SAVINGS AND INVESTMENTS

Introduction: Ask students the following question: If you had $10,000 where would you put it to save until you needed it or for retirement?

A. Bank
B. Mutual funds
C. Tin Can in your basement or under your bed

(At the end of the class period ask them again where they would invest it. Has their answer changed?) Most people would put it in a tin can because it is safe.

It used to be that people who put money into passbook accounts and government savings bonds were considered to be savers. Those who put their money into stocks and mutual funds were considered to be investors. In today's world with the competitive interest rates and all the financial products available, the terms saving and investing can almost be used interchangeably.

Personal savings are of vital importance to the economy. Money invested in the stock market, deposited into bank accounts, and mutual funds provides the _ needed by companies to build new factories, purchase material and create more jobs. By purchasing government backed bonds, you are helping the government use money for such things as roads and new schools.

It is important to save money so that:

1. We can reach our financial goals
2. Cover emergencies
3. Make major purchases
4. Provide for retirement. 87% of retirees are retiring with income of $10,000 or less.

Learn to pay yourself first. Savings should be a fixed expense so that saving becomes a habit. No two savings plans will be exactly alike, because each of us has different wants and needs. A good basic savings plan should include:

1. A specific amount set aside regularly.
2. An emergency fund equal to three to six months' income. Without a monthly check most families would last 1- 2 months

Before saving, you should be aware of why you are saving. Is it for retirement or are you trying to set up an emergency fund? Your goals will have a direct influence on the type of savings program you choose. Consider the following factors:

1. Security of the principal. The principal is the original investment. An example is that Treasury bills are backed by the U.S. government. They are considered very secure, a low risk. On the other hand, stocks are usually a larger risk because of fluctuating prices. The lower the risk, usually means a lower rate of return on your investment.

2. Return. The return is the amount you earn on your investment.
3. Liquidity. Liquidity is the ease and speed with which savings can be converted to cash.
4. Convenience. How much time and energy do you have to devote to your investments?
5. Tax status. Some investments are tax-free and defer your taxable income.

SAVINGS and INVESTMENTS ACCOUNTS

Share Accounts: an account that earns interest and also provides life insurance to you at no cost.

Personalized Savings Account: A savings account for you when you are saving for a particular reason (Christmas, car, college, etc.) and you name the account when you open it. It earns the same interest as a share account.

Certificates of Deposit (CDs): CDs yield high interest rates, and have terms available from 6 months to 5 years. You cannot withdrawal the money for the term. Interest is paid semi-annually unless otherwise stated. Rates are based on deposit amounts.

Money Market Deposit Accounts (MMDA): Earn high interest on large deposits and still have access to your funds. You may withdrawal funds at any time, and rates are based on deposit amounts.

Individual Retirement Accounts (IRA): an IRA is perfect if you want to make periodic deposits or automatic deposits. It earns a variable interest rate. It is possible to make deposits at any time. An IRA may also be tax deductible. You can only deposit $3,000 per year.

Education IRA: a non-deductible account that has tax free withdrawals for a child's higher education expenses.

Roth IRA: a nondeductible account that features tax-free withdrawals for certain distribution reasons after five-year holding period.

STOCKS

When you purchase stocks, you are actually purchasing a share of ownership in a company. There are two types of stocks:

1. Preferred stocks--Dividends are paid at a fixed rate. Preferred stock-holders receive their dividend payments before common stockholders. Dividends are earned when a company makes a profit and distributes it to the shareholders. Usually dividends are issued four times a year.

2. Common stocks--Common stocks have claim on the dividends only after the preferred stockholders have been paid. Dividends are declared by the board of directors. When you purchase a common stock, you are entitled to vote on company issues. It is possible to make money on a common stock through capital gains or an increase in the market value of a share of stock. In times of economic uncertainty common stocks may decline in both value and income.

One way to invest in the stock market is to open an account with a broker, a salesperson who specializes in buying and selling stocks and bonds. Investors pay a fee or commission to the broker for services in buying and selling securities like stocks. Many investors trade a hundred shares, which is called "a round lot". A trade of less than 100 is called "an odd lot". Investors usually pay a higher stockbroker fee if dealing with odd lots.

Stocks are traded in national and regional stock exchanges. The biggest of these is the New York Stock Exchange (NYSE). Over 84% of listed securities are bought or sold here. The American Stock Exchange (AMEX) is the other national exchange. The over-the-counter (OTC) market means the stocks are not listed on any exchange.

To follow the stock market trends, many investors watch the "Dow" (the Dow Jones Industrial Average). It is derived from thirty industrial stocks listed on the NYSE and measures the markets overall performance. To check how well stocks are doing, check the stock transactions in the business section of most large daily newspapers. The day's final price for each stock is quoted along with the highest and lowest price paid for the stock that day. Prices are quoted in dollars, such as 153/4 ($15.75). The annual dividend, number of shares traded and the highest and lowest price paid for the stock in the last year will be shown.

BONDS

A bond is a printed promise to pay a definite amount of money, with interest, at a specific time. When you buy a bond, you lend money to either a corporation or the government. A bond is a long-term loan. Corporate bonds are issued to raise funds for growth and expansion. Municipal bonds make up the largest portion of the bond market. They are issued by local governments and exempt from federal income taxes.

MUTUAL FUNDS

Mutual funds are investment companies which pool their money from thousands of shareholders and invest it. Mutual funds have several advantages: 1) they are diversified, your assets are spread in several companies, 2) you have a professional manager, 3) low minimum investment required, 4) can easily cash in shares by writing a letter, or sometimes even a phone call.

COMMODITIES

Commodity exchanges provide a place where buyers and sellers of food, clothing, energy, shelter and the other materials can trade. They agree to buy or sell a commodity at an agreed upon price on a specific future date. Commodities are

very speculative and not a good investment for the novice.

GOLD, SILVER, COLLECTIBLES
Gold and silver usually perform well when stock, bonds, and other investments are doing poorly. Gold and silver pay no interest or dividends. You profit only if the price of the gold or silver goes up after you purchase it. Collectibles such as stamps, antiques, and artwork are very risky. You must be very knowledgeable about the merchandise you are buying. Collectibles pay no interest and you only reap a profit if you can sell the item for more than the purchase price.

Almost all investments require some kind of risk, but you can learn more about investment opportunities from the following sources:

1. Your financial institution can provide with information on what type of accounts they have available to you.
2. Internet, Newspapers, business magazines and books provide information for the beginning investor. Major newspapers quote stock market prices, mutual funds and precious metals.
3. Investment clubs. These clubs help you learn more about the stock market. They usually meet monthly and have an experienced investor or broker that helps with stock information.
4. Courses on investments are available at colleges.
5. TV and radio programs provide investment advice.
6. Brokers, bankers, and insurance agents have financial planning information for a fee.
7. Financial planners.

Rule of 72:

When choosing a place to conduct your financial affairs, check the services offered, fees, minimum deposit requirements, interest paid on accounts. To find out how fast your money will accumulate at different interest rates, follow the rule of 72. When you divide the number 72 by the interest rate, the answer tells you how long it will take for your savings to double. For example, at 6% your money will double in 12 years.

Types of Retirement Plan:

We are taught to spend. Most people spend more time working out a savings plan and how they are going to pay for a 1 week vacation than on their retirement. There are several ways you can plan for retirement.

1. Taxed:
   Easiest to invest in but has the slowest growing interest. You are taxed on the amount before you invest it and taxed on the interest when you take it out. These would be your CD accounts, Mutual Funds, and Stock.

2. Tax deferred:
   Investments that are tax deductible as you invest it but are taxed when you retire and withdrawal the money. Some you have to begin to withdrawal at a certain age or you get penalized.
   These are your 401k, 403B, pension, and Traditional IRA (begin withdrawal at age 70 ½).

3. Tax free:
   Your Roth IRA and variable life insurance are tax free (including interest) when you withdrawal. The amount you are investing is pre-taxed.

   You usually want to have several retirement plans. Do not depend on one investment for your retirement. Plan for inflation, don't plan on social security, be familiar with your investment types and do not wait to plan. The sooner you start to plan and save for your retirement the better off you are going to be