6.3
Saving and Investing

Saving

- **Saving** is income not spent.
- Saving also includes reducing spending, such as recurring costs.
- Savings can include a relatively low-risk investment.

Investing

- **Investment spending**, or **capital investment**, refers to investing in companies that produce goods.
- Many people invest in companies by buying shares of stock in the stock market.

Inflation

- **Inflation** is an increase in the general level of prices of goods.
- When prices rise, the dollar buys fewer goods and services.
- Consequently, inflation also reflects the declining purchasing power of money.
- As prices rise, salaries rises, but value remains relatively the same.

Time value of money

- The **time value of money** is the value of money factoring in the amount of interest earned over a given amount of time.
- For example, $100 of today's money invested for one year and earning 5% interest will be worth $105 after one year.

Interest Earned

- Interest is money earned on your money.
- The higher % of interest, the more money earned.
- If you had enough money, could you live on interest earned alone?
- **Interest = Principal x Interest Rate x Time**
- So, $4 = $100 x .04 x 1 year

Compound Interest

- Compound Interest is interest earned added over time.
- \$100 at 4% will = \$104 in 1 year.
- The 2nd year will be 4% on \$104 = \$108.16
- The interest continues to increase because the amount earned increases.
- After 2 years at 4%, your \$100 will be worth \$112.16.

Risk/reward trade-off

A trade –off is the alternative you face if you decide to do one thing rather than another.

You have many options when it comes to investing your money. What you choose depends on your desired rate of return and how much risk you are willing to accept. You also need to consider the length of your investment, the ease of making a transaction (some transactions are costly), and tax burdens the investment may carry.

In general, the safer the investment, the lower the return.
High-risk investments can produce higher returns because investors demand higher rates of return to compensate for the risk they face. This principle is called the risk/reward trade-off.

Income investment

In general, there are two types of investments—income investments (also referred to as savings) and growth investments.

Income investments are those in which you will be paid in cash for owning an account or investment.

While income investments are a form of investment, they are actually considered "savings" because you can usually access your money whenever you need to, though usually some fee is charged for access.

Growth Investment

Growth investments are those that you buy and hold in hopes that it will grow over time.

If you are looking to set money aside for a few months or even a few years, income investments tend to be the better fit because they are less risky than growth investments.

Over long periods of time, such as several years or decades, growth investments earn higher returns than income investments.

Liquid

- Liquid refers to the amount of money someone can get to quickly, like cash.
- Most people have their money up in stocks, bonds, retirement plans, CDs, and other investments.
- Liquid refers to currency that “flows” because it is available NOW!

Retirement

- When you get older and want to stop working, you need a plan to retire.
- Retirement can come from money saved, investments, Social Security, and other forms of putting money away.

Dividend

A payment (called a dividend) that companies pay shareholders at regular intervals, or periods, based on the number of shares people hold.

This payment, is called a dividend, it can substantially increase your profit from owning stock.

Capital Gain

- If you make profit on stocks or any other investments, you must pay a capital gains tax.

- A capital gains tax is a percentage of money earned from investments.

Social Security Act of 1935

- Created Social Security in the US
- Social Security is a government retirement plan.
- You pay in while you're young to receive benefits when you are older.

Baby Boomers

- **Baby Boomers** are the people who belong to the larger than expected generation in the US born shortly after WWII.
- This generation created a population boom that is just now beginning to retire.
- What happens when more people are receiving Social Security than are paying into it?


Baby Boomers
Social Security
ED FISCHER
search ID: efin630
© Original Artist
Reproduction rights obtainable from
www.CartoonStock.com

Mutual Funds

- **Mutual funds** are a relatively low-risk investment.
- A mutual fund collects money from many investors.
- It then buys stock in many different types of companies.
- The diversity of investment lowers the risk to investors.
- Nobody knows with certainty what companies will do well and which will not.

Mutual funds are long-term, low-risk investments.

"Look, it's like I told you yesterday, if you want to invest in mutual funds you've got to start thinking long-term."

Pension Funds

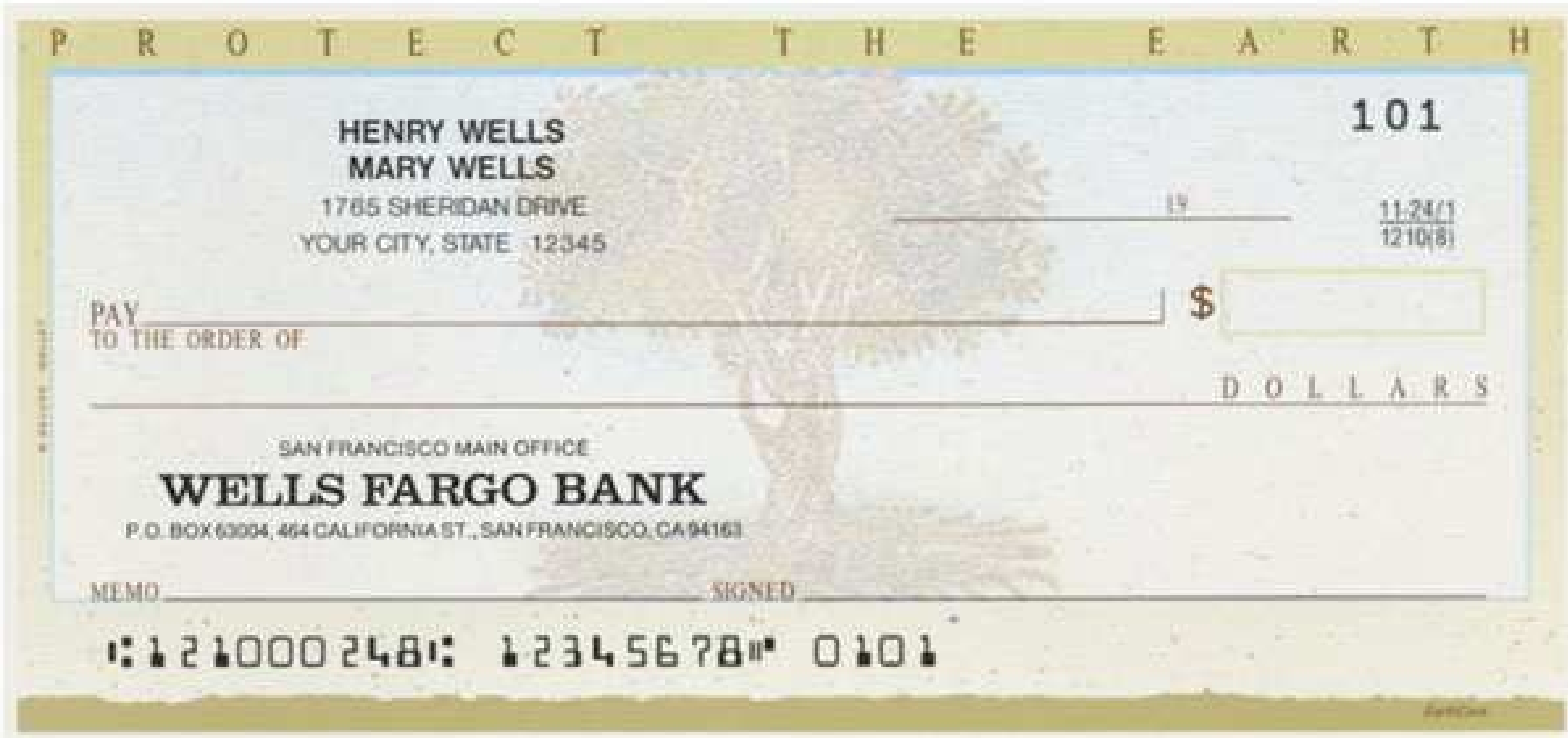
- **Pension funds** often in vest in mutual funds.
- Pension funds have money set aside by employers for retirement.
- Union contracts often require employers to pay money into a pension fund.

Sometimes pension plans do not completely cover retirement.

" It looks like your private pension isn't going to yeild as much as we originally anticipated..I'm afraid you'll have to go on collecting nuts for years ."

Demand Deposits

- Banks accept demand and time deposits.
- **Demand deposits**, or checking accounts, earn little interest, but their funds are available immediately upon demand of the depositor.
- People withdraw the money with **checks** or **debit cards**.



Wells Fargo Archives