FINANCE FRIDAYS WITH THE TREASURER

A Financial Literacy Newsletter

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NC Cash | NC ABLE

Finance Fridays
is a publication of the NC Department of State Treasurer. Treasurer Brad Briner is focused on preserving, protecting and sustaining the state's pension and healthcare plans. Briner was most recently the Co-Chief Investment Officer for Willett Advisors and has held positions at Morgan Creek Capital, the UNC Management Company, ArcLight Capital and Goldman Sachs.

OPPORTUNITY COST

One of the rights of passage as a parent is going through the process with your child to determine what is the next step for them after high school. For many, that involves the college admissions process, which is both exciting and terrifying all at the same time. My wife and I have just been through this process with our oldest, and our second is just beginning to look at what's next for her. As we've considered a huge variety of different options in the last year, I've thought a lot about the process that led me to attend the University of North Carolina at Chapel Hill (UNC) 30 years ago.


Brad and his family at Kenan Stadium at UNC Chapel Hill.


Brad serving on UNC Chapel Hill Board of Trustees.

I'm a huge fan of the University, having graduated from there, worked there, and lived next to it for many years. But from time to time, I wonder how different things would have been for me if I had attended a different college. Since I'm not a novelist or a screenwriter, I don't have some fancy alternative reality to explore with you… I simply want to illustrate an important concept in the world of finance – "opportunity cost".

Simply put, opportunity cost is what you miss out on, because you choose to do something else. I chose to attend UNC, so I didn't choose to attend another college (and thank goodness for that, the alternative was Duke!). The "value" of the experience you had at your alma mater is very hard to quantify– but it's impossible to know the value of the college you didn't attend.

But that isn't true with money. If you spend $10, you know exactly how much you didn't save… $10. If you put $100 in a savings account with a 4% interest rate, after a year you will have $104. Over that same period, if the stock market went up 10%, you could have had $110 instead though. So that 6 dollars is the opportunity cost of putting your money in a savings account instead of the stock market over that period.

Opportunity cost may seem trivial and basic, but there is a reason it is one of the fundamental terms in financial literacy. It underpins many things in finance. Perhaps the most important example of that is interest rates. Interest rates are everywhere in life if you look for them – they show up in the cost of housing, your electric bill, your income tax rate, et cetera et cetera. But what are interest rates? At their core, they are the opportunity cost of spending today instead of spending later – the "time value of money" which we'll cover some other time.

It's always important to think about the opportunity cost when making any kind of financial decision – what could I have in the future if I don't spend this money today? How should I invest for retirement? Should I buy a house or rent an apartment? These are all important questions we need to answer in part with opportunity cost.

In closing, let me tell you a little bit about Warren Buffett's house. Buffett is perhaps the greatest investor the world has ever known, and he'll often talk about what a poor investment buying a house was for him. So much so, he still refers to his home, which he bought over 60 years ago, as “Buffett’s Folly”. It’s not like he lost money on the house, or didn’t enjoy living there – it’s that the $31,500 he spent on it in 1958 would be worth over $10 billion today if he had invested the money. Now that’s a serious opportunity cost!

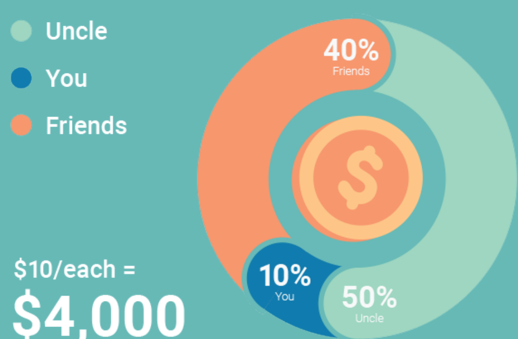
DEMYSTIFYING THE STOCK MARKET

By Rhonda Smith: Investment Director - Public Equity
NC Department of State Treasurer

Often when people explain “opportunity cost” they reference the stock market. But just what are they talking about?

Stock is ownership in a company. Stock is measured in shares. Each share is a piece of the company you "own."

Uncle and Nephew Bread Company



Example — Your uncle creates a new company to sell bread and issues a total of 1,000 shares in the company. He keeps 500 shares, gives you 100 as the head baker and sells the rest to friends. How much of the company do you own? You own 10% (100 divided by 1,000). Your uncle owns half of the company, or 50% (500 divided by 1,000). If he sells the other 400 shares for $10 each then he has raised $4,000 for the company to buy equipment, rent space, etc.

When you buy shares of stock, you gain a right to receive any future payments of company earnings made to its owners (dividends) and vote on company business. You can also benefit if you sell stock at a higher price than you paid for it - or lose, if you sell stock at a lower price than you paid for it. Stock values can go up and down for many reasons, including how fast a company is growing its profits, creating new innovative products to sell, or the potential to earn more on other investments.

Most people start investing in *stock funds* that are run by professional investment companies who pool many people's money to buy different stocks to spread risk around. Some stock funds buy and sell stocks all around the world.

On any day or week, the value of stock funds can go up or go down much more than investments in cash and bonds, but they are nearly always part of an effective long-term retirement savings or college savings strategy. Why?

- Even though stock values move up and down, stocks have earned more than other types of investments over long periods of time.
- Stock funds have provided the best inflation protection over the long term, because their value has grown faster than inflation and faster than bank deposits or bonds.
- Long-term growth and staying ahead of inflation are key to building your retirement savings.

Making decisions is a constant part of life—whether it’s choosing how to spend your money, time, or energy. For individuals who are navigating everything from early career moves to family responsibilities and retirement planning, understanding the economic principle of **opportunity cost** can provide clarity in making smarter financial and personal decisions.

Peter Gwaltney, President and

What Is Opportunity Cost?
Opportunity cost is the value of the next best alternative you give up when you make a choice. It’s not just about money; it’s about the benefits you could have gained from the option you didn’t choose. In economics,

resources like time, money, and effort are limited, so every decision involves a trade-off. By recognizing opportunity cost, you can better evaluate the true cost of your choices.

Chief Executive Officer North Carolina Bankers Association

Cost of Alternative
÷ What is Gained
Opportunity Cost

Imagine you have $1,000 to spend. You could use it to buy a new gaming console or invest it in a savings account. If you buy the console, the opportunity cost isn't just the $1,000—it's the potential growth of that money if you had invested it. For example, if investing the $1,000 could have earned you 5% annually, in 10 years, that money could grow to about $1,629. The opportunity cost of the console is the $629 you could have had in the future.

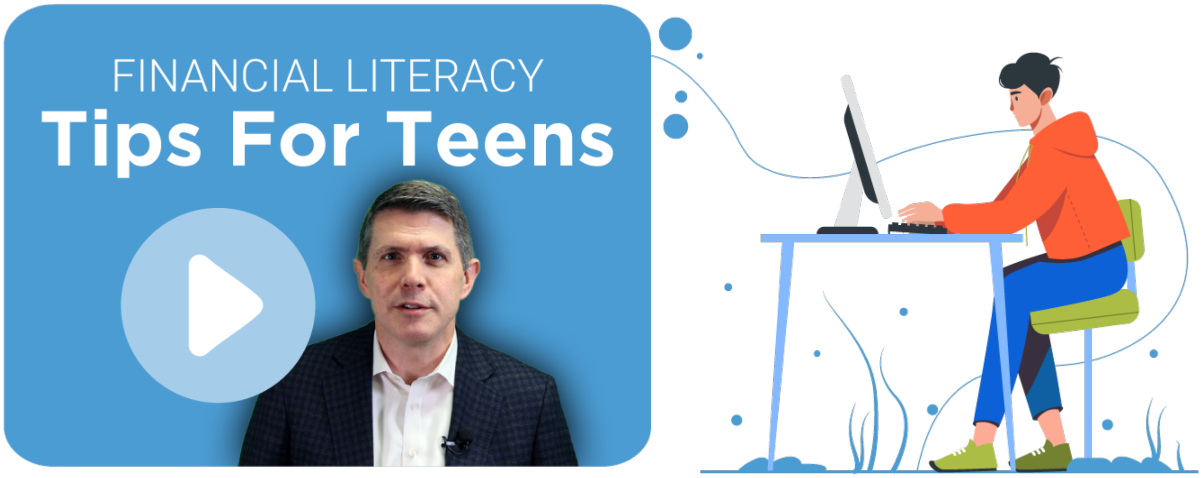
Opportunity Cost in Everyday Life and Budgeting
Opportunity cost often appears in career and lifestyle decisions. Should you take a high-paying job that requires long hours or a lower-paying job with more flexibility? The higher salary might come at the cost of time with friends or family, or even your health. Conversely, choosing flexibility might mean slower savings growth for retirement or delaying major purchases like a home. Weighing these trade-offs is key to aligning your decisions with your long-term goals.

Considering opportunity costs is helpful in budget planning because it forces us to evaluate our financial choices on a deeper level. By weighing trade-offs in the development of a personal budget, individuals or families can allocate resources more effectively, ensuring that their spending aligns with their values and maximizes overall well-being, rather than succumbing to short-term desires that may lead to financial strain or missed opportunities.

Why Opportunity Cost Matters
Understanding opportunity cost empowers you to make informed choices. It encourages you to think beyond the immediate benefits and consider the long-term implications. This is especially relevant for individuals who are facing important decisions about student loans, career paths, home purchases, or retirement savings. By evaluating what you're giving up, you can prioritize what aligns with your values—whether it's financial security, personal growth, or work-life balance.

Applying Opportunity Cost to Your Life
To use opportunity cost effectively, start by identifying your options and their potential benefits. Ask yourself: What am I giving up by choosing this? How does this choice align with my goals? For instance, if you're considering going back to school, calculate the tuition cost and time commitment, but also consider the opportunity cost of not working full-time during that period versus the potential for higher earnings later.

In a world of limited resources, opportunity cost is a reminder that every choice has a trade-off. By thinking through these trade-offs, you can make decisions that better reflect your priorities, whether you're launching a career, managing a busy household, or planning for retirement. The next time you're faced with a choice, pause and consider: What's the real cost of this decision? It might just change the way you see your options.



For many who have convinced themselves investing is just too difficult to even learn, experts say you may be overthinking it. In fact, you are probably making fundamental decisions every day that reflect one of the most common financial practices.

“Let's say you're sitting on your couch at 8:00 at night and you say: ‘What am I going to do for the next hour?’ ” economist Michael Walden posed in a recent interview. “Well, you could watch television. And you can read a book. You can go out and take a walk. But if you do one, you can't do the others. So that the idea is to always recognize that when you choose to do A, you can't do B, and therefore you can't get the benefits from B.”

In its simplest terms - this is “opportunity cost.”

Missing out isn’t always bad - it’s just something that you need to factor into your decision making. When it comes to money, sometimes it’s hard to take that big risk.

“It’s intimidating,” says Walden. “This is money I earned. I don’t want to lose it now. And there are ways not to lose it…but usually the more risk you take, the greater the possibility you’re going to get a big return.”

Walden suggests starting to invest as early in life as you can. Realistically, that may not mean when you get your first paycheck - or your 100th. It’s important to pay your bills and figure out how much money you need to get by every month.

“If they’ve got a family ... and they've got children, they're going to have a lot of expenses with the children. But even with that,” says Walden, “I would start an investment plan. Even if you do $10 a month or $100 a month, I think it's good to get in the mood, to get in the mode - if you will- of investing.”

He says it’s a good idea to talk about financial decision making in front of your kids. They don’t need to know the dollar amounts, or all the details, if you aren’t ready to share that. But making them comfortable hearing terms and how financial decisions are made could be extremely helpful later in life.

There are many resources available to help kids start to grasp these big concepts - so they won’t feel that same investing anxiety many adults do today. One resource to consider is Kids' Money - a longstanding online resource for kids’ financial education.

For adults looking for some basics - Walden himself wrote a book for folks who are looking to get started and learn terms like “opportunity cost” and what it could mean for you: The 60 Minute Investment Guide . The big takeaway is, it’s not only okay to ask for help - in most cases it is necessary. There are people for whom explaining concepts like opportunity cost and risk and reward is their job.

Charlie Munger was an investor and businessman- and worked as the Vice Chair of Berkshire Hathaway (Warren Buffet’s conglomerate). As a billionaire and philanthropist prior to his death in 2023, Munger simply summed up the importance of understanding this financial literacy foundation- saying: “Intelligent people make decisions based on opportunity costs”.

Future-Focused Decision Making

By Maritzaida Amador

Have you ever spent money on something, only to regret it when something better, or an emergency, comes up? Maybe you couldn't resist that ad on your social feed and bought something cool, and then your car got a flat tire the next day. That feeling? It's not just bad luck. That's *opportunity cost* in action.

Maritzaida Amador, Ed.D.
Candidate Agent, Family and Consumer Sciences – Financial Literacy NC Cooperative Extension – Guilford County

Opportunity cost is a simple idea with a big impact: especially in how you manage your money.

Good money management means thinking long-term—what some people call "playing the long game." It's about setting yourself up not just for today, but for the future you want. Whether you're saving for an emergency, using credit, or investing in your own growth, each choice carries its own opportunity cost. The key is learning to spot it—and use it to your advantage.

"Is this worth what I'll actually end up paying?"

Take saving, for example. It can feel invisible. You put money away and… nothing happens. No big win. No confetti. It's like that old saying: "If a tree falls in a forest and no one is around to hear it, does it make a sound?" You might wonder, "If I save and don't get to enjoy that money now, does it even matter?" The answer is yes. Saving gives you something way more valuable than short-term pleasure—it gives you peace of mind, freedom, and options. When life throws you a curveball, having savings means you're ready. Even if you don't see the reward right away, your future self will thank you.

Now let's talk about credit. Using credit can feel like magic—you get what you want now and deal with it later. But as we all know, nothing is truly free. Interest, late fees, and growing debt can turn that convenience into a long-term cost. That's where opportunity cost kicks in. When you use credit without a plan, you may be giving up future flexibility. That monthly payment might limit what you can do with your money later. Credit can be a helpful tool, especially in emergencies or when used wisely, but it's always worth asking yourself, "Is this worth what I'll actually end up paying?"

On the flip side, not all opportunity costs are about what you lose. Some are about what you stand to gain. Investing in yourself—whether through education, skill-building, or taking care of your mental and physical health—is one of the smartest choices you can make. Sure, it might cost money or time up front. But like planting a tree, the payoff grows over time. You're not just spending—you're building. When you skip investing in yourself, the opportunity cost might be higher medical bills, missed job opportunities, burnout, or staying stuck in a place you've outgrown.

At the end of the day, every financial decision shapes what your life looks like tomorrow. So, pause and ask, "What am I really trading here?" When you start to see saving, credit, and personal growth through the lens of opportunity cost, money becomes more than just something you spend. It becomes a tool for building a life with more choices, more freedom, and more control over your future.

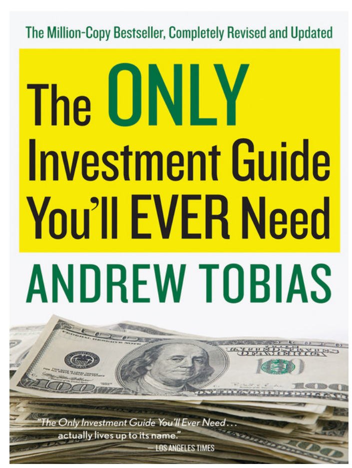
Financial Literacy in Action

Part of Brad's commitment to financial literacy is having conversations with folks across the state. This month he kicked off his efforts at Wake Tech Community College, where he had the opportunity to speak with students who are taking advantage of that campus' "Student Money Management" program. He also spoke to some of brightest students in the state at the North Carolina Council on Economic Education's Economic Challenge in Charlotte. These students have spent their time as teenagers increasing their understanding of economics and finance. Brad also got to talk with middle and high school students in Morrisville who were taking part in the "Personal Finance Challenge" this month. These kids had insightful questions about finances and his role as Treasurer. If you have an opportunity for Brad to participate in financial literacy in action- let us know!

Book of the Month: "The Only Investment Guide You'll Ever Need"

The book of the month is "The Only Investment Guide You'll Ever Need" by Andrew Tobias. Brad is recommending this reading for folks who want to take a deeper dive into in financial literacy. The book offers a straightforward approach to building wealth with concise and understandable tips and explanations.

You can borrow the book from here - or your local public library. Or you could buy it here.



For Teens:
In accounting, the term "ROI" is often used to describe the financial performance of an asset. ROI stands for "return on" WHAT?

A. Interest
B. Investment
C. Income
D. Individual

Which source of finance is typically required to be repaid with interest?

A. Grant
B. Equity
C. Retained Earnings
D. Loan

What is the highest credit score you can achieve?

A.500
B. 1000
C. 850
D. 250

For Adults/Seniors:

What is a bear market?

A. A time when investors are acting aggressively
B. A time when stock prices are rising
C. A time when stock prices are inappropriate
D. A time when stock prices are falling

If your credit card is stolen and the thief runs up a total debt of $1,000, but you notify the issuer of the card as soon as you discover it is missing, what is the maximum amount that you can be forced to pay according to federal law?

A. Nothing
B. $50.00
C. $500.00

D. $1,000.00

Which of the following would be expected to hold its value best during a time of inflation?

A. A certificate of deposit
B. A corporate bond.
C. A house.
D. Don't know.

Click here for the answers.

Sources
Water Cooler Trivia
ProProfs Quizzes
CEE Personal Finance Quiz & Financial Literacy Questions

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Contact us with questions about financial literacy or suggestions for topics to explore.