

Life of Fred[®]
Financial Choices

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A Note Before We Begin

Health is much more important than making a pile of money.
Having a loving and caring family life is more precious than mansions and yachts.

Am I clear?

Money can't relieve loneliness.
Wealth doesn't offer a meaning for life.

Agreed?

But having a decent amount of money can add a lot of pleasure in life. Being able to give things to your loved ones (and to yourself) is the ultimate reason to acquire wealth.

Having wealth can subtract a lot of pain.

Many parents don't teach their kids much math . . . or much about making a decent fortune.

I've written more than 30 math books (from arithmetic to a course beyond calculus) to help fill in the "math gap." This book, *Life of Fred: Financial Choices*, will help fill in the "money gap."

This book might do more to increase the happiness of its readers than any of the math books (or the four high school language arts books) that I've written.

Wishing you great success,
Jim

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Chapter One

Jane Austen

Fred turned to the first page of Jane Austen's *Pride and Prejudice* and read, "It is a truth universally acknowledged that a single man in possession of a good fortune must be in want of a wife."

Small drops of sweat formed on his forehead.

When you are six years old, you don't want to hear that. He shut the book and put it back on the shelf. He stood there next to a wall of books in his office. Her words kept going through his mind. He went back to his desk and sat down. He sat on three telephone books so that he would be tall enough to see the top of his desk.





He needed some time to think. He thought Am I single? Yes. Everyone knows that. Am I a man? Almost. I'm six. Am I in possession of a good fortune? That's harder to say.

Fred took out a clipboard and did some calculations. He was much more comfortable doing math stuff than wife stuff.

He began with his income. As a professor at KITTENS University his current salary was \$600 per month, which was more than most six-year-olds make. The salary schedule at KITTENS is unique among universities. They pay \$100 for each year of your age. When Fred was four, he received \$400 per month.

On the other side were his expenses. On the first Sunday of the month he gave \$60 to his Sunday school. He was the only kid who paid by check. The money went for . . .

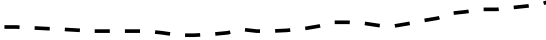
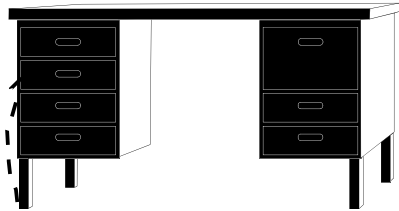
Different People Need Different Things				
				
Be a friend	Help people who are in trouble	Teach	Dig a well to get clean water	Help kill mosquitos

Fred's clothing expenses were \$6 per month. He hadn't grown an inch in the last couple of years. He seemed stuck at 36 inches and 37 pounds. When he went to thrift stores to shop for clothes, he loved to buy bow ties. He always wore a bow tie when he taught.

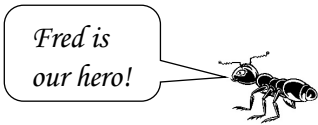
His housing costs were zero. He lived in his office on the third floor of the Math Building and didn't even have to pay for heat or electricity.

Food? There were nine vending machines in the hallway outside of his office—four on one side and five on the other. Occasionally, he would buy something and bring it back to his office. Then he would decide that he wasn't really that hungry and stick it in a desk drawer "for later."

The ants discovered where he kept his food. They loved Fred. His desk drawers never stayed full.



\$9/month for food.



The four walls of Fred's office were filled with books. He had never gone to class to learn the algebra, geometry, trig, and calculus, which he taught every day during the regular school year. On the average he spent \$45 each month buying books. He found that reading was a much faster way to learn than heading off to a class and listening to someone present the material at a rate to match the average student in the class. And reading was much cheaper. Reading was also much faster than watching someone talk on television or on a web-based program.

He totaled up his expenses.

60	gift to help others
6	clothing
0	housing and utilities
9	food
<u>45</u>	books
total	\$120

His gift and his books gave him the most pleasure.

Income \$600/month. Expenses \$120/month. Fred played with the numbers. \$120 is what percent of \$600? You divide the number closest to the “of” into the other number. $\frac{120}{600}$ which reduces to $\frac{1}{5}$ when you divide top and bottom by 120.

One-fifth expressed as a percent is 20%.

I spend 20% of my income.

I save 80% of my income.

Fred smiled at this thought. When your income is greater than your expenses, this is a very happy situation. In math, this is written as $\text{income} > \text{expenses}$.

small essay

When Income < Expenses

If your income is less than your expenses and your savings are all gone, then you need to borrow money and go into debt.

The biggest debtor in the world is the United States government. Year after year it has spent more than its income. In 2014, it owed more than seventeen trillion dollars (\$17,000,000,000,000—that’s 12 zeros) with less than 115 million (115,000,000) taxpayers.

Do the division. Each taxpayer would need to cough up more than \$147,000 to pay for what has already been spent. Some taxpayers don’t have an extra \$147,000 to hand over to the government. (understatement)

end of small essay

Fred turned to his doll, Kingie, who was busy finishing up an oil painting and asked, “Kingie, do you think I possess a good fortune?”

Kingie had been given to Fred when Fred was four days old. (The whole story is told in *Life of Fred: Calculus*.) He was used to Fred asking him questions out of the blue. He wanted to ask Fred what motivated that question, but he was concentrating on his oil painting, so he simply asked, “Huh?”



Fred explained that Jane Austen said that if you are a man, if you are single, and if you have a good fortune, then you need a wife. He showed Kingie his calculations, which indicated that he was able to live on only 20% of his income.

When Kingie heard what Jane Austen said, he started to panic. He worried Do I have to get married? I am very happy here painting in Fred's office. But I'm single. But I have a large fortune.*

Kingie breathed a sigh of relief. He realized But I'm not a man. I'm a doll. Jane Austen's statement doesn't apply to me.

Neither six-year-old—boy or doll—was ready for marriage.

Kingie now had the job of explaining to Fred the difference between **income** and **assets**. He explained, “You have plenty of income. You are able to save 80% of what you make. Your income is the amount of money you make. But your assets (= your fortune) is how much you own. If you were making a million dollars a year, but had only been doing that for one day, you would have a high income, but you would not have built up a big fortune (= assets) yet.”

Fred took notes. *Income* ⇒ what I'm getting

Assets ⇒ what I have

Kingie continued and Fred listened. Kingie was the richest doll in Kansas and knew a lot about money. “The fact that your expenses are less than your income means that your assets will grow.”

That made sense to Fred. He thought to himself If I'm making \$600 and spending \$599, I will be happy. If I'm making \$600 and spending \$601, I'm heading for trouble.

* Readers of other Life of Fred books know about how successful Kingie has been selling his paintings. When Fred brought home a pet cat, Kingie built a little fort in the corner of the office to protect himself. He didn't want to become a cat toy.



Inside the fort Kingie had 17 safes stuffed with cash from the sales of his paintings.

Fred drew a little chart.

Income	Expenses
Assets	?

There was something missing. He thought Expenses eat into income. What eats into assets?

Kingie took his paint brush and filled in Fred's chart.

Income	Expenses
Assets	LIABILITIES

Kingie showed Fred the painting he had just completed. It was the perfect example of asset and liability. Kingie explained, "Suppose I sold this car for \$5,000. It is an asset worth \$5,000. Now suppose I have a loan on this car for \$4,000. That's a liability. The net worth of the car is \$1,000. After I sell the car, I'm going to receive \$1,000."



Asset

Please take out a piece of paper and write your answer before you look at my answer on the next page. You will learn a lot more if you do that.

Your Turn to Play

Suppose you own an apartment house. It has income (e.g., rents). It has expenses (e.g., plumbing repairs). It's sales price is its asset value.

Draw this chart

Income	Expenses
Assets	Liabilities

and fill in examples in each of the four categories.

..... **COMPLETE SOLUTION**

My Apartment House

<i>Income</i> rents	<i>Expenses</i> plumbing repairs carpentry water, power, garbage property taxes interest paid on mortgage painting attorney costs for evictions insurance landscaping bookkeeping
<i>Assets</i> sales price	<i>Liabilities</i> mortgage(s) deposits received from tenants unpaid property taxes

Your answers might have been different than mine.

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