

Funny Money

Foundations of Money & Investing for Teenagers

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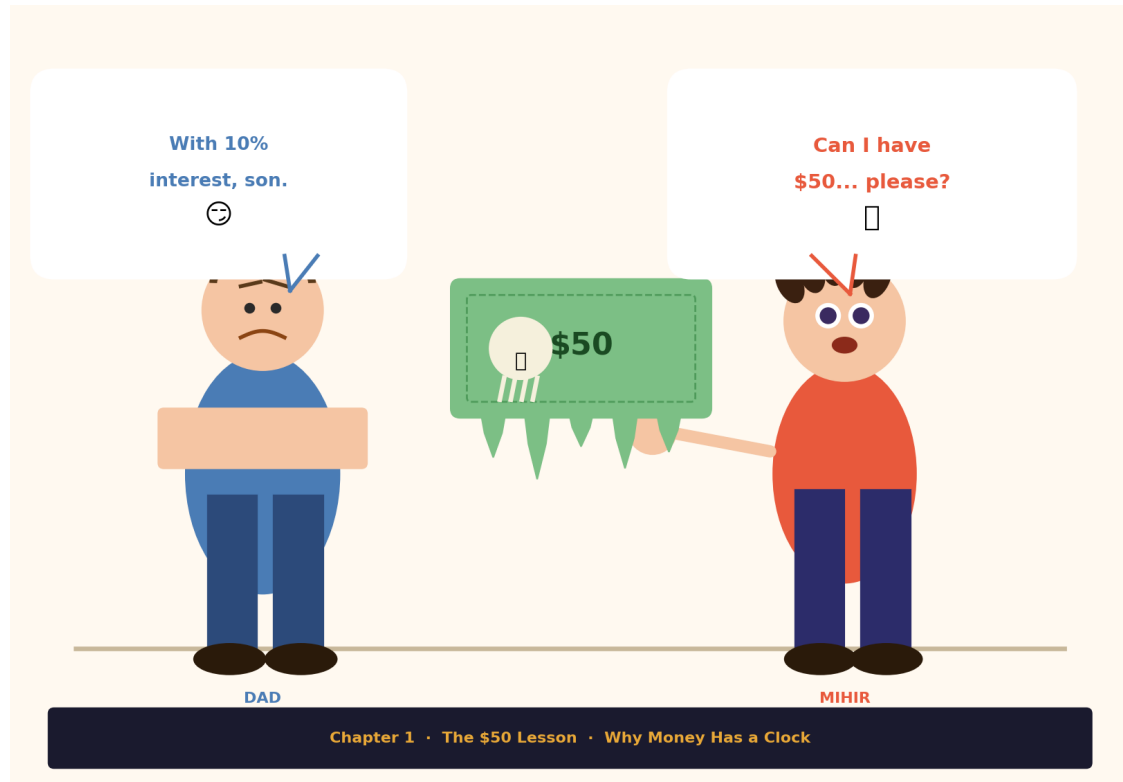
CHAPTER 10

PUTTING IT ALL TOGETHER

Chapter 1

The \$50 Lesson

Why a Dollar Today Is Worth More Than a Dollar Tomorrow



"An investment in knowledge pays the best interest"

— Benjamin Franklin

It started, as most good arguments do, with money.

"Mihir, can I have fifty dollars?" No explanation. No context. Just fifty dollars, please, delivered with the confidence of someone who absolutely did not earn it.

"What happened to the twenty I gave you last week?" came the reply.

"IDK."

Three letters. The most expensive abbreviation in the English language.

A negotiation followed — the kind teenagers are very good at and parents always lose — ending with a deal: Mihir would get the fifty, but he'd have to pay it back with 10% interest.

"Interest?" Mihir looked genuinely confused. Like someone had just asked him to repay in ancient coins.

And right there, in that thoroughly ordinary moment, sat one of the most important ideas in all of finance: the time value of money. Don't let the fancy name fool you. It's a very simple idea. And once you get it, you'll see it everywhere.

Money Has an Expiration Date (Kind Of)

Here's a question: would you rather have \$100 today, or \$100 exactly one year from now?

Most people pick today, almost without thinking. And they're right! But why?

It's not just impatience. It's something called inflation. Over time, prices go up. The same \$100 that buys you a decent pair of sneakers today might only cover the shoelaces in ten years.

Think of it this way: your grandparents probably paid less than a dollar for a Coke in the 1970s. Today it's closer to **\$2 or more**. Same can. Same fizzy liquid. Way more dollars. That's inflation doing its thing.

So money sitting still is actually losing ground. A \$100 bill stuffed under your mattress today will still say \$100 in five years — but it'll buy you noticeably less stuff.

The Big Idea

Money available today is worth more than the same amount in the future.

Not because today-you is more important than future-you.

But because money can grow — and because prices keep creeping up.

Present Value, Future Value — Two Ways to Look at the Same Dollar

Present Value (PV) — what money is worth right now. The \$50 in Mihir's hand.

Future Value (FV) — what that same money will be worth at some point in the future, after it's had time to grow.

The reason these two values are different comes down to two things: interest rates and time. The longer money sits and grows, the more it compounds.

Real World Example

You lend a friend \$1,000 today at 5% interest per year.

Year 1: \$1,000 grows to \$1,050

Year 2: \$1,050 grows to \$1,102.50

That extra \$102.50? That's the future value of waiting — and of being smart enough to charge interest.

So What Is Interest, Exactly?

Interest is the rent you pay for using someone else's money. When you borrow money, you pay interest. When you lend it, you earn it. Simple as that.

It's usually expressed as a percentage per year. So 5% interest means: for every \$100, you earn or pay \$5 a year.

Simple interest is straightforward — you earn interest only on your original principal. **Compound interest** is sneakier and way more powerful — you earn interest on your interest. It snowballs. (Full demo in Chapter 2. Spoiler: a penny can become millions.)

The Flip Side

Interest works both ways.

When working FOR you (savings, investments) — it's wonderful.

When working AGAINST you (credit card debt) — it's brutal.

Credit card companies charge 18–25% interest. Your savings account pays maybe 0.5%.

That gap is not an accident.

Back to the \$50

So what was the point of charging Mihir 10% interest on fifty dollars? The \$5 wasn't the lesson. The lesson was the concept behind it.

When Mihir borrows money today and promises to pay it back later, he's using a future version of his income to fund a present-day expense. That has a cost. Time has a cost. Risk has a cost. That cost is interest.

Every credit card, student loan, mortgage, and car payment is built on this exact idea. Once you understand that, you'll never look at a 0% financing deal the same way.

The good news? This works in your favour too. Money you save and invest today grows into more money tomorrow. The earlier you start, the more time does the heavy lifting for you.

Key Takeaways

- A dollar today is worth more than a dollar tomorrow — because of inflation and the opportunity to grow it.
- Present Value is what money is worth now. Future Value is what it grows into over time.
- Interest is the price of borrowing money — or the reward for lending it.
- Compound interest grows faster than simple interest. It can work for you or against you.
- Starting early is the single biggest advantage you have right now. Use it.

🎯 Try This: The Time Value Test

Scenario A: Someone offers you \$200 today.

Scenario B: They offer you \$240 exactly two years from now.

Which do you take?

At 8% annual return, \$200 today grows to roughly \$233 in two years.

So Scenario B (\$240) is actually the better deal — just barely.

That's present value thinking. You just did finance.

"An investment in knowledge pays the best interest" — Benjamin Franklin

► **Up Next: Chapter 2 — The Magic of Compounding (A penny becomes millions. Really.)**

Chapter 2

The Magic of Compounding

Einstein's 8th Wonder — and Why a Penny Can Beat \$3,000



"Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it."

— Albert Einstein (allegedly)

Let's play a game. You've just landed a summer job — 30 days, and you get to pick your own payment plan.

Option A: \$100 on day one, \$200 on day two, \$300 on day three — each day \$100 more than the day before.

Option B: 1 cent on day one, 2 cents on day two, 4 cents on day three — each day double what you got the day before.

Most people grab Option A without blinking. \$100 on the first day! Option B starts at a single penny. It sounds like a prank.

| Option A — \$100 more each day | Option B — Double each day |
|--------------------------------|----------------------------|
| Day 1: \$100 | Day 1: \$0.01 |
| Day 10: \$1,000 | Day 10: \$5.12 |
| Day 20: \$2,000 | Day 20: \$5,242.88 |
| Day 30: \$3,000 | Day 30: \$5,368,709.12 |
| TOTAL: ~\$46,500 | TOTAL: \$10,737,418.23 |

Option B — the one that started with a penny — ends with over ten million dollars. This is compounding. It's not magic. It's just math that's very good at sneaking up on you.

Simple vs. Compound: The Two Trains

In simple interest, the train carries your principal and drops off interest at each stop. Predictable. Steady. Kind of boring.

In compound interest, the interest gets loaded back onto the train at each stop — and now that bigger load earns even more interest. The train gets heavier and faster as it goes.

Same Numbers, Very Different Endings

You invest \$1,000 for 3 years at 10% interest.

Simple Interest: Year 1: \$1,100 | Year 2: \$1,100 | Year 3: \$1,100

Total after 3 years: \$1,300

Compound Interest: Year 1: \$1,100 | Year 2: \$1,210 | Year 3: \$1,331
Total after 3 years: \$1,331

Only \$31 difference after 3 years. Give it 30 years and the gap becomes thousands.
Give it 40 years: life-changing.

The Secret Ingredient: Time

Compounding isn't very impressive over short periods. But compound interest has a secret weapon, and that weapon is time. The longer you leave it alone, the more ridiculous it gets.

🤔 The Tale of Two Friends

Maya starts investing \$1,000/year at age 16, for 10 years, then stops. Total invested: \$10,000.

Jordan waits until 26, invests \$1,000/year for 40 years. Total invested: \$40,000.

Both earn 8% per year, compounded.

Maya at 66: ~\$168,000

Jordan at 66: ~\$280,000

Jordan invested FOUR TIMES as much money. Maya spent a decade on the couch.

The lesson: starting early does enormous work — even a 10-year head start.

As a teenager, you have something no adult investor can buy back: time. Lots of it. Use it.

The Rule of 72 — A Neat Trick

It's called the **Rule of 72**. Divide 72 by your interest rate to find how long it takes your money to double.

$72 \div \text{interest rate} = \text{years to double}$

Rule of 72 in Action

At 6% interest: $72 \div 6 = 12$ years to double

At 8% interest: $72 \div 8 = 9$ years to double

At 12% interest: $72 \div 12 = 6$ years to double

\$1,000 at 8%: doubles to \$2,000 in 9 years → \$4,000 in 18 → \$8,000 in 27 → \$16,000 in 36.

All from \$1,000. All from waiting.

Compounding Works in Reverse Too

Credit cards typically charge 18–25% APR. Run that through the Rule of 72:

$72 \div 20 = 3.6$ years for your debt to double.

A \$1,000 credit card balance, mostly unpaid, can double in less than four years. The same engine that builds wealth will quietly destroy it if you're on the wrong side.

Later is expensive.

Key Takeaways

- Compound interest earns interest on your interest — it snowballs over time.
- Simple interest is predictable; compound interest is powerful.
- Time is the secret ingredient — the longer you invest, the more dramatic the growth.
- The Rule of 72: $72 \div \text{interest rate} = \text{years to double your money}$.
- Compounding works both ways — it grows wealth AND multiplies debt. Know which side you're on.

🎯 Try This: The Compound Calculator Challenge

Head to any free compound interest calculator online.

Plug in: Starting amount \$500 · Rate 8% · Time 40 years.

Hit calculate. Prepare to be mildly shocked.

Now change the time to 50 years. See it again.

That's your future — if you start now.

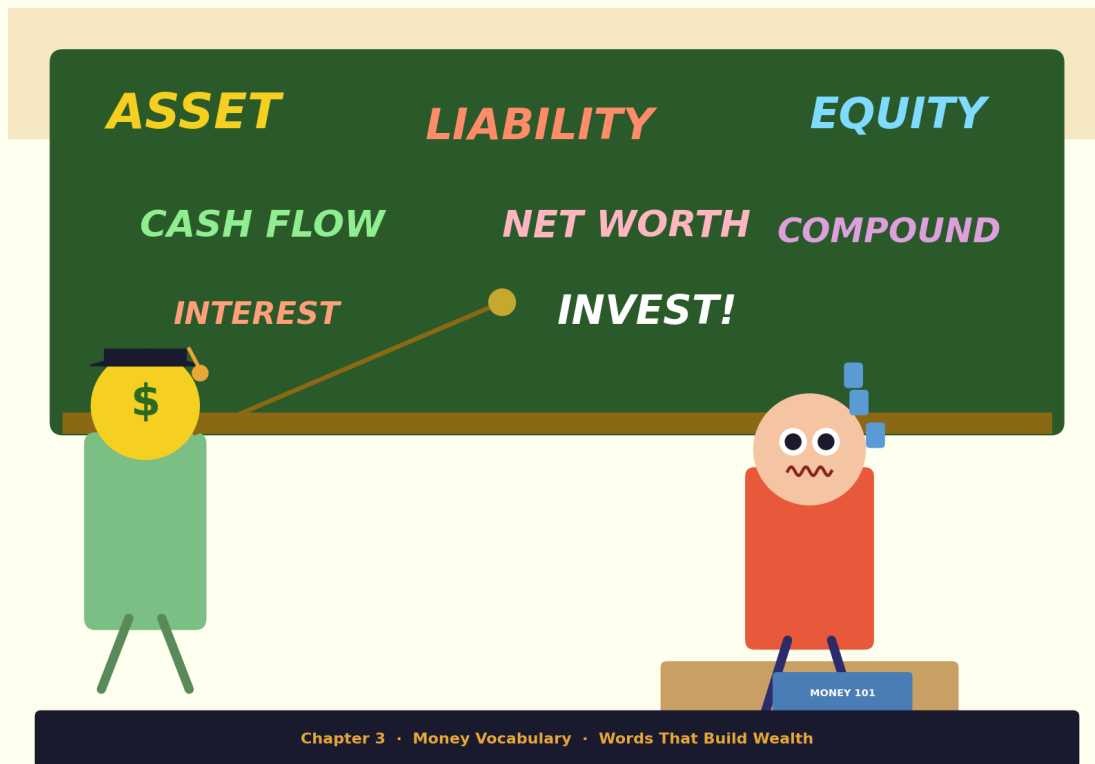
"Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it." — Albert Einstein

▶ **Up Next: Chapter 3 — Money Vocabulary (The words that build wealth)**

Chapter 3

Money Vocabulary

The Words That Separate the Wealthy from the Confused



"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for."

— Robert Kiyosaki

Every world has its own language. Gamers talk about respawning. Athletes talk about reps and PRs. Finance has its own vocabulary — and the frustrating thing is that most of it sounds more complicated than it actually is.

This chapter is the end of the nodding. We're going to learn the six most important words in personal finance and understand how they connect to each other.

Word #1: Asset — The Good Stuff

An asset is anything that puts money in your pocket. If it generates money or can be sold for money, it's an asset.

Asset

Something you own that has value and can generate money or be converted to cash.

Assets come in all shapes and sizes. A savings account. Stocks. A rental property. Even your skills are an asset — maybe the most important one you'll ever have.

- **Liquidity** — how quickly you can turn it into cash.
- **Growth** — how much income or value the asset generates over time.
- **Risk** — the chance the asset loses value.

Asset Scorecard

| | |
|------------------|---|
| Savings account: | High liquidity / Low growth / Low risk |
| Stocks: | High liquidity / High growth / Higher risk |
| Real estate: | Low liquidity / Good growth / Moderate risk |
| Your skills: | Can't be sold / High earning power / Zero risk of losing them |

Word #2: Liability — The Other Stuff

If an asset puts money in your pocket, a liability takes money out.

Liability

Any financial obligation you owe — money, payments, or other economic duties.

All debts are liabilities, but not all liabilities are debts. A debt is specifically money you borrowed. A liability is any obligation you owe.

Words #3 & #4: Income and Expenses — The Flow

Income

Money coming in — wages, interest, dividends, rent.

Expenses

Money going out — rent, food, phone bill, subscriptions, that 2am online shopping habit.

If your income is bigger than your expenses, you're in good shape. If your expenses are bigger than your income, you have a problem that gets worse every month.

(For the record: \$6 a day is \$2,190 a year. Just in case you were wondering about that daily coffee situation.)

Word #5: Free Cash Flow — The Golden Number

Free Cash Flow

What's left over after you've paid all your expenses. The money available to save, invest, or build with.

Free Cash Flow = Income - Expenses

That leftover amount is your building material. It's what you use to buy assets, pay down liabilities, and slowly tip the scales in your favor.

Picture It Like a Bathtub

Income is the tap — water flowing in.

Expenses are the drain — water flowing out.

Free cash flow is how much water is actually building up in the tub.

If the drain is bigger than the tap, the tub empties no matter how fast the water runs.

Word #6: Wealth — What It Actually Means

Wealth isn't about having a lot of money. It has a more precise definition.

Wealth (Net Worth)

Assets minus Liabilities. What you'd have left if you sold everything and paid off all debts.

A person with a \$200,000 salary and \$300,000 in debt is not wealthy — they're just high-earning. A person with a modest income who has steadily accumulated assets? That person is building real wealth.

The Master Formula

Assets - (Liabilities + Expenses) = Free Cash Flow

Free Cash Flow → Invested over time → More Assets

More Assets → More Income → More Free Cash Flow → Wealth

That's the whole loop. Everything in this book is about understanding and improving one part of this cycle.

Key Takeaways

- Assets put money in your pocket. Liabilities take money out.
- Your skills are your first and most durable asset.
- Income minus expenses = free cash flow — the golden number.
- Wealth = Assets minus Liabilities. It's not about income — it's about what you keep.

- The wealth loop: earn → manage expenses → invest free cash flow → grow assets → earn more.

🎯 Try This: Your First Net Worth Snapshot

Column A — Assets: money in bank, investments, valuables you could sell.

Column B — Liabilities: money borrowed, credit card balances.

Subtract Column B from Column A. That's your net worth.

It might be small. It might be negative. That's completely fine.

Take this snapshot every six months. You'll be surprised.

"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for." — Robert Kiyosaki

► **Up Next: Part 2 — Managing Your Money (The Babylonian secret that actually works)**

Chapter 4

The Babylonian Secret

The Oldest Money Trick in the World — and Why Almost Nobody Uses It



"A part of all I earn is mine to keep."

— **The Richest Man in Babylon**

Babylon was one of the richest cities the ancient world had ever seen — basically the New York City of its time — where a surprisingly large number of people were quietly broke.

Sound familiar?

The wealthy people there had figured something out. Not a complicated algorithm. Just one simple habit — so counterintuitive that most people heard it, nodded, and then went and did the opposite anyway.

The secret was this: **Pay yourself first.**

Four thousand years of financial wisdom in three words. The Babylonian version has a specific mechanism behind it that most people skip, and that mechanism is what actually makes it work.

The Way Most People Do It (Spoiler: It Doesn't Work)

The Usual (Broken) Cycle

- Step 1: Earn money
- Step 2: Pay taxes (Uncle Sam goes first, always)
- Step 3: Pay the bills — rent, phone, food, subscriptions
- Step 4: Spend on the fun stuff
- Step 5: See what's left over
- Step 6: Save that leftover amount

The problem: there is never anything left over.
Expenses expand to fill all available income. Every. Single. Time.

This isn't a willpower problem. Economists call it lifestyle creep. As income goes up, spending goes up to match it. The gap never widens, no matter how much more you make.

The Flip: Pay Yourself Before You Pay Anyone Else

✓ The Babylonian Cycle

Step 1: Earn money

Step 2: Pay taxes (still can't skip this one, sorry)

Step 3: Immediately set aside 10% for yourself — savings, investing, future assets

Step 4: NOW pay your bills and expenses from what remains

Step 5: Spend the rest guilt-free

The saving happens first. Before the bills. Before the fun.

Before your brain has a chance to talk you out of it.

It's not a bigger number. It's not a stricter budget. It's just a different order of operations. The expenses simply adjust to whatever is left.

The goal is **10% of everything you earn**. Can't manage 10%? Start with 5%. The habit matters more than the amount.

Why This Works: It's Not Willpower, It's Architecture

Human beings are terrible at making the right choice in the moment, but pretty good at setting up systems in advance.

If there's a bowl of candy on your desk, you'll eat the candy. If the candy is in a cabinet across the room, you'll eat a lot less candy — not because you have more willpower, but because the friction made you stop and think.

Paying yourself first works the same way. When the 10% gets moved automatically — into a separate account — it stops feeling like money. It's just gone. And you spend around it without even noticing.

A Practical Example

You earn \$500 from a summer job.

Old approach: Spend \$480 on various things, save \$20 if you remember.

Babylonian approach: Move \$50 to savings the same day you get paid. Now spend the remaining \$450 however you want.

Same income. Very different outcome.

Do this every paycheck for a year and you've built a \$600+ savings habit almost without trying.

The Three Reasons It's Called Paying Yourself

- **You're empowering yourself** — every time that 10% moves, you own a little more of your future.
- **You're building a habit** — after a few months, it feels weird not to save.
- **You're creating an asset** — that saved money becomes the raw material for everything in Part 3.

What 10% Looks Like Over Time

Saving 10% of a modest \$20,000/year income, invested at 8% annual return:

After 10 years: ~\$31,000

After 20 years: ~\$99,000

After 30 years: ~\$245,000

After 40 years: ~\$553,000

You contributed \$80,000 total. The rest? Compounding.

This is the Babylonian secret. It works. It has always worked.

One More Thing: The Guilt-Free Part

Once that 10% is moved — and only then — everything else is yours to spend however you want. No guilt. No tracking every coffee. You've already done the right thing.

The Babylonians were onto something. Four thousand years later, the math still holds up.

Key Takeaways

- Most people save what's left after spending. Pay yourself first: save 10%, then spend what's left.
- The goal is 10% — but 5% is a perfectly good starting point.

- Automate it. Move the money before your brain gets involved.
- This isn't about discipline — it's about architecture. Set up the system, then let it run.
- After the 10% is moved, the rest is yours to spend freely. No guilt required.

🎯 Try This: The First 10% Experiment

Next time money comes in — paycheck, birthday cash, anything — try this:

Before spending a single dollar, move 10% somewhere separate.

Then spend the rest however you normally would.

At the end of the month, notice two things:

1. The 10% is still there — untouched, already working.
2. Your spending adjusted naturally. You probably didn't miss it.

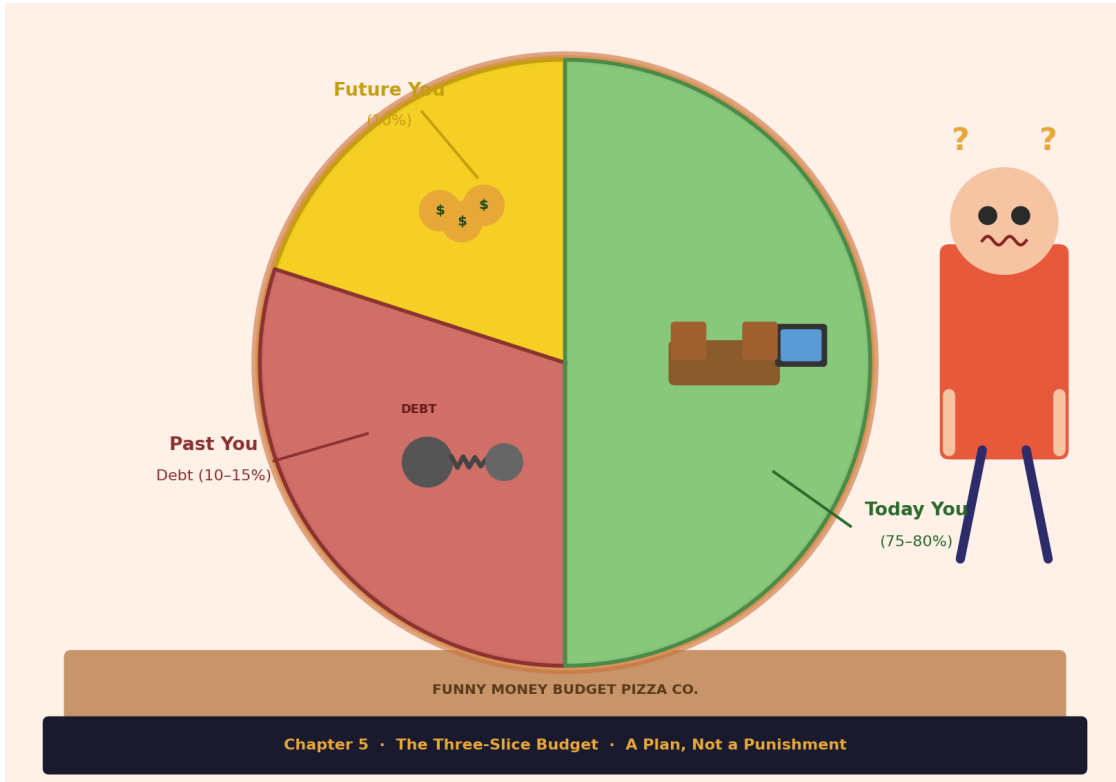
"A part of all I earn is mine to keep." — The Richest Man in Babylon

► **Up Next: Chapter 5 — The Three-Slice Budget (A spending plan that doesn't make you miserable)**

Chapter 5

The Three-Slice Budget

A Spending Plan That Doesn't Make You Miserable



"It's not your salary that makes you rich, it's your spending habits."

— Charles A. Jaffe

The word 'budget' has a reputation problem. It sounds like punishment. Nobody gets excited about making a budget. It ranks somewhere between filing taxes and cleaning your room on the list of things people voluntarily do on a Saturday.

But a budget isn't a restriction. It's a plan. And plans are great — because they mean you decide in advance where your money goes, instead of looking at your bank account at the end of the month wondering what happened.

Think of Your Money as a Pizza

Every dollar you earn can be divided into three categories, each with a different job:

Future You — ~10%

- Savings and investing — the Babylonian 10% from Chapter 4
- This slice goes first, before anything else

Past You — ~10–15%

- Paying off debts — credit cards, loans, money owed
- Past-you made some financial decisions; present-you pays for them

Today You — ~75–80%

- Everything else — rent, food, phone, fun, emergencies
- The biggest slice, but it has to fit within what's left after the first two

Three slices. Future, Past, Today. Every dollar you earn belongs to one of them. Future You gets paid first. Past You — your debts — gets tackled second. Then Today You gets everything left, guilt-free.

Slice 1: Future You (The One You'll Be Grateful For)

You know this slice already. It's the Babylonian 10% — moved before you spend anything else, ideally automated so your brain never has to fight the urge to spend it.

If you have a job with a 401(k) match, **contribute at least enough to get the full match**. That's free money. Turning it down is like finding a \$20 bill and putting it back.

Slice 2: Past You (The Cleanup Crew)

This is where you deal with debts. Every month you carry a balance, it gets slightly bigger. Chipping away consistently is always better than ignoring it.

The **avalanche method** tackles highest-interest debt first — mathematically most efficient. The **snowball method** pays the smallest debt first — psychologically satisfying. Both work. Pick the one you'll actually stick to.

If you have no debt right now — congratulations. Redirect this slice to Future You and build that asset base even faster.

Slice 3: Today You (The Fun Part)

Roughly 75–80% of your take-home pay for everything that keeps you housed, fed, clothed, entertained, and functional. It has three sub-categories:

Inside the Today You Slice

Fixed Expenses (~50% of total income):

Rent, phone, utilities, groceries, transport — predictable every month

Guilt-Free Spending (~20–30%):

Dining out, entertainment, clothes, vacations — budgeted, not banned

Emergency Buffer (~5–10%):

Car repairs, medical bills, unexpected costs — your financial shock absorber

Build up roughly three to six months of living expenses in an accessible emergency fund over time. Even \$200 set aside changes how a financial surprise feels — from crisis to inconvenience.

What If the Slices Don't Fit?

If you're just starting out, 10% to Future You and 15% to Past You might not be realistic right away. That's fine. The percentages are targets, not laws. Start wherever you can.

Not as a punishment. Just as a question: *"Is this spending making me as happy as the financial security I'd get from saving more?"* Sometimes the answer is yes. Sometimes it isn't.

Key Takeaways

- A budget is a plan, not a punishment — you're deciding where money goes before it decides for you.
- Three slices: Future You (10%), Past You (10–15%), Today You (the rest).
- Future You goes first, always — that's the Babylonian rule carried forward.
- Build an emergency buffer inside Today You — even \$200 changes how a surprise feels.
- The percentages are targets. Start where you can and adjust as income grows.

Try This: Your First Three-Slice Split

Take the last amount of money you received.

Future You: 10% → \$_____

Past You: 10% → \$_____ (or 0% if debt-free)

Today You: 80% → \$_____

Is the Today You amount enough to cover your actual monthly needs?

If yes — great. If no — the slices need adjusting. That's useful information.

"It's not your salary that makes you rich, it's your spending habits." — Charles A. Jaffe

► **Up Next: Chapter 6 — Good Debt, Bad Debt, and the Credit Card Trap**

Chapter 6

Good Debt, Bad Debt, and the Credit Card Trap

Not All Debt Is Created Equal — But Some Will Absolutely Ruin Your Day



"Good debt is an investment on today to create a better tomorrow. Bad debt is spending today's desires at the cost of future benefits."

— **Funny Money**

Mihir had just heard his friend Ryan mention, very casually, that he had a credit card.

"How come he gets one and I don't?" Mihir muttered, with the quiet resentment of someone who has just learned the world is profoundly unfair.

Credit cards aren't inherently evil — they're useful tools when used correctly. The problem is most people don't fully understand what they're holding.

But before we get to credit cards, we need to talk about debt. Not all debt is the same, and knowing the difference is one of the most useful things you can learn.

The Two Colors of Debt

Some debt actually makes you richer. The difference comes down to what you do with the borrowed money.

| ✓ Good Debt | ✗ Bad Debt |
|-----------------------------------|---------------------------------------|
| Borrowed to invest or build value | Borrowed to consume or spend |
| Return > interest rate | No return — just a cost |
| Student loans (wisely chosen) | Credit card balance carried monthly |
| Mortgage on appreciating home | Financing a phone you didn't need yet |
| Business loan to generate income | Payday loans (predatory) |

The rule of thumb: good debt is borrowed at X% to earn (X + something). Bad debt is borrowed at 20% to buy something that generates zero return.

Before You Borrow Anything: The Five Questions

The Five Questions

1. Why am I borrowing this money? Is it building something, or just enabling a purchase?
2. What's the interest rate? How does it compare to what the money will return?
3. How long will I be paying this back?
4. What's my plan to repay it? Hoping it works out is not a plan.
5. What happens if things go wrong? Can I still make payments if income drops?

Now: The Credit Card

A credit card is a short-term loan. Every time you swipe, the bank pays the merchant on your behalf. You then owe the bank that money.

How Credit Cards Actually Work

- You make purchases throughout the month
- At month's end you get a statement showing what you owe
- You have a grace period (usually ~25 days) to pay in full

If you pay in full before the due date: Zero interest. Basically free money.

If you pay less than the full amount: Interest kicks in — usually 18–25% APR.

If you only make the minimum payment: You're in trouble. See below.

Used correctly, a credit card is an interest-free short-term loan with rewards attached. The trap is when you don't pay it off.

APR, Daily Compounding, and Why Minimum Payments Are a Trap

APR stands for Annual Percentage Rate. A typical credit card APR is 18–25%. At 20%:

$72 \div 20 = 3.6$ **years for your debt to double.**

Credit cards don't compound annually — they compound daily. Your APR gets divided by 365 and applied to your balance every single day.

The Minimum Payment Illusion

You have a \$1,000 credit card balance at 20% APR.

The minimum payment might be around \$25/month.

At minimum payments only:



Time to pay off: ~5 years

Total interest paid: ~\$600+

Final cost of that \$1,000: ~\$1,600

The minimum payment was put there on purpose.
It keeps you paying interest as long as possible.
Always pay more than the minimum. Always.

Debit vs. Credit: Same Plastic, Different World

|  Credit Card |  Debit Card |
|---|--|
| Borrows money from the bank | Spends your own money directly |
| Pay it back later (with possible interest) | Instant deduction from your account |
| Builds credit history if used well | No credit history impact |
| Offers rewards, fraud protection | Fewer perks, but no debt risk |
| Dangerous if balance isn't paid in full | Can't spend money you don't have |

The Credit Card Golden Rule

Use it like a debit card.

Only charge what you already have the money to pay for.
Pay the full balance every single month before the due date.
Never carry a balance. Not even once, just to see what happens.

Do this and you get all the benefits — rewards, fraud protection, credit history — with none of the interest. That's the whole game.

Key Takeaways

- Good debt builds value: borrow at X% to earn (X+Y)%. The gap is profit.
- Bad debt funds consumption at high interest. It takes from your future to pay for your present.
- Before borrowing anything, run the five questions.
- Credit cards are interest-free if paid in full monthly. Carry a balance and the 20% APR compounds daily.

- The golden rule: treat a credit card like a debit card. Only charge what you can already afford.

🎯 Try This: Read a Real Credit Card Statement

Find a credit card offer and look for: APR · Minimum payment · Annual fee · Rewards rate.

Calculate: if you put \$500 on that card and paid only the minimum each month, how long would it take to pay off? How much interest would you pay total?

Most card websites have a payoff calculator. Use it. The number will be instructive.

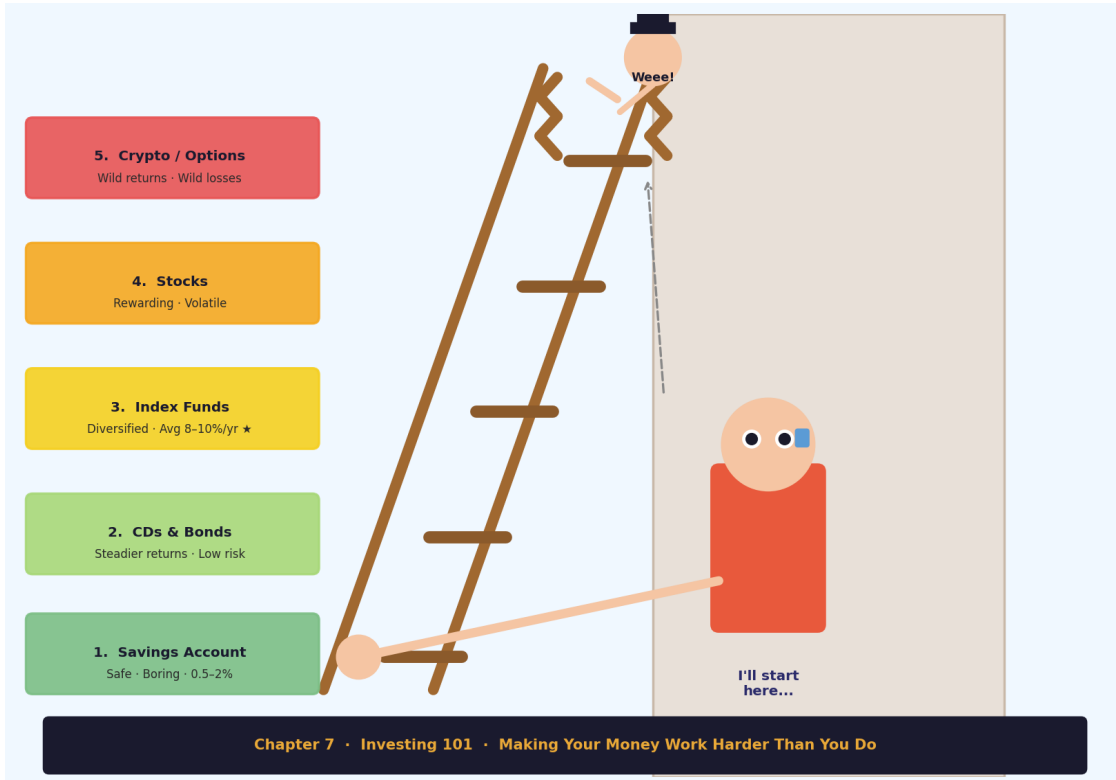
"Good debt is an investment on today to create a better tomorrow. Bad debt is spending today's desires at the cost of future benefits." — Funny Money

▶ **Up Next: Chapter 7 — Investing 101 (Making your money work harder than you do)**

Chapter 7

Investing 101

Making Your Money Work Harder Than You Do



"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."

— Robert G. Allen

It was Monday night football. The Commanders were, as usual, somehow finding new ways to disappoint.

Watching the quarterback throw his third incompleting, Mihir said aloud: "I think he's a bad investment."

His dad looked up. "Actually — that's not a bad way to think about it."

And just like that, a conversation about a struggling quarterback became a conversation about one of the most important skills you'll ever develop: making money work for you.

What Is Investing, Really?

At its core, investing is putting money to work with the expectation of getting more back.

The measure of how well an investment performs is called **Return on Investment (ROI)**. It's the simplest measuring stick in finance.

ROI in Plain English

$$\text{ROI} = (\text{What you got back} - \text{What you put in}) \div \text{What you put in}$$

Example: You invest \$100. It grows to \$125.

$$\text{ROI} = (\$125 - \$100) \div \$100 = 25\%$$

Risk and Return: The Eternal Trade-Off

Higher potential return = higher risk.

Always. Without exception. If someone promises you high returns with no risk, they are either confused or lying. Possibly both.

The stock market can earn 10% on average — but it can also drop 30% in a bad year. The key is matching your investments to your goals, timeline, and stomach.

The Investment Ladder

Think of investment options as a ladder. The bottom rungs are safe but slow. As you climb, returns get bigger — and so does the risk of falling.

The Investment Ladder

| | | | |
|-----------------|----------------|---------------|-------------------------|
| Savings Account | Very Low risk | 0.5–5% return | Instant liquidity |
| CDs | Very Low risk | 1–5% return | Locked-in term |
| Bonds | Low–Med risk | 3–7% return | Moderate liquidity |
| Index Funds | Medium risk | 7–10% avg | Diversified, low-cost ★ |
| Stocks | Med–High risk | Variable | Single company exposure |
| Real Estate | Medium risk | 8–12% avg | Illiquid but powerful |
| Crypto/Options | Very High risk | Wild | Not for beginners |

The Beginner's Best Friend: Index Funds

An index fund is a basket of hundreds — sometimes thousands — of stocks, all bundled together. One share of an S&P 500 index fund gives you tiny slivers of 500 of the largest companies in America.

Why Index Funds Win for Beginners

Diversification: One bad company doesn't tank your whole investment.

Low cost: Some charge as little as 0.03% per year.

Proven returns: The S&P 500 has averaged ~10% annually over the long term.

No expertise needed: You don't have to pick stocks. The index does it for you.

Fun fact: Most professional fund managers fail to beat a basic index fund over a 10-year period. Buying the index and doing nothing often wins.

The catch? Index funds reward patience. They're not exciting. They just quietly compound year after year, and by the time you're 40 you have a genuinely surprising amount of money. That trade — boring now, financially free later — is one of the best deals available.

Building Your Investment Plan

Your Investment Plan: Four Questions

1. What am I investing for? Retirement? A house? Emergency wealth-building?
Your goal determines your timeline — which changes what risks make sense.
2. How much can I invest regularly? Even \$25/month is a start.
(\$25/month at 8% for 40 years = ~\$87,000. From \$25 a month.)
3. What's my risk tolerance? If your portfolio dropped 30%, would you hold or panic-sell?
4. What's my plan if things go wrong? Markets drop. Pre-decide your response.
Most of the time, the plan is: do nothing and wait.

The single most common investing mistake isn't picking bad stocks — it's selling good ones at the wrong time. Markets go down. They always have. They've also always recovered.

The boring truth: **invest consistently, diversify broadly, don't touch it, and let time do the work.**

⚠️ One Rule to Live By

If you can't explain an investment in simple terms — what it is, how it makes money, and what could go wrong — don't put money in it.

There is no shame in saying 'I don't get this one' and moving on.

Key Takeaways

- Investing is putting money to work. ROI measures how well it's working.
- Higher return always means higher risk. No exceptions.
- Index funds are the beginner's best friend — diversified, low-cost, historically reliable.
- Your investment plan needs four things: a goal, an amount, a risk tolerance, and a plan for drops.
- If you can't explain it simply, don't invest in it.

🎯 Try This: Open a Practice Portfolio

Pick three companies you know. Look up their stock ticker and current price.

Write down what you'd invest \$100 in each and why.

Track them for 90 days without touching anything.

Notice how you feel when they drop. That emotional reaction is real data.

When ready, look into a low-cost S&P 500 index fund as your first real investment.

Boring is underrated.

"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case." — Robert G. Allen

► **Up Next: Chapter 8 — How Companies Make (and Lose) Money**

Chapter 8

How Companies Make (and Lose) Money

The Three Financial Statements That Tell You Everything



"Revenue is vanity, profit is sanity, but cash is king."

— Old finance saying

Mihir had his own small investment account and had been watching Uber since before it went public. So one afternoon, he announced he wanted to buy Uber stock.

"Why?" his dad asked. "Because everyone uses it." "That's a reason to use the app. Is it a reason to own the company?"

Silence. Here's the truth: owning a stock means owning a small piece of a real business. And real businesses run on numbers — numbers that live in three documents called financial statements.

First: How Does a Business Actually Work?

You have an idea: sell books online. To get started you need money, which comes from two sources:

- **Equity** — your own money or investor money. No repayment required, but you give up some ownership.
- **Debt** — a loan from a bank. You keep full ownership but must repay with interest.

At the end of each period you need to know three things: did you make money? Do you have cash? What does the whole thing own and owe right now? That's what the three financial statements answer.

Statement #1: The Income Statement — Did You Make Money?

The income statement is the scoreboard. Revenue minus all costs equals net income — the 'bottom line.'



Income Statement — BookDrop Inc.

| | |
|----------------------|------------|
| Revenue (books sold) | \$120,000 |
| Cost of Goods Sold | - \$72,000 |
| Gross Profit | \$48,000 |
| Operating Expenses | - \$28,000 |
| Operating Income | \$20,000 |
| Interest & Taxes | - \$7,000 |
| Net Income | \$13,000 ✓ |

If net income is positive, the business made money. If negative, that's called a **loss**. Some companies run losses while investing in growth — but a company losing money indefinitely eventually runs out of road.

Statement #2: The Cash Flow Statement — Do You Have Cash?

A profitable company can run out of cash and collapse. Why? Because profit and cash aren't the same thing. When you sell \$10,000 of books on credit, your income statement records \$10,000 — but your bank account is empty until payment arrives.

Cash Flow — Three Buckets

Operations: Cash from running the actual business. The heartbeat.

Investing: Cash spent on long-term assets — equipment, warehouses.

Financing: Cash from loans taken, shares issued or bought back.

Net Cash Flow = Operations + Investing + Financing

Cash is harder to fake than profit. Investors always look here first.

Statement #3: The Balance Sheet — What Do You Own and Owe?

The equation never lies: **Assets = Liabilities + Equity**. Always.

Balance Sheet — BookDrop Inc.

ASSETS

| | |
|--------------|----------|
| Cash | \$18,000 |
| Inventory | \$9,000 |
| Equipment | \$5,000 |
| Total Assets | \$32,000 |

LIABILITIES

| | |
|-------------------|----------|
| Bank loan | \$14,000 |
| Unpaid invoices | \$5,000 |
| Total Liabilities | \$19,000 |

EQUITY (Assets – Liabilities) \$13,000 ✓

How the Three Connect

The Big Picture

Income Statement: Did the business earn money? Net income flows into equity.

Cash Flow: Did cash actually come in? Ending cash appears as an asset.

Balance Sheet: What is the business worth now? Assets = Liabilities + Equity.

Profitable + Cash-generative + Growing equity = healthy company.

Struggling on all three = serious trouble.

Mihir eventually did buy Uber stock — but first he read the income statement. The company was losing billions. He bought a smaller position than planned. Not a bad call for a teenager who started the conversation saying 'because everyone uses it.'

Key Takeaways

- Businesses raise money through equity (shared ownership) or debt (loans).
- Income Statement: Revenue minus costs = net income. Did you make money?
- Cash Flow Statement: Actual cash in/out. Profit and cash are not the same thing.
- Balance Sheet: Assets = Liabilities + Equity. Snapshot of what's owned vs. owed.
- 'Because everyone uses it' is a reason to be a customer. The financials tell you whether to be an investor.

Try This: Find a Real Company's Numbers

Pick a company you know — Apple, Nike, McDonald's.

Search: '[Company] annual report' or use [sec.gov/edgar](https://www.sec.gov/edgar) (free).

Find: Revenue · Net Income · Total Assets.

Is the company profitable? Is net income growing year over year?

What percentage of revenue becomes profit?

You just did basic fundamental analysis.

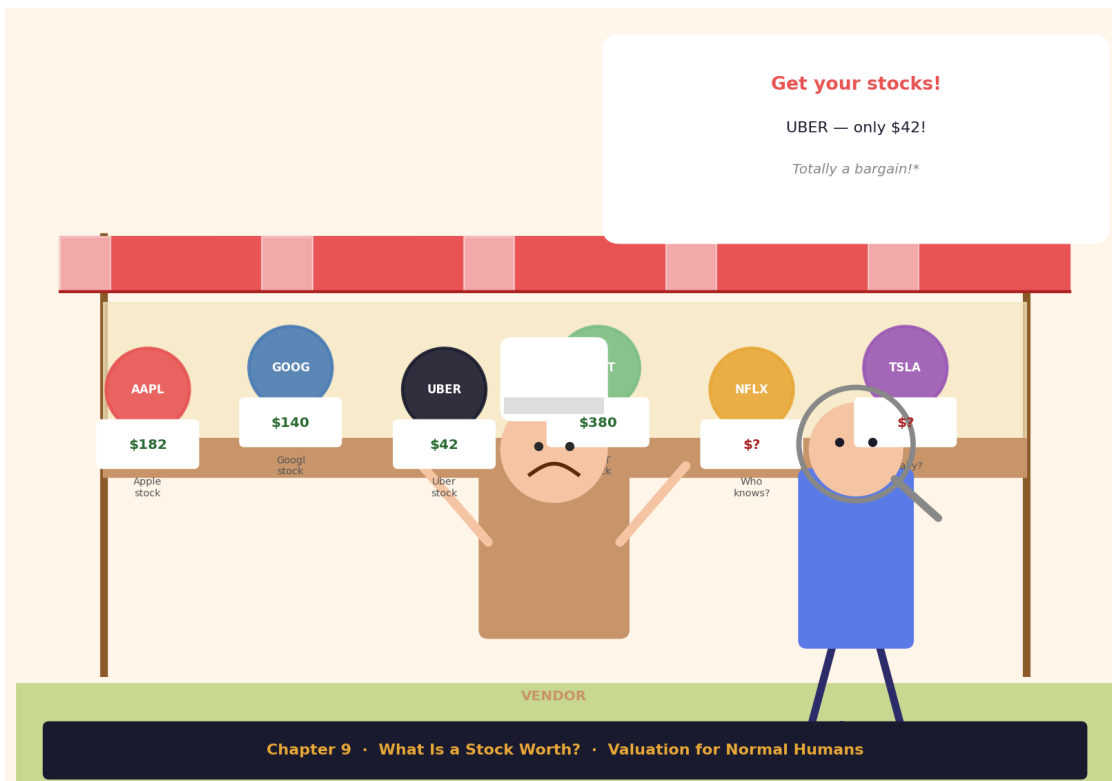
"Revenue is vanity, profit is sanity, but cash is king." — Old finance saying

► **Up Next: Chapter 9 — What Is a Stock Worth? (Valuation for normal humans)**
PART 3 — GROWING YOUR MONEY

Chapter 9

What Is a Stock Worth?

Valuation for Normal Humans



"Price is what you pay. Value is what you get."

— Warren Buffett

"Uber is at \$42 a share," Mihir said. "Is that... expensive?"

Good question. The price of a stock tells you almost nothing on its own. A \$42 stock might be incredibly cheap. Or wildly overpriced. Figuring out which is called valuation.

Price vs. Value: They're Not the Same Thing

Price is what you pay. **Value** is what you get.

The market sets prices based on supply and demand. But that collective judgment isn't always right. The goal of valuation is to estimate what a company is actually worth — independently of what the crowd is currently paying.

"Price is what you pay. Value is what you get." Warren Buffett has been using that line for decades. It still holds.

The Company Life Cycle: What Stage Is It In?

| Stage | What investors pay for |
|---------|--|
| Startup | Users and growth rate — often pre-revenue |
| Growth | Revenue growth, DAU/MAU — often unprofitable |
| Mature | P/E ratio, dividend yield — steady profits |
| Decline | Debt levels, cash burn — shrinking market |

Investors pay different prices for companies at different stages. A growth company might have a sky-high valuation despite losing money — investors are paying for the future. A mature company is valued on what it earns today, reliably, year after year.

Tool #1: The P/E Ratio

P/E Ratio Explained

$P/E = \text{Stock Price} \div \text{Earnings Per Share (EPS)}$

$EPS = \text{Net Income} \div \text{Number of shares outstanding}$

Example: Stock price \$30 · EPS \$2 · P/E = 15

A P/E of 15 means investors pay \$15 for every \$1 of annual earnings.

S&P 500 historical average P/E: ~15–20.

Higher P/E = more expensive / more growth expected.

Lower P/E = cheaper / mature or unloved company.

Tip: flip it — E/P = earnings yield (~6.7% at P/E 15).

Compare directly to bond rates. Suddenly P/E becomes very intuitive.

Tool #2: Dividend Yield — Getting Paid to Wait

Dividend Yield

Dividend Yield = Annual Dividend per Share ÷ Stock Price

Example: \$2 annual dividend · \$50 stock price · Yield = 4%

That 4% is cash income you receive just for owning the stock.

Utility companies, consumer staples, REITs often have high yields.

Growth companies typically pay no dividend — they reinvest profits instead.

Tool #3: Growth Metrics — For Unprofitable Companies

Growth Company Metrics

Daily/Monthly Active Users (DAU/MAU): Is usage growing fast?

Revenue Growth Rate: Is the top line growing 40%/yr or 5%/yr?

Revenue Per User: Are users spending more over time?

Path to Profitability: When and how does it make money?

If nobody can explain that clearly — be careful.

The Five Ways to Value a Stock

Valuation Approaches

1. Comparable Analysis (Comps): Compare P/E and growth to similar companies. Fast and practical.
2. Discounted Cash Flow (DCF): Forecast future cash flows, discount to today. Most rigorous.
3. Market Price: What the market currently pays. A reference point — not a buy reason.
4. Options/Hedging: Advanced strategies to test price theses. File this for later.
5. Pure Hunch/Speculation: Sometimes works. Borders on gambling. Not a strategy. ('My friend told me about it' is hunch, not research.)

Mihir looked at Uber's growth metrics — rides per day, revenue per ride, international expansion. He decided the price reflected too much optimism for a company still figuring out profitability. He bought a small amount and kept watching. Not a bad approach for any investor at any age.

Key Takeaways

- Price is what you pay. Value is what you get. The two are often different.
- Start by identifying the company's life cycle stage — it determines which metrics to use.
- P/E ratio: stock price divided by earnings. Flip it for an earnings yield to compare to other investments.
- Dividend yield: cash income from owning a stock, great for mature companies.
- Growth companies need different metrics: user growth, revenue growth, path to profitability.
- Hunch is not a valuation method. 'Everyone's talking about it' is a reason to be cautious, not confident.

Try This: Compare Three Stocks

Pick three companies from the same industry.

Look up: stock price · P/E ratio · revenue growth · dividend yield.

Ask: which looks most attractively priced relative to what it earns or grows?
Is the premium justified by the growth rate?

You just did a comparable analysis.
Professional analysts do exactly this — with bigger spreadsheets and fancier offices.

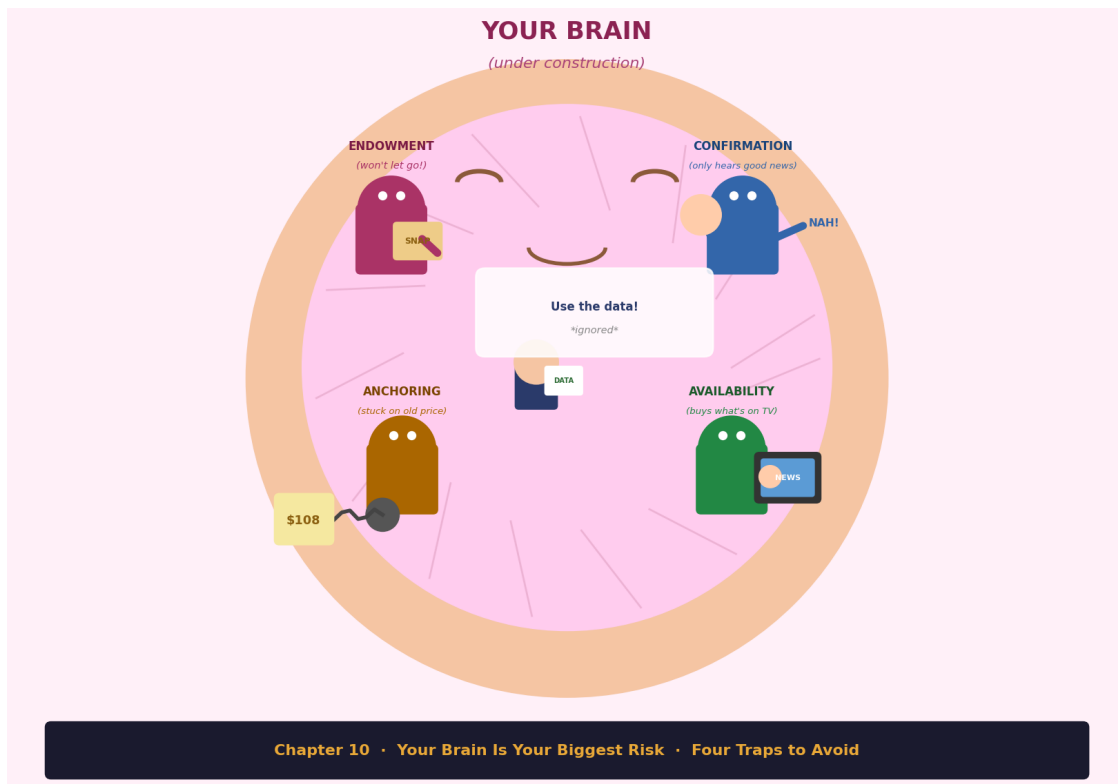
"Price is what you pay. Value is what you get." — Warren Buffett

► **Up Next: Chapter 10 — Your Brain Is Your Biggest Risk**

Chapter 10

Your Brain Is Your Biggest Risk

Four Mental Traps That Cost Investors Real Money — and How to Spot Them



"The investor's chief problem — and even his worst enemy — is likely to be himself."
— Benjamin Graham

Imagine you've done everything right. You understand compounding. You've built savings habits. You know how to read a balance sheet. And then — despite all of that — you make a terrible financial decision. Not because you lacked information. Because your brain quietly talked you into it.

There's an entire field called behavioral economics dedicated to this. It turns out we're wired with mental shortcuts that worked great for avoiding predators 50,000 years ago, but are terrible for managing a stock portfolio.

Bias #1: The Endowment Effect

We overvalue what we already own.

Researchers gave coffee mugs to half a group of students, then let everyone trade. The mug-owners demanded much higher prices to sell than non-owners were willing to pay. Same mug. Very different perceived value — just because one group owned it.

In investing: once you buy a stock, you unconsciously attach to it. Selling feels like admitting a mistake — even when the fundamentals have changed.

The Fix

Regularly ask yourself: 'If I didn't already own this, would I buy it today?'
If the honest answer is no — that's important information.

Bias #2: Confirmation Bias

We seek out information that agrees with us — and ignore the rest.

Participants were asked to read a balanced article about a controversial topic. No matter which side they were on, they reported the article supported their own view. Both sides. Same article.

In investing: when you own a stock, you unconsciously search for positive news. Bullish reports get shared. Bearish warnings get dismissed. A classic example: holding RIMM (BlackBerry's parent) as it tanked, finding supportive articles everywhere, ignoring the obvious.

The Fix

Actively seek out the bear case for any stock you own.

If you can't find a reasonable argument against it, you're probably not looking hard enough.

Bias #3: Anchoring

We fixate on one number — often an arbitrary one — and let it distort all our decisions.

Participants wrote down the last two digits of their Social Security Number, then estimated the value of a wine bottle. People with high-ending SSNs consistently overestimated the price; low-ending ones underestimated it. An unrelated number changed their judgment.

In investing: the most common anchor is the price you paid for a stock. Bought LinkedIn at \$108. It fell to \$85, held — anchored to \$108. Finally sold at \$110–\$112. Microsoft then acquired it at \$196. Nothing to do with fundamentals. Everything to do with the anchor.

The Fix

Ignore your purchase price when making hold/sell decisions.

The stock doesn't know what you paid. The only question is: what is it worth now?

Bias #4: Availability Bias

We judge probability by how easily examples come to mind — not by actual data.

Which is more likely: dying in a plane crash, or being struck by lightning? Most people say plane crash. Lightning is far more likely. Crashes get massive media coverage; lightning strikes mostly don't.

In investing: companies that dominate the news feel like obvious investments. By the time everyone is talking about a stock, the easy gains are often already priced in. Meanwhile, genuinely good businesses with no media buzz get overlooked.

The Fix

Be suspicious of investments you heard about from news or social media.

Ask: is this interesting because it's a good investment, or because it's impossible to avoid seeing it right now?

Why This Matters More Than You Think

Studies consistently find that the average investor significantly underperforms the market — not because of bad stock picks, but because of bad timing driven by emotions. They buy when everyone is excited (prices high). They sell when everyone is panicking (prices low).

The market transfers money from impatient, emotional investors to patient, disciplined ones. You don't have to be a genius to outperform most investors. You just have to be less reactive than average.

The Investor's Mindset

Before any investment decision, run through this checklist:

Am I holding this because it's still good — or because I own it? (Endowment)

Have I genuinely read the bear case? (Confirmation)

Am I reacting to the current price or the actual value? (Anchoring)

Did I hear about this from news or social media? (Availability)

You won't eliminate these biases. But naming them is the first step to catching them.

Key Takeaways

- The Endowment Effect: we overvalue what we own. Ask — would I buy this today if I didn't already own it?
- Confirmation Bias: we filter for agreement. Deliberately seek out the case against your investments.
- Anchoring: we fixate on the price we paid. The question is always what it's worth now.
- Availability Bias: we overrate what's in the news. Popularity and quality are not the same thing.
- You won't eliminate these biases. But naming them helps you catch them before they catch you.
- The best investment edge isn't intelligence — it's self-awareness and patience.

 Try This: The Bias Audit

Think of a financial decision you've made in the last year.

1. Did you do more research supporting the decision than opposing it? (Confirmation)
2. Was the decision influenced by what you already owned or spent? (Endowment)
3. Did a specific number anchor your thinking? (Anchoring)
4. Did you hear about this option frequently in media or from friends? (Availability)

Most adults can't say 'no' to all four. That's the point.

"The investor's chief problem — and even his worst enemy — is likely to be himself." — Benjamin Graham

► **Up Next: Conclusion — Putting It All Together**

CONCLUSION

Putting It All Together

Your Financial Roadmap

The conversation that started over \$50 ends here — with a map for everything that comes next

It was a lazy Sunday. SAT prep books were piled on the kitchen table — unopened, mostly — and the smell of pancakes was doing more work than either of them.

Mihir poured himself a glass of orange juice and sat down. "So," he said, "can you sum up everything you've taught me? About money?"

His dad looked up. "Everything? In one conversation?"

"Or, you know. The short version."

Fair enough.

The Short Version

Here it is. Ten chapters, boiled down to four sentences:

The Four Rules

1. Income should always be greater than expenses.
The gap between them is your building material.
2. Save 10% of everything you earn — first, before anything else.
Let compounding do the heavy lifting over time.
3. Debt is a tool. Use good debt to build value.
Avoid bad debt that funds today at the cost of tomorrow.
4. Invest the difference. Understand what you own.
Be patient. Be honest about your own biases.

That's it. Everything else in this book is detail.

The details matter, of course. Knowing the difference between a P/E ratio and a dividend yield matters. Understanding how compound interest works — in both directions — matters enormously. Reading a balance sheet before buying a stock is better than not reading it.

But the details serve the four rules. If you nail the four rules and get everything else slightly wrong, you'll still end up in good shape. If you ignore the four rules and get everything else slightly right, you'll struggle.

Start with the foundations. Everything else is built on top of them.

The Four Questions Worth Asking Yourself

Before you can execute a financial plan, you need to know what you actually want. These four questions are worth sitting with — not skimming over, actually sitting with:

The Four Questions

1. What do I want my money to do for me?

Security? Freedom? An experience? A business? Retire early? Travel?

The clearer this answer, the easier every other decision becomes.

2. Where does most of my money go right now?

Not where you think it goes. Where it actually goes. Pull up your bank statement.

The answer is sometimes surprising, occasionally embarrassing, always useful.

3. Is there a smarter way to spend what I spend?

Not less — smarter. Is the spending buying happiness or just buying habit?

4. What are the risks in my financial life right now?

No emergency fund? High-interest debt? No investments at all?

Name the risks. Named risks can be addressed. Unnamed ones just grow.

None of these have right answers. They have your answers. The goal of personal finance isn't to optimize for someone else's definition of wealth — it's to build the life you actually want, on a foundation that doesn't crack when life gets unpredictable.

The Commitment Framework

Having the knowledge is the easy part. Applying it consistently — through market drops, surprise expenses, peer pressure, lifestyle temptation, and plain old laziness — is where most people fall short.

Here's a framework for making financial goals actually stick:

Desire

Know what you're working toward strongly enough to make real trade-offs. Vague goals produce vague effort.

Clarity

Define exactly what wealth means to you. Not in general — in specific, personal terms. 'Financial freedom by 40' is clearer than 'be comfortable someday.'

Purpose

Understand why you want it. The why keeps you going when motivation dips. And motivation always dips eventually.

Plan

Set intentions. Write them down. Your plan doesn't have to be perfect — it has to be directional. A rough map is infinitely better than no map.

Action

Start before you feel ready. You will never feel completely ready. Open the account, automate the savings, make the first investment. Motion beats perfection.

Investment

Keep learning. Invest in the knowledge, skills, and relationships that accelerate your goals. Financial literacy compounds just like money does.

Protection

Build resilience. Emergency funds. Insurance. Diversification. Protection isn't pessimism — it's what lets you stay in the game when life happens.

Responsibility

Life will get in the way. Things will go sideways. When they do, take charge anyway. The plan might need adjusting — the direction doesn't.

Belief

Believe in the outcome before you can see it. Not blind optimism — evidence-based confidence that the habits you're building will compound into results.

These aren't steps — they're ongoing practices. You'll cycle through them your whole life. Some days you'll feel clear on all of them. Other days one will feel shaky. The goal isn't to be perfect at all nine simultaneously. It's to notice which one is wobbling and shore it up.

The Unfair Advantage You Have Right Now

Here's something worth saying plainly before this book ends.

If you're a teenager reading this — or even in your early twenties — you have an advantage that no amount of money, intelligence, or financial expertise can buy for someone who starts later.

You have time.

Not time in the vague motivational-poster sense. Actual mathematical time. Decades of compounding. The kind of time that turns small, consistent habits into genuinely life-changing wealth.

A 45-year-old starting to invest today is not too late — not even close. But a 17-year-old starting today has something the 45-year-old can never recover: those 28 extra years of compounding. That gap, at 8% annual returns, is worth hundreds of thousands of dollars that require no extra effort, no extra intelligence, and no special talent. Just time.

You have it. Most adults spent it without realising what it was worth.

You now know better.

One Last Thing

Mihir eventually paid back the \$50. With interest.

He calculated it himself — 10% on the principal, plus a note that said "I understand why now."

That's the whole point of this book. Not the \$50. Not even the interest. The understanding.

Money is in every part of life. You earn it, spend it, borrow it, invest it, worry about it, dream about it. It flows through almost every decision an adult makes — and most people navigate it entirely by feel, with no map and no framework, making the same avoidable mistakes generation after generation.

You now have a map. A real one — built from simple principles that have been tested over centuries, by Babylonian merchants and modern economists and a father trying to explain compound interest to a teenager who just wanted \$50.

Your Map, In One Place

Part 1 — The Fundamentals:

Time value of money. Compounding. Assets, liabilities, free cash flow.
The vocabulary and mechanics of how money actually works.

Part 2 — Managing Your Money:

Pay yourself first. The three-slice budget. Good debt vs. bad debt.
The tools to keep more of what you earn and use it intentionally.

Part 3 — Growing Your Money:

Investing basics. How companies work. Valuation. Cognitive biases.
The skills to make money grow — and the self-awareness to not blow it.

Three parts. One loop: earn → manage → grow → repeat.

Use the map. Revisit it when you're confused. Update it as you learn more — because the map will always be incomplete, and that's fine. Everyone's map is incomplete. The point is to keep navigating.

Good luck.

You've got this. You really do.

"Only you can help yourself make it happen. Desire to grow wealthy is your first step toward becoming wealthy."

Glossary

Every money term you met in this book, in one place. When in doubt, come back here.

Asset · *Ch. 3*

Anything you own that has value and can generate money or be converted to cash. Stocks, savings accounts, property, and even skills are assets.

APR (Annual Percentage Rate) · *Ch. 6*

The yearly interest rate charged on borrowed money — most commonly on credit cards and loans. At 20% APR, a \$1,000 balance costs \$200 in interest per year if unpaid.

Balance Sheet · *Ch. 8*

A financial snapshot showing what a company owns (assets), what it owes (liabilities), and the difference (equity). The equation always holds: $\text{Assets} = \text{Liabilities} + \text{Equity}$.

Bond · *Ch. 7*

A loan you make to a government or company. They pay you interest for a set period and return your principal at the end. Lower risk than stocks, lower return too.

Budget · *Ch. 5*

A plan for how to allocate income across saving, debt repayment, and spending. Not a restriction — a decision made in advance so money goes where you actually want it to go.

Capital · *Ch. 8*

Money used to fund a business or investment. Can come from equity (ownership) or debt (loans).

Cash Flow · *Ch. 3, 8*

The movement of money in and out. Positive cash flow means more coming in than going out. For individuals, it's income minus expenses. For companies, it's tracked in the cash flow statement.

Compounding · *Ch. 2*

Earning interest on interest. The snowball effect that makes small, consistent investing grow into large sums over time — and makes unpaid debt grow alarmingly fast.

Debt · Ch. 3, 6

Money borrowed that must be repaid, usually with interest. Good debt funds investments that return more than the borrowing cost. Bad debt funds consumption at high interest rates.

Discount Rate · Ch. 1

The interest rate used to convert a future value back to its present value. It reflects both the time cost of money and the risk of the investment.

Dividend · Ch. 9

A cash payment made by a company to its shareholders, usually from profits. Mature, stable companies often pay dividends. Growth companies typically reinvest profits instead.

Dividend Yield · Ch. 9

Annual dividend per share divided by stock price. Tells you the cash income return from owning a stock, independently of price changes.

EPS (Earnings Per Share) · Ch. 9

Net income divided by the number of shares outstanding. How much profit the company generated per share — used in calculating the P/E ratio.

Equity · Ch. 3, 8

Two meanings: (1) Ownership stake in a business or asset. (2) The difference between assets and liabilities — your net worth, or a company's net worth.

Expenses · Ch. 3

Money going out. Rent, food, subscriptions, debt payments — anything that reduces your cash. Managed via budgeting.

Free Cash Flow · Ch. 3

Income minus expenses. The money left over that can be saved, invested, or used to build assets. The single most important number in personal finance.

Future Value (FV) · Ch. 1

What a sum of money today will grow to at a given interest rate over a given time. The result of compounding present value forward.

Income · Ch. 3

Money coming in — wages, dividends, interest, rent. The tap in the bathtub analogy.

Index Fund · Ch. 7

A fund that holds a broad basket of stocks matching a market index (like the S&P 500). Low-cost, diversified, and historically difficult for active managers to beat.

Inflation · Ch. 1

The general rise in prices over time, which erodes the purchasing power of money. Why a dollar today is worth more than a dollar tomorrow.

Interest Rate · Ch. 1

The percentage charged on borrowed money, or earned on invested money. The price of using someone else's money — or the reward for lending yours.

Liability · Ch. 3

Any financial obligation — money owed, unpaid bills, loans. All debts are liabilities, but not all liabilities are debts.

Liquidity · Ch. 3

How quickly an asset can be converted to cash without significant loss of value. Cash is perfectly liquid. Real estate is not.

Net Income · Ch. 8

The 'bottom line' — what a company earns after all expenses, interest, and taxes are paid. Also called profit (or loss, if negative).

Net Worth · Ch. 3

Total assets minus total liabilities. The real measure of wealth — what you'd have left if you sold everything and paid off all debts.

P/E Ratio (Price-to-Earnings) · Ch. 9

Stock price divided by earnings per share. Tells you how much investors pay for each dollar of a company's annual profit. Higher P/E = higher growth expectation or more expensive.

Present Value (PV) · Ch. 1

What a future sum of money is worth today, accounting for the time value of money. The result of discounting future value back to the present.

Principal · Ch. 1

The original amount of money borrowed or invested, before any interest is added.

REIT (Real Estate Investment Trust) · Ch. 7

A company that owns income-producing real estate and trades like a stock. Required to pay 90% of profits as dividends. A way to invest in real estate without buying property directly.

Return on Investment (ROI) · Ch. 7

(Gain minus Cost) divided by Cost. A simple percentage measure of how much an investment returned relative to what you put in. Doesn't account for time — use IRR for time-sensitive comparisons.

Revenue · Ch. 8

Total money a company receives from selling products or services. The top line on the income statement — before any costs are deducted.

Risk · Ch. 3, 7

The probability that an investment loses value, or that a financial plan goes wrong. In investing, risk and potential return are always linked — higher one, higher the other.

Rule of 72 · Ch. 2

A quick mental shortcut: divide 72 by the interest rate to find how many years it takes for money to double. Also works in reverse for debt: at 20% APR, debt doubles in 3.6 years.

Simple Interest · Ch. 2

Interest calculated only on the original principal. Predictable and linear — unlike compound interest, it doesn't snowball.

Stock · Ch. 7

A share of ownership in a company. As the company grows and earns more, the stock tends to rise. It can also fall. Buying a stock is buying a piece of a real business.

Time Value of Money · Ch. 1


The foundational principle of finance: money available today is worth more than the same amount in the future, because it can be invested and grown. Inflation compounds this effect.


Wealth · *Ch. 3*

Assets minus liabilities. Not the same as income. Wealth is what you've accumulated and kept — not what you earn in a year.

The Funny Money Cheat Sheet

Every key formula, rule, and framework from the book. Pin it somewhere visible.

|  Part 1 — Fundamentals | |
|---|---|
| Time Value of Money | Money today > same money tomorrow. It can grow. Prices rise. Don't wait. |
| Future Value | $PV \times (1 + r)^n$ — where r = interest rate, n = years |
| Simple Interest | Interest earned only on original principal. Linear growth. |
| Compound Interest | Interest earned on interest. Exponential growth. The eighth wonder. |
| Rule of 72 | $72 \div \text{interest rate} = \text{years to double your money (or your debt)}$ |
| Asset | Puts money IN your pocket. Skills, stocks, property, savings. |
| Liability | Takes money OUT. Loans, credit card balances, bills owed. |
| Free Cash Flow | $\text{Income} - \text{Expenses} = \text{what you can save and invest}$ |
| Net Worth | $\text{Assets} - \text{Liabilities} = \text{your real financial score}$ |

|  Part 2 — Managing Money | |
|---|--|
| Pay Yourself First | Move 10% to savings the moment income arrives — before spending anything |
| The Three Slices | Future You (10%) + Past You (10–15%) + Today You (rest) |
| Emergency Fund | 3–6 months of living expenses in accessible cash. Build it slowly. |
| Good Debt | Borrow at $X\%$, earn $(X+Y)\%$. The gap is profit. Student loans, mortgages. |
| Bad Debt | High-interest borrowing to fund consumption. Credit card carry-over. |
| Credit Card Rule | Pay the full balance every month. Never carry a balance. Treat it like a debit card. |
| Avalanche Method | Pay highest-interest debt first. Most efficient mathematically. |

| | |
|------------------------|--|
| Snowball Method | Pay smallest debt first. Most satisfying psychologically. Both work. |
|------------------------|--|

Part 3 — Growing Money

| | |
|-----------------------------|---|
| ROI | $(\text{Gain} - \text{Cost}) \div \text{Cost}$. Simple return measure. Doesn't factor in time. |
| Risk vs. Return | Higher potential return = higher risk. Always. No exceptions. |
| Index Fund | Basket of hundreds of stocks. Low cost. Diversified. Great starting point. |
| P/E Ratio | $\text{Price} \div \text{EPS}$. How much you're paying per \$1 of earnings. Compare to peers. |
| E/P (Earnings Yield) | $\text{EPS} \div \text{Price}$. Comparable to interest rates — compare to bonds and savings. |
| Dividend Yield | $\text{Annual dividend} \div \text{stock price}$. Cash income return from ownership. |
| Income Statement | $\text{Revenue} - \text{Costs} = \text{Net Income}$. Did the company make money? |
| Cash Flow Statement | Actual cash in/out. Profitable companies can still run out of cash. |
| Balance Sheet | $\text{Assets} = \text{Liabilities} + \text{Equity}$. Snapshot of what's owned vs. owed. |
| Endowment Effect | We overvalue what we own. Ask: would I buy this today if I didn't own it? |
| Confirmation Bias | We seek agreement. Actively read the bear case for anything you own. |
| Anchoring | We fixate on one number. Ignore your purchase price when deciding to sell. |
| Availability Bias | We over-rate what's in the news. Popularity \neq quality investment. |

The Three Core Principles of This Book

1. Create and own your personal financial roadmap
2. Think Babylon — save at least 10% of every dollar you earn
3. Spend your money efficiently where your happiness is

Recommended Reading & Resources

You've finished the book. Here's where to go next.

The Books

The Richest Man in Babylon

by *George S. Clason*

The original source of the 'pay yourself first' principle, told through parables set in ancient Babylon. Written in 1926. Still one of the best money books ever written. Short, readable, and genuinely timeless. Start here if you haven't already.

Rich Dad Poor Dad

by *Robert T. Kiyosaki*

The book that introduced millions of readers to the idea of assets vs. liabilities and building passive income. Some of the specific advice is dated and debated, but the core mindset shift — thinking like an investor, not just an employee — is worth the read.

The Psychology of Money

by *Morgan Housel*

Perhaps the best modern book on how people actually behave with money — not how they should. Explores why doing well with money has less to do with intelligence and more to do with behavior, patience, and humility. Highly readable. No finance background required.

A Random Walk Down Wall Street

by *Burton G. Malkiel*

The classic argument for index fund investing. Malkiel makes the case — backed by decades of data — that most active investors fail to beat a simple index fund over time. If you want to understand why index funds make sense, this is the definitive read.

The Little Book of Common Sense Investing

by *John C. Bogle*

Bogle founded Vanguard and invented the index fund. This slim book explains why low-cost, long-term index investing is the most rational strategy for most investors. Blunt, data-driven, and refreshingly direct.

I Will Teach You To Be Rich

by Ramit Sethi

Written specifically for young adults in their 20s and 30s, this book covers credit cards, bank accounts, investments, and automation in a conversational, judgment-free way. Practical, funny, and actionable. Strong on the behavior side of money.

The Tools & Websites

Yahoo Finance — finance.yahoo.com

Free stock quotes, P/E ratios, earnings data, financial statements, and news for any public company. The most practical research tool for individual investors starting out.

Investopedia — investopedia.com

The Wikipedia of finance. Every term, concept, and strategy explained clearly. The Investopedia simulator also lets you practice buying and selling stocks with fake money — great way to learn without the risk.

Khan Academy — Personal Finance — khanacademy.org

Free, structured video lessons on taxes, investing, credit, and more. Excellent if you want to go deeper on any concept from this book in a step-by-step format.

SEC EDGAR — sec.gov/edgar

Where public companies file their financial statements. Free access to every annual report (10-K) and quarterly filing (10-Q) for any publicly listed company. The primary source — no middleman.

Compound Interest Calculator — investor.gov/tools/calculators

The U.S. government's free compound interest calculator. Plug in any starting amount, interest rate, and time period. Use it to visualize how your savings grow. Bring tissues.

Aswath Damodaran's Blog — aswathdamodaran.blogspot.com

Damodaran is a NYU professor widely considered the authority on valuation. His blog, datasets, and lecture notes are all free. Advanced material — return here once you've mastered the basics.

If You Want to Start Investing

For most teenagers, the best first investment account options are:

- **Custodial brokerage account** (with a parent/guardian) — available at Fidelity, Schwab, or Vanguard. Lets you invest in stocks and index funds with no minimum in most cases.
- **Roth IRA** — if you have earned income (a job), you can contribute to a Roth IRA. Tax-free growth, tax-free withdrawals in retirement. One of the best financial vehicles available to young earners.
- **High-yield savings account** — for your emergency fund and short-term savings. Look for online banks offering 4–5% APY rather than the 0.01% from big traditional banks.

Start simple. One index fund in a low-cost account is a better beginning than a complicated portfolio of twenty things you don't fully understand. Complexity can come later — once the habit is locked in and the knowledge is real.

About the Author

Subu Sangameswar

Subu Sangameswar is a finance enthusiast, investor, and — perhaps most importantly — a dad who got tired of watching his son spend money with no idea where it went.

Funny Money grew out of a series of real conversations with his son Mihir, starting from a \$50 argument and evolving over years into a full education in how money actually works. The book is his attempt to write down everything he wished someone had told him earlier — in language that a teenager can actually read without falling asleep.

The philosophy behind the book is simple: financial literacy isn't a subject for adults. The earlier you understand how money works, the more time you have to make it work for you. And time, as this book hopefully made clear, is the one thing you can't buy back.

A note to the teenager reading this:

Mihir — like every teenager — thought some of these conversations were annoying at the time. He's older now, and has said, on more than one occasion, that he's glad they happened.

That's all any of us can hope for.

Go build something good.

FUNNY MONEY · Foundations of Money & Investing for Teenagers

*"The philosophy of the rich and the poor is this:
the rich invest their money and spend what is left.
The poor spend their money and invest what is left."*