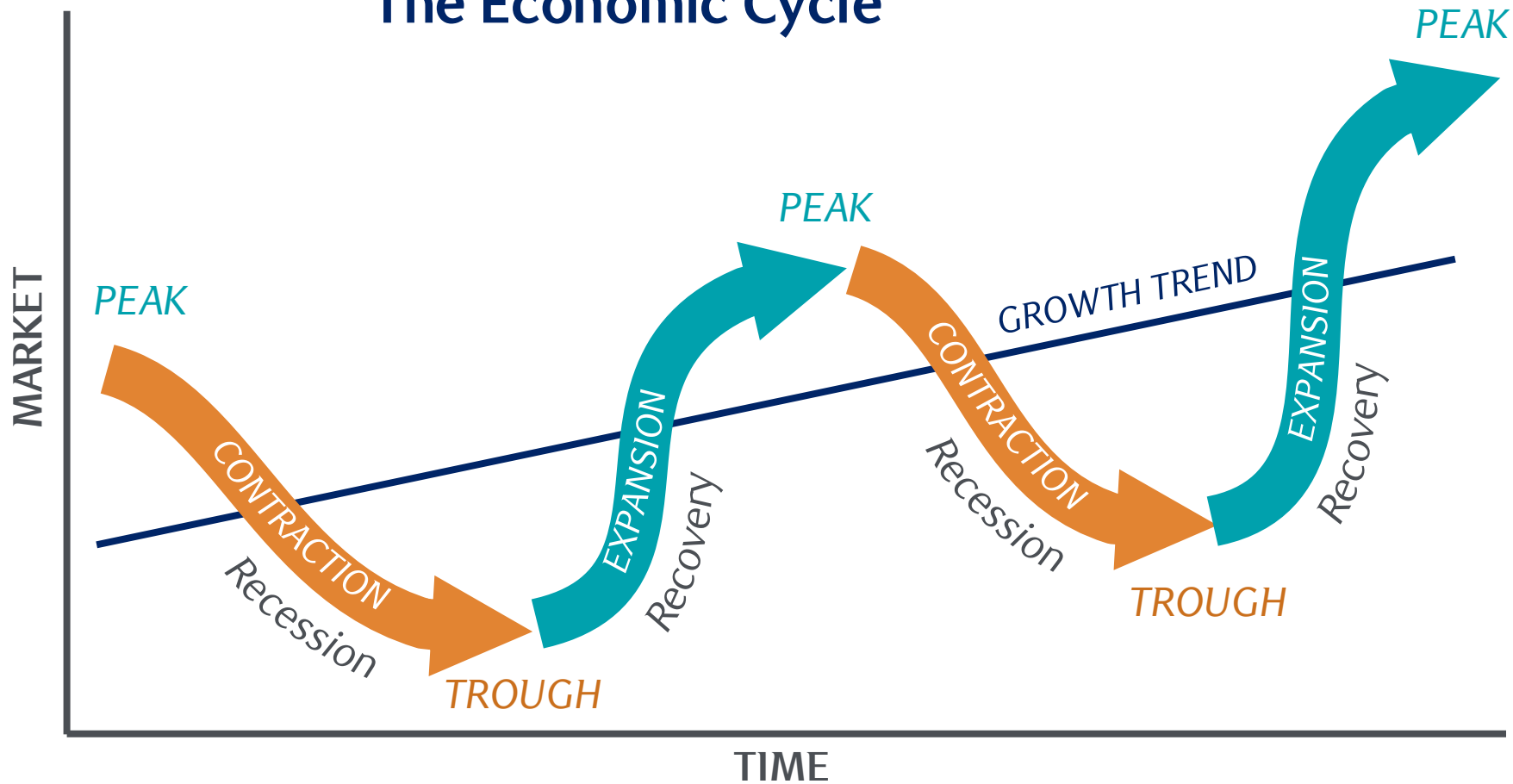


Expected
volatility



Diversification by Asset Class

The Economic Cycle



Quantitative Approaches: Surveys & Questionnaires

Investor Profile Analysis ... a series of questions which are designed to help determine to an investor's risk tolerance profile by looking at:

- 1 GENERAL INFORMATION
- 2 TIME HORIZON
- 3 INVESTMENT OBJECTIVE
- 4 RISK TOLERANCE
- 5 RISK CAPACITY



Questions?

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Thank you

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