

Financial Literacy

Ocean Discovery

19 July 2021

About me

- German national, 38 y.o., married to Tram, 4 kids, living in Dubai
- Education
 - Diploma in Business Administration, University of Frankfurt
 - MBA in Finance, University of Iowa
 - Chartered Accountant & Chartered Tax Professional
- Professional Experience
 - Stints with Lehman Brothers, Rothschild
 - 7 years with Royal Dutch Shell
 - 4 years with Sovereign Wealth Fund of the United Arab Emirates

Agenda

- Background
- Compound Interest
- Luck vs Risk
- Budgeting
- Good debt versus bad debt

Getting rich is easy...

“A genius is the man who can do the average thing when everyone else around him is losing his mind.” – Napoleon

“The world is full of obvious things which nobody by any chance ever observes.” – Sherlock Holmes

What is compound interest

Compound interest is earning interest on top of interest.

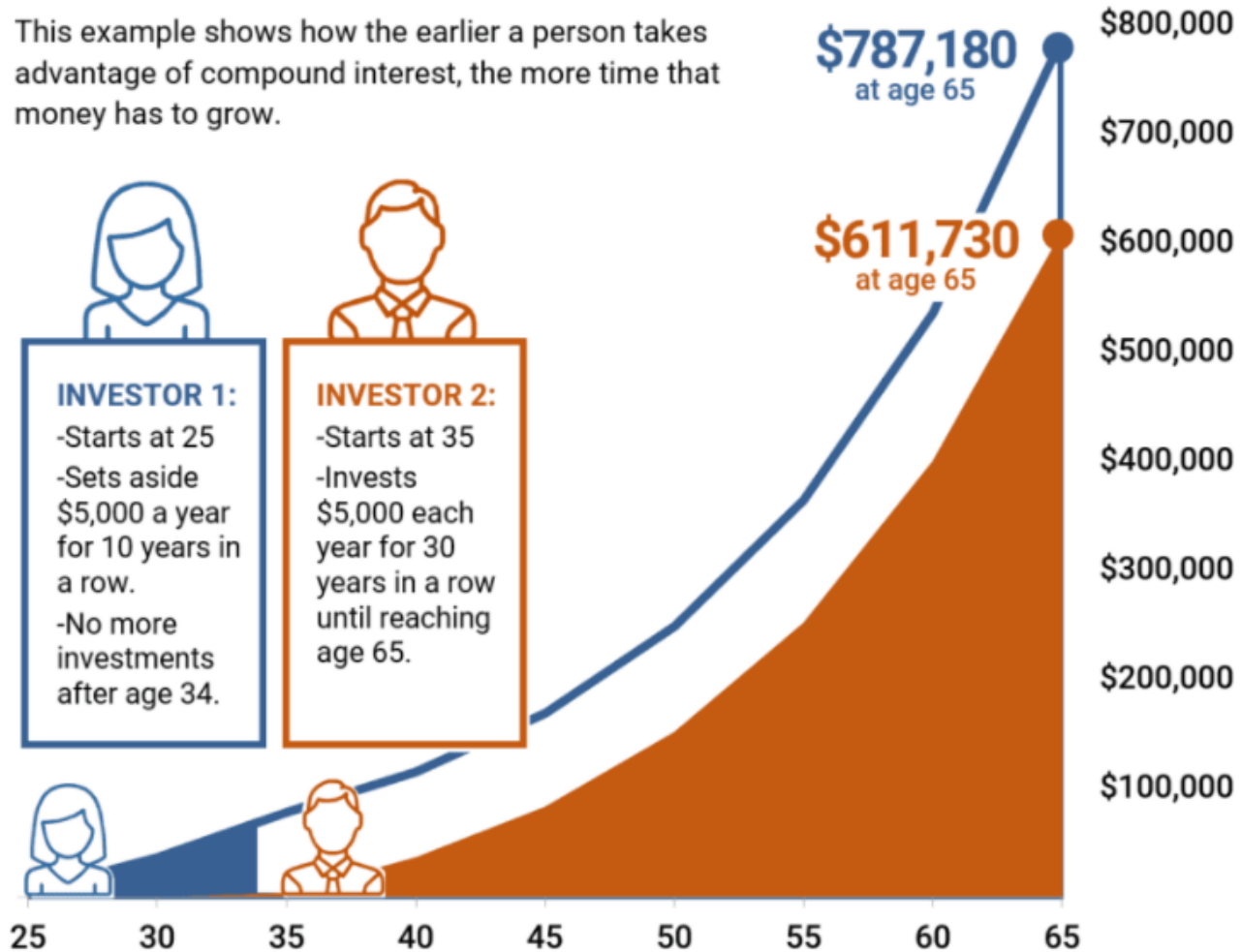
Good for your own savings and investments.

Bad if you're paying interest on a loan.



COMPOUND INTEREST: **WHO WILL EARN MORE?**

This example shows how the earlier a person takes advantage of compound interest, the more time that money has to grow.



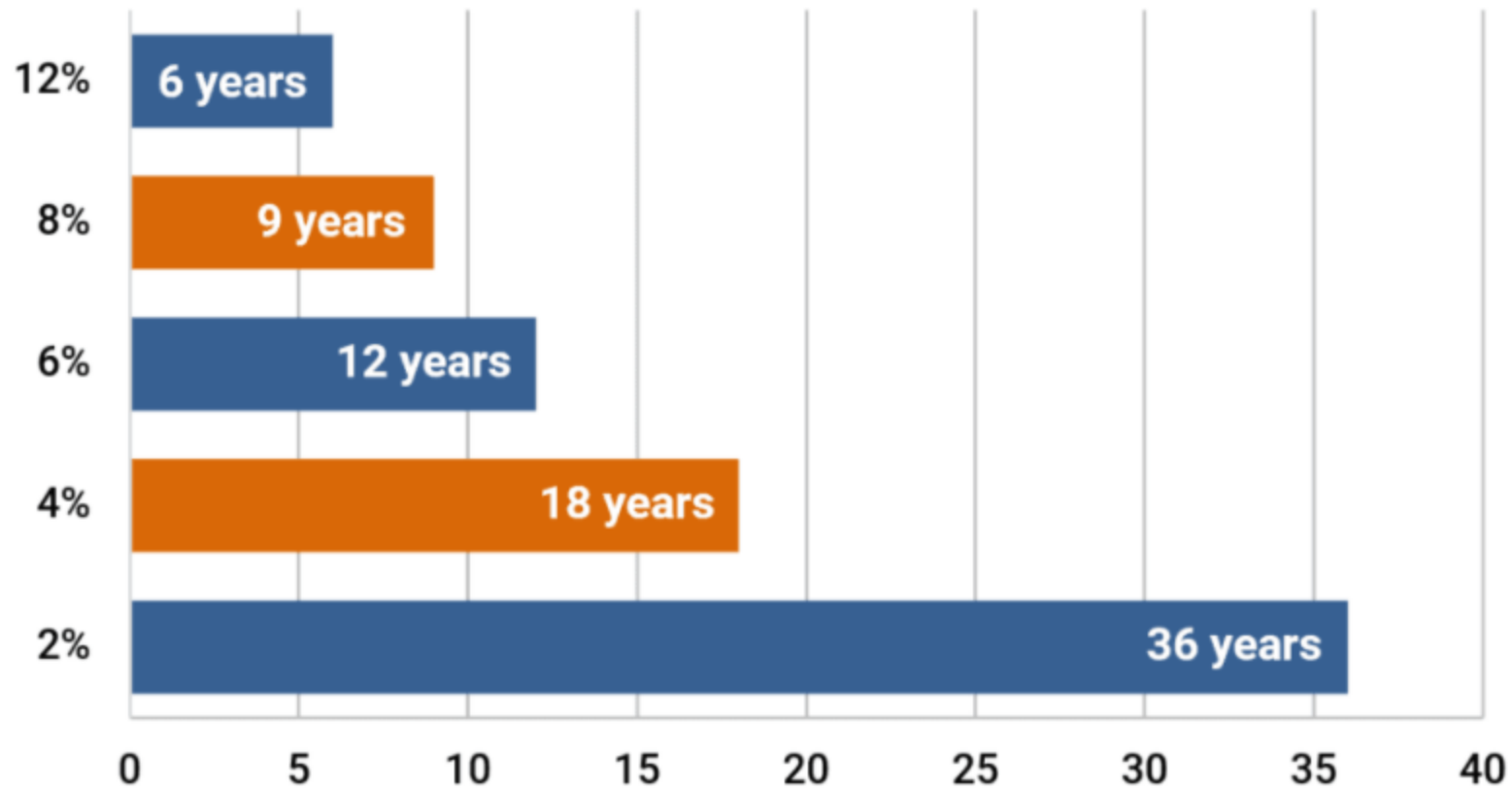
INVESTOR 1:
-Starts at 25
-Sets aside \$5,000 a year for 10 years in a row.
-No more investments after age 34.

INVESTOR 2:
-Starts at 35
-Invests \$5,000 each year for 30 years in a row until reaching age 65.

NOTES: Assumes an 8 percent interest rate, compounded annually. Balances shown are approximate.
SOURCE: Author's calculations.

$$72 \div \text{Interest rate} = \text{Years to double money}$$

Using the rates shown, here is about how long it would take to double an initial investment.



Compound interest

Dos & Don'ts

- Do start investing early
- Do invest regularly; max out your 401k
- Don't sell, ever

Compound interest

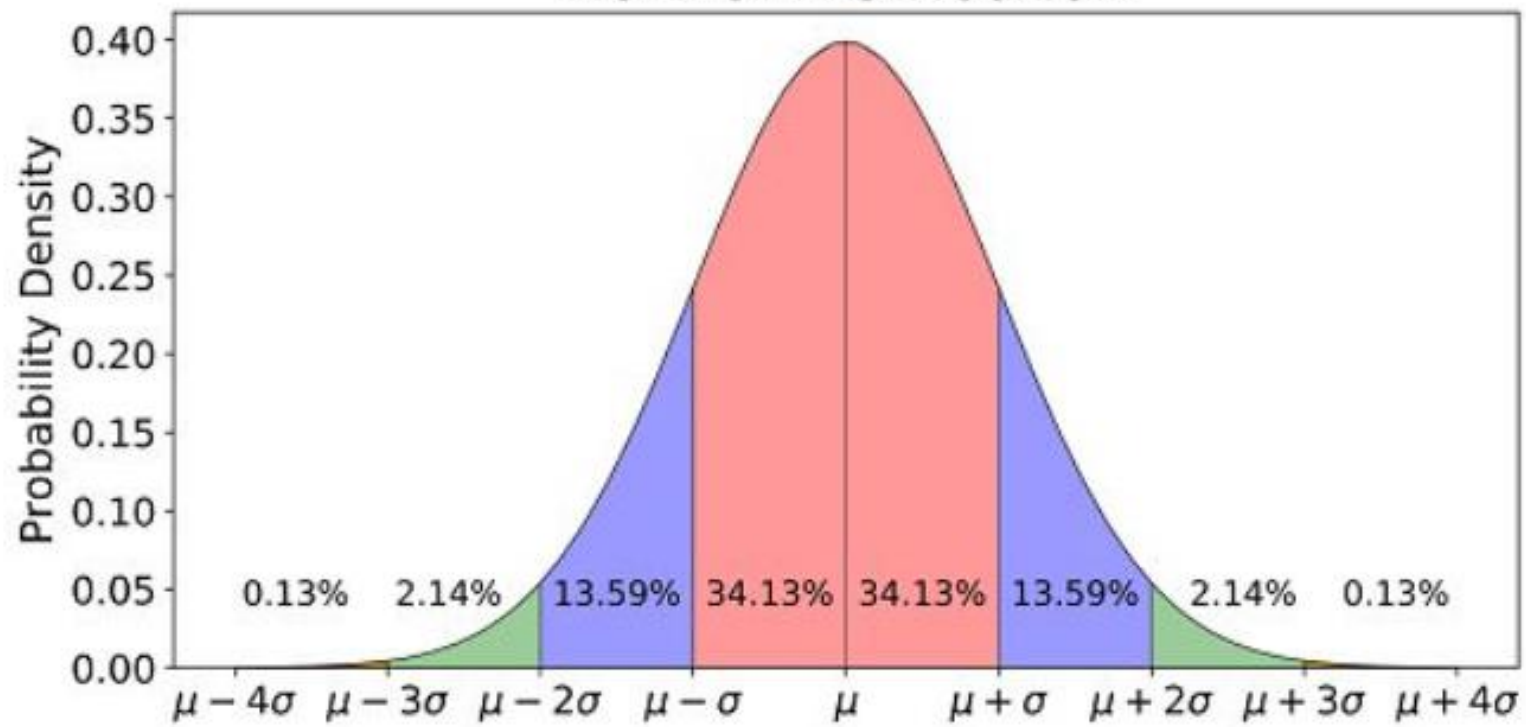
How-to-invest guide

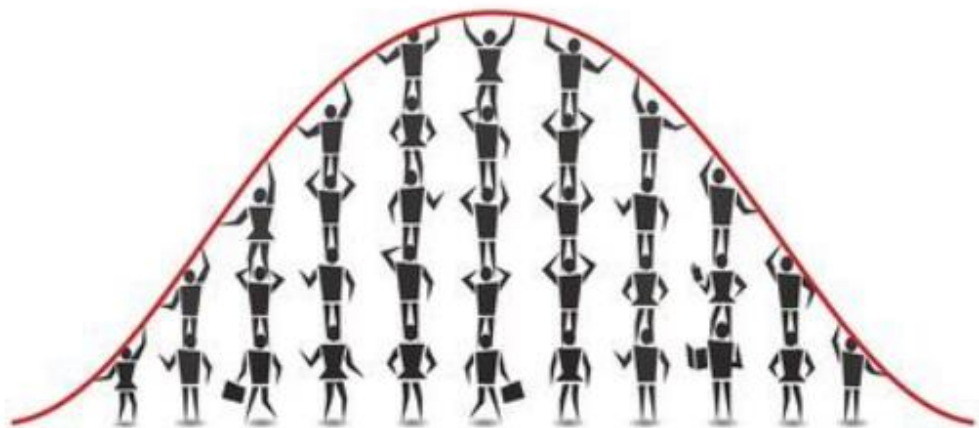
1. Open an account with a low cost online broker, e.g. Robinhood
2. Determine how much to invest every month
3. Buy low cost ETFs, e.g. Vanguard MSCI World ETF
4. Set up an automatic monthly money transfer and re-invest dividends

Luck vs Risk

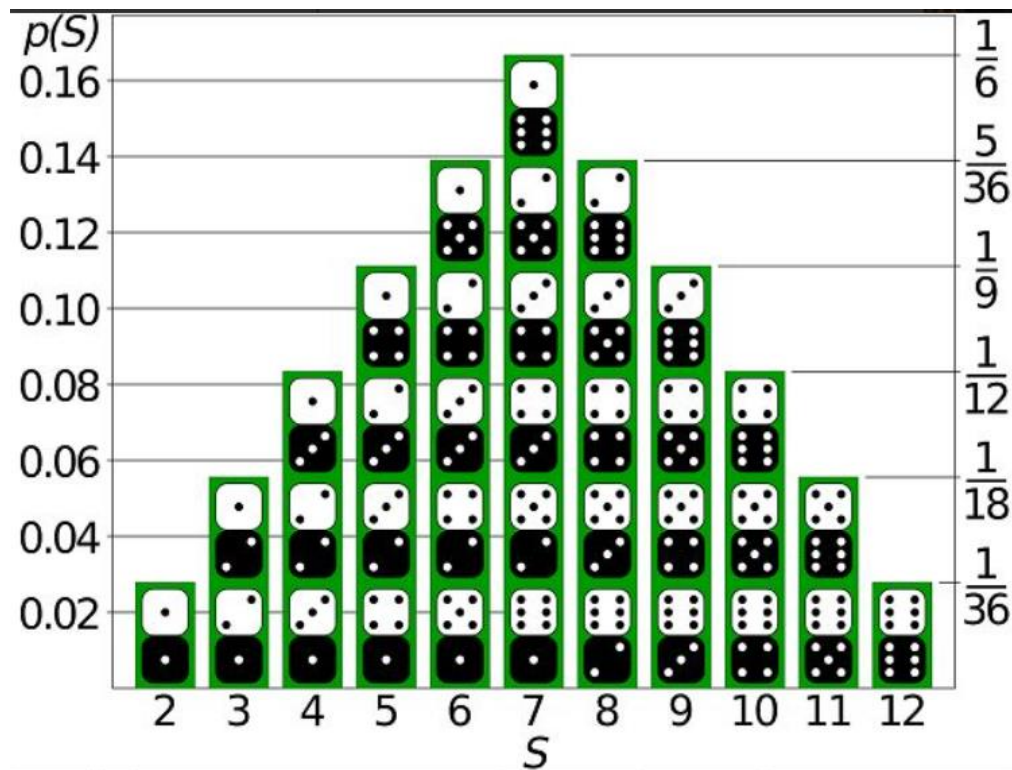
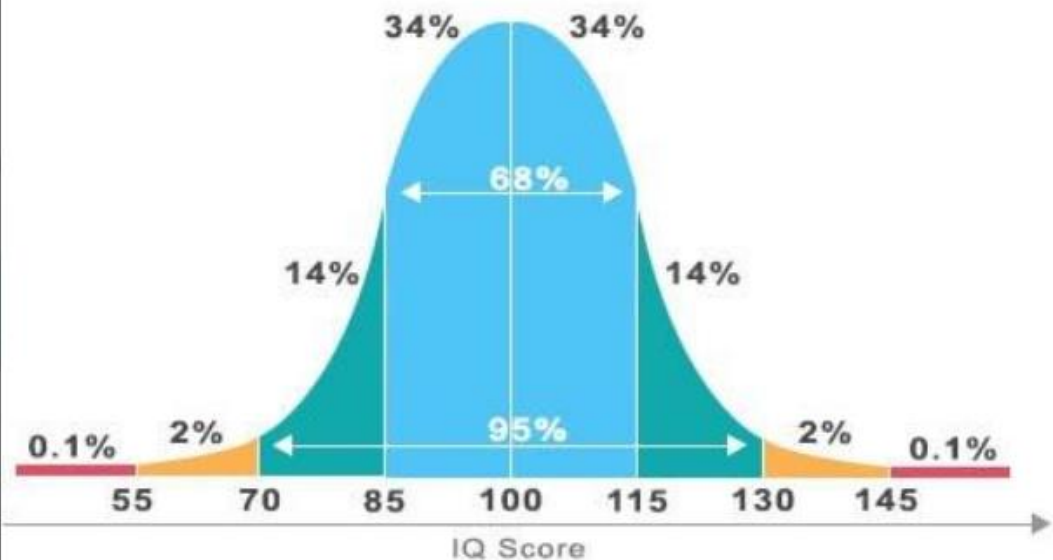
- *Aren't stocks extremely risky?*
- *Isn't this just gambling with our money?*
- *Isn't there a chance we could lose most of our money?*
- *Shouldn't we just play it safe?*
- *Isn't risk always bad?*

Normal Distribution

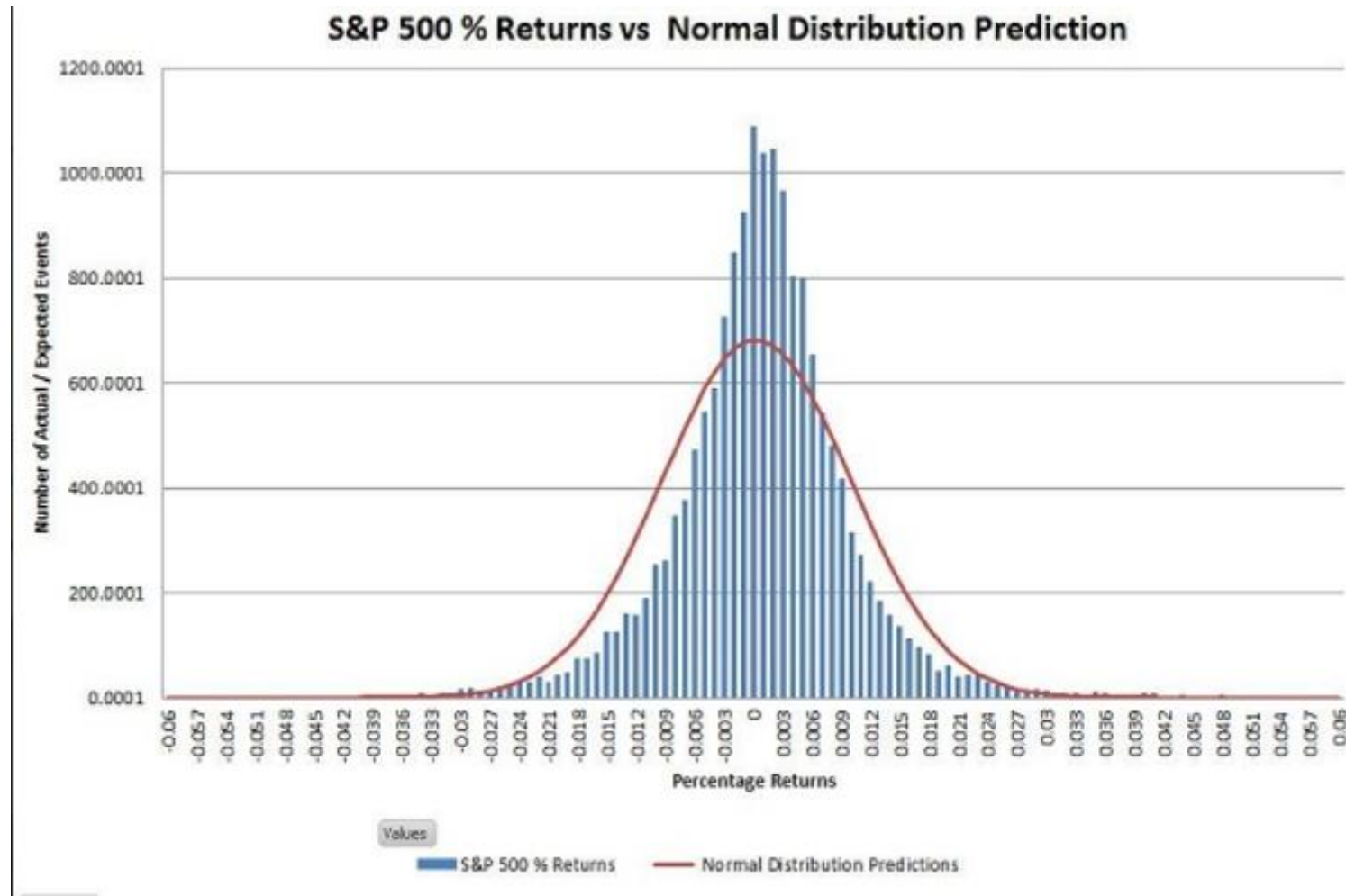




IQ GRAPH



Luck vs Risk



Luck vs Risk

S&P 500: 1926-2020

Time Frame	Positive	Negative	
Daily	56%	44%	} Gambling
1 Year	75%	25%	
5 Years	88%	12%	} Calculated risk
10 Years	95%	5%	
20 Years	100%	0%	

Luck vs Risk – Room for error

- We all make decisions under uncertainty all the time – acknowledge it
- Plan on your plan not going according to plan
- Make wise decisions by planning according to odds and complexity
- Get help when making important decisions from independent sources
- Be aware of psychological traps (overconfidence trap, prudence trap)

Budgeting – Why?

- Budgeting is not about how much money you make
- 9 of 10 companies are going bankrupt because of cash flow issues
- It helps you understand and change your own behaviors
- It helps you identify problems before they occur

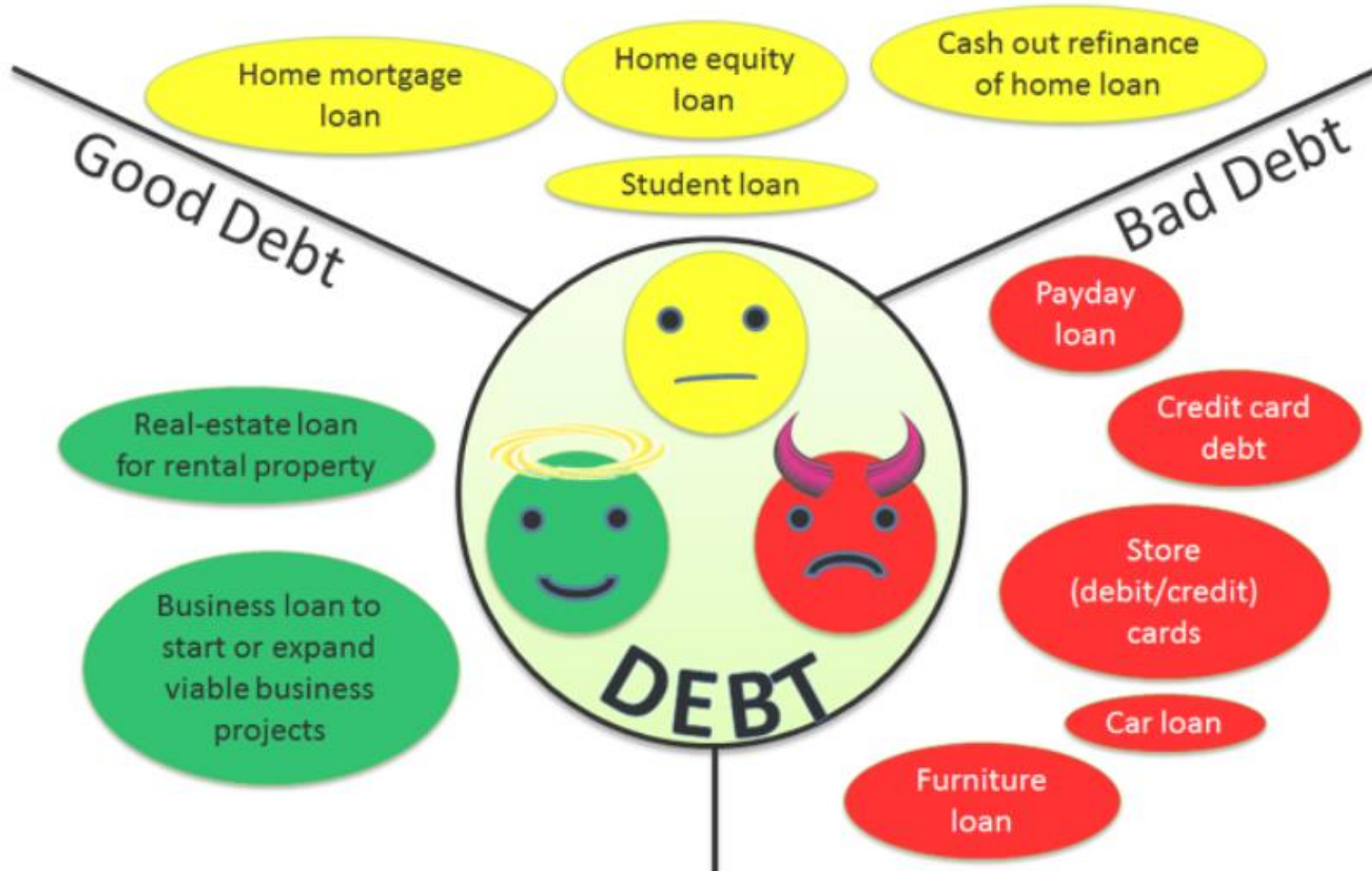
Budgeting – How to?

- Identify your income streams
- Identify your commitments
- Develop your own budgeting framework, e.g. 50/30/20 rule
- 50% needs, 30% wants, 20% savings
- Create an emergency fund of at least two months of income
- Track and assess your spending regularly
- Automate your saving (“spend what is left after saving”)

Good debt vs bad debt

Good debt has the potential to increase your net worth or enhance your life in an important way. Bad debt involves **borrowing money to purchase rapidly depreciating assets** or only for the purpose of consumption.

In the Middle (can be good or bad)



Getting rich is easy...

....., theoretically, but it takes:

- Time & Patience
- Humility
- Discipline
- Room for error

Resources

- Budgeting:
 - EveryDollar (free app)
 - Goodbudget (free app)
- Frugalism (blogs):
 - The Penny Hoarder
 - The Simple Dollar
 - The Frugal Chic Life
- Books:
 - Buffett: The Making of an American Capitalist (beginner)
 - Rich Dad Poor Dad (beginner)
 - The Psychology of Money (advanced)
 - The Intelligent Investor (advanced)
 - A Random Walk Down Wallstreet (advanced)
- Podcasts:
 - How I built this (entrepreneurship)
 - Smart Passive Income (making passive income)
 - Bigger Pockets (real estate investing)
 - Planet Money (general)
- Youtube
 - Graham Stephan (general)