



# **FINANCIAL MANAGEMENT I**

## **Saving and Investing**

**2012 C.A.S.H. Program**

# SAVING AND INVESTING

## HANDOUT 1

- 1. Start as early as possible.**
- 2. Set goals.**
  - Be realistic.
  - Identify what you want, when you want it, how much it will cost.
  - Include both short- and long-term goals.
  - Involve family members in the decision.
- 3. Include both short- and long-term strategies.**
  - There should be a strategy to reach each of the desired goals.
  - Remember that short-term goals can lead to the achievement of long-term goals.
- 4. Support the plan with a practical, working budget.**
  - Commit to putting aside a certain amount of money on a regular basis.
  - Consider having automatic transfers of payroll deductions.
- 5. Review the plan on a regular basis.**
  - Review and revise when necessary.
  - Be flexible.
- 6. Do your homework while working on your plan. Give some thought to your options, and be flexible.**
- 7. Put the plan in writing.**

# REASONS TO SAVE

- **Provide for unexpected emergencies.**
- **Purchase expensive items in the future.**
- **Ensure retirement.**
- **Plan for investment opportunities.**

# CONCERNS AND ISSUES WHEN SAVING

## HANDOUT 2

Draw a line between the concern and the correct description.

### Concern

### Description

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#### Safety

Having limits placed on a saving option. May involve such things as making a large initial deposit or maintaining a minimum balance.

#### Restrictions

Payments to the government based on the amount of interest income received.

#### Liquidity

Being able to withdraw savings quickly with little or no cost.

#### Earnings

Having savings insured through government backing.

#### Taxes

Receiving returns on saving options. Two examples are interest and dividends.

# PLACES TO SAVE

## HANDOUT 3

Place	Description
<b>Savings Accounts</b>	<ul style="list-style-type: none"> <li>• May be protected by the FDIC (Federal Deposit Insurance Corporation), which provides insurance from the government.</li> <li>• Low rate of return.</li> <li>• Easy access to money.</li> <li>• Simplest way to save.</li> </ul>
<b>Money Market Accounts</b>	<ul style="list-style-type: none"> <li>• May be protected by the FDIC</li> <li>• Type of savings account.</li> <li>• Usually higher interest rates than savings accounts.</li> <li>• Minimum balance requirements.</li> <li>• Easy access to money through limited number of checks.</li> </ul>
<b>Certificates of Deposit (CDs)</b>	<ul style="list-style-type: none"> <li>• May be protected by the FDIC</li> <li>• Timed deposits. (You choose the length of time to leave your money in the account.)</li> <li>• Penalty if withdrawn prior to maturity date.</li> <li>• Usually a higher rate of return than other forms of savings.</li> </ul>
<b>Savings Bonds</b>	<ul style="list-style-type: none"> <li>• Government issued, but available through banks.</li> <li>• Usually free from state and local taxes.</li> <li>• Risk free; backed by the federal government.</li> <li>• Nontransferable.</li> </ul>

# LOOKING AT PLACES TO SAVE

On a scale of 1 to 5 (with 1 being low and 5 being high), rate the following places to save your money.

Type of Savings	Safety	Access to Money	Rate of Return
Savings Account			
Money Market Account			
Certificate of Deposit			
Savings Bond			

**Based on the above ratings, where would you save your money? Why?**

# 1 + 1 = SAVING

Topics to be discussed in this section include:

- Interest
  - The Rule of 72
  - Simple
  - Compound
- Impact
  - Interest Rates
- Federal Government Insurance
  - FDIC
  - NCUA
- Truth in Savings Act (1991)

## INTEREST

Do you ever wonder how long it will take to double a sum of money?

**THE RULE OF 72:**     **Divide 72 by the expected interest rate to determine the number of years it will take for an amount of money to double.**

Example:     Assume you get 5% interest.  
72 divided by 5 = 14.4 years

# **SIMPLE INTEREST vs. COMPOUND INTEREST**

## **SIMPLE**

- Formula:  
Amount x Annual Interest x Time = Returns
- Interest is calculated **ONLY** on the amount of principal (amount deposited), not on interest earned.
- Usually calculated yearly.

## **COMPOUND**

- Formula:  
Amount + Earned Interest x Interest x Time = Returns
- Interest is calculated on **BOTH** principal (amount deposited) and any previous interest earned.
- Interest can be compounded daily, monthly, or yearly (or by some other method determined by the institution).

# IMPACT OF RETURNS ON SAVINGS

Have you ever thought about the power of saving your money in a bank? Look at this chart, which shows what happens at several different rates to **\$100 dollars** in an account when no money is withdrawn and **interest is compounded yearly**.

After how long and at what rate would that \$100 double? Triple? Does this show that it is wise to put money in savings?

**Compound Interest Table**

<b>Periods</b>	<b>1%</b>	<b>3%</b>	<b>5%</b>	<b>6%</b>	<b>8%</b>
<b>1</b>	<b>\$101.00</b>	<b>\$103.00</b>	<b>\$105.00</b>	<b>\$106.00</b>	<b>\$108.00</b>
<b>2</b>	<b>\$102.01</b>	<b>\$106.09</b>	<b>\$110.25</b>	<b>\$112.36</b>	<b>\$116.64</b>
<b>3</b>	<b>\$103.03</b>	<b>\$109.27</b>	<b>\$115.76</b>	<b>\$119.10</b>	<b>\$125.97</b>
<b>4</b>	<b>\$104.06</b>	<b>\$112.55</b>	<b>\$121.55</b>	<b>\$126.25</b>	<b>\$136.05</b>
<b>5</b>	<b>\$105.10</b>	<b>\$115.93</b>	<b>\$127.63</b>	<b>\$133.82</b>	<b>\$146.93</b>
<b>6</b>	<b>\$106.15</b>	<b>\$119.41</b>	<b>\$134.01</b>	<b>\$141.85</b>	<b>\$158.69</b>
<b>7</b>	<b>\$107.21</b>	<b>\$122.99</b>	<b>\$140.71</b>	<b>\$150.36</b>	<b>\$171.38</b>
<b>8</b>	<b>\$108.29</b>	<b>\$126.68</b>	<b>\$147.75</b>	<b>\$159.38</b>	<b>\$185.09</b>
<b>9</b>	<b>\$109.37</b>	<b>\$130.48</b>	<b>\$155.13</b>	<b>\$168.95</b>	<b>\$199.90</b>
<b>10</b>	<b>\$110.46</b>	<b>\$134.39</b>	<b>\$162.89</b>	<b>\$179.08</b>	<b>\$215.89</b>
<b>11</b>	<b>\$111.57</b>	<b>\$138.42</b>	<b>\$171.03</b>	<b>\$189.83</b>	<b>\$233.16</b>
<b>12</b>	<b>\$112.68</b>	<b>\$142.58</b>	<b>\$179.59</b>	<b>\$201.22</b>	<b>\$251.82</b>
<b>13</b>	<b>\$113.81</b>	<b>\$146.85</b>	<b>\$188.57</b>	<b>\$213.29</b>	<b>\$271.96</b>
<b>14</b>	<b>\$114.95</b>	<b>\$151.26</b>	<b>\$197.99</b>	<b>\$226.09</b>	<b>\$293.72</b>
<b>15</b>	<b>\$116.10</b>	<b>\$155.80</b>	<b>\$207.89</b>	<b>\$239.66</b>	<b>\$317.22</b>
<b>16</b>	<b>\$117.26</b>	<b>\$160.47</b>	<b>\$218.29</b>	<b>\$254.04</b>	<b>\$342.59</b>
<b>17</b>	<b>\$118.43</b>	<b>\$165.28</b>	<b>\$229.20</b>	<b>\$269.28</b>	<b>\$370.00</b>
<b>18</b>	<b>\$119.61</b>	<b>\$170.24</b>	<b>\$240.66</b>	<b>\$285.43</b>	<b>\$399.60</b>
<b>19</b>	<b>\$120.81</b>	<b>\$175.35</b>	<b>\$252.70</b>	<b>\$302.56</b>	<b>\$431.57</b>
<b>20</b>	<b>\$122.02</b>	<b>\$180.61</b>	<b>\$265.33</b>	<b>\$320.71</b>	<b>\$466.10</b>

## **FEDERAL GOVERNMENT INSURANCE**

Deposits are potentially insured up to \$100,000.

- FDIC (Federal Deposit Insurance Corp.)
- NCUA (National Credit Union Admin.)

## **TRUTH IN SAVINGS ACT (1991)**

Financial institutions must disclose the following information about their consumer savings accounts:

- Fees on accounts
- Interest rate
- General terms and conditions

Defines the year as 365 days for purposes of determining the annual percentage rate of interest.

# SAVING vs. INVESTING

## HANDOUT 4

### SAVING

- Short-term.
- Postpones spending.
- Has safety precautions

### INVESTING

- Long-term.
- Exchanges money for something with the future expectation of receiving a profit.
- Has risk factors.



# PLACES TO INVEST

## HANDOUT 5

- **Stocks**
- **Bonds**
- **Mutual Funds**
- **Retirement Plans**
- **Real Estate**
- **Collectibles/Valuables**

# CHARACTERISTICS OF INVESTMENTS

## Type

## Characteristics

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### Stocks

- Ownership in a corporation.
  - Individuals that hold shares of the corporation are shareholders.
  - Returns from the shares are called dividends.
  - Returns can be volatile, making this a more risky investment.
  - Historically, returns are higher than other investment types.
  - Should be used only for long-term goals.
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### Bonds

- Represent a loan, an IOU.
  - Money loaned to the government or a business for a limited time, with established terms of repayment.
  - Bonds can be corporate, municipal, or federal government.
  - Returns are more stable than with stocks.
  - Typically risks are less than with stocks.
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### Mutual Funds

- Professionally managed.
  - Pool the money from many investors to purchase stocks, bonds, or other types of investments.
  - Investors pay a fee for the professional service.
  - Can sell or buy easily.
  - Returns and risk depend on the types of investments in the mutual fund.
  - The investments most funds purchase are usually diverse.
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### Retirement Plans

- Allow individuals to set aside part of their income for use when they no longer work.
  - Includes a wide variety of options such as company pension program, IRAs, 401(k) plans, and others.
  - Risk depends on the type of retirement plan and the type of investments held in the plan.
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### Real Estate

- Homeownership is generally less volatile than stocks, but there is risk of loss.
  - Provides protection against inflation.
  - Not very liquid. Cannot access money quickly. Ease of selling depends on local market conditions.
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### Collectibles/Valuables

- Purchasing and selling is subject to availability and the desire of buyers and sellers.
- Includes such things as cars, antiques, sports memorabilia, and many others.

# **QUESTIONS TO ASK BEFORE MAKING AN INVESTMENT**

- 1. SAFETY – How safe is the investment?**
- 2. RETURNS – What type of returns can I expect?**
- 3. STABILITY – What kind of risk is involved?**
- 4. ACCESS TO FUNDS – Can I get my money back if I need it? How long will it take and how much will it cost to get the money back quickly?**
- 5. DIVERSIFICATION – Are my investments in a variety of places, to spread (and thereby minimize) my risks?**

# SETTING MY FINANCIAL GOALS

Take the first step toward establishing a financial plan. What are your short- and long-term financial goals? How do you plan to achieve those goals? Begin the planning process by thinking about your goals and strategies

Financial Goals		
My short-term financial goals are:		
Purpose	Financial Amount Needed	Time Frame
	\$	
	\$	
	\$	
My long-term financial goals are:		
Purpose	Financial Amount Needed	Time Frame
Financial Strategies		
I plan to achieve my short-term financial goals by doing the following:		
<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> </ul>		
I plan to achieve my long-term financial goals by doing the following:		
<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> </ul>		