

Lesson Seven

Time Value of Money

Review

What is a budget? (a road map to help you achieve your financial goals)

Why is it important to have a budget? (Without one, you will probably always spend everything you make and never have what you want)

What are some categories that you might have in a budget? (Savings, Tithe, Spending, Clothes)

Review the idea of the envelope system and spending only what is in the envelopes. Budgeting means making a plan and then having the discipline to stay in the plan.

Introduction

(Before you begin talking about today's lesson, give each child one marshmallow. Tell the kids that they have a choice. They can eat that one marshmallow now or they can wait and they will get more. Don't tell them how much more. They have to make that decision.)

This week we are going to talk a little about the time value of money. Did you know that money can grow. Sure you can spend money and certainly you can save money, but if you do the right thing with your money, you can grow it. How many of you would like to grow your money?

What Makes Money Grow?

Remember when we talked about how banks work. Banks buy money from you by paying you interest in your savings accounts. They then sell your money to others by charging interest. Well, interest is how money grows. You can certainly put money in a bank and earn interest and watch it grow slowly. However, if you are wanting to save for something further away like college, a house or even retirement, you may want to invest in the stock market.

Key Word: Patience

Has anyone ever heard of the American Dream? It says that you can be whatever you want and have whatever you want. What an awesome country to live in where we can be born into poverty but get out of that and be successful.

However, there is a distorted view of the American Dream. Most people want everything they ever wanted and they want it now. They don't want to wait. Therefore, people buy things that they cannot afford and pay for these things for the rest of their lives. At the end of their lives, they have nothing left. They are spent and can give nothing to their children and grand children. Many of these people have to work or earn a living until they die because they have no money to retire with. That is not the American Dream, it is the American Nightmare. It is based on selfishness and greed.

However, some people who are wise understand the true American Dream. It requires patience. It means living below what you can afford now so that later in life, you will have the money to do the things you always dreamed of. It means being patient. It may mean buying a second hand car instead of a shiny new one so that you can put more into savings. It may also mean going camping for vacation instead of going on that cruise. The end result is that you will have more of what you have always wanted and the freedom to do what you want. Also, you will have something at the end of your life to pass on to the ones you love.

Time Value

When invested, money grows. However, the earlier you start, the more it will grow. That may seem obvious, but starting earlier makes a really, really big difference.

Example:

- Let's say that Leroy wants to start investing \$5 a month for 10 years. There are a lot of things that Leroy would like to have, but he feels that it would be wise to start investing.
- But let's say your friend Bob wants to invest also, but he would rather eat candy now than to put money away for the future. Bob figures that he will start putting \$5 away a month five years from now.

At the end of 10 years, both boys have some money put away. Bob who started 5 years later has a grand total of \$387. Not too bad. However, Leroy put in twice as much time and twice as much money. You would probably think that he now has twice as much as Bob, right? Think again. Bob has \$1,024, almost three times as much. That is the time value of money. The earlier you start, the better off you will be in the end.

Another way to see how time value of money works is to take Leroy and Bob's example again.

- This time Leroy does his \$5 a month deal for the first 5 years and then quits. He leaves his money in the investment and decides to spend \$5 a month on candy for the next 5 years.
- Bob, does what he did before. He spends the first 5 years eating candy and the second 5 years investing.

At the end of the 10 years, Bob will have \$387. At the end of 10 years Leroy will have \$623. Leroy put in exactly the same amount of money in as Bob and at the end of the ten years he has a grand total of \$623, which is almost double what Bob has.

The key is this: The more time your money has to grow, the more money you will have in the end.

The Reward

For those who did not eat their marshmallows, give them an entire bag. Encourage them that it is always good to be patient. A great reward will come to those who decide not to try to have every thing now, but instead prepare for the future.

Conclusion

Most kids only have a few things on their minds: TV, video games and movies. You have an opportunity to be different. You can plan for your future and still enjoy all the things that kids enjoy. The key is this: the sooner you start, the more you will have in the end. Believe it or not, but 10 years from now, you won't really care about a lot of the things that are so important to you now. If you start investing now, 10 years later you will be so glad that you started young. Not only will you have some money saved up, but you will have developed a very healthy habit that will benefit you for the rest of your life.

Challenge:

Talk to your mom and dad about investing. If you are really serious about this, ask them if they will help you in an investment program for your retirement. Perhaps your parent's will match you dollar for dollar into an investment. That way, each week you put in one dollar and your parents put in a dollar. That comes out to \$8 to \$10 a month. It could never hurt to ask and perhaps your parents will help you do this once you show that you are serious about becoming financially responsible.