# Assets

## A FinLit Lesson

By KARA

# What is an Asset?

- Cash
- Stocks and Bonds
- Unique Assets and Crypto Currency
- Property and Real Estate

# Why are Assets important?

Accumulating assets can mean you are building wealth or acquiring items of value over time.

People tend to keep assets to build wealth so they can retire or use the assets as a financial resource.

When the things you own have some sort of value, you can always sell them and pocket the cash if you need to.

# Types of Assets

Liquid assets are things that can quickly and easily be converted to cash, such as bank accounts, stocks, or bonds.

Illiquid assets are things that take longer to convert to cash, including real estate and collectibles. Your home would be an illiquid asset because even if you have a lot of equity in it, the sale could take a while.

Tangible assets are physical things that you own. A tangible asset could be anything from cash in your bank account, to your car, and the furniture in your home. If you can physically touch and measure it, it's probably a tangible asset.

Intangible assets are non-physical items of value. They include things such as intellectual property, internet domain names, and NFTs (non fungible token). You can't physically touch them, but they have value and can be converted into cash.

# What is a Portfolio?

- A portfolio is the generally thought of as a collection of financial investments like stocks, bonds, commodities, cash, and cash equivalents. It may also include unique assets and real estate.
- A portfolio defines your assets.

# Assets vs. Liabilities

- A simple way to look at this is taking inventory of what you own and what you owe.
- The difference between the two represents what is called your net worth.
- For example, with some very simple math, we might say that you own a home worth $200,000 and a car worth $10,000. These are your assets.
- You owe $100,000 on the home and $5,000 on the car. These are your liabilities.
- The $210,000 in assets minus your $105,000 in liabilities gives you a net worth of $105,000.

# Upside Down = Negative Equity

- A car loan becomes upside-down when you owe more on the loan than the vehicle is worth.
- For example, your loan would be upside-down if your car’s value is $12,000 but your loan balance is $15,000.
- You are left with negative equity of $3,000.

# Getting Right-Side Up!

Make extra payments. The faster you pay down your loan, the faster you’ll eliminate the negative equity. This can also reduce the amount you pay in interest. Just make sure extra payments go toward your principal.

“Drive through” the loan. If you continue making on-time payments, you should eventually catch up with the car’s value and begin building equity. However, this takes time and patience.

# The Pros and Cons…

- Cash
- Stocks and Bonds
- Unique Assets and Crypto Currency
- Property and Real Estate


DK 11857828 A
K11
DG 12248132 A
G7
DG 12248132 A
AG 04644516 B
100
DOLLARS
FEDERAL RESERVE NOTE
HB 36485782 C
B2
AG 04644513 B
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AG 04644516 B
G7
HD 18785038 A
D4
AB 08605882 *
B2
AG 04644513 B
AG 04644507 B
AG 04644508 B
G7
THIS NOTE IS LEGAL TENDER FOR ALL DEBTS, PUBLIC AND PRIVATE
AG 04644
HB 36485779 C
B2
AG 04644506 B
G7
04644507 B
EK 66399954 A
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# CASH: The money in your bank account or in your wallet.

## Pros

- Liquidity: Easily accessed when you need it.
- Zero Risk: Cash comes with no capital risk. If you deposit $100 today, tomorrow you'll still have $100.
- Opportunity: Having cash allows you to take advantage of investment opportunities when you choose. Having cash on-hand may allow you to purchase assets at greatly reduced prices.

## Cons

- Lower Returns: Since cash is largely a risk-free asset, investors don't get the "risk premium" that other investments come with.
- Inflation Risk: While you do not risk losing money… it may have a lower purchasing value due to inflation. The $100 you had 5 years ago, will buy you a lot less today!

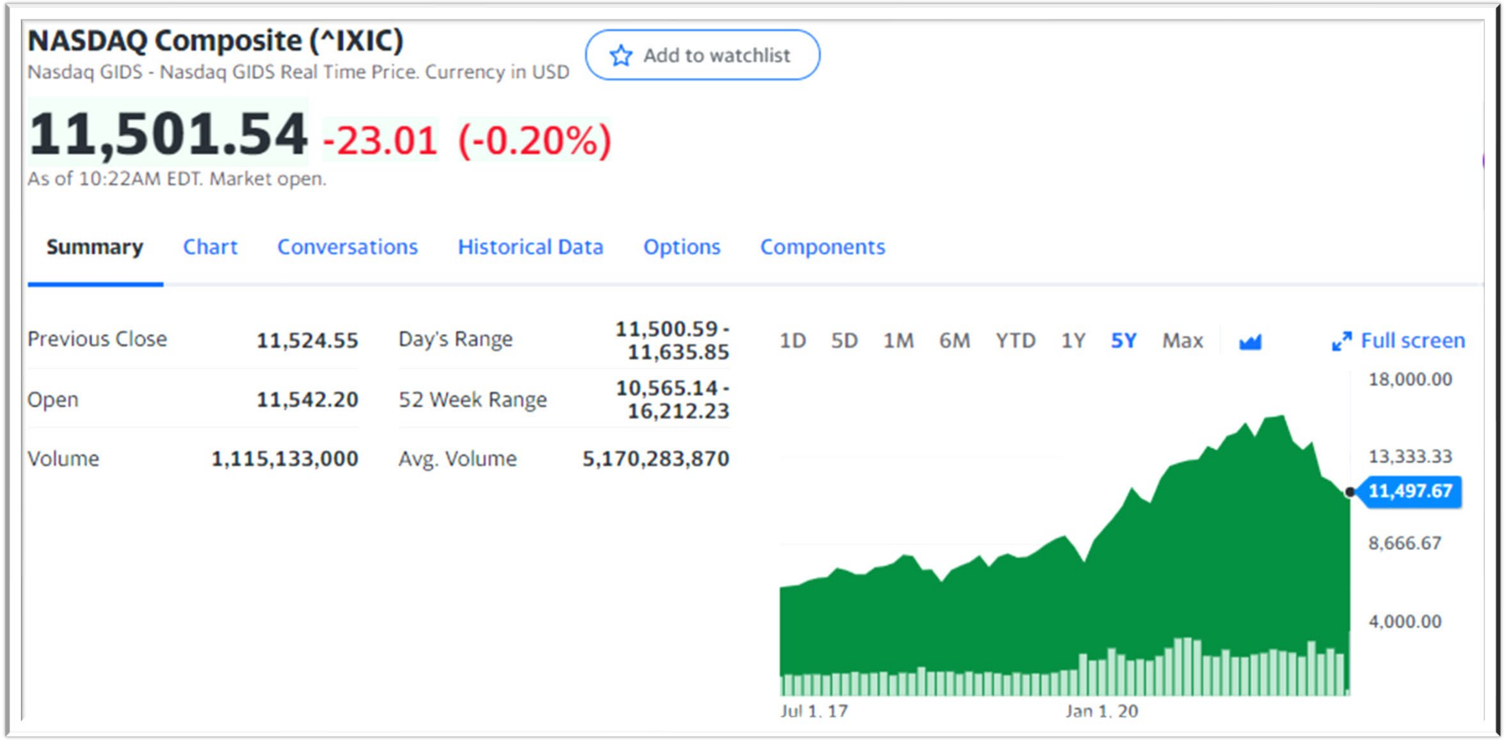
# US Stock Exchanges and Stock Indexes

A stock exchange is where stocks are bought, sold and traded. The US Exchanges are the NYSE and the NASDAQ.

A stock market index tracks the ups and downs of a group of stocks (*or other assets like crypto, commodities, etc.*)

# NASDAQ

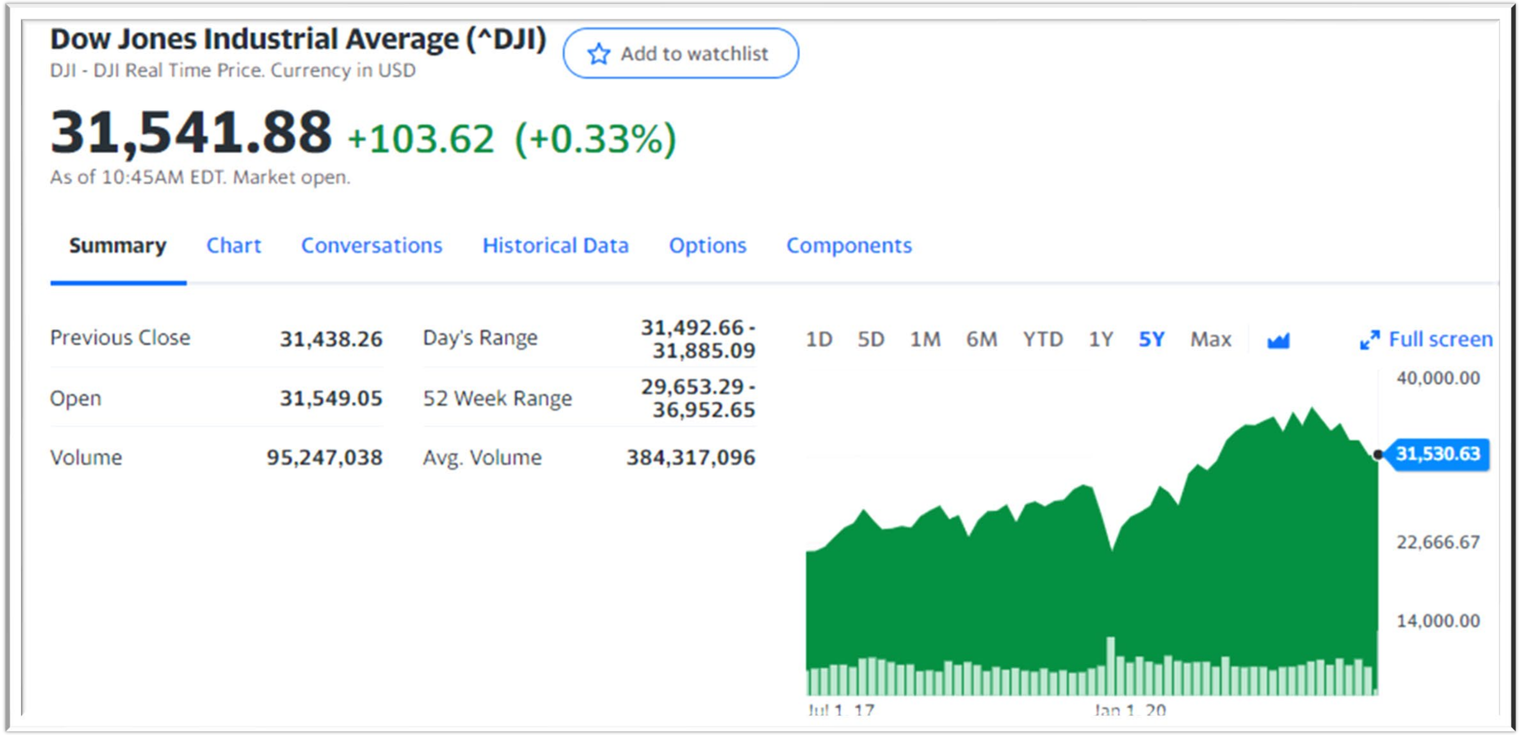
NASDAQ: The NASDAQ is the technology and innovation driven exchange. It also functions as and index. It can be risky to invest in; but it can have big pay outs!




NASDAQ: The Nasdaq includes companies like Amazon, Microsoft, Tesla, AMD, Nevida and Apple. The most common ETF of the NAS is the QQQ. The Qs track the top 100 companies traded on the NASDAQ.

# The DOW DJI Index

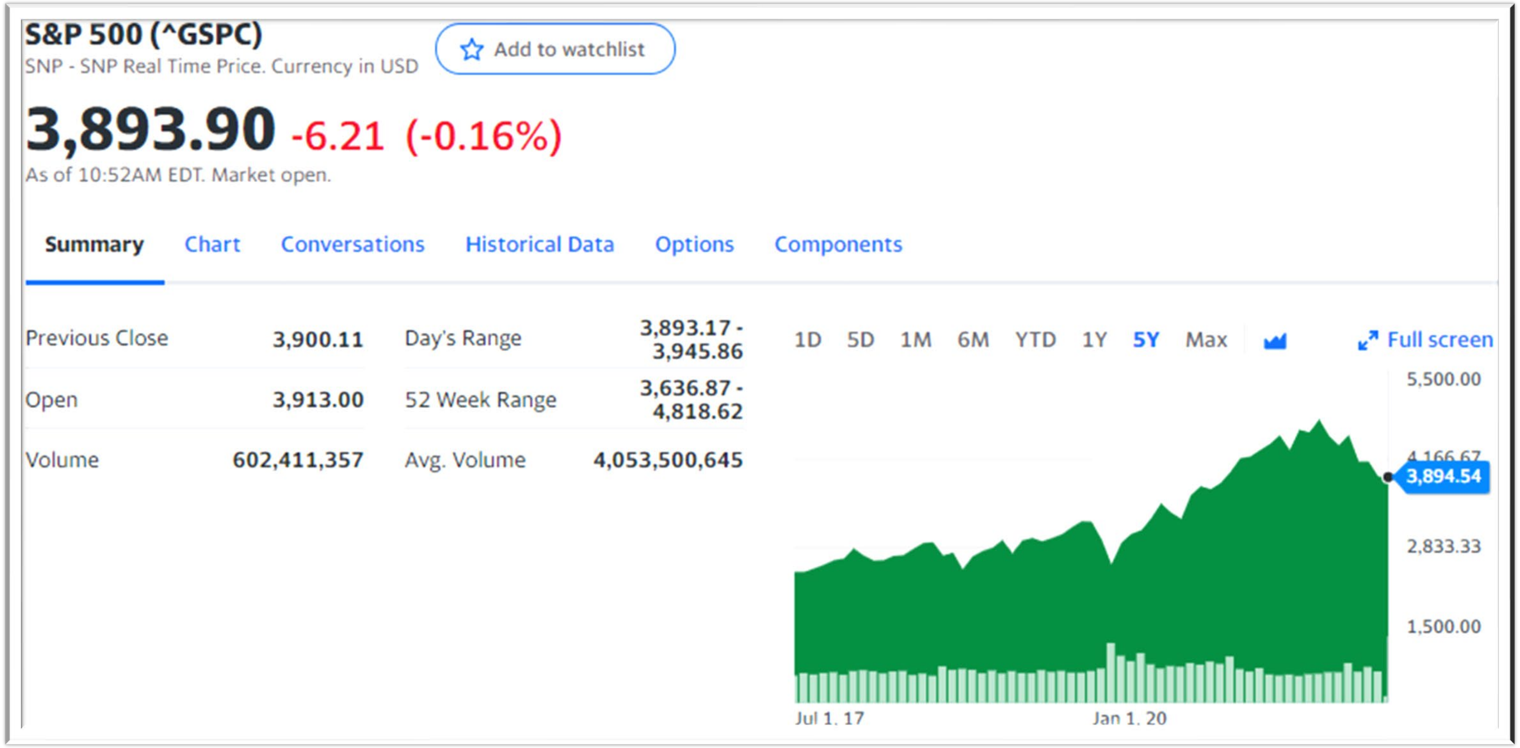
DOW JONES (Industrial Average): The stocks within the DJI come from a range of industries, from healthcare to technology, but are united by all being blue chip stocks.




This means they have a history of strong financial performance. The DJI is one of the few price-weighted market indexes and contains only 30 companies at any time.

# The S&P Index

S&P (Standard and Poor's): The S&P is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.




It is often considered the best index to invest in because of the companies that are included. The most common ETF fund for the S&P is SPY; this stock reflects the S&P as 10% per share; if the S&P index is 4000, the cost of one share of SPY is $400.00.

# Index Funds Explained


- Index Funds are primarily based off of the three indexes we just talked about and can be bought and traded through a tool called an ETF or an Exchange Traded Fund.
- An ETF is a professionally-managed fund that invests in multiple stocks, usually either in a specific index or a specific market sector. ETFs help investors achieve diversification of their investments and they can be bought and sold directly through shares in market transactions (i.e., on a national stock exchange).

# Individual Stocks: Its Complicated!

If more people want to buy a stock (demand) than sell it (supply), then the price moves up. If more people wanted to sell a stock than buy it, there would be greater supply than demand, and the price would fall. The price of a stock indicates what investors feel a company is worth.

The value of a company is its market capitalization, this is the number of shares x the stock price. A company that has a higher stock price may not be as valuable as a lower price with more shares.

# Individual Stocks: Its Complicated!

The price/earnings ratio is how much investors will pay per share for $1 of earnings. A lower P/E is considered a value stock, you are paying less for the earnings. A higher P/E maybe considered a growth stock, investors are willing to pay more because the company has a greater growth potential.

Some companies pay dividends quarterly to share holders to entice shareholders to hold and even buy more shares of their company. [Generally, “value” stocks pay higher dividends.]

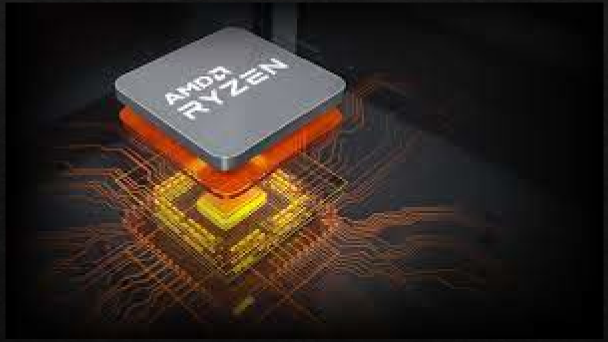
# Value vs. Growth

## Citibank

- Market Cap 92.86B
- P/E Ratio 5.64
- Dividend Yield: 4.27%

## AMD

- Market Cap 154.89B
- P/E Ratio 18
- No Dividend



# Investment: Stocks

## Pros

- Takes advantage of a growing economy: As the economy grows, so do corporate earnings, increasing the value of the stock and the dividend.
- Best way to stay ahead of inflation: Historically, over the long-term stocks have yielded a generous return.
- Cost Effective: You do not need a lot of money to start investing and most retail brokers let you buy and sell stocks commission-free.

## Cons

- Risk: You could lose your entire investment. If a company does poorly, investors will sell, sending the stock price plummeting. You may lose your entire investment.
- Time: If you are buying stocks on your own, you must research each company before you buy its stock. You must learn how to read financial statements and follow your company's developments.
- Taxes: If you sell your stock for a profit, you'd be liable to pay capital gains taxes.


3D
View-Master
Ripple
Ethereum
ethereum

# What are Unique Assets?

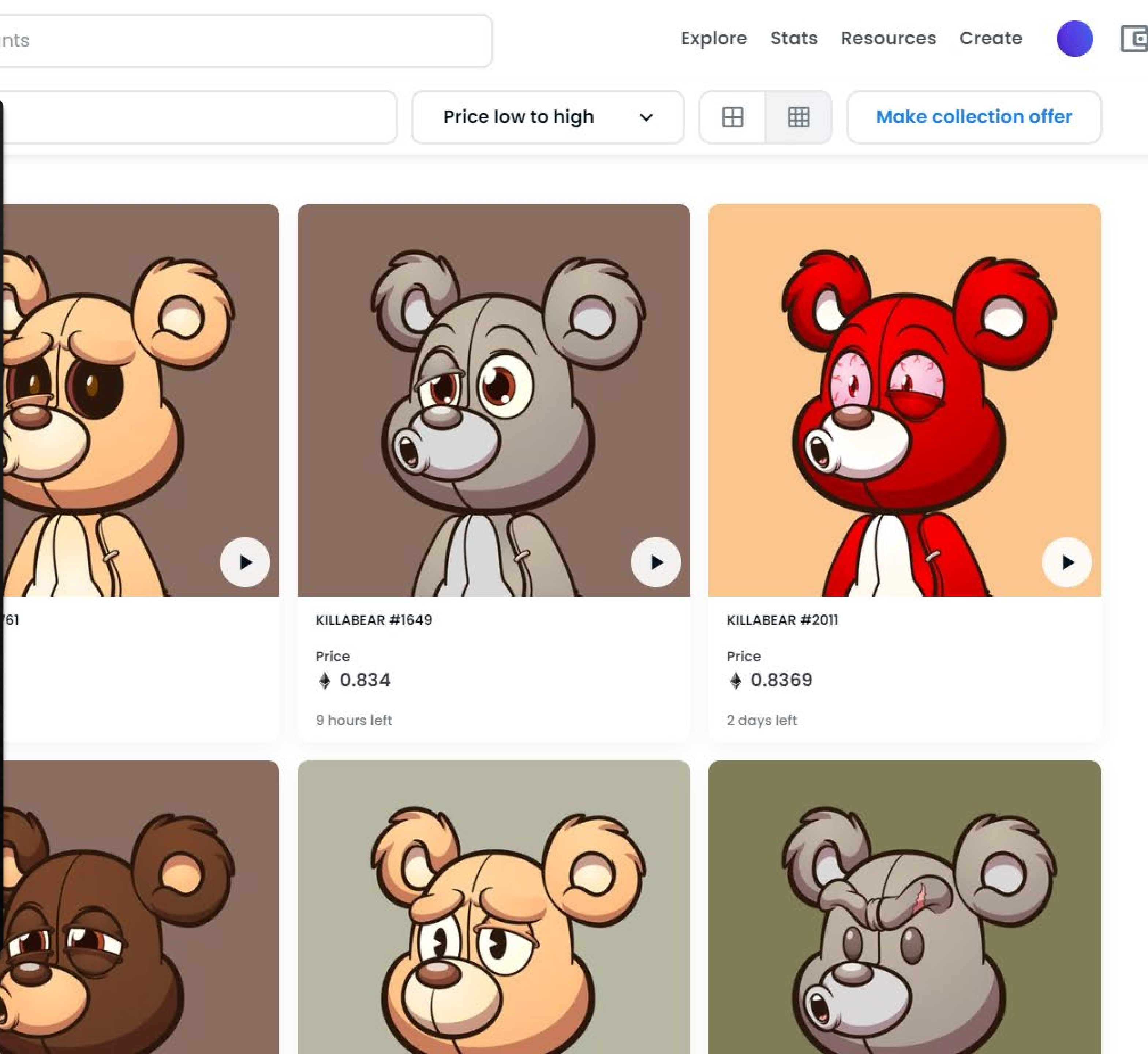
- Unique Assets are collectibles are items that are worth far more than their original sale price and are considered alternative investments—vehicles that don't fall into any other category like stocks, bonds, cash, or real estate.
- There are two basic types of collectible assets:
  - Tangible assets are “items” that have an increased value from its original purchase price. This includes Books, Art, Jewelry, Antiques, Stamps, etc.
  - Intangible assets represent something non-physical. This could include things like designs, rights to songs, and digital assets like NFTs. Purchasing intangible collectibles has the potential for long-term returns through licensing or agreements.

# What’s an NFT?

- A NFT is a Non-fungible token. “Non-fungible” that means it’s unique and can’t be replaced with something else.
- NFTs can really be anything digital, but a lot of the current excitement is around digital art! **NFTs are designed to give you something that can’t be copied: ownership of the work.**
- Most NFTs are part of the Ethereum blockchain. Ethereum is a cryptocurrency, like bitcoin or dogecoin, **but its blockchain also keeps track of who’s holding and trading NFTs.**

# How do you buy and sell NFTs?

- The primary place to buy and sell NFTs is on OpenSea.
- NFTs are generally purchased with Ethereum.
- A killabear NFT is going for .8 Ether; that translates into approximately $1000.00. (*Ether is $1196.95, as of 6.28.22*)



# Unique Assets (Collectibles)

## Pros

- Keep It: Inherited antiques or collectibles from relatives you get for free may be worth something!
- Leasing or Borrowing: If your collectible is in high demand, you may be able to loan it to a museum or exhibit it for a fee.
- Diversification: It helps to not have all your eggs in one basket. Collectables can provide some measure of diversity, if chosen wisely and purchased as part of a balanced investment strategy

## Cons

- Maintenance and Storage: A collectible doesn't produce income while you hold it. Many collectibles require special care to keep them in mint condition.
- Counterfeiting: Buyer beware! If you are dupped into buying a fake, it is worth nothing…
- Supply and Demand: A collectible is only worth what someone else will pay for it when you are ready to sell it.

# What is Crypto Currency?

A cryptocurrency, crypto-currency, crypto, or coin is a digital currency designed to work as a medium of exchange through a computer network that is not reliant on any central authority, such as a government or bank, to uphold or maintain it.

Individual coin ownership records are stored in a digital ledger, which is a computerized database using strong cryptography to secure transaction records, to control the creation of additional coins, and to verify the transfer of coin ownership

# Cryptocurrency

- Cryptocurrency does not exist in physical form (like paper money) and is *typically* not issued by a central authority.
- A cryptocurrency is a tradable digital asset or digital form of money, built on blockchain technology that only exists online.
- Cryptocurrencies use encryption to authenticate and protect transactions, hence their name.
- Common cryptocurrencies are Bitcoin, Ethereum and Solana. Although there are currently over 1000 digital currencies functioning through a blockchain.

# Crypto Currency

## Pros

- Accessibility and Liquidity: One of the biggest advantages of cryptocurrency is it often sees no borders; it is a very accessible and versatile currency.
- High Return Potential: Bitcoin prices are highly volatile; for instance, in March 2017, Bitcoin was priced at $975.70, and in just a matter of months it spiked to $20,089!
- User Anonymity and Transparency: Bitcoin users are identified by numerical codes and can have multiple public keys. This ensures there's no public tracking, and transactions can't be traced back to the user.

## Cons

- No Government Regulations: Unlike a currency that's regulated by a central bank, Bitcoin is not regulated. There is no guarantee of a minimum valuation. If people decide to sell them, the value of it can decrease greatly.
- Irreversible: Bitcoin transactions are anonymous and unregulated. Transactions done through Bitcoin are irreversible and final, so nothing can be done if the wrong amount is sent or if it's sent to the wrong recipient.
- Limited Use: Bitcoin is still not widely accepted. This puts a limit on where you can spend your money, unlike using a credit or debit card.


Real estate is defined as the property, land, buildings, and air rights above land, and underground rights below the land.
RESIDENTIAL
COMMERCIAL
INDUSTRIAL
VACANT LAND

# Why would you want to own a house?

- Stable Monthly Payments.
- Opportunity To Build Equity.
- Freedom To Make Changes.
- Build Your Credit.
- Solid Investment.

# Stable Monthly Payments

- With a fixed rate mortgage comes stable monthly payments, which is one of the best benefits of owning a home!
- One of the wildcards to renting a property is the unknown that comes with the monthly payments, year over year.
- Over-time owning a home is actually cheaper than renting which is a great benefit. In most cities, if you were to compare a rental property and the monthly mortgage of a comparable home, the cost of ownership is typically much less.

# Opportunity To Build Equity

- When you hear people talking about real estate and owning a home, one of the most popular words you'll likely hear is equity.
- Equity in your house is the probable market value of a home minus any liens or debts against the property, such as a mortgage.
- The longer that you own a home, the more you'll pay towards the principle balance of your mortgage.  And (hopefully) the value of the property increases, the larger the amount of equity you have in your home!

# Freedom to Make Changes

- A huge benefit of owning a home is the ability and freedom to make changes.  Whether it's something as simple as painting a bedroom or something complex such as a complete kitchen remodel, you can make changes as you see fit.
- If you are renting, you are kind of stuck with what you get… If you are able to make changes, it is likely you will not be compensated for any improvements…
- When you own your home, making changes is a great way to make a house feel like a home, it also can give a nice bump in the properties value- and that builds additional value and EQUITY in your house!

# Build Your Credit

Since the length of a mortgage is typically 15 or 30 years, having a mortgage on your credit history is a great way to lengthen the average of your credit accounts.

In addition to improving the average length of credit accounts, each month that a mortgage is paid on-time it shows that you’re a responsible borrower and will improve a credit score!

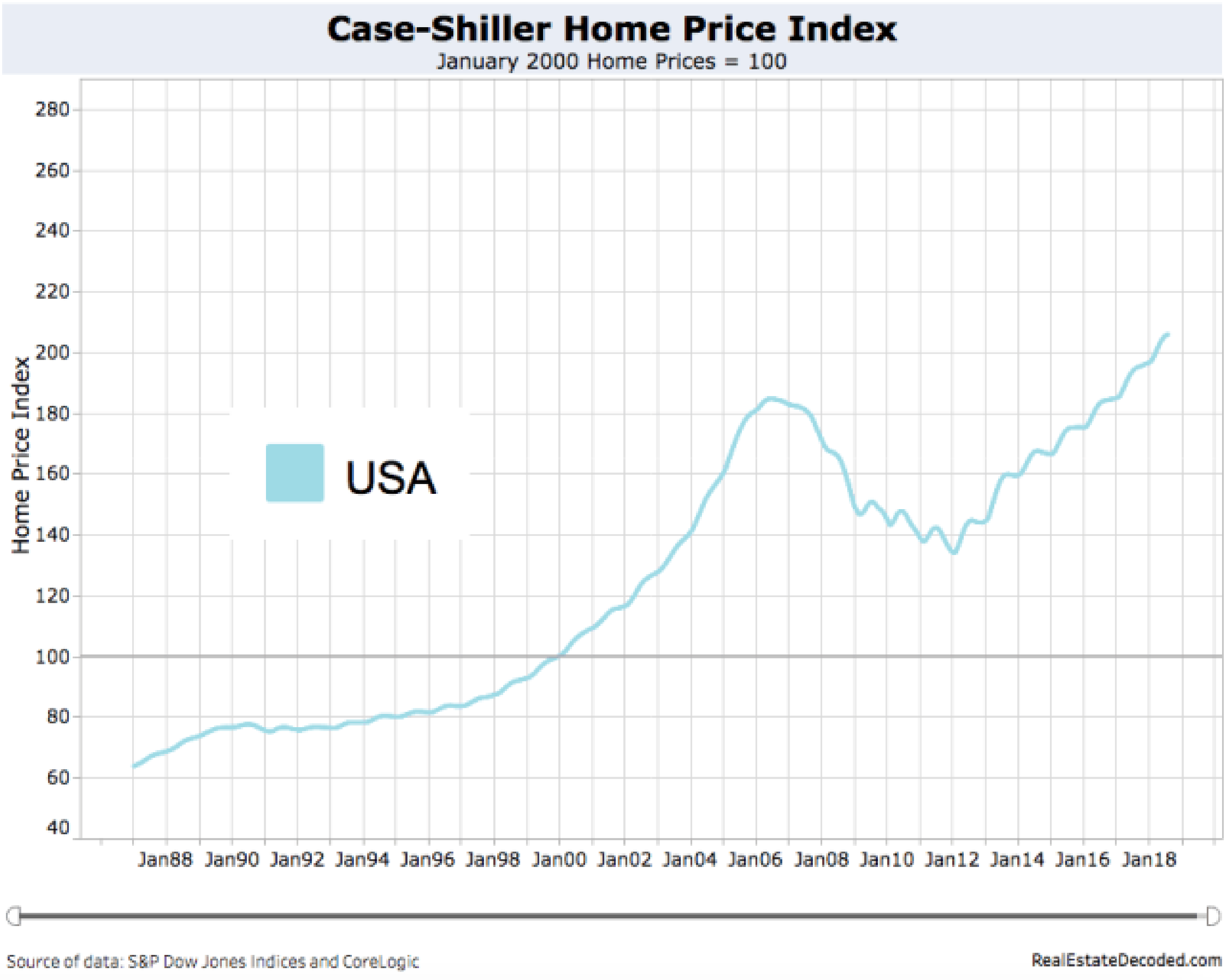
# Solid Investment

A home provides a much better return on investment than other large purchases such as a car. *When you purchase a car, the depreciation begins as soon as you drive it off the dealers lot…*

Owning a home provides a true investment. In most cases real estate will appreciate. The <u>current</u> national average appreciation rate is 9.8% year over year.

# Appreciation

| Time Period | Total Appreciation | Average Annual Rate |
|---|---|---|
| **Last 2 Years: 2019 Q4 - 2021 Q4** | **20.65%** | **9.84%** |
| Last 5 Years: 2016 Q4 - 2021 Q4 | 40.23% | 7.00% |
| Last 10 Years: 2011 Q4 - 2021 Q4 | 67.88% | 5.32% |
| Since 2000: 2000 Q1 - 2021 Q4 | 122.15% | 3.74% |


Case-Shiller Home Price Index
January 2000 Home Prices = 100
Home Price Index
280
260
240
220
200
180
160
140
120
100
80
60
40
USA
Jan88 Jan90 Jan92 Jan94 Jan96 Jan98 Jan00 Jan02 Jan04 Jan06 Jan08 Jan10 Jan12 Jan14 Jan16 Jan18
Source of data: S&P Dow Jones Indices and CoreLogic
RealEstateDecoded.com

# Factors That Affect Housing Affordability

# The Cost of Buying a Home

- Mortgage: How much home can you afford?
- Down Payment : How much can you put down on a home?
  - 10% of a 200,000.00 is 20,000 = Mortgage is 180,000 + interest + PMI
  - 20% of a 200,000.00 is 40,000 = Mortgage is 160,000 + interest
- PMI: Private mortgage insurance (PMI).
- Closing Costs and Real Estate Fees.
- HOA: Homeowners Association Fees (Annual or Monthly)


# How Much Home?

- The 28%/36% Rule: You shouldn’t spend more than 28% of your gross monthly income on home-related costs and 36% on total debts, including your mortgage, credit cards and other loans like auto and student loans. *Example: If you earn $4,000 a month and have $500 in existing debt payments, your monthly mortgage payment for your house shouldn’t exceed $1,120.*
- Most banks will not give you a mortgage loan for more than 30% of your gross income.
- You also need to consider your mortgage rate when purchasing a home. Your credit score determines the rate you will get.

# Mortgage Rates and Credit Scores

- A credit score of 700-plus will usually land a borrower a lower interest rate, and while mortgage industry experts say you can still qualify for certain loans with a score under 680, the 700s are where you can expect to pay the lowest rates.
- Creditors set their own standards for what constitutes an acceptable score, but these are general guidelines:
  - A score of 800+ is exceptional.
  - A score of 740- 800 is considered very good.
  - A score between 670 and 739 is considered good credit.
  - Scores between 630 and 670 are fair credit.
- And scores of 629 and below are poor credit and you will not get a mortgage loan.

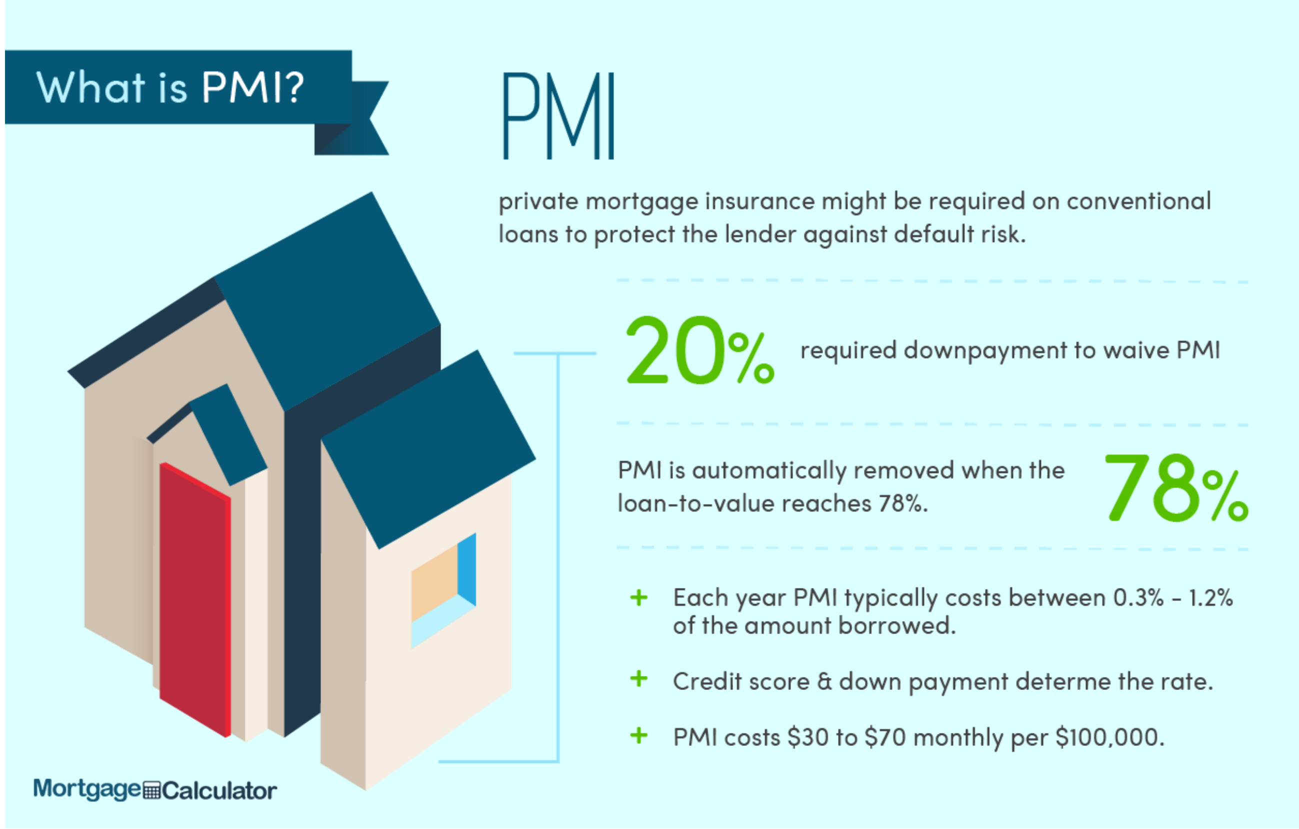
# Mortgage Rates and Monthly Payments

- Let's see how a 100-point difference in credit scores affects a mortgage payment:
  - A person buys a home worth $300,000 has a 20% down payment and applies for a 30-year fixed-rate loan of $240,000. She has a 780 FICO credit score, which gets her a 6.4% rate. That’s around $1508 a month, not including taxes, insurance or homeowners association fees.
  - If this borrower’s score dropped by about 100 points to between 680-699, her rate might increase to about 7.5%. At that interest rate, her monthly payment would increase to $1678, an extra $170 a month, or $2040 per year.

The effect of the difference in the rates may not seem significant at first, but added up over years, it could be a lot. In this example, a 100-point-drop has the borrower paying an additional $61,200 over 30 years!!

# What is PMI

- PMI: Private mortgage insurance is a type of insurance that is required for conventional mortgage loan borrowers.
- When you buy a home and make a down payment of less than 20% of the home's purchase price, you pay PMI.
- PMI on a $180,000 mortgage will range from $75 to $150 monthly. You will pay this until you reach 20% equity in your home.
- There are many factors that determine how much your PMI will be: credit history, type of loan, amount of debt.



# Closing Costs and Real Estate Fees

- Closing Costs: The fees and charges related to the purchase price of the property due at the closing of a real estate transaction.
- Closing costs in Minnesota are, on average, $2,331 for a home priced at $213,342, according to a 2021 report. That price tag is about 1.09 percent of the home's price.
- Real Estate Fees: Listing broker: 1.25%; Selling broker: 1.25%; Seller's agent: 1.25%; Buyer's agent: 1.25%. On a $200,000 sale, each broker and agent would receive $2,500.
- For a $200,000 home, a buyer should have around $7,000 in additional money at closing or discuss adding that to your mortgage.

# HOA

- The term HOA stands for homeowners association. A community that's governed by an HOA can consist of individual houses, townhouses, high-rises or condos, often within a planned community.
- The responsibilities of the HOA can vary based on property type — for a condo development it may oversee management of the entire property, for instance, whereas for a townhouse community, it may only be in charge of common areas.
- Before you consider purchasing a home, you need to understand if you also need to pay HOA dues. They can range from $30 to $500 a month. Approximately 27% of all homes are part of some HOA.

# Keys to Buying a Home

- A 20% Down Payment will save you from paying PMI.
- A credit score of 740 or better will get you the best rate available.
- Have 3% of the total home cost for closing and real estate fees set aside.
- Know if there are HOA fees you need to pay.

# REVIEW & QUESTIONS

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