ELIORA EDUCATION

Guide Book

Basic Principles and Good Practices of Personal Finance

What Everybody Should Know about Saving, Investing & Planning your Financial Future

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Guidebook:

Basic Principles and Good Practices of Personal Finance

What Everybody Should Know about Saving, Investing and Planning your Financial Future

This booklet has been written for financial novices and youths age 14 and up, though the principles it contains are universal and useful for everybody. It summarizes teachings from the most successful investors and personal finance experts. We've tried to distill these lessons into 26 "golden rules" or fundamental principles for saving, investing and planning a secure financial future. If you follow these rules, it will go a long way towards meeting your financial goals— be it a home you can afford, a top-class education, or comfortable retirement.

The principles relate to three main areas: (A) good habits, (B) long-term planning, and (C) a balanced portfolio.

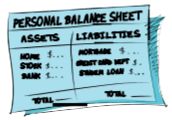
A Personal Habits & Discipline

1. Develop a budget and live by it!
Know how much you earn every month and where your money goes. Learn to control your spending and live within your means. You don't always need the most expensive item or the latest gadget!

2. Save regularly!
Set aside even a small amount every month, ideally through automatic payroll deduction.

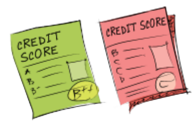
3. Limit your debt!
Match your living standards to your income, not your credit card limit. Pay off your credit card debt in full at the end of each month. Borrow only for purchases that generate value in the long run—like a home or higher education.

4. Set meaningful goals!
For example, make regular payments into a savings account or mutual fund to save the down-payment for a house, automobile, university tuition, or a nest egg for retirement.



5. Know where you stand!
Draw up your balance sheet by listing on one side all the assets you own (house, stocks, etc.) and on the other all the liabilties or debts you owe (mortgage, credit card debt, student loan, etc.). The difference is your net worth. Update this from time to time to know whether your situation has improved—or whether you're living the high life while running down your wealth!

6. Know Thyself!
The investment strategy most appropriate for you depends on individual factors like your personality, time horizon, career, and family situation. A 30-year old having paid off school and earning a high salary can stomach more risk than a 55-year old factory worker relying on her savings for retirement.



7. Keep your good name!
Avoid excessive debt and watch your credit score. The credit score is calculated by credit reporting companies based on factgors like your payment history and the amount and types of debt you owe. Watch it carefully, as it can affect things like your eligibility for (and cost of) a credit card or mortgage loan.

8. Invest in yourself!
Don't skimp on education--get the degrees and skills you need to get ahead in your profession. Lack of education is a kiss of death in today's labor market!

9. Get smart!
Acquire essential knowledge about money and investing. Learn the jargon and don't rely on others to watch out for your interests—it's your hard-earned money!

B. Long-Term Planning

10. Start early planning for retirement!

The days of comfortable corporate pensions earned after 30 years in the same job are gone! Start saving when you're young, contribute regularly, and take advantage of tax-deferred and employer-provided schemes.

11. Make compounding work for you!

Compounding means reinvesting accrued interest, dividends and capital gains to earn additional income. This is a powerful tool for those who have time on their side: according to the Rule of 72, the number of years needed to double an amount is about 72 divided by the interes rate. So if you put down £10,000 today and keep compounding at 6% per year, your money will grow to about £20,000 in 72 ÷ 6 = 12 years. Think what happens if you do this over 20, 30 or 40 years!

12. Watch out for inf ation!

In the long run, it can eat up all the nominal returns you've earned. An interest rate of 2 or 3% over 10 years may be ok if inflation is low and will remain so in future, but will not protect the real value of your capital if inflation takes off.

13. Guard your assets!

Drive carefully, protect your property, and get proper homeowners' and auto insurance!

14. Guard your health!

Make sure you have adequate health and disability insurance, whether through the government, your employer, or your own means. And adopt sound living habits: eat a healthy diet, exercise regularly, don't smoke, don't drink excessively, and drive carefully!

15. Protect your family!

Get life insurance, set up a college fund for your kids, pay down your mortgage debt, and prepare a will.

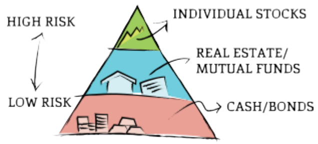
C. Building your Portfolio

16. Diversify!

Never put all your eggs in one basket. An ideal portfolio depends on your personality and circumstances. For example, a 30-year old with average risk tolerance could have 50-75% equities, 20-30% bonds, and 5-10% cash. If possible, the portfolio should include property and some other "real" assets like gold as well.

17. Don't try to time the market!

Watch your asset allocation, and "dollar or pound-cost average" to smooth purchase prices: you invest a fixed amount at regular intervals into an instrument like a mutual fund—when prices are high, you buy less units, and when prices are low, you buy more. Similarly, rebalance your portfolio from time to time to keep your portfolio on track.



18. Balance risk and reward!

The more risky an investment, the higher the return it should earn. A checking account is risk-free (up to £85,000 in the UK and $250,000 in the US) but earns almost no interest; while a start-up stock can skyrocket or becomee worthless. Build a balanced portfolio, and make sure that for every investment you buy, you understand the risk and the expected return matches it!

19. Buy stocks for the long run!

"Buy-and-hold" is the best strategy for the long run, minimizing trading costs and taxes. But avoid piling in at the peak! Dollar or pound-cost averaging allows you to smooth purchase prices, while periodic rebalancing locks in profts and keeps your portfolio on track.

20. Buy Index or Exchange Traded Funds!

Index funds or ETFs track a market index without trying to beat it. They allow for diversification and offer low costs and convenient trading. They can be a good complement to actively managed funds that try to beat the market.

21. Set up an emergency fund!

You should have cash or similar investments covering at least 3-6 months of living expenses, to be prepared for unforeseen events like a spell of unemployment or a large medical bill.

22. Buy high-quality bonds!

Include some government and high-grade corporate bonds in your portfolio for safety and stability. In times when interest rates are very low and don't even cover inflation, you may complement or replace them by floating-rate bonds, low-risk equities, or rental property.

23. Consider adding gold and commodities!

You could include some gold and commodities in your portfolio, for inflation protection and diversification. But these are not indispensable---you can also buy inflation-protected government bonds. And unlike cash and bonds, stocks and real estate also provide some degree of inflation protection.

24. Buy a home!

Owning a home is a worthwhile objective if you can afford it. But you should invest in property for stability and residential comfort, not speculation. Be sure you can make a down payment of at least 10-20%, and to keep your mortgage and other debt payments to under 36% of your income.

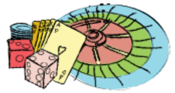
25. Don' gamble!

Never bet the farm on any single investment, never borrow to speculate, and be ready to take losses and bail out of an investment that has gone sour.

26. Question conventional wisdom!

Remember "house prices never go down nationwide", "stocks always out-perform bonds", or "money-market funds never break the buck"? All these assumptions held true for decades, but were proven wrong in the after the 2008 global financial cirisis as stocks earned negative returns over a decade, house prices fell across many countries, and a safe money market fund had to be bailed out! These popular sayings are still valid in many circumstances, but there are few absolute truths in investing. Be careful, diversify, and use common sense!

And keep in mind the Seven Mortal Sins of Financial Greed and Deceit:



1. Don't try to make a killing!

Investing is not gambling. Aim for a diversified portfolio earning solid average returns, compounded overtime. If you take a punt, make sure if it's for a small share of your portfolio that you can afford to lose.

2. Avoid excessive trading!

"Churning" your portfolio only makes your broker rich, not you.

3. Avoid complex or speculative instruments!

If you're not a seasoned finance professional, stay away from things like leverage, margin buying, or derivatives. Don't buy anything your grandma wouldn't understand or approve of...

4. Don't borrow from Peter to pay Paul!

Don't use one credit card to pay off another, and don't take out a home equity loan to support your living expenses. Live within your means!

5. Beware of snake-oil salesmen!

If it sounds too good to be true, it usually is!

6.Beware of highs costs and hidden fees!

If you don't check the fine print, fees and loads on some investments can eat up all your returns.

7. Beware of biased advice!

Stay clear of "advisers" who earn commissions from products they sell to you, not returns they help you make.

To summarize, you need to start today planning for your financial future. Learn the ropes, use common sense stay focused and disciplined! If you do, you can use the financial markets to your advantage to achieve the returns and financial security you desire. But if you don't, you may end up chasing a dream of instant fortunes and stellar returns that never comes true...

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