FINANCE WITH THE FRIDAYS TREASURER

A Financial Literacy Newsletter

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Finance Fridays
is a publication of the N.C. Department of State Treasurer. Treasurer Brad Briner is focused on preserving, protecting and sustaining the state's pension and health care 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.

Bottom Line With Brad

FUNGIBILITY

As a child of the 1980s, I have always been a fan of video games. The release of the Nintendo when I was about 9 years old led to months of begging my parents for the system – but it didn't arrive until a couple years later. My parents didn't have a whole lot of extra money and couldn't see the value in a gaming system in our home. As a parent today, I can certainly see where they were coming from.

While I waited for a Nintendo, I was occasionally able to go to Chuck E. Cheese for birthday parties where I could play all the games I wanted for an hour or two until my tokens ran out. Then we would watch the animatronic show, which I found (and still find) pretty creepy. If you have ever seen Five Nights at Freddy's, that movie makes my mid-80s nightmares come alive!

But, I digress. One time at a Chuck E. Cheese birthday party, just as I had spent my last token playing Skee ball, I found a $10 bill on the floor of the arcade. After looking around to see if I could find the person who lost it, I had a choice to make. I had a lot of little jobs from a young age and was always focused on saving that money, but this money was "free." Found money was somehow different in my mind than what I earned, so I headed right for the token machine and spent it all.

Which brings me to a fundamental principle in financial matters that young me didn't understand – fungibility. It's a funny word for a powerful concept. Essentially, fungibility means that money is money. Dollars earned or dollars found are actually indistinguishable from each other and are completely interchangeable. But that's not the way most people think about money. Just like me at Chuck E. Cheese, somehow found money we can be careless with, but earned money we hold tight.

People use all sorts of expressions to justify this – one I hear all the time in the investment business is "playing with house money." This is when you make money on an investment or a bet, sell or return your original investment and keep speculating with the remaining profits. As if somehow the money you made counts differently, or is valued differently than the money you put into the investment. This is a great way to lose the profits you made. In fact, the expression itself devalues the profits you made by making you think you can be frivolous with it.

"playing with house money"

But we all know that you shouldn't be. It is obviously important to find joy in life and to spend money reasonably to support living a full life, but I encourage you to embrace the principle of fungibility. Don't waste money, no matter what the source. And save yourself some nightmares and pass on the opportunity to watch Five Nights at Freddy's!

Editor's Note: This month's Finance Fridays marks one year since we launched this monthly newsletter. We want to thank everyone who has contributed time and knowledge to this effort. (You'll see we invited some of the authors who were part of our inaugural newsletter back this month – a group that went all in with us before we even put our first issue to print!) And we want to thank our subscribers as well. Our readers range from school-age teens to folks well into retirement. We hope you are enjoying this journey with us.

Demystifying Fungibility

By: Department of State Treasurer Staff

Little Johnny is an intrepid boy who barters away his newly captured frog for his friend Billy's baseball glove. Both lads walk away satisfied they received something of equal worth. But such a transaction would not meet the financial conditions of fungibility, and certainly would not meet with the approval of one set of parents. It's easy to understand why Billy's folks would be horrified to learn he got a leaping amphibian in exchange for his high-dollar piece of baseball equipment. You'll be reading a lot about what's fungible and what's not in this newsletter. But let's first demystify some of the terms you'll be learning about.

Fungibility is a cornerstone concept in financial markets. It means an item can be exchanged for a like object with the same quality and value.

A **commodity** is an interchangeable raw material that is used to produce something else. Agricultural products, oil and metals are examples. Those products are basically the same regardless of their source, and that standardizes buying and selling them on commodity trade exchanges.

Liquidity is closely linked to fungibility. It means an asset can be converted to cash quickly and maintain its market value. The more liquid it is, the easier it is for the holder to meet payment obligations or to make purchases and investments. Cash is the prime example of a liquid asset. The less liquid an asset is, the more time it might take to sell it, so if cash is needed immediately, the asset might have to be sold at a lower price than its market value. Real estate, vintage cars and artwork are good examples of illiquid assets.

Stock options are a type of compensation that allow an employee to buy a set number of shares in a company stock for a specific price at a designated future time. Once that vested date is hit, an employee has the right, but not an obligation, to purchase the shares, also known as exercising the option. If the stock has increased in value, shares can be purchased at the original, lower price, providing an instant profit to the employee.

Common shares are also known as common stock. They grant shareholders a partial ownership in a company and the right to vote for a board of directors and company policies. They can offer significant returns, but at higher risk. They have high liquidity and can be traded immediately.

By: Nicole Benford
Director of Niner Finances
UNC Charlotte

Back in 2021, during COVID, while my children were still doing hybrid school, I remember hearing about children making thousands of dollars making Digital Art NFTs. My youngest son was 9 years old at the time and a great artist, and some of the kids making all of this money were as young as 12 years old. I was stunned that this was a market, but I also did not fully understand what an NFT was at the time. NFT is an acronym for non-***fungible*** token. Before explaining NFTs further, let me start by explaining what fungible means.

According to Merriam-Webster, fungible means “being something (such as money or a commodity) of such a nature that one part or quantity may be replaced by another equal part or quantity in paying a debt or settling an account.” In simpler terms, fungible means that individual units are interchangeable; one is just as good as another. For example, if you and I both have $20 bills, we can exchange our two twenties, and nothing has changed - we both still have $20. Our $20 bills are fungible. One bill is not worth more or less than the other. On the other hand, if you ask me for change for a twenty and I give you $10 bills (and you give me a $20 bill) they are still worth the same thing but they aren’t fungible because you now have two bills, in exchange for the one bill. The value is the same, but the units are different. As a result, while we may opt to exchange a twenty for change for a twenty, the different denominations are not fungible. To be fungible the two items must be the same. Following are a couple of other examples of fungible items:

- Stock: If we both own a single share of Amazon stock, our shares are fungible. We may have bought them originally for different prices, however, at any point in time, they

are equal in value.

- Commodities: if you have a gallon of gas and I also have a gallon of gas, they are fungible as long they are of the same grade.

Alternatively, non-fungible represents items that are not interchangeable. For instance, let's say we both have the latest iPhone model. While our phones have identical technology, they are not fungible because my phone has photos, saved phone numbers and apps and yours has different photos, phone numbers, and apps. We can't just exchange phones because they are the same model.

Also, two models of the same car, even if they are the same model year, are not fungible. They may have different mileage, different maintenance records or one may have been in an accident and the other wasn't. They are not interchangeable.

So how does this apply to NFTs? Non-fungible tokens are the ultimate in not being interchangeable. Each NFT is unique. Going back to Webster, NFTs are defined as "a unique digital identifier that cannot be copied, substituted, or subdivided, that is recorded in a blockchain, and that is used to certify authenticity and ownership..." So, when someone creates digital art and distributes it as a NFT, there is a record of that exact item. NFTs can be valuable like original pieces of art, however, they can't be forged - the digital record is unique to the art and can't be forged. If you search for cases of famous art pieces being forged, there are plenty of examples of famous pieces of art being sold for millions of dollars, defrauding individual collectors and museums alike. While original art is also non-fungible, NFTs have added protection to prevent forgeries.

In conclusion, fungibility is about interchangeability. Understanding this concept will help you to understand money, markets and the ever-changing digital economy.

FUNGIBILITY

HOW A SIMPLE CONCEPT HAS ENORMOUS IMPACTS

By: Michael L. Walden
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North Carolina State University

Number 2 yellow corn is universally considered the same, regardless of where it is grown. Buyers of number 2 yellow corn will pay the same per bushel regardless of where the corn was grown. This is fungibility in its simplest form.

Fungibility is also very important in finance. Let's first go back a couple of centuries before our country had a central bank, which today is the Federal Reserve Bank. At this time there were several currencies in the country. Often individual banks issued their own currency. But the currencies were not considered equal, meaning they weren't fungible. Why? Because the currency of any bank was backed by the gold held by the bank, and some banks had ample gold supplies while others didn't. Hence, the dollar bills issued by a bank were not necessarily equal in value to the dollar bills of other banks. This inhibited people and businesses using one bank's currency from making purchases and sales with people or businesses using another bank's currency. Trade and business interactions were stifled in the country as a result.

One reason for creating the Federal Reserve in 1913 was to end this situation and create complete fungibility in the country's currency. Now that our currency – technically called "Federal Reserve Notes" – comes from the same entity, our currency is completely fungible. Businesses, households and state and local governments accept dollars regardless of where and when they were issued in the country. The only worry might be counterfeit dollars, but experts estimate only 1 out of every 80,000 dollars might be counterfeit.

Note, however, that our financial fungibility of dollars doesn't extend to foreign transactions. Foreign currencies, like the British pound or the French franc, have different values in US dollar terms, and those values can change over time.

Also realize that fungibility of dollars does not extend over time due to inflation. Inflation is a rise in the general price level. This means products and services cost more dollars in the future than now. Hence, there's no one-to-one exchange of a dollar today for a dollar in the future. More than a dollar in the future is needed for one dollar today.

There are some US financial bonds that are considered fungible, and a new entry into the financial markets, Bitcoin, is also viewed as fungible.

Financial fungibility saves time and effort in making financial transactions and hence is a major factor in improving economic productivity and financial gains for businesses, households, and governments.

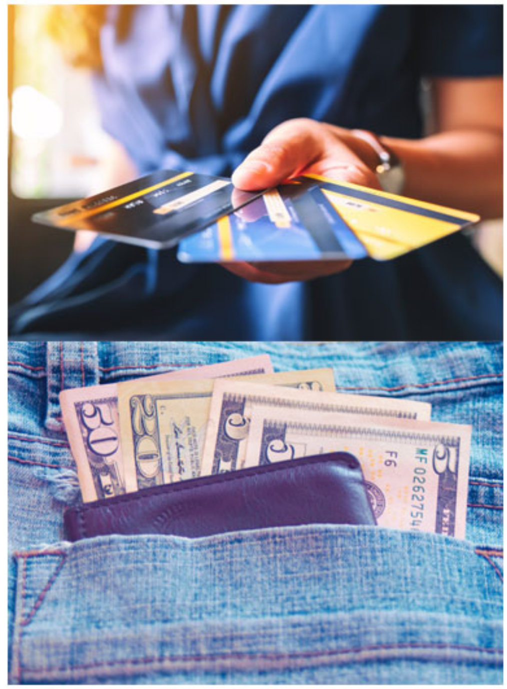
There's one other benefit of financial fungibility. Financial fungibility supports the concept of there "being no free lunch." If we spend a dollar on one thing, we can't spend it on another, and fungibility reminds us of this.

GIFT CARDS, CASH, and STORE CREDIT ARE THEY REALLY THE SAME?

By Amber Thomas
Program Director at North Carolina Council on Economic Education

Picture this – you walk into Costco and the first thing you see (other than the free samples) is a gift card carousel. You notice that they're all discounted by at least 20-25%. You decide to check out the entertainment section and narrow in on the movie ticket section and your favorite cinema sticks out. You think about it for a moment and ask yourself…is this a good deal? Why is this such a good deal? It's a Tuesday in March, not the holiday shopping season. Perhaps what you really should be asking yourself if you're wondering whether or not this is a good financial decision isn't whether or not you should make the purchase – but rather whether you would still go to the movies if you had to use your cold, hard cash. This is just one example of how we emotionally view gift cards and store credit differently than we do cash. And maybe it isn't a huge surprise that there's a fancy, finance term that describes this idea. It's the concept of fungibility.

Fungibility is the term used to describe how easily an asset can be exchanged for goods or services while keeping its value. This is also perhaps where the term “cash is king” comes from since it’s the type of currency we’re familiar with those exchanges most purely. As consumers continuously choose plastic as their preferred form of payment, it really amplifies the need for us to understand how and why we spend the way we do. Research suggests that the form of payment we choose, whether it be cash, debit cards, credit cards or gift cards, will inform *how much* we spend. The famous McDonalds study showed that the average ticket price for customers using credit cards was $7 while those that paid with cash was $4.50, nearly a 55.55% spending increase between the two forms of payment.



Now, let’s go back to the story about gift cards. In this scenario, the gift card would be less fungible than cash since it’s technically harder to spend or exchange for goods or services. Gift cards tend to lock us into a certain restaurant, store or entertainment outlet that we might not normally choose. Gift cards and store credits make us feel like we’re spending “free money” and that the gift card doesn’t truly count. Research backs up this idea, reporting that gift card recipients spend on average 61% more than the balance of the cards – meaning they spend the gift card amount plus much more! Store credit, whether it be in the form of a retailer credit card or a credit you might receive for return, operate much the same way. You’ve gotten the coupon in the mail or the $15 back in the form of a store credit for returning that Valentine’s Day shirt and feel the need to spend it before it expires. Studies also show that you are likely to spend more when you are forced to make purchases at a certain location, all while being tempted with rewards.

The bottom line is that we should consider this idea of fungibility when we look at which forms of payment we choose and what types of gifts we give. In order to be in control of our spending, we must understand why we spend money the way we do. A great way to truly know how one really prefers to spend their money is to watch what they buy when given cash. If you’re interested in learning what type of spender you are, take the survey to find out!

Overall, understanding this information helps inform our financial decisions, which ultimately leads to financial empowerment. So, let’s ask the question one more time: paper or plastic?

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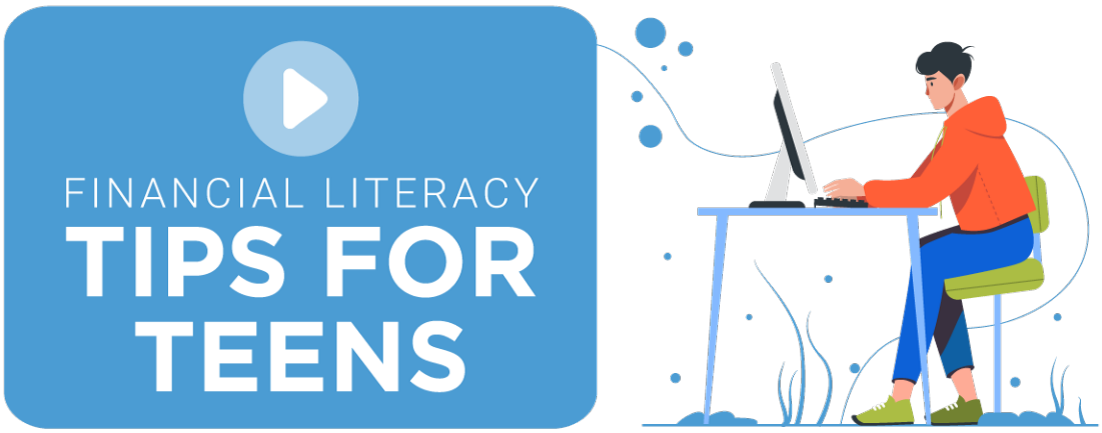
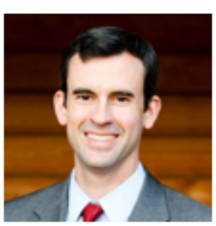


Does It Matter Which Account You Spend From in Retirement?



By: Timothy C. Atkins,
White Oak Financial Specialists, Inc.

For decades, savers are taught to "bucket" their money. We have the 401(k) bucket, the Social Security bucket and the emergency fund. While these mental silos help us stay organized during our working years, they can create a psychological trap once the paycheck stops. Many retirees hesitate to enjoy their hard-earned wealth because they are overly protective of a specific "bucket," losing sight of the fact that, at its core, retirement income is fungible.

The Great Interchangeable Stream

In retirement, your income usually resembles a mosaic. You might have a monthly Social Security check, a pension from a former employer and a portfolio of personal savings. On a functional level, these sources are interchangeable.

If you need $5,000 this month to cover a home repair and a grandson’s graduation gift, it doesn't matter to the contractor or the gift shop where the digital ones and zeros originated. Whether the money was "born" as a dividend in a brokerage account or a government transfer via Social Security, its power to purchase goods and services is identical.

When retirees embrace fungibility, they stop worrying about whether they are "dipping into principal" from one specific account. Instead, they begin to view their resources as a single, unified engine designed to fuel their lifestyle.

Why "Total Income" is the Metric That Matters

Focusing on **total retirement income** rather than individual account balances provides a much clearer — and often more comforting — picture of financial health.

Consider a year when the stock market is volatile. If you only look at your brokerage account, you might feel a sense of panic. However, if your Social Security increases due to a cost-of-living adjustment (COLA) and your pension remains steady, your *total* ability to spend may not have changed significantly.

By looking at the big picture, you can determine your sustainability across the entire enterprise. This holistic view reduces the "scarcity mindset" that often leads retirees to live overly frugal lives. When you view your income as one large pool, you realize that a dip in one bucket is often offset by the stability of another.

When Fungibility Meets Strategy: The Tax Man

While a dollar is a dollar when you spend it, the IRS certainly cares where it originated. This is where the concept of fungibility meets the reality of tax efficiency. Because different accounts have different tax treatments, $100,000 in a Roth IRA is "worth more" than $100,000 in a Traditional IRA.

To maximize the "fungible power" of your wealth, you must prioritize which accounts to tap first. A common strategy involves a specific order of operations:

- Required Minimum Distributions (RMDs): You must take these from traditional accounts first to avoid heavy penalties.

- Taxable Brokerage Accounts: Tapping these next allows your tax-advantaged accounts more time to grow.
- Tax-Deferred Accounts (Traditional IRA/401k): Withdraw enough to fill up lower tax brackets.
- Tax-Free Accounts (Roth): Generally saved for last, these act as a "tax insurance policy" for later in life or as a tax-free legacy for heirs.

The Bottom Line: Focus on Sustainability
The practical takeaway is simple: Think about overall financial sustainability, not just individual buckets.

Don't let the performance of one specific account dictate your quality of life. By understanding that your income sources are a collective force, you can move away from the stress of micro-managing "piles" of cash and toward the peace of mind that comes from a well-managed "flow" of wealth. Retirement isn't funded by a 401(k) or a pension — it's funded by the sum of your choices and the total value of the resources you've built.

Financial Literacy in Action

April is Financial Literacy Month — and you can expect to see Treasurer Briner out and about talking with groups throughout April about why knowing your dollars and cents is so important. Just this week, Brad was at East Carolina University — getting a chance to meet some impressive students and sharing his financial literacy journey.

NCFLC WINNERS ANNOUNCED

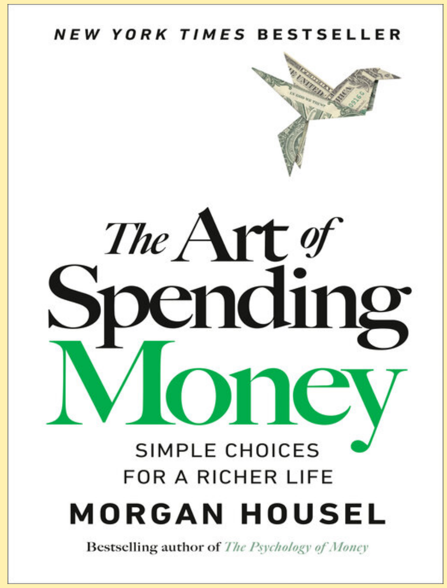
Hard work pays off! The North Carolina Financial Literacy Council announced its 2025 Plan, Save, Thrive winners.

- **Grand Prize: Trinity Brown — Northeast Middle School in Guilford County**
- **2nd Place: Ruby Johnston — Ledford Middle School in Davidson County**
- **3rd Place: Malakah Konate — Northeast Middle School in Guildford County**

For more information about the Financial Literacy Council and its Spring 2026 Plan, Save Thrive contest, visit www.flc.nc.gov.

Recommended Reading: The Art of Spending Money

This month’s recommended reading is “The Art of Spending Money” by Morgan Housel. This book dives into the premise that most people don’t know how to spend money. Some buy to impress others, and some save endlessly. Housel works to help you understand your relationship with money and how you can reshape it. You can borrow the book from someplace like here or purchase it here.



For Teens:

What does fungibility mean?

1. Something that can be expendable over time.
2. Something that can be easily replaceable or interchangeable with something else of the same value or characteristics.
3. Something that can be replaced with something else of equal or greater value.

You ask the cashier if they have change for a $5 bill, the cashier then hands you five $1 bills. Is this fungible?

1. Yes, because the value stays the same.

2. No, because it's not a singular $5 bill.
3. Yes, because it's what was asked for.

Your limited-edition sneakers are fungible.

1. True
2. False
3. Neither

For Adults:

You inherit a piece of your father's land. Why can it be considered fungible?

1. Because you can sell it and get cash for it instead, which makes it fungible.
2. Land is unique due to location, size, condition, etc... which makes it non-fungible.
3. Because you can't, it's your father's land.

What is the difference between fungibility and liquidity?

1. Fungibility measures how easily an asset can be sold for cash, while liquidity means an asset of something can be swapped for another identical asset.
2. Fungibility supports liquidity, all liquid assets are fungible, which depend on market conditions. Without fungibility, liquidity does not exist.
3. Fungibility refers to the interchangeability of asset units with equal value and quality, while liquidity measures how quickly and easily an asset can be converted to cash.

Why is fungibility especially important for retirement accounts and investments?

1. It guarantees profits and rebalancing of assets.
2. It prevents market fluctuations and maximizes investment returns.
3. It allows easy buying, selling and rebalancing of assets.

Click here for the answers.

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