Unit 5: Saving and Investing

Personal Financial Literacy

Objectives

- Discuss the importance of an emergency fund.
- Discuss the concept of paying yourself first.
- Compare types of savings accounts.
- Evaluate the costs and benefits of investing in stocks, bonds, and mutual funds.
- Discuss the importance of balancing risk and return.

Objectives - Continued

- Explain ways to comparison shop for investments.
- Identify opportunity costs in saving and investment choices.
- Compare types of savings accounts.

Pay Yourself First

Saving

- Future spending
- Earn extra money through interest



- Stocks, bonds, mutual funds, real estate, annuities, businesses
- Potential for earning more money than savings accounts

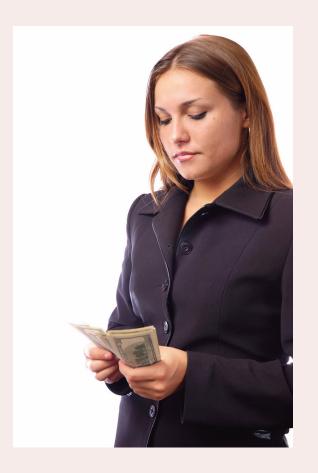


Emergency Fund

- Should contain at least three months of living expenses
- Needs to be highly liquid
- Deposit a pre-set amount before paying bills maybe a percentage of earnings

Make Saving Easy

- Automatic transfers
- Direct deposit
- Payroll deduction



Choosing a Savings Account

- Minimum amount to open account?
- Minimum balance?
- High liquidity?
- Stay put for a set period of time?

Types of Accounts

- Regular Savings Account or Passbook Account
- Money Market Account
- Certificates of Deposit (CD)

Stocks

Shareholders or stockholders own part of the company.

If the company does well, stockholders make

money.

Dividends

Capital gains



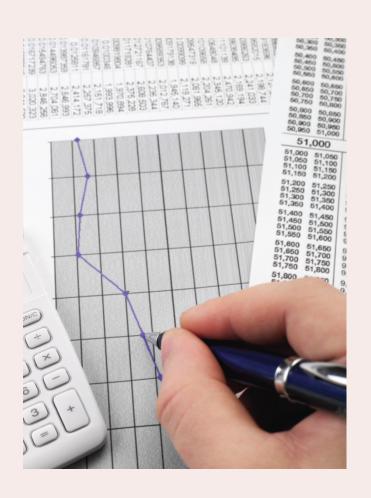
Buying Stocks

- New York Stock Exchange (NYSE) oldest; lists stocks for large, established companies
- American Stock Exchange (AMEX) lists stocks for medium and small companies
- National Association of Securities Dealers Automated Quotations (NASDAQ) – first electronic stock exchange

Types of Stocks

- Common stock
 - Allows investors a vote in company decisions
 - Can purchase more stock as it's available, to maintain same proportion of ownership
- Preferred stock
 - Usually don't vote in company decisions
 - More likely to receive dividend income
 - May earn less than common stockholders

Other Stocks



- Blue chip stocks low risk stocks, record of reliable earnings
- Penny stocks high risk stocks, under a dollar per share



Growth Stocks vs. Value Stocks

Growth stocks

 More expensive, investors make money from capital appreciation; some also offer dividends

Value stocks

- Less expensive
- Decent earnings through dividends and sale
- Not considered high growth
- Lower price-to-earnings ratio

Bonds

- Issued by government or corporations to raise money for operations
- Lower risk than stocks
- Interest rates usually fixed
- Value affected by inflation and market conditions

Types of Bonds

- Federal
- Municipal
- Corporate

Mutual Funds

- Investment portfolio of stocks, bonds, and other securities
- Managed by a professional fund manager
- Money market fund
- Growth funds
- Balanced fund



Prospectus

- Contains information about:
 - Fund's objectives
 - Charges
 - Risks
 - The investment company

Investment Fraud

- Watch for mail that promises big rewards or no risk.
- If you are getting pressure to invest, that may be a warning sign.
- Be wary of calling "900" area codes or dealing with penny stocks.

Liquidity



- More liquid than real estate, less than savings account or mutual fund
- Must wait 3 business days for money to be released after selling a stock

Diversification

- Diversifying investments in variety of stocks, bonds, and securities and a variety of industries, spreads the risk.
- One stock may lose value while another may increase in value.
- Helps investors weather market fluctuations.
- Mutual funds have built-in diversification.

Comparison Shop

- TV, radio, newspaper
- Stock indexes



Bond Ratings

- Tell investors company's financial condition
- Predict likelihood investors will receive their investment at time of maturity.
- Standard and Poor, Moody's
 - Standard and Poor: AAA is top rating
 - Moody's uses Aaa

Savings Bonds

- Non-transferrable debt certificates issued by U.S. Treasury
- Held until maturity with fixed interest rate paid every six months.
- Minimum amount \$100
- Exempt from state and local tax
- Taxed by federal government

Unit Review

- 1. Describe why having an emergency fund is important.
- 2. How much should an emergency fund contain?
- Explain what "pay yourself first" means and why it's important.
- 4. Discuss ways to make saving a habit.
- Describe the difference between "saving" and "investing."
- 6. Name advantages of saving and investing early.

Unit Review - Continued

- 7. Distinguish stocks from bonds.
- 8. Compare and contrast the different types of savings accounts.
- 9. What is the difference between an income investment and a growth investment?
- 10. What is price-to-earnings ratio?
- 11. Name examples of government securities.
- 12. Explain the difference between municipal and corporate bonds.

Unit Review - Continued

- 13. Discuss the advantages of mutual funds as an investment.
- 14. Explain the purpose of a prospectus and why it is important to read it.
- 15. Discuss the advantages and disadvantages of highly liquid investments.
- 16. Describe important factors in considering investments.
- 17. Sum up the relationship between risk and returns.

Unit Review - Continued

- 18. Give examples of low risk, low return investments. Moderate risk and return investments? High risk and high return investments?
- 19. Discuss why diversification is important in investing.
- 20. Describe what causes market fluctuations.
- 21. What are some of the sources of investment information that can be helpful when comparison shopping?

Unit Review – Continued

- 22. Distinguish between the various stock indexes.
- 23. What does a bond rating tell an investor?
- 24. Describe opportunity cost.

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