

KEYS TO CASHFLOW 101

Auditor: The person responsible for checking the accuracy of your income statement and your balance sheet. A good auditor will find your errors... before the IRS does!

Asset: Something that puts money in your pocket. An asset will feed me. Part of the balance sheet. Found on the lower left portion of the game card. Increasing your assets will help you to get out of the rat race in Cashflow 101 and in real life.

Balance Sheet: A snapshot of your assets and liabilities. Your balance sheet is on the bottom of your game card. To get to the “fast track”, your assets need to increase and your personal liabilities may need to decrease.

Bankruptcy: When you do not have enough income or cash to pay your bills. In Cashflow 101, you lose 3 turns. In real life, you lose much more.

Capital: Cash or something of an agreed-upon value. Example: You can raise the capital you need to purchase an apartment complex by selling shares of stock.

Capital Gain/Loss: The difference between what you bought an investment for and what you sold it for, (adjusted for improvements and ordinary usage).

Cash Flow: Cash coming in (as income) and cash going out (as expenses). It is the direction of cash flow that determines whether something is income, expense, asset or liability and it is you that determines by your choices in which direction your cash will flow.

Certificate of Deposit: A time certificate representing a sum of money deposited for a set length of time at a set rate of interest. A loan to government and businesses, issued through and guaranteed by banks, with known maturity dates and interest rates. Example: Depositing \$10,000 in a CD for six months at 5% interest will pay you \$250 in interest.

Debt: Money owed to another. The debt amount is shown as a liability on the balance sheet and the monthly payment as an expense on the income statement. Examples of personal debt include: retail debt, credit cards, car loans, school loans, and a home mortgage. It is important to note that each of your debt liabilities is an asset for a bank and each of your debt payment expenses is income for a bank. The owners of the bank would like to take this opportunity to thank you for putting them in the fast track while you stay in the rat race.

Dividend: A distribution of profits of a company to the shareholders. The board of directors must approve a dividend. Dividends are usually paid quarterly. Example: You own 500 shares of Company XYZ and the board of directors decides to pay a quarterly dividend of \$.05 per share. You receive a dividend check in the amount of \$25.

Doodads: Expenses, often unnecessary or larger than need be, that take money out of your pocket. Examples: \$75 Sunglasses, \$600 Auto Repair, \$200 Prom Limo, \$2,000 Stereo, \$100 Speeding Ticket, \$15 CD, \$40 Beeper, \$300 Speakers, \$60 Concert, \$150 Shoes.

Down Payment: A percentage of the purchase price an investor pays for an investment. The remainder of the price is then borrowed (debt). A typical down payment for real estate is 10%. Example: You purchase a rental home for \$50,000 with a 10% or \$5,000 down payment. This would leave you a mortgage or finance amount of \$45,000.

Downsized: A nice way to say you're fired. Not a good time to be living paycheck to paycheck

Dream: An ultimate goal.

Fast Track: You only get here when the passive income from your assets is greater than your living expenses. Once you make it to the "fast track", you are just a dream away from winning the game.

Income Statement: A form showing your income and expenses over a period of time. Also called a profit and loss statement. Income can be active; salary or wages you work for, or it can be passive; money working for you through investments. Expenses can be for necessities such as food, clothing, and shelter, but too often they are wealth draining such as debts or doodads.

Liabilities: Amounts of money that are owed to others. Debt. Something that will take money out of your pocket. A liability will eat me. Hint: Reducing your liabilities may reduce your expenses and increase your paycheck.

Mortgage: When you finance real estate, the property you are financing is used as collateral or security against the amount of money you are financing. A typical mortgage loan might be for 15, 20, or 30 years. The mortgage company will hold the title or deed to the property until the loan is paid in full. The interest paid on the life of this type of loan will often exceed the amount of the principle. Example: A \$100,00 mortgage for 30 years at 7.5% interest more than doubles the total cost of the mortgage. Over the 30 year life of the loan, the home owner would pay back the \$100,000 principle plus pay the bank \$180,000 in interest for a total of \$280,000.

Mutual Fund: A variety of stocks, bonds, or securities, grouped together, managed (bought and sold) by a professional investment company and purchased by individual investors through shares. The shares value changes with the value of shares in the companies (in part) owned.

Opportunity: Big Deals or Small Deals, know that while each opportunity may only knock once, there will be others. Is this opportunity good or not? It is all in the ROI of the beholder.

Passive Income: Income generated from your investments such as interest, dividends, and real estate rentals, with minimal work. Financial freedom is when money works for you, instead of you working for money.

Rat Race: The endless cycle of never seeming to get ahead financially, no matter how hard you work. Where the middle class and poor spend their days until they become financially literate.

ROI: Return On Investment. Return on capital, as an annual percentage, from an investment. Example: An apartment building costs \$500,000. You pay \$100,000 as a down payment. You have a monthly cash flow of \$2000. Your ROI is $\$2000 \times 12$, divided by \$100,000 or 24%.

Shares Split: A corporate action where the number of shares you own increases and the price per share decreases. This decision, made by the board of directors, tends to keep the price within a normal trading range. Example: You own 100 shares of MYT4U Electronics. A 2 for 1 stock split is announced at today's price per share of \$40. After the shares split you now own 200 shares at a price of \$20. Note the total value of your shares (\$4,000) has not changed.

Stock: Ownership in a corporation. As a shareholder in a public company you may vote on the members of the board of directors, receive dividends, and sell your stock shares in the market. Example: You have an opportunity to buy shares of OK4U Drug Company that has a past market trading range of \$10 to \$40. You buy 500 shares at today's market price of \$10 or a total cost of \$5,000. Later, you are able to sell at \$30 per share or a total of \$15,000. You have achieved a capital gain of \$10,000. What a great way to build your assets to get out of the rat race.

The Market: Where you find buyers for your investments in an ever changing economy.

True Wealth: When you can live indefinitely off of your investment income. Example: Through playing Cashflow 101, you learn the importance of investing and given time you build an investment portfolio that produces the income you need to live the lifestyle you choose for as long as you live.