

Saving and Investing

Being an educated investor will help enable you to
become financially sound

Chapters 30 and 31

Essential Questions

- How do you know when to save and when to invest?
- What are some reasons people save?
- Why is it important to start investing now instead of later in life?
- How do I know what type of investments to use?

Chapters 30 and 31 Targets

- Day 1:
 - Know the difference between saving and investing.
 - Name 3 reasons why people save.
 - Explain why early investing can yield life lessons.
 - Define risk and explain the difference between a safe and risky investment.
- Day 2:
 - Calculate the rate of return
 - Explain a liquid asset.
 - Explain how to inflation proof your investment.
 - List investments with tax advantages.
- Day 3:
 - Identify common investment choices.
 - Explain the difference between common and preferred stock.
 - Explain what a stock broker/financial advisor is.

Saving vs. Investing

- Saving
 - Putting money aside for future use
- Investing
 - Putting money to work earning income



Why Should You Save

- Major Purchases
- Emergencies
- Retirement



Starting Your Savings Program

- Set goal
 - % of your income
 - \$ every week/month
- Decide how to save
 - Savings account
 - Money market
- Start young
 - Read Early Investing Can Yield Life Lessons



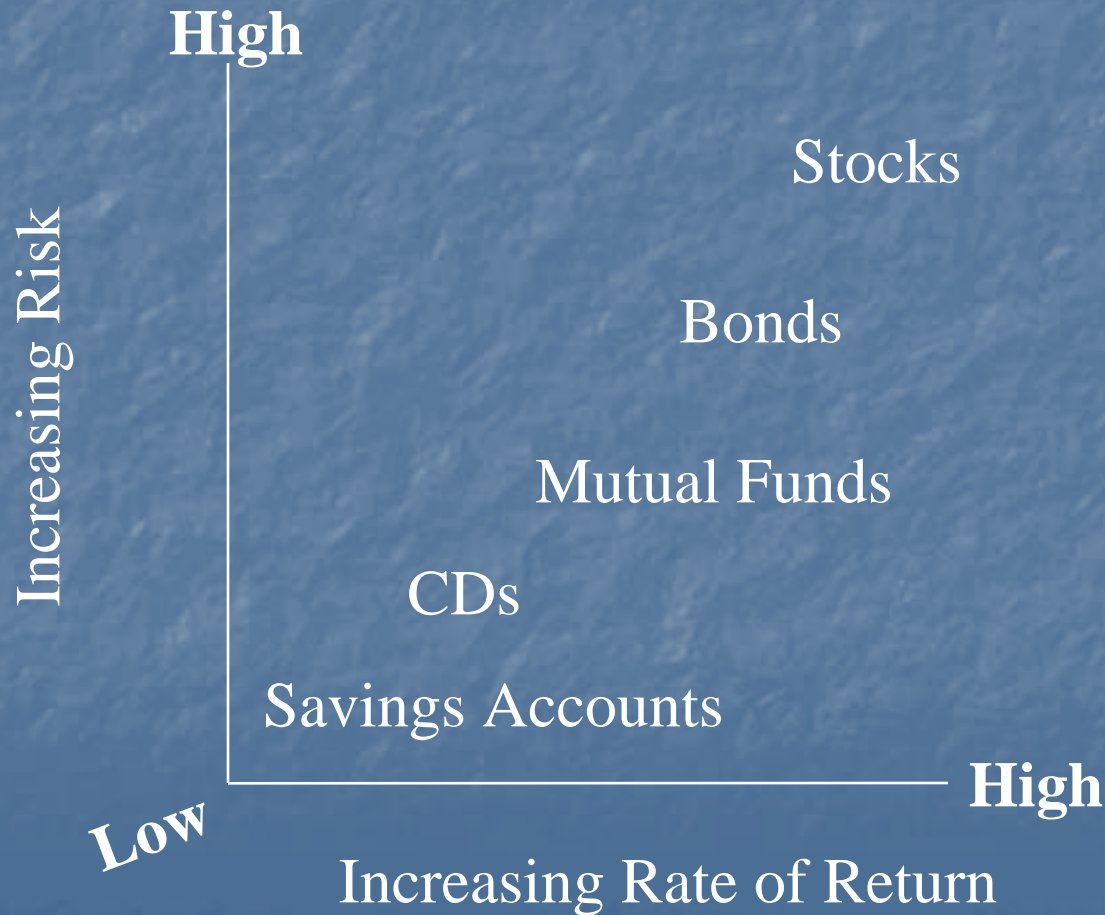
Guidelines for Investing

- What is Risk?
 - Possibility that you might lose your investment
- Safe Investments
 - Money is secure and return is steady
- Riskier Investments
 - Potential for sizable gains with possibility of losing your investment

Guidelines for Investing

- What is the Rate of Return?
 - the amount of money the investment earns beyond the original investment (yield)
 - always expressed as a %
- Fixed Rate
 - yields an unchanging return
- Variable Rate
 - rate of return changes over time

Investments Ranked by Risk and Return



Rate of Return Formula

- Figure your original investment (plus broker's fees)
 - $(\text{Stock price} * \text{number of shares}) + \text{fees}$
- Figure your ending investment (minus fees)
 - $(\text{Stock price} * \text{number of shares}) - \text{fees}$
- Figure your profit
 - Ending investment - original investment
- Profit/Original Investment (with fees)
- Rate of Return Worksheet

Guidelines for Investing

- How Available is the Money?
 - Investment must be able to respond to emergencies
- Liquidity
 - Measure of how quickly you can turn an investment into cash
- How Inflation Proof is the Money?
 - Investment must keep up with rising costs of goods and services
 - [Current Inflation Rate](#)

Guidelines for Investing

- Does the Investment Have Any Tax Advantages?
 - Tax Deduction
 - House
 - Put \$ in investments before you pay taxes
 - 401(k)
 - Retirement Funds
 - 401(k) (tax deferred investment plan)
 - Pension Plan
 - IRA's (Individual Retirement Accounts)
 - "Ready, Set...Retire" Handout

Guidelines for Investing

- Will You Be Comfortable With the Investment?
 - Investment should fit your personality
 - Ask yourself these questions...

Are you Comfortable with the Investment?

- Are you willing to take a smaller return for a smaller risk?
- Are you willing to take a greater risk for a greater return?
- Will you spend time worrying?
- Are you depending on the investment?
- Can you afford to lose your investment?
- Do you have enough information?

Are you a risk taker? This quiz will help you gauge your own risk tolerance. At the end you'll add up your points to see how you fared (1 point = a, 2 points = b, and 3 points = c).

WHAT

1. Which best describes your feelings about investing?
 - a. Better safe than sorry
 - b. Moderation in all things
 - c. Nothing ventured, nothing gained
2. Which is the most important to you as an investor?
 - a. You receive a steady income
 - b. You receive a steady income and growth
 - c. The price of your investments rises rapidly
3. You won! Which prize would you pick?
 - a. \$4,000 in cash
 - b. A 50 percent chance to win \$10,000
 - c. A 20 percent chance to win \$100,000
4. The stocks you own have dropped 20 percent since the last quarter. The market experts are optimistic. What would you do?
 - a. Sell the stocks to avoid losing more
 - b. Keep the stocks and wait for their value to rebound
 - c. Buy more stocks because they're cheaper now
5. The stocks you own have gone up 20 percent since the last quarter. You have no further information. What would you do?
 - a. Sell the stocks and take the gains
 - b. Keep the stocks and hope the price goes up higher
 - c. Buy more stocks because the price may go up higher
6. Would you borrow money to take advantage of a good investment opportunity?
 - a. Never
 - b. Maybe
 - c. Yes
7. How would you characterize yourself?
 - a. I don't like to take risks
 - b. I'm a moderate risk taker
 - c. I enjoy taking risks

Chapter 30 & 31 Target Review

- Calculate the rate of return.
 - Profit/Original Investment
- Explain a liquid asset.
 - An investment turned into cash quickly
- Explain how to inflation proof your investment.
 - Rate of return \geq inflation rate
- List investments with tax advantages.
 - Houses and retirement funds

Common Investment Choices

■ Certificates of Deposit

- Deposit that requires you to leave your money in the bank for a specified period of time

■ Maturity Date

- End date of the specified period of time for a CD

Securities - STOCKS or BONDS

■ Stocks

- Shares in the ownership of a corporation
- Shareholder
 - someone who owns stock in a corporation
- Dividends
 - returns on each share of stock the investor holds
 - distributed quarterly

Securities

100 shares of Starbucks
Starting Stock Price - \$12
Ending Stock Price - \$17
Broker's Fees – 2% per trade

■ Capital Gain

- profit from the sale of an investment
 - Bought AT&T for \$10,000
 - Sold AT&T for \$10,500
 - Capital Gain?

■ Capital Loss

- loss from the sale of an investment
 - Bought AT&T for \$10,000
 - Sold AT&T for \$9,500
 - Capital Loss?

■ "Buy low, sell high"

200 shares of Best Buy
Starting Stock Price - \$20
Ending Stock Price - \$18
Broker's Fees – 2% per trade

Securities - STOCKS

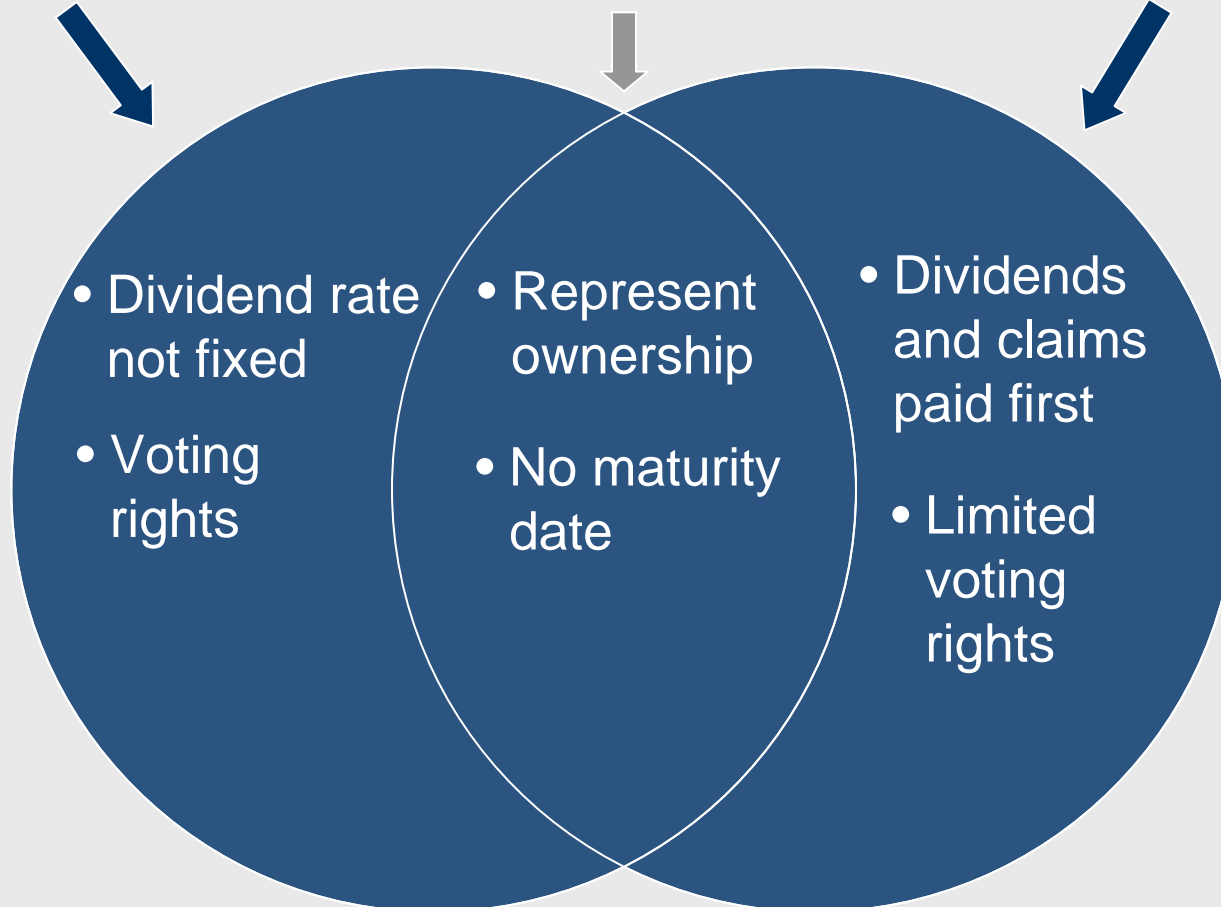
- Common Stock
 - stock that all corporations must issue
 - voting rights, but no guarantee of dividends
- Preferred Stock
 - stock that gives its holders certain privileges
 - no voting rights
 - dividends are paid to preferred holders first

Types of Stock

Common Stock

Both

Preferred Stock



Securities - STOCKS

- Stock Certificate
 - document showing proof of ownership
- Stock Broker
 - dealer who specializes in stock transactions
- Mutual Fund
 - a pool of money used by an investment company to purchase securities from many companies

Chapters 30 and 31 Targets Review

- Identify common investment choices.
 - CDs, stocks, mutual funds
 - Retirement – IRA, 401K
- Explain the difference between common and preferred stock.
 - Common – voting rights, dividend?
 - Preferred – no voting rights, dividend
- Explain what a stock broker/financial advisor is.
 - Dealer who specializes in stock transactions
- **Chapters 30 and 31 Worksheet**

Essential Questions Review

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- What are some reasons people save?
- Why is it important to start investing now instead of later in life?
- How do I know what type of investments to use?