# Borrowing and investing

Debt and credit are essential parts of our economy. Without debt, businesses wouldn't be able to invest in new projects or hire new employees. And without credit, consumers wouldn't be able to purchase homes or cars. Of course, too much debt can be a bad thing. When people have too much debt, it can be difficult to make ends meet. When debt and credit are managed properly, they can help you meet your financial goals. This module explores how to do this.

## 1. Let’s talk about borrowing and investing

“Loans, mortgages, investments, risk... I don't even know where to start!”

### Host

Money issues can be rather overwhelming, right? I mean, there are times we need—or at least want— more. And then there are other times, when we do have extra, we have to figure out what to do with it. It used to be so easy when we were young: we’d put our money into a piggy bank and save it for a rainy day. But not anymore. I mean, now there are credit cards, lines of credit, bank loans, lotteries, charitable donations, stocks, cryptocurrencies—it’s enough to make your head spin.

Well, this module is here to help. Hopefully, we’ll help to unpack the concepts of borrowing and investing in the various ways you might experience in your life. Of course, we could spend days talking about all this, but we’re going to cover just the basics—so that, when the time comes, you’ll be better prepared to make informed decisions that support your personal financial goals.

Ok, here's what we're going to do. We’re going to help you to:

* identify different types of loans and when they are most appropriate
* use your judgment and goals to identify the risks and rewards of various investments
* understand how your values can inform your purchasing and financial decisions

Some of you might be thinking, what does this have to do with me? Just remember that some of the things we talk about here will apply to you right now, while other parts will be important to know as you get older. Throughout this lesson, keep in mind both your present self and your future self.

Overall, this module is meant to help you avoid getting into a situation in the future where you say, “I wish someone had told me that years ago.” Let’s learn about borrowing and investing now, so that you’ll be set to make good decisions later.

Let’s get started!

### The goals for this module

Here's what we're going to be working on in this module. By the end of this module, you'll be able to

1. identify different types of loans
2. use your judgment and goals to identify the risks and rewards of various investments
3. understand how our values can inform our purchasing and financial decisions

## 2. Money and value

“Wait, wait, what exactly is money?”

### Host

What is money? Well, at its heart, money is an agreement. The paper, plastic, or the numbers on a screen don't have value themselves, but they represent, or stand in for, a value that is guaranteed by the government.

Money makes it easier to buy and sell things. Thousands of years ago, people would trade what they had for what they needed. They would barter. Bartering is the exchange of items or services for other goods or services without using money.

A fruit seller who needs some bricks would have to find a brick seller that needs some fruit. Finding that perfect match could be tough.

Along came the invention of money. Money served as a transferable measurement of value. Our fruit seller could now just sell the fruit for money and then go buy some bricks! The value of the fruit was transferred to a tradeable object, which made buying so much easier. And let's face it: carrying money in your pocket is a lot easier than carrying a bunch of bricks.

Being financially literate means more than understanding money. Both money and things can hold value. The value of a thing is just based on how much people want it. If a lot of people want a thing, its value goes up. If very few want it, its value goes down. The latest smartphone will be very expensive on its release date, but try to sell it ten years later, and it might be hard to even give it away. If you have something of value you have an “asset.”

Throughout this module, we're going to explore the best use of money, other assets, and debt to best meet your financial goals.

### Let's check your understanding.

Select all that apply. The value of your personal finances includes…

1. assets that you own
2. money in the bank
3. investment goals
4. cash in your hand

## 3. Good debt and bad debt

“Debt sounds pretty bad, right?”

Actually, some debt is good for you. An important part of building your personal finances is the ability to tell the difference between good debt and bad debt.

Individual people, families, and even cultures can have different beliefs about what debt is and how, or even whether, it should be used. However, what’s important to keep in mind is that not all debt is created equal. Look through the tabs below to learn the difference between good debt and bad debt.

Good debt helps you get what you need to support your life goals, and is debt you are able to pay off in a timely fashion, which helps build your credit score.

Bad debt involves borrowing money for things that aren't truly needed. Often it means having more debt than you can manage or pay off.

### Good debt or bad debt?

Let's check your understanding.

1. You’re heading to college in the fall and need a computer. You have half the money saved up, and have a part-time job that should let you pay off the remaining amount in a year.
2. good debt
3. bad debt
4. it really depends.

Answer: This is good debt. The computer will help your long-term plan to be successful at college, and you have a reasonable plan to pay back the debt.

1. A friend just got a new virtual-reality headset that looks awesome! You have no money in savings and don’t have a job, but you do have room left on your credit card. You hadn’t really thought much about it before, but you just go for it because it looks like so much fun!
	1. good debt
	2. bad debt
	3. it really depends.

Answer: This is bad debt. This purchase seems impulsive and not even something that's guaranteed to improve your life. Maybe you could first borrow a virtual-reality headset to see if you like it. And if you do, then you might put into your plan a way to begin saving for this purchase.

1. You want to go out for dinner with friends, but don’t have the cash. The prices at the restaurant look a little more expensive than what you would usually pay. You decide to put it on your credit card.
	1. good debt
	2. bad debt
	3. it really depends.

Answer: This one really depends. If it’s reasonable that you can pay this off before the debt is due, then this debt could be okay. It sounds like a fun time, and you have a plan to avoid interest. But if there’s a chance you might have to pay interest, then the debt is probably bad. Instead, convince your friends to go to a more affordable restaurant. Or maybe stay home and cook something together.

### Host

Most of us, at some point in our lives, will need to use debt to make a purchase. Whether it is paying for take-out dinner on a credit card, or making a large purchase like a new computer, or paying for post secondary school, we will all interact with debt, credit, and loans in some way.

There are different types of debt, credit, and loans, and they all have different rules, interest rates, and purposes. Understanding these differences will allow you to make the decision that is right for you.

Here’s the big lesson about debt: you should not go into debt without a plan. Be safe. Know what you’re getting into. And make sure it fits into your longer-term financial goals. Using debt for “impulse buys,” or purchases that are made on the spur of the moment, often turns out to be bad debt. By being thoughtful and intentional with your use of debt, you can help ensure that your debt is good debt.

### Types of loans

As discussed in the Bank accounts and credit cards module, credit cards are a type of loan ideally meant for short-term debt. As a result, they carry an exceptionally high interest rate. For many situations, there are better options available.

The four kinds of loans we are going to explore in this module are:

1. student loans
2. lines of credit
3. mortgages
4. payment plans

### Pause. Think. Write.

#### Reflection moments in these modules

If you really want to get the most out of this learning module, try to connect the learning to your own life as much as you can. The best way to do this is to pause whenever you see "Pause. Think. Write." and think deeply about the questions provided. Then, write down your thoughts on a notepad, on your smartphone, or wherever you wish. It's the process of writing that will help connect the content to your life and make it stick.

Before we learn about the topics below, what do you already know about them and what would you like to learn? How might these contribute to good or bad debt?

* student loans
* lines of credit
* mortgages
* payment plans
* payday loans

## 4. Student loans

“College and university can be expensive. What do I do about that?”

### Host

You might be at the point in your life where you’re thinking a lot about going to college or university. For many people, the cost of postsecondary education is a significant financial burden. It’s important to prepare yourself to pay for it. Let’s talk about some options so that the cost of continuing your education is possible.

If you’re not one of the few people who can pay for postsecondary school out of pocket, you’re likely going to need a loan. A loan is when a bank or other institution lends you money, and then you pay it back with interest.

Fortunately, there are “student loans,” which are loans specifically designed for students going to college or university. The purpose of a student loan is to help you pay for things such as tuition (which is the fee for the courses), books and equipment, and even living expenses while you’re in school.

Student loans are different from other types of loans because, well, they’re designed for students. It is important to note that

* You can qualify for these loans even if you have never had any kind of loan before. - You don’t need to make payments while you’re in school.
* You won’t be charged any interest while you are still enrolled in school.
* You don’t need to make your first loan payment until six months after you leave school—which allows you some time to find a job.
* And student loans typically have lower interest rates than personal loans.

You can get student loans through federal and provincial governments, as well as through banks. In Ontario, one of the most common sources for student loans is the Ontario Student Assistance Program (OSAP). Through this program, you may also have access to “grants.”

A grant is money that you actually don’t need to pay back. It’s a gift, as long as it’s used for a specific purpose, such as attending postsecondary school. Government grants are often based on the income level of the applicant’s parents and are intended to support students who aren’t able to obtain financial

help from their family. So, if your family is not in a position to help you pay for school, it’s really important to know that there are other options that can help support you.

Colleges, universities, and other organizations offer grants based on financial need, high-school grades, or even volunteer experience. Usually, though, grants won’t cover all the money you need for your schooling. So, if you need some help covering the remaining amount, a student loan is typically the best option.

Student loans are an example of “good debt.” This debt helps with your life goals by getting you the education you need for the career you want. You may have heard the advice, “Save up your money for school and don’t go into debt.” Well that’s great, if that’s possible for you. But it can be difficult to save enough money for school while working a lower-paid job before college or university. So it’s very appropriate—and common—to take on some debt to go to school, and then pay it off afterwards, when your income is higher. Student debt that helps you get the career you want is good debt.

“But isn't it always better to just save up the money first and not get into debt?”

If you can save up enough money for school, it can be a good idea to avoid debt. One thing to consider though is your future earning potential. Trying to save up enough money for college or university could take a long time if you are earning minimum wage. After you graduate from college or university, you'll likely be making a higher wage or salary. So it could be easier to pay off the debt in the future than it is to save up for school now. That is a decision that you'll need to make for yourself.

If you decide to go with the debt option, a student loan is the way to go.

### Check your understanding

Check all that apply. Using a student loan to attend postsecondary school can be a good idea because:

1. it has a lower interest rate
2. you are not expected to pay it back
3. you are not expected to pay it back until at least six months after you finish school
4. interest is not added to the loan until you start paying it back

Answer: All but b.

Learn more about OSAP loans at the Ontario Student Assistance Program's website. https://www.ontario.ca/page/osap-ontario-student-assistance-program

## 5. Lines of credit

“Since loans have a better interest rate than credit cards, should I apply for a loan every time I need extra cash?”

### Host

When you need money, one option is for a bank to loan you that amount. You apply for a loan, and if they like your credit rating, they loan it to you with an agreed upon interest rate and payment schedule.

While it’s true that a bank loan can give you a much better interest rate than a credit card, it isn’t really designed for smaller purchases. You have to apply for a loan each time you need one, and the application process can be pretty detailed. Let me tell you about another way, called a “line of credit.”

It is handy to think of a line of credit as a cross between a bank loan and a credit card. Like a credit card, a line of credit has a preset amount of credit that you can access when you need it. But unlike a credit card, there is no actual card, and its interest rate is closer to that of a loan. With a line of credit, you will be approved for a set amount of money—usually anywhere from $5,000 and up—and you can access this money much like you would the money in your own bank account.

Once a line of credit is set up, you have available credit (which is actually debt) that you can use when you need it. So, if you had a $1000 line of credit, you could use $200 of it, then pay off that $200 and still have that $1000 in credit available that you could use again later. That $1000 line of credit is always available whenever you need it.

This is different from a student loan or a bank loan. With those, once you’ve received the money from a loan, you can’t get any more. And once you’ve paid off the loan, it’s over. The amount you owe cannot go up and down like a line of credit, and if you need more money, you need to apply for a new loan.

Unlike more traditional loans, a line of credit only charges you interest on the amount of credit you actually use, rather than the full amount. However, unlike a student loan, you’ll need to start making payments on it right away. There is no grace period.

The good news is that the interest rate on a line of credit is much lower than credit cards, which makes a really big difference on the interest you pay. There are starter and student lines of credit that you can explore when you’re over 18. You likely won’t have much of a financial history to give you a strong credit score just yet, so often students need to get an older adult to be a “co-signer” on the line of credit. This

way, the adult’s credit score is applied to the application. They’ll also be on the hook if you can’t pay, so a request to be a co-signer should be taken very seriously.

Just like with all debt, be careful and intentional when considering a line of credit; it can be used for either good or bad. So make sure the debt supports your financial plan and that you can handle paying it off in a reasonable amount of time. If you do this, a line of credit can give you some peace of mind, just like a good emergency fund. It’s there and ready if something comes up.

### Check your understanding

Let's make sure that all the different options are clear. Match the terms with the definitions below.

Match the three following terms with the three definitions below.

A. line of credit

B. credit card

C. personal loan

1. This has a high interest rate, but is convenient to use. Pay this off quickly!

2. This is an amount of credit that is there whenever you need it, with a lower interest rate.

3. This has a lower interest rate, but when it's paid off, it's gone.

(Answer: A:2, B:1, C:3)

## 6. Payment plans

“This store says that I can buy now and pay later, and that store says that I can buy it now in four easy payments. Are these good options?”

### Host

You’ve probably seen signs or heard advertisements:

“Don’t pay for two years!” or “Buy now, pay later!”

They sound like great deals, right? I mean, who wouldn’t want a new bicycle or a new TV or a new gaming system—especially if you don’t have to pay for it right now! But understanding the pros and cons of these offers can help keep you from making a costly mistake.

Here’s how these payment plans work. These loans are usually offered in-store or online at the time of your purchase, but it’s actually a third-party company that is loaning you the money. You’ll get the product right away, but you are agreeing to pay the full price in regular installments over a set amount of time. The loan company either makes money by charging you interest for borrowing that money, or late fees if you don’t pay on schedule.

The advantage of these plans is that you can get your item immediately, and often these payment plans come with better interest rates than credit cards—at least at first. So if the purchase is something that you really need right now (rather than just really want), borrowing at a lower interest rate makes sense.

But be sure to review the conditions of the loan because they are not all the same. For example, some payment plans offer zero interest for the first year (to encourage you to buy the product), but then charge a high interest rate after the first year. Or they might charge high fees for missed or late payments. So be sure to track your payment plan and add it into your budget, so it becomes a regular expense until you pay off the amount owing.

Although payment plans are often a better option than credit cards because of the lower interest rate, you need to be careful with them because you will still need to pay this money back and on time. Failure to do so will negatively affect your credit score.

If you choose to use these types of loans:

* First, think about whether you really need this item right now or if it’s more of a want that you can save up for and buy later.
* If you do need it right now, make sure you read and understand the payment plan thoroughly. Usually these plans are better deals than putting large amounts of money on a credit card, but you will want to compare plans to be sure.
* Lastly, plan ahead and commit yourself to making the payments on time. If you can’t, you probably shouldn’t make the purchase.

### Check your understanding

Select all that apply. If you consider using a payment plan, make sure: you really need the product

1. you need the product right now
2. you understand all the details of the payment plan
3. you are able to make the payments on time
4. you add regular payments into your budget plan

Answer: You need to consider all of these. There's a lot to consider when using payment plans, but they can be a good option for purchasing things you need right away.

## 7. Buying a home

“I'd kind of like to buy a home someday, but it seems like a pretty big deal.”

### Host

Buying a home is definitely a big deal, but it's easier if you understand how buying a home works. Of course, this is something that probably won’t apply to you until you are older, but it’s important to understand and get ready for.

Typically, to buy a home, you need a mortgage, which is basically a large loan that is paid off over many years. You can get a mortgage for a house, a mobile home, or a condominium. Prices for homes vary across different regions in Ontario, but with average purchase prices for a home in Ontario ranging anywhere from $300,000 to over $1-million, it is fair to say that most people don’t have enough money in their bank accounts to pay that amount in full. This is where a mortgage comes in.

Mortgages are a pretty big deal. A mortgage is typically meant to be paid off within 15–30 years! They are a very serious commitment.

In order to get a mortgage, you need to apply and qualify for a mortgage from a bank or mortgage offering service. The size of the mortgage you qualify for will depend on a variety of factors, including your credit score, job, debt, assets, and income.

When purchasing a home, you will also typically need to have a down payment. This is an amount you pay upfront. Ideally, your down payment will be 20% of the purchase price, in order to avoid paying additional fees. But the good news is, first-time home buyers can have a down payment as small as 5%, depending on the price of the home.

Once you have applied and qualified for a mortgage, and have made a home purchase, you will have mortgage payments each month. What interest rate you pay depends largely on what interest rates are offered at the time when you first take out your mortgage. Your interest rate may go up and down, depending on how the overall economy is doing and your type of mortgage, but you are still responsible to pay the agreed upon amount each month

Ok, this is a lot, so let’s pause and review a bit, and then we’ll get back into it.

### Check your understanding

Let's check your understanding of mortgages.

1. It can make financial sense to buy a home and take out a mortgage for a large amount of money because

1. Often the value of the home increases over time.
2. The home becomes an asset that you can resell.
3. It would be fun to have people over in my own home!
4. both A and B

Answer: d. While this might be true, it’s not a good financial reason to make such a big investment.

2. Paying such a large amount of money for a mortgage still makes sense because the value of the home will most likely \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Answer: Anything like rise, go up, increase, appreciate or grow.

### Host

OK, so we talked about mortgages being potentially giant loans that could take decades to pay off, but that also enables a person to buy a home. We also mentioned that mortgage interest rates are around 5%—that sounds like a small number, right? But the amount of interest you pay over those decades really does add up! You may have heard that houses are expensive. When you understand how mortgages work, you’ll see that they are even a bit more expensive than you might have thought.

For instance, if you have a mortgage of $600,000, you would end up paying around $450,000 in interest over the term of your mortgage. That means you end up paying over $1-million for your $600,000 home! Now, paying an additional 75% on top of the principal might sound bonkers, but you also need to keep

in mind that the value of your home will likely keep going up, and, hopefully, in 25 years, your home is worth more than $1-million. This is called appreciation, and is very different, for example, from getting a loan for a car. Unless it’s some super-rare car, cars depreciate, so by the time you're done paying for it, that car will be worth far less than what you paid.

That’s why people often call buying a home an investment, not just a purchase. For most people, it’s the most expensive thing they’ll ever buy. But, as the value of the home increases, so does the homeowner's investment. It’s an investment that you can live inside.

Not everyone is in a position to purchase their own home. In 2021, 66.5% of Canadians owned their own home. Many people are unable to save up enough to afford the down payment needed to get a mortgage and will need to rent their home rather than own it.

Renting a home has its own advantages and can be a smart financial decision because - you avoid paying all that mortgage interest, and are free instead to invest your money in other money making ways (we’ll talk more about investing later in this module)

* you don’t have to pay additional fees for things like maintenance repairs, property taxes, or major appliances
* usually some or even all utilities like water, gas, and electricity are included in your rent - you have greater flexibility in your life since it’s far easier to move to another house or apartment than it is to sell and buy a new home

For now, take a pause now to write down some thoughts or feelings you’re having about home ownership and mortgages.

### Check your understanding

If you were to take out a mortgage for $400,000, with an interest rate of 5% over 25 years, a good estimate of what you might pay in interest is

1. $20,000
2. $300,000
3. $100,000
4. $500,000

Answer: $300,000

### Pause. Think. Write.

How do you feel about the idea of having very large loan that takes 20–30 years to pay back?

## 8. Payday loans

“If I need some quick cash, couldn't I just use one of those payday loan shops on the corner?”

### Host

Payday loans are the most expensive form of consumer loan in Ontario. They are short-term loans, usually for a relatively small amount, and are offered by private payday loan companies. Typically, a person chooses a payday loan when they need cash immediately and don’t have any other way to get the money. The idea is that it’s a loan until your next paycheque, hence the name “payday loan.” Payments are often through a pre-authorized withdrawal that gives the lending company the ability to take the amount out of your bank account as soon as you are paid.

Here’s the thing—payday loans have high fees that equate to almost 400% interest. Yes, you heard that right. 400%. We’ve talked about how credit cards have high interest rates, but check this out: putting $600 on a credit card for two weeks would cost around $12.29 (assuming this balance was rolled over into the next month). That same $600 with a payday loan would cost $90.

There are now Ontario laws that prevent payday companies from taking advantage of people in tough situations. Loan companies cannot loan someone more than 50% of their pay cheque, and these companies must show you all the details, including the annual percentage rate. In 2020, the Ontario government stepped in and put a cap of 2.5% per month, simple interest, on late fees, so there’s less risk that you’ll be drowning in an avalanche of debt. Just be aware that, even with these consumer protections, payday loans are still the most expensive form of loans available. Other than in extreme emergencies, try to find another option.

### Lachlan's payday loan story

Payday loans can be risky. Let's have a look at a scenario so we can understand what's involved.

A storm blew off some shingles from Lachlan's roof. Water leaks through the ceiling and they need to repair it soon before it rains they can’t wait for their next paycheque.

Lachlan tried other options for quickly borrowing the money, but nothing worked out. Their credit card was already at its limit, and there was no payment plan with any local roofing companies.

So Lachlan decides to get a payday loan for $300, just for two weeks, until their next paycheque comes in.

The payday loan company provides the money by transferring it directly into Lachlan’s account, and Lachlan is told that the loan must be paid back in two weeks.

At the end of two weeks, Lachlan gets their paycheque, and $345 is automatically deducted from their account. That's half their cheque.

$300 is for the loan itself, and $45 is the cost of the loan. (This is equivalent to almost 400% in annual interest!)

Lachlan spends the next two weeks being very careful with their money and has to make some critical decisions on what to give up over this time period.

### Check your understanding

Check all that apply. You need to be careful with Payday loans since they

1. charge the equivalent of 380–500% interest
2. are illegal
3. need to be repaid in a very short period of time
4. lead to jail time if not paid on schedule

Answer: a and b. They may not be illegal, and you won't go to jail if you use one; however, they do have very high fees.

## 9. Loans and debt review

“Okay, let me see if I've got this…”

Now that we've covered student loans, lines of credit, payment plans, mortgages, and payday loans, let's take a moment to check our understanding.

Question 1. Match the following terms with their definition.

1. income generation
2. line of credit
3. payday loan
4. payment plan
5. mortgage
6. an investment that produces money while you own it
7. an amount of available credit that can be drawn on and paid off repeatedly
8. a small, short-term loan with high fees
9. payment for a purchase is split into parts paid over a set period of time
10. large loan used to purchase a home

Answer key:

* income generation: an investment that produces money while you own it
* line of credit: an amount of available credit that can be drawn on and paid off repeatedly
* payday loan: a small, short-term loan with high fees
* payment plan: payment for a purchase is split into parts paid over a set period of time
* mortgage: large loan used to purchase a home

Question 2: Match the following situations to the loan that would best suit their need. A. student Loan

B. line of credit

C. payday loan

D. credit card

1. Shazia has been accepted to university but needs money for tuition. 2. Muqing wants to pay for a TV streaming service.

3. Leena needs to replace her smartphone.

4. Mikayla needs new appliances for their kitchen. It will cost around $1500. 5. Louisa needs to pay for college textbooks.

6. Robert wants to buy concert tickets.

7. Shaan wants to buy flowers for his mom.

Answer: 1:A, 2:D, 3:B, 4:B, 5:A, 6:D, 7:D

## 10. Investing

“So what's this about investing to make money?”

What do you think? If you have some money and lock it securely in a safe and bury it, can you be confident that your money is protected for decades to come?

1. yes
2. No

Answer: No. Inflation, which you're about to hear more about, will reduce the value of those dollars in your safe over time.

### Host

So, we’ve talked about using various forms of credit to borrow money, but let’s talk now about using your money to make money. This is investing. To invest is to buy something that will—hopefully—grow in value.

We know that it’s great to save your money for your future needs and wants. Unfortunately, saving alone doesn’t cut it. Even if you commit to leaving your money in a savings account—even if you lock it securely in a safe and bury it—inflation will eat away at its value. Inflation is a rise in the cost of goods and services. The $100 you saved five years ago doesn’t buy nearly as much as it used to because the price of things keeps going up.

Fortunately, it’s not just prices that go up. Wages go up as well. Try asking an older family member or friend what minimum wage was when they were young. Since wages typically go up as well as prices, inflation isn’t necessarily as bad as it sounds. What you need to be aware of though, is that if you’re not doing something with your savings, that money will have less and less buying power over time. It’s kind of like your money is shrinking.

And this is where investing comes in; you can stop your money from shrinking. If you invest it in things that grow in value faster than the rate of inflation, you can not only stop the shrinking, but your investment can also make you more money. And this growth can happen in a couple of ways. 1. The investment can generate income itself.

2. The investment appreciates, which means it increases in value over time.

Let’s consider an example where the investment generates income. Suppose you decide to start a lawn cutting business, so you invest in a lawnmower. The lawnmower, together with your time and hard work, generates income as you get more and more customers. Now, the lawnmower itself won’t appreciate in value—it actually becomes less valuable as it gets older—but if the money you make from cutting lawns

with the lawnmower is more than the money you spent on the lawnmower, it’s a positive investment that generated you income.

How about investments that appreciate in value over time? Well this is what collectors try to do. They might buy extremely popular toys or baseball cars or even old cars. Even though the items won’t

generate income, the collector hopes they increase in value over time. You should know, though, that collections are a risky investment. There’s no guarantee that they will increase in value.

And then there are some investments that can generate money in both ways—income generation and appreciation. For example, suppose you buy a house and then rent it out. The house itself can appreciate in value, so you'll be able to sell it for more than you bought it for, and the rental fees will also give you additional income.

Now, it’s important to keep in mind that investments are typically a long-term strategy to reach long-term goals, rather than a quick way to get extra money. And of course, all investments will carry some form of risk—some more than others—because there are no guarantees that what you think will make money actually will. But by doing your research and understanding the rewards and risks, you’ll be better equipped to protect your money against inflation.

### Appreciation and depreciation

Similar to how inflation depreciates the value of a dollar, many assets (anything that can be owned) will lose their value just with the passage of time. If you buy a brand-new computer today, you will not be able to sell it for the same price five years from now—even if you never take it out of the box. Cars start going down in value the moment they are first driven away from the dealership. That's depreciation.

Other items will actually increase in value with the passage of time. Houses will typically increase in value over time, even without any improvements to the house. That's appreciation. Owning assets

that appreciate is another form of investment. Bonds, which are basically tiny loans to a government or corporation, will also appreciate over time.

### Let's practice

Determine if each of the following items

A. will likely depreciate in value

B. will likely appreciate in value

1. land

2. house

3. car

4. clothing

5. condo

6. exercise equipment

7. computer

Answer: 1:B, 2:B, 3:A, 4:A, 5:B, 6:A, 7:A

## 11. The stock market

“So what exactly is a "stock"?”

### Host

Let’s talk about the stock market. Maybe you’ve heard about them on TV or in movies and you understand that it’s a way some people make money. But let’s actually define what stocks are.

If a business gets large enough, the owners may wish to sell their business to make a lump sum of money. They could just sell the company, take the money, and walk away. Or, they could “take their

company public” as a stock, which means they are selling part ownership of the company to a large number of people, on an open marketplace. Rather than just selling the company as a single item, the company is divided into many pieces called "shares," and these shares are sold individually. This way, any number of people can share ownership of this stock. These shareholders can buy and sell (in other words, trade) their shares of the stock as much as they like. The company continues doing whatever it does but now it’s publicly traded, and anyone who owns a share is a part owner of the company.

If this company does well, and more people want to own that stock, the value of the stock goes up. This means that the shareholders now own stocks that are worth more. If they sell stock when the value is higher than when they bought it, they make money. But, if enough people are no longer interested in the company and don't want to buy more stock, its value goes down and the shareholders actually lose money. Some companies' stock may bounce back up, while others may never recover or even go out of business. As you can see, there are certainly risks involved when investing in stocks.

There are some special stocks that share profits with the shareholders. This is called receiving a dividend. That's a type of income generation from stocks. However, most of the money made from stocks is made from selling them after they have increased in value, or as we say, “appreciated.”

When all the millions of publicly traded stocks are considered together, this is called the “stock market” or “stock exchange,” and the value of it as a combined group can go up and down. You’ve probably heard about stock market crashes, or stock market booms. This refers to all the publicly traded companies together, and whether their value, on average, is going up or down.

It's important to be aware of the stock market at this point in your life, but it probably isn’t the best place for young people to start investing money. Many young people have lost a lot of money investing in their favourite companies through online trading apps on their phones. Just because you really like a company, doesn’t mean its stock will increase in value. We'll talk more about risk in the next section.

### Stock market history

The value of the stock market goes up and down, but it generally trends upwards. If you had been around in the year 1870 and invested a dollar in the stock market, despite all the recessions, crises and losses, that dollar would have turned into $20,000 by 2021.

Here are some examples of times the stocks when up or down.

1. 1910. World War 1 and Influenza pandemic
2. 1929 crash and Great Depression
3. 1945 Post-WW2 bear market. A "bear market" is the term for when the market is trending downwards in value. This was followed by a massive bull market where the markets trend upwards in value.
4. A period of inflation and the Vietnam war
5. The events of September 11th, 2001 had a considerable impact on the global economy.
6. The 2008 "housing crisis."
7. The period directly after 2020 also saw a significant drop due to the pandemic.

### Check your understanding

Match the following terms with their definitions below.

A. shareholder

B. share

C. publicly traded company

D. stock market

1. a fraction of the ownership of a company that can be bought and sold

2. a corporation that offers shares of itself to be bought and sold on a stock exchange

3. owner of a share or shares in a company

4. an open marketplace where shares of companies are bought and sold

Answer A:3, B:1, C:2, D:4

### Pause. Think. Write.

* Did the description of the stock market here match what you've heard about it from pop culture and movies?
* What are your thoughts on the stock market? Does it sound interesting, scary, confusing?

## 12. Investments and risk

“If all investments have risk, how do I decide where to put my money?”

Investing can seem scary at first because there is always some risk. You are not guaranteed to make money.

While the goal of an investment is to appreciate over time, investments can also depreciate (go down in value). How you choose to invest will depend on whether you identify as a low-risk, medium-risk, or high-risk investor, and will also depend on your values, goals, and time horizon to reach those goals.

### Check your understanding

Investing is best for

1. long-term financial goals
2. short-term financial goals
3. guaranteed fast growth on your money
4. earning a little interest without any risk of losing any money

Answer: a. Don't expect a quick win with investments. They are best for your long-term financial goals.

A **low-risk investment** is one that is generally more stable and more for the short term. However, because of this, it is also less likely to produce a lot of gains, usually around 1–5%. A government bond, where you lend a set amount of money to the government, is an example of a low-risk investment because you are essentially guaranteed to have it paid back. However, the return rate is very low compared to other investments. Guaranteed Investment Certificates (or GICs) are typically issued by banks and work very similarly.

**Medium-risk investments** are longer-term investments with more moderate returns. Examples may include some stocks, mutual funds, and real estate.

**High-risk investments** can achieve very high returns. However, they are also the most at risk to depreciate in value. The most common high-risk investment is purchasing stocks in a company. When you purchase a stock in a company, you are essentially purchasing a small piece of that company, making you what is called a "shareholder."

As a result, when the company does well (as in, generates a profit), you get paid out an amount that aligns with how many stocks you own. Ideally, over time, as a company grows and does well, the value of your stocks grows. However, if a company does poorly (or even goes out of business), your stock also has the potential to significantly decrease in value.

### Cryptocurrencies

“I’ve heard people talking about "crypto" online... saying I can make a lot of money investing in it. Is that true?”

### Host

You might have heard of “cryptocurrencies” or "crypto" like Bitcoin, Etherium, and Dogecoin. They can be difficult to understand, and we’ll try to unpack them a little bit, but what’s important to understand is that they are a high-risk investment.

We remember that a currency is a system of money used in a particular country that represents value. Typically the currencies we use in our daily life are issued by governments, but cryptocurrency is different. Cryptocurrency is a digital currency that is created by a non-government organization and is secured by complex systems called “cryptography and blockchain ledger technology” that make it very difficult to counterfeit or hack. The cryptocurrency doesn’t rely on a government or bank to manage it but actually runs on thousands of personal computers processing all the complex transactions as a network. You may have heard of crypto-mining? That’s when companies or individuals put computers to work doing these transactions. They earn some of the cryptocurrency for the use of their computers’ processing power.

Like regular currencies, cryptocurrencies can be used to purchase goods and services, but they are more often used as an investment. Some people invest in cryptocurrencies because they believe that the value of that currency will increase compared to other traditional currencies.

However, because cryptocurrencies are relatively new, and there are thousands of cryptocurrencies available now, there is no guarantee that investing in cryptocurrency will make you money. In fact, cryptocurrencies appreciate and depreciate rapidly, meaning that they offer the potential for huge rewards as well as enormous losses. As a result, cryptocurrencies are considered a high-risk investment, and investing in them is not a decision to make lightly. While some people have made a lot of money on cryptocurrencies, there are many stories of people who put all their savings into them and ended up losing it all.

Generally, when you are making an investment, you want to make sure you take the time to educate yourself and maybe even use the services of a financial professional to help you make a wise decision. This is particularly true with high-risk investments. Generally, high-risk investments are longer-term investments, so you need to be prepared to not see gains for some time. And high risk means that, even over the long term, there are no guarantees of success. There can be high rewards, but there are also high risks of losing money.

### Non-Fungible Tokens (NFTs)

Another recent addition to the investment world is what we call 'NFTs' or Non-Fungible Tokens. These are digital items built on the same blockchain technology as cryptocurrencies. NFTs can be artwork, photography, sports collectibles, trading cards, virtual worlds, music, etc. These cannot be copied like a regular digital file and can be bought and sold. Blockchain technology ensures that there will only ever be one of that item and that item can't be traded fraudulently. That's what the 'Fungible' part of the name means. The value of NFTs can rise and fall just like cryptocurrencies or stocks so people can use these to invest and make money.

However, like cryptocurrencies, NFTs are highly volatile and are considered a high-risk investment.

### Check your understanding

A low-risk investment is one that doesn't have any risk of you losing your money; it guarantees that you will make money.

1. true
2. false

Answer: False. Low-risk investments still don't guarantee growth—there's just less chance that you'll lose money.

### Gambling vs investing

Is regularly playing the lottery a good investment strategy to prepare yourself for retirement?

1. yes
2. No

Answer: No. Read on for why.

### Host

I find it interesting to think that people may consider playing the lottery an investment. You know the deal– That dream of winning big money in the lottery, and how amazing that would be? Well, as nice as that sounds, the lottery is not a wise “investment” method. Yes, it can be pretty good for the few people that do win, but the risk of losing all the money you put into it is extremely high.

The Ontario Lottery and Gaming Corporation’s “Playsmart.ca” website shares some handy information about the chances of winning.

The chances of winning Lotto 649 are 1 in nearly 14 million.

The chances of winning Lotto Max are 1 in 33 million.

That’s like having a dice with 33 million sides, and betting that you’ll roll a 7. You might say, “but at least the cost of a ticket isn’t much.” But, if you spend your lifetime buying tickets, that can add up to a lot of money.

Let’s say you buy one $5 lottery ticket every week for the rest of your life. That would cost around $260 per year. By the time you’re 70, you would have paid around $13 000. And of course, if you don’t win, that money is all lost. But, let’s say you put the same amount of money into an investment that earned on average 10% over the next 50 years. That’s historically been the average rate for the stock market over the last century. Well, by the time you’re 70, that $5 per-week investment would have made you...are you sitting down? Over $363-thousand dollars! Wow. That’s a lot of money.

You might be thinking, “But someone does win every week, and that could be me.” That’s true, and that possibility can feel really exciting, even if the chances of it happening are very small. So, if you’re buying a lottery ticket for the excitement, that’s okay. It can be fun to have that tiny chance to win big. That’s why the lottery is actually an “entertainment” service. It is not an investment strategy.

When people mistakenly consider the lottery to be an investment, unhealthy behaviours can arise. In fact, it’s possible to get addicted to various forms of gambling—and you end up spending more money on it than you ever intended, all in the belief that you’ll eventually win. This is why governments have made it a law that you have to be at least 18 to buy a lottery ticket of any kind—because it’s important to understand the odds of winning and recognize that those odds don’t improve, even if you play more often.

Bottom line, if you decide to play the lottery someday, play it for fun, not to invest.

## 13. Thinking about your impact

“It seems that where I spend my money has more of an impact than I imagined.”

### Host

The last part of financial literacy that we should talk about is how your financial decisions support your personal goals. Really, making purchases and investments that align with your values and goals is always a balancing act. These values can relate to your community, society and the world we live in. Really, it's up to you.

Determine what these values are and how you wish to impact the world around you. You can decide how you want to use your finances to help create the kind of world that you wish to live in. Be the change you wish to see in the world. For example, you might wish to support small or local stores and shops to encourage the success of businesses in your own community- Or here's another example: When it comes to making purchases, you may value the highest standards of quality and craftsmanship on products that would avoid waste or pollution and you're willing to pay extra for this.

In this way, you may also choose to support or invest in companies that have a positive environmental impact. Your money can be your voice. The financial decisions that you make will allow you to spend your money with the businesses that support the values that you agree with.

All up to you. There's no right or wrong answers when it comes to making these types of decisions. It's a good idea to take the time to reflect on how your spending supports your values, and the kind of world that you wish to live in. And then keep those values in your mind when you go shopping or when you invest. When the purchases are investments you make and contribute positively to the world around you, it's really a win-win. You're getting what you need and you get a sense that you're supporting a great cause that you value and that's a great feeling.

So you see, it's important to recognize that making purchases and investments that align with your values is always going to be a balancing act.

### Pause. Think. Write.

What are some of your values? Can you think of a time when you made a purchase that aligned with your values? What about a time when you made a purchase that didn’t? How did you feel after each purchase?

We know that financial security is not just a matter of making the “right” choice. The world is complex, and there are many different factors, including historical inequities, that affect someone’s financial life.

Reflect on the factors that make up your own identity and how they might have affected/will affect your financial choices.

## Check your understanding

You can use this optional quiz to review the content, just to make sure you've got it.

1. Select the items below that could be considered good debt.
	1. student loans
	2. credit card debt for a concert
	3. mortgage for a home
	4. line of credit debt for the latest smartphone
	5. store payment plan for a new couch
2. Match the term with its definition.
	1. Student loans
	2. Credit cards
	3. Lines of credit
	4. Small loans
	5. have a low interest rate that is only charged once you're done school
	6. have a high interest rate and some must be paid back every month
	7. have a lower interest rate and function like a loan, but can be accessed indefinitely
	8. could have high or low interest rate and are completely finished when paid off
3. This module suggested that payday loans are
	1. are a great option when you need some cash
	2. illegal and risky
	3. expensive and best used only in emergencies
	4. a better option than a line of credit
4. To qualify for a mortgage as a **first-time** homebuyer, you need at least \_\_\_\_\_ for a down payment.
	1. 100%
	2. 50%
	3. 30%
	4. 5%
5. If you keep all your savings as a pile of cash at home, its value will decrease due to
	1. depreciation
	2. recession
	3. appreciation
	4. inflation
6. I can use my personal finances for good beyond my own life by
	1. thinking about the impacts of purchases before making them
	2. choosing companies that reflect my values, like preferring local businesses
	3. considering how the product was made
	4. considering who made the product

#### Answers

1. Select the items below that could be considered good debt.
	1. student loans
	2. mortgage for a home

Only student loans and mortgages are considered good debt in this list because they have the potential to increase your wealth.

1. Match the term with its definition.
	1. Student loans: have a low interest rate that is only charged once you're done school
	2. Credit cards: have a high interest rate and some must be paid back every month
	3. Lines of credit: have a lower interest rate and function like a loan, but can be accessed indefinitely
	4. Small loans: could have high or low interest rate and are completely finished when paid off
2. This module suggested that payday loans are

C. expensive and best used only in emergencies.

Payday loans are the most expensive form of credit and should only be used in emergencies.

1. To qualify for a mortgage as a **first-time** homebuyer, you need at least \_\_\_\_\_ for a down payment.

d. 5%

As a first-time home-buyer you're only expected to pay 5% of the cost of the home as a down payment. If it's not the first time you're buying a home, the down payment is expected to be 20%.

1. If you keep all your savings as a pile of cash at home, its value will decrease due to

d. Inflation

As the prices of most things rise due to inflation, the value of the dollar will continue to go down every year. Any extra money you have should be invested so that it will increase in value faster than inflation will decrease it.

1. I can use my personal finances for good beyond my own life by
	1. thinking about the impacts of purchases before making them
	2. choosing companies that reflect my values, like preferring local businesses
	3. considering how the product was made
	4. considering who made the product

 All of these are great ideas to support positive change.

## Complete!

Congratulations! You have completed this module.

### Host

Congratulations! You made it to the end of this learning module and gained a wealth of knowledge in the process.

Seriously, this module covered a lot of ground. You learned about good debt and bad debt, and the ways you can get money to help you reach your goals—credit cards, student loans, lines of credit, payment plans, mortgages—the list goes on! They’re all different types of loans for different purposes. And they can be very helpful in navigating through adulthood.

But I hope you also learned a little bit about interest rates, because understanding how interest rates work will be an important consideration in deciding between different types of loans. And it’s also why thinking about investments—even while you’re young—makes smart financial sense. Because we don’t just want to pay interest, we want to earn interest. RESPs, RSVPs… it definitely pays to start investing early.

And as we build our investments and responsibly manage our debts and loans, we not only create financial freedom for ourselves, but we are also given the opportunity to use our wealth to contribute to and help shape a better Ontario, Canada, and the world for everyone. So, all the best as you think about your future and your values, and work hard to make your financial goals a reality.

### The goals for this module

Remember those learning goals? Let's have a look at those again. Do you feel that you can now do these?

1. identify different types of loans
2. use your judgment and goals to identify the risks and rewards of various investments
3. understand how our values can inform our purchasing and financial decisions

Do you feel like you have a better handle on those? Or do you need to go back and review anything? You can use the blue navigation box to the left to jump back to another section if you'd like to revisit any material.

Now that you've completed this module, consider what next step you'd like to take. Maybe you want to share your idea with a friend or a family member. And remember to keep thinking about your financial future throughout the year and throughout your life. All the best!

### What's next?

When you're ready, you can move on to another module.

You can close this browser tab or window to close this module.