

Towards Financial Freedom

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CLARA'S LIFE

Since she graduated from Mechatronics Engineering six years ago, Clara has been developing professionally thanks to her ethics, personality, and leadership. At the company she works for, she became a pillar in the production department, thus, two years ago, she took a seat in the executive positions. That promotion represented a salary increase and her financial stability. Today, she makes 35,000 pesos* (MXN) per month, after taxes.

For as long as she has been working in the company, Clara has practically spent all her salary. Even when she had credit card debts before her promotion, as of the pay raise she started paying them off and today she believes that her debts are not serious.

*1 MXN=\$0.0582 USD (X-rates, 2023).

Since she had the salary increase, Clara has led a very relaxed lifestyle. She moved out from her parents' house to a studio, paying a monthly lease of \$7,000 (MXN), for which, according to the contract, there will be a 5% increase on the rent every year, as of January.

Image. Freepik, 2023.



A NEW CAR

When she graduated from university, her parents gave her a Volkswagen Vento®, which she has driven since; nevertheless, being a car lover, she wants to change it soon. In order to make the change, Clara started looking for options, but she faced a reality she had never considered before - she has no savings. Therefore, she talked to her friend Pedro, who will become a business professional. Clara asked him for help to buy a car. She wants to achieve this in a three-year period.

Image. Senivpetro in Freepik, 2023.



Pedro requests Clara information regarding her last month's expenses to have an idea of how she can manage her personal finances more efficiently. Clara gives him the information breaking down her expenses by day. Pedro asks her to include her assets and liabilities.



Clara's financial information.

THE HELP PLAN

Pedro explains Clara his help plan step by step.



1. “The first thing I have to do to help you is a recommendation of the car to be bought. I must get information of its price and your payment possibilities. Then, according to the car’s features, I must calculate whether you can purchase it or if you will have to make a down payment and pay it off through financing.
2. With the information of your finances of the previous month, I will help you to make a budget through which you can save enough money to purchase the car or make the down payment. Should you make the down payment, this budget should enable you to pay every month throughout the total time of the credit.
3. To achieve the savings goal, you will have to place your money in a savings instrument that will generate profits.
4. The current price of the car will have to be adjusted to inflation to purchase one with similar characteristics in a three-year period. I will take the general inflation published by Banco de México as reference.



5. To define the best investment instrument, I will have to compare in the Banxico website between Cetes or direct Cetes, bank notes, and investment funds. The comparison is done through the simulators offered by the National Commission for the Protection and Defense of Financial Services Users (Condusef).
6. I will study at least two investment instruments that will generate you the highest profit. The information I give you will include the bibliographic references and the complete information of the instruments.
7. I will identify which the best option for you would be, I will also consider the instrument that gives you a better profit and ensures the best investment.
8. I will then answer the question: which would be the best financing option for you according to your payment capacity? And after presenting you a depreciation table, and based on your best financial decision option, I’ll tell you how much interest you would end up paying”.

Images. **Freepik and Smashicons in Flaticon, 2023.**

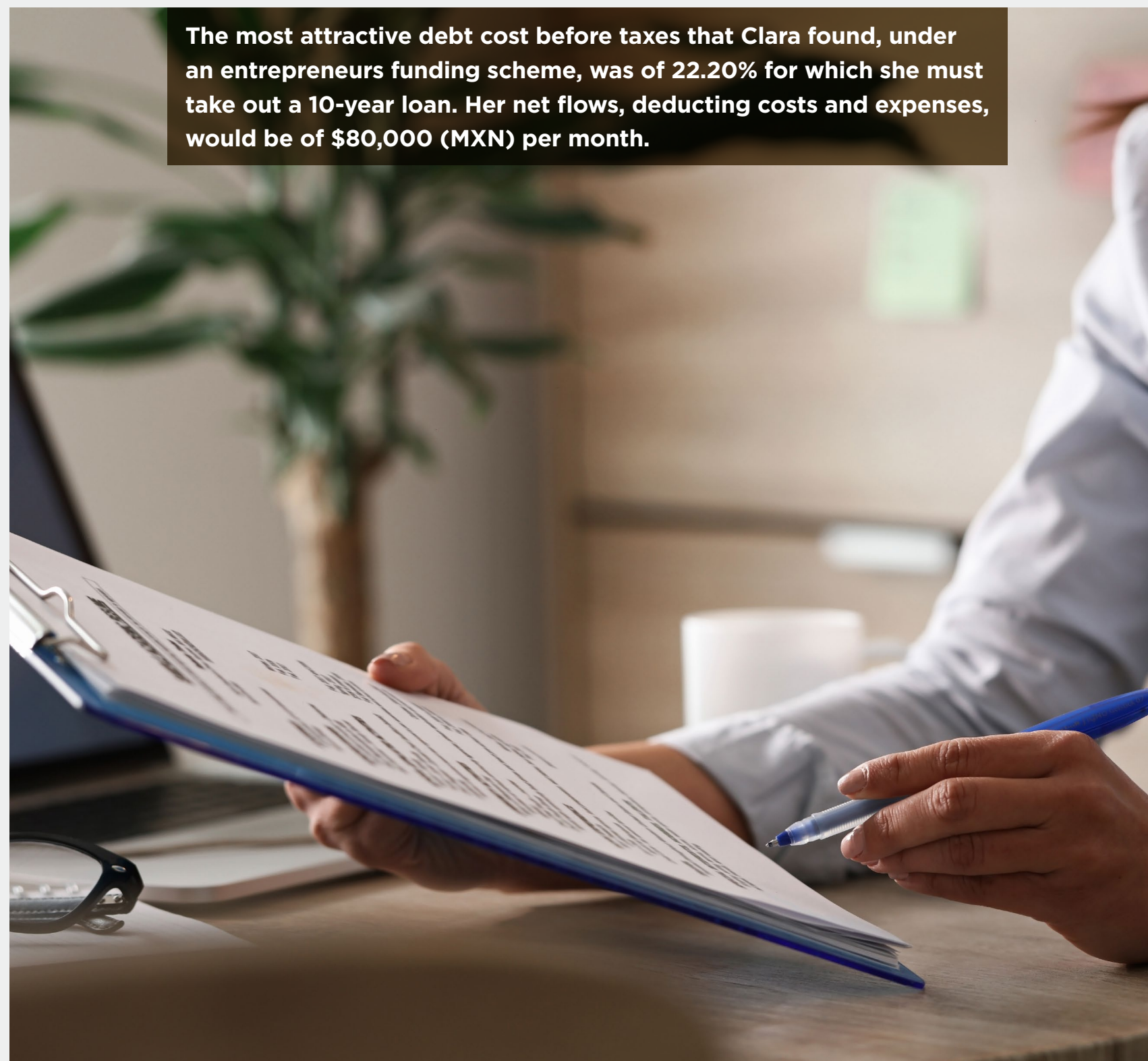
A NEW BUSINESS

It has been six years since Clara bought her car, the exercise she did before with Pedro's help, developed her saving habit and she kept on doing it. She has saved \$1,350,000 pesos (MXN) in these six years, and she wants to invest them in a business to find her financial freedom.

Clara's idea is to have a social and business event room and undertakes the task of finding information to learn how much would be necessary as initial investment to launch this business. She turns to Pedro again to help her find the best option and asks him questions such as, what does she need to get to manage a room as the one she is planning? how much would she have to disburse to obtain all of the above?

Once she establishes the initial investment to put the social events room into operation, Clara is thinking about getting funding for entrepreneurs, so she starts looking up information to decide on the most convenient.

Image: Drazen Zigic in Freepik, 2023.



Pedro explained Clara that any investment expects a profit that compensates for the risk system, which is measured under the Beta parameter, and he helped her to calculate it. He informed her that the parameter for her type of business is approximately of 2.5. Having all this information, Clara asks Pedro, which the minimum profit that the business should expect is. She also asks him to assume that the risk-free rate in Mexico will be of 11% and the market yield in the last year will be of 17%, in order to answer the question.

Finally, Clara asks Pedro, upon finishing his evaluation, to tell her whether it is convenient for her to invest in this business, and which would the impact be on the evaluation if instead of having a 70% debt and 30% capital project financing, the proportions were different, for instance, 80% debt, and the remainder on capital, or 100% debt.

REFERENCES

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