



Tashkent State University of Economics

Household finance

Lecture 6: The portfolio of the rich.

Lecturer: professor Otabek Karshiev





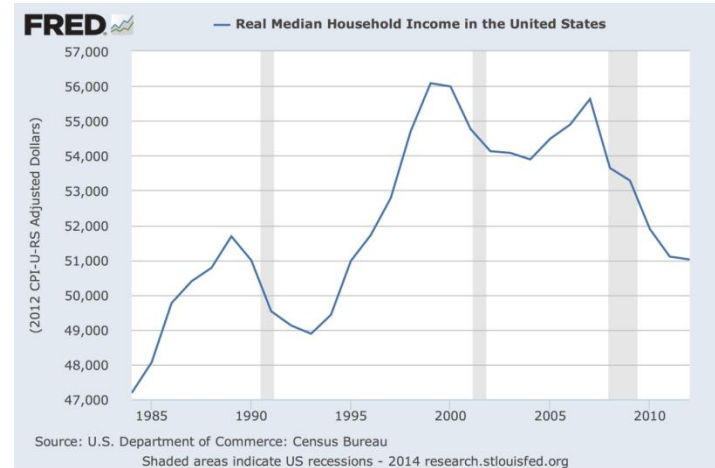
Planning

- ***1. Assessing Current Financial Conditions***
 - a. **The Personal Balance Sheet**
 - b. **The Personal Income Statement**
 - c. **Relationship between the two statements**
 - d. **Assessing your current position**
- ***2. Establishing Financial Goals***
- ***3. Budgeting for Goal Achievement***

Investment Goals and Plans

- **1. Key Factors**
 - **a. Return**
 - **b. Risk**
 - **c. Taxes**
- **2. Providing Needed Liquidity**
 - **a. Liquidity**
 - **b. Three reasons for having liquid assets on hand**
- **3. Quantifying Investment Goals**

Personal Debt (Financial Bondage)



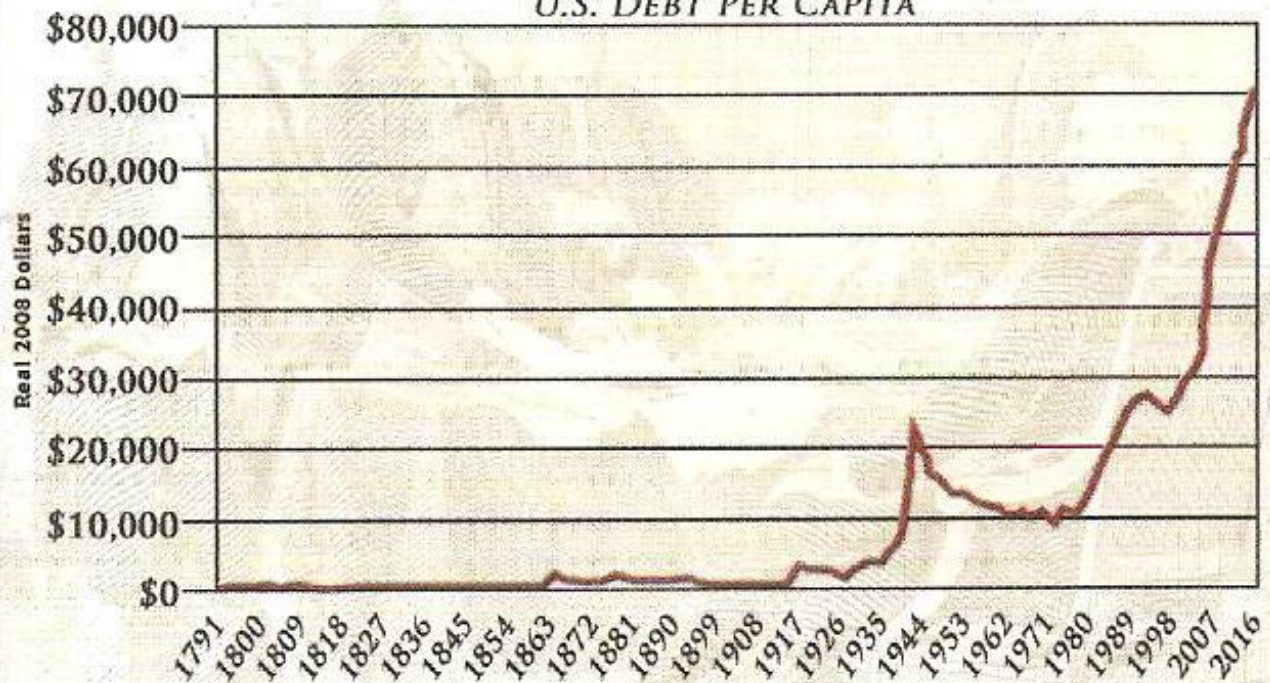
– 1. In 1960:

Average median income was approximately \$6,700 and 8% was paid in direct taxes including Social Security. Home costs amounted to 22% of net income.

– 2. In 2014:

Average median income was approximately \$52,200 and 42% was paid in direct federal, social security and state taxes, plus other local (sales, gas, property, and excise taxes). Home costs amounted to 40% of net income.

Growing Faster than the Population *U.S. DEBT PER CAPITA*



Help!

<http://www.usdebtclock.org>

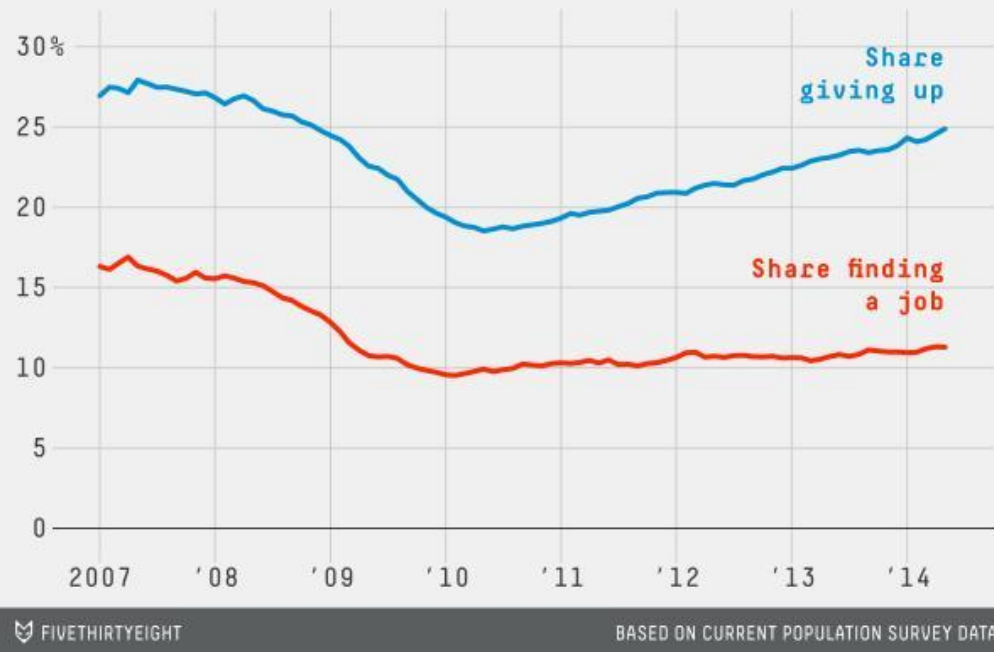




https://www.youtube.com/watch?v=bx_LWm6_6tA

What Happens to the Long-Term Jobless?

12-month rolling average



Only about 11 percent of the long-term jobless find jobs each month, little better than in the depths of the recession. Moreover, even those who do find jobs are often able to find only part-time or short-term work.

If they aren't finding jobs, what's happening to the long-term unemployed? They're dropping out of the labor force altogether. As the chart below shows, the share of the long-term jobless who are giving up their job searches has been rising steadily, even as the job-finding rate has remained largely flat. (Not shown on the chart are the more than 50 percent who remain unemployed.)

Many long-term unemployed are simply giving up. More than one-third will be out of the labor force a year later, meaning they're neither working nor looking for work. Most of them say they no longer even want a job, suggesting they're unlikely to return to the job market in the future.

- *“The Rich rule over the poor, and the borrower becomes the lenders slave.”*
- *Proverbs 22:7*
- *“If you’re smart, you don’t need debt. If you’re dumb, it’s poisonous.”*
- *Warren Buffett*
- *“If you’re thrifty you don’t need debt. If you’re stupid, it’s all you’ve got”.*
- *Prof. Kuhle*



...FOR THE NEXT THIRTY YEARS

Symptoms of Financial Bondage

- 1. Overdue Bills**
- 2. Worrying over investments.**
- 3. “Get-Rich-Quick” Attitude; Those who attempt to make money fast usually fail.**
- 4. No desire for gainful employment and a sense of being overwhelmed**
- 5. Being Deceitful; Shading the truth about a financial product you may be selling**

Symptoms of Financial Bondage

- 6. Being Greedy; Always wanting more than you have to the exclusion of family members**
- 7. Trying to keep up with the Jones**
- 8. Not meeting family needs**
- 9. Over commitment to work**
- 10. Financial resentment**

the

Financial

Crisis

Red Flags

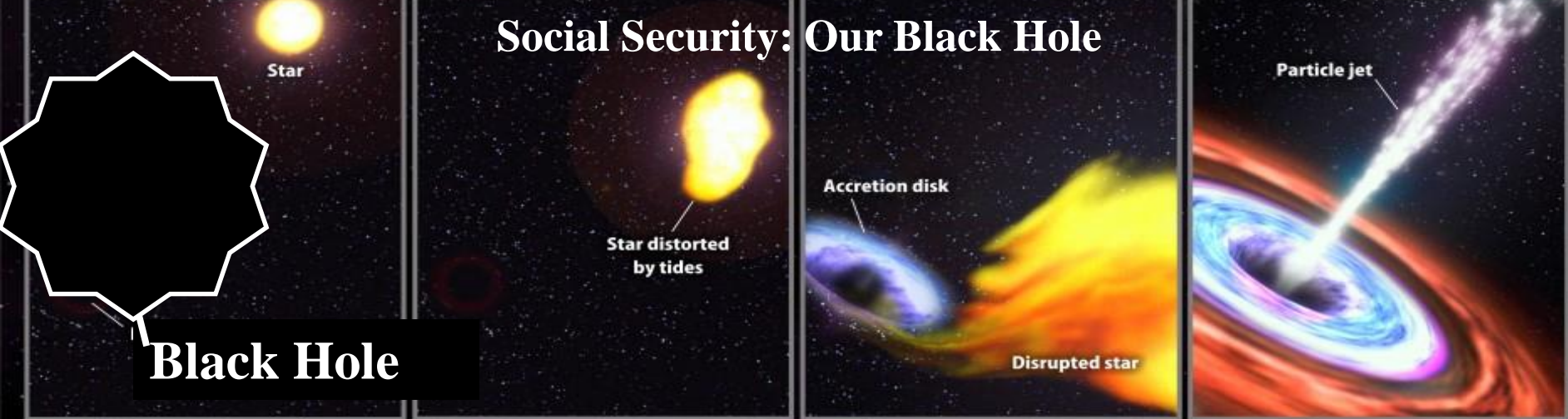
- **Retirement Accounts**
 - **Private retirement accounts are beneficial because they form voluntary savings, and the majority of these funds are reinvested in the economy.**
 - **However, these same funds are an attractive solution to solve the solvency problems of Social Security and Medicare/Medicaid.**

Red Flags (continued)

- **Social Security in 1991:**
 - **\$269 billion went to retirement benefits**
 - **\$105 billion went to Medicare**
 - **\$28 billion went back to the general fund**
 - **Total: \$402 billion**

- **For year 2014--\$863 BILLION**
- **In 1960 there were 14 workers for every retiree. In the year 2014 it will be 1.2 to 1.**

Social Security: Our Black Hole



1. A sun-like star on an eccentric orbit plunges toward the supermassive black hole in the heart of a distant galaxy.
2. Strong tidal forces near the black hole increasingly distort the star. If the star passes too close, it is ripped apart.
3. The part of the star facing the black hole streams toward it and forms an accretion disk. The remainder of the star just expands into space.
4. Near the black hole, magnetic fields power a narrow jet of particles moving near the speed of light. Viewed head-on, the jet is a brilliant X-ray and radio source.

Credit: NASA/Goddard Space Flight Center/Swift

Social Security is not sustainable over the long term at current benefit and tax rates. In 2010, the program paid more in benefits and expenses than it collected in taxes and other noninterest income, and the 2013 Trustees Report projects this pattern to continue for the next 75 years. The Trustees estimate that the trust fund reserves will be exhausted by 2033. At that point, payroll taxes and other income will flow into the fund but will be sufficient to pay only about 75% of program costs. As reported in the 2013 Trustees Report, the projected shortfall over the next 75 years is 2.72% of taxable payroll. Fast Facts & Figures About Social Security, 2014. What this is basically saying is that the Social Security system is now officially running at a deficit forecasted from now for the next 75 years.

The Secret of Investing: Compound Interest

- **When asked “What is the greatest achievement of human civilization?” Albert Einstein answered, “The greatest achievement of human civilization must be compound interest.” This is the most important thread in the fabric of investing.**
- **The Parable of the Grain of Wheat illustrates the power of compound interest.**
- **Everything we talk about in this course will be related as to how we can harness the power of compound interest.**

Let's say we have two investors, Mr. Bonds and Mr. Stocks. Each has \$100,000. Mr. Bonds invests his money in bonds yielding 7%. Mr. Stocks invests his in quality stocks that pay an average of 3% in dividends, however, their appreciation over time, is over 8%. In order for Mr. Stocks to have the same income as Mr. Bonds he must sell part of his portfolio each year. Mr. Stocks will have \$111,000 at the end of the first year (\$3,000 + \$8,000). He has received \$3,000 in dividends so he must sell \$4,000 to match the income of Mr. Bonds (i.e. \$7,000). This will leave Mr. Stocks with a portfolio value of \$104,000 instead of \$100,000 as Mr. Bonds has. Over a twenty year time period Mr. Stocks portfolio will be worth between \$300,000 - \$400,000, while Mr. Bonds remains at \$100,000. Ah! but someone says, "Yeah, but what if the big one hits and the market crashes." Well, during the depression of the 1930's the solvency of many bonds were in serious doubt. Those companies that failed often had nothing to give there bondholders. As the interest payments could no longer be met, many additional bondholders understood what true risk was.