

DEBTZILLA

Personal Finance Lessons from Debtzilla

I. A Summary of a Personal Income Statement

Personal Finance: An income statement is a summary of the income and expense of an individual and it shows the financial health of an individual base on how much he or she earns and spends. Income includes salary, investment income and business income while expense includes personal expenses and interest payments from loans. Financial independence is achieved when the individual can generate a passive income without needing to work and the passive income covers the expenses incurred by the individual.

The Game: The income cards are a representation your total income and each card represent how you will spend your money. The starting hand of your income deck represent the typical expense of a healthy income statement with 30% on loan payment, 40% on expenses and 30% on savings.

II. Budgeting – The Spending Plan

Personal Finance: Budgeting is the process of creating a plan to spend your money. This spending plan is called a budget. Creating this spending plan allows you to have an overview of where you spend your money and determine in advance whether you will have enough money to do the things you need. The budget will help you to decide which of the spending is unnecessary and if you have sufficient savings to meet your financial goals such as purchasing a new car or funding your retirement. Following a budget or spending plan will also keep you out of debt or help you work your way out of debt if you are currently in debt.

The Game: The drafting of new income cards into your deck is a form of budgeting where you get to decide where you want your future expenses to look like. You can increase your saving rate by drafting saving cards and reduce expenses by removing lifestyle cards and debt cards. However, there is a trade-off between savings and expenses as too much savings without some basic amount of lifestyle goods will make the average person unhappy.

III. Types of Debt

Personal Finance: A debt can be divided into a two main categories, secured debt or unsecured debt. A unsecured debt such as credit card loan or a personal loan typically has a high interest payment. A secured debt normally has a collateral, such as a house or car, pledged to secure the loan and usually has a lower interest payment as compared to an unsecured debt. Other personal debts include student loans or medical loans and these loans are commonly incurred in order to fulfil basic needs such as getting a good job or keeping a person healthy. A person can get into financial difficulties if he or she holds too much debt and the income is insufficient to pay back the debt.

The Game: Debtzilla features 3 kinds of debt, each reflecting level of interest payment for each type of debts. For example, credit card requires you to pay \$1 interest for every \$3 borrowed while a housing loan requires \$1 interest for every \$5 borrowed. The debt within the game also reflects their usefulness in real life. Credit card debt incurred due to spending on goods and service, does not improve your financial position and clogs up your finances. Student loan finances an education which improves your ability to work, while a housing loan financing an investment property will give you a rental income.

IV. Refinancing – Reducing Interest Payment

Personal Finance: A refinance occurs when a person revises the interest rate, payment schedule and terms of a previous credit agreement. Debtors will often choose to refinance a loan agreement to reduce their interest payment leading to potential savings on debt payments. Refinancing is also the key strategy to help a highly indebted person to reduce their interest payment burden so that he or she can pay back more of the loan principal and not be stuck in an interest payment trap where they are unable to pay down the principal and is saddled with the debt for life.

The Game: The refinancing in the game works similarly to real life, as frees up the interest payments allowing you to collect extra money from the debt cards instead of simply clogging up your hand.

V. Compound Interest – The 8th Wonder of the World

Personal Finance: Compound interest can be thought of as “interest on interest,” and will make a sum grow at a faster rate than simple interest, which is calculated only on the principal amount. For example, if a person saves \$5,000 a year with a compound interest of 10% will yield \$2,434,221 after 40 years. On the other hand, if a person saves \$5,000 a year without any interest, will only yield \$200,000. However, compound interest will work against a debtor as his or her loan payment will get exponentially higher if the principal is not paid down.

The Game: The strength of Debtzilla is designed around the concept of compound interest whereby Debtzilla will get exponentially stronger as the interest feeds on the previous accumulated interest. If you do not take steps to reduce the debt and continues to incur new debt, you will find Debtzilla too big to be managed as any loan repayment will simply feed the interest.

VI. Inflation – The Devourer of Cash

Personal Finance: Inflation is a sustained increase in the general price level of goods and services in an economy over a period of time. This will erode the purchasing power of a person as he or she can now purchase less per dollar. Inflation is the result of a higher demand of goods than the existing supply, because people are willing to pay a higher price to own that good. Inflation can be beneficial to the economy if it is managed properly, leading to mild or moderate rate of price increases. However, extremely high inflation or deflation whereby prices of goods are falling, are extremely detrimental to the economy and are one of the causes of economic recession.

The Game: Inflationsaurus reflects on the impact of personal consumption on the price of good and services. In the game, Inflationsaurus feeds on your personal expenses and debt fuelled consumptions and its strength can be slowed by cutting back on lifestyle expenses or paying back debts.

VII. Financial Scams – The Preying of Ignorance

Personal Finance: Scams are schemes to con a person of their money by unethical or criminal means and can come in different forms. Some of the most common financial scams include Ponzi investment schemes, fund transfer scams, fake phishing websites, internet love scam and online purchase scams. To protect yourself, you should avoid giving out personal information to suspicious sites, avoid investments with “too good to be true” returns and verify the claims of an unknown party through credible sources and trusted people.

The Game: The villains of Debtzilla are designed around common or famous investment scams around the world.

To learn more about the world of finance and investment, visit:

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