



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
  - Save for future
  - Earn extra money through interest
- Investing
  - 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 - easily turn into cash
- 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 - A savings account that may come with higher interest rates than other savings accounts plus limit of six checks or a debit card transactions a month. Often require higher minimum deposits and balances.
- Certificates of Deposit (CD) - a savings certificate with a fixed maturity date, specified fixed interest rate and can be issued in any denomination aside from minimum investment requirements. A CD restricts access to the funds until the maturity date of the investment. Withdrawing money before maturity date results in a withdrawal penalty.



# THE PROS AND CONS OF

## DIFFERENT SHORT TERM SAVINGS OPTIONS



### SAVINGS ACCOUNT



#### PROS

- Unlimited withdrawals.
- Low minimum balance requirements.
- Low or no fees.
- Access to ATMs.
- Compatible with electronic transfers.



#### CONS

- Very low interest rates.
- Limited number of withdrawals per month.



### MONEY MARKET ACCOUNT



#### PROS

- Relatively high rates of interest compared to savings and checking accounts.
- Ability to write checks, make ATM withdrawals, and perform electronic transfers.



#### CONS

- High minimum deposit required to avoid monthly fees.
- Limited number of withdrawals per month.



### CERTIFICATE OF DEPOSIT (CD)



#### PROS

- Higher interest rates than savings accounts.
- The interest rate doesn't change during the term of the account.
- No fees when you hold your account to maturity.



#### CONS

- Penalties for early withdrawal make your money less liquid.
- No access to your deposit through checks, ATM transactions, or electronic transfers.

	<b>Money market accounts</b>	<b>CDs</b>	<b>Savings accounts</b>
<b>Earnings</b>	Variable return	Guaranteed return, comparatively higher interest rates	Variable return
<b>Minimum deposit (varies by financial institution)</b>	\$1 - \$5,000	\$1 - \$2,500	\$0 - \$100
<b>Access to cash</b>	<ul style="list-style-type: none"> <li>• Maximum 6 monthly convenience withdrawals, including checks, debit card swipes, electronic transfers</li> <li>• May offer debit card, check-writing</li> </ul>	<ul style="list-style-type: none"> <li>• Withdrawals during CD's term typically result in a penalty</li> <li>• Term lengths usually range from 3 months to 5 years</li> </ul>	<ul style="list-style-type: none"> <li>• Maximum 6 monthly convenience withdrawals</li> <li>• No debit card or check-writing</li> </ul>

# 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 is available, to maintain same proportion of ownership
- Preferred stock
  - Usually do not 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?
3. Explain what “pay yourself first” means and why it’s important.
4. Discuss ways to make saving a habit.
5. 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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