Slide 1: Financial Literacy: Investing for Beginners

Slide 2: Objectives

- Identify the difference between saving and investing.
- Define key terms related to investing.
- Identify the key investing concept – time value of money.
- Identify rules of thumb that can guide early investing behaviors.

Slide 3: Managing Personal Finances

- The way we manage money as an adult is influenced by the following:
  - What we know about money
  - Behaviors we saw during our developing years
  - Our interest in managing money
  - Our access to money

Slide 4: Reasons to Invest

- Helps achieve financial goals faster
- Creates a paycheck for you in terms of interest and dividends
- Helps improve your financial security and peace of mind

Slide 5: Saving Defined

- Focus is on short-term goals
  - Less than 5 years
  - Examples: washing machine, holiday presents, vacation, or to build an emergency fund
- Low-risk, very safe instruments
  - Savings account
  - Certificate of deposit (CD)
  - Money market deposit account

Slide 6: Investing Defined

- Focus is on long-term goals
  - 5 years or more
  - Examples: down payment on a home, college education, retirement
- Account values are expected to increase over time
- Some risk involved
  - Stocks
  - Bonds
  - Mutual funds

Slide 7: Saving vs. Investing

Saving is focused on short-term goals of less than 5 years, while investing is focused on long-term goals to be accomplished in 5 or more years. Instruments used for saving are low risk and have very low returns. You are not at risk of losing the value of the money when you save it. When you invest, the money in an investment account can grow faster than money in a savings instrument. However, investing involves risk. The value of the original amount you deposited can increase or decrease.

Slide 8: Investing Building Block: Stocks

- Stock – a share or piece of ownership in the assets and earnings of any company or business publicly traded on a stock exchange
- Sometimes, stocks are called equities

Slide 9: Investing Building Block: Bonds

- Bond – a loan investors make to large businesses and governments
- Bonds are I.O.U.s
- Bonds may also be called bills, notes, debt securities, or debt obligations

Slide 10: Investing Building Block: Mutual Funds

- Mutual Fund – a combination of many investors' money into one bucket or pool to buy stocks, bonds, and cash equivalents
    - Managed by a professional money manager
- Mutual fund objectives vary by the type of mutual fund

Slide 11: Example of Mutual Fund Objectives

- To obtain current income while preserving the principal and liquidity
- To provide a high level of current interest income exempt from regular federal; state; and, in some instances, local income taxes
- To seek growth of capital over the long term

Slide 12: Key Term: Portfolio

- Portfolio – your collection of investments
- You have to decide how much risk you want to live with for each investment

Slide 13: Key Term: Compounding

- Interest earned on the initial deposit (principal) plus the interest earned on that deposit each compounding period

In the first year, the $100 on deposit earns $3. The next year, the $103 earns interest instead of just $100. Over time, the $100 can grow to a sizeable sum of money. Just imagine if this amount were $1000. The interest earned in the first year would be $30.

Slide 14: Key Concept: Time Value of Money

- Time Value of Money (TVM) involves the relationship among the following:
  - The amount of money invested
  - The length of time money is invested
  - The rate of interest the money is earning

Slide 15: Time Value of Money Rules of Thumb

- The more money you have to invest, the more money you will likely earn on your principal
- The higher the rate of interest you earn, the more money you will have in your account
- The sooner you invest money, the more time the money has to grow or increase in value

Slide 16: Time Value of Money Graph 1

Graph 1 represents a $100 monthly deposit starting at age 30 into an investment account that earns 3% annually. The investor continues the monthly $100 deposit until age 65. The value of the deposits at age 65 is $74,731.13. The green box represents the principal invested, $42,000 (56%), while the gray box represents the interest ($32,731.13) earned on the principal (44%).

Slide 17: Time Value of Money Graph 2

Graph 2 represents a $100 monthly deposit starting at age 30 into an investment account that earns 8% annually. The investor continues the monthly $100 deposit until age 65. The value of the deposits at age 65 is $223,322.58. The green box represents the principal invested, $42,000 (19%), while the gray box represents the interest earned, $181,322.58 on the principal (81%).

Slide 18: Time Value of Money Takeaways

In the early years of an investing program, the value of the account seems to grow slowly, almost at a snail's pace. However, after about 8-10 years, the benefit of consistent contributions shows more visibly in the account's value. But, there is more risk with the higher return. There is a chance you can have a lower rate of return or even lose money.

Slide 19: Investing Rule of Thumb

- The earlier you start investing consistently, the less principal you have to put away to reach a financial goal

Slide 20: Key Term: Diversification

- Diversification – the mixture of the different types of investments in your portfolio
- A common phrase used to describe diversification is "Don't put all your eggs in one basket."

Slide 21: Key Term: Dollar Cost Averaging

- Also known as DCA
- Invest the same amount at regular intervals

For example, the investor is putting away $100 each period. Let's assume the period is monthly. The price of a single share of stock or mutual fund varies each month and ranges from $5 in month three to a high of $10 per share in months 1 and 5. However, when you divide the total amount invested, $500, by the number of shares acquired, 66.6, you will see that the average cost per share was $7.50. If you did not DCA and decided to buy your $500 in month one only, you would own fewer shares of the investment, 50 shares vs. 66.6 shares.

Slide 22: Review of Objectives

- Identify the difference between saving and investing.
- Define key terms related to investing.
- Identify the key investing concept – time value of money.
- Identify rules of thumb that can guide early investing behaviors.

Slide 23: Now What?

- Post rules of thumb in a place you can see them daily
- Enroll in your workplace retirement plan
- Start a savings program so you have money to invest
- Investigate and open a mutual fund account
- Analyze your spending to determine if you have leaks to plug and more money that can be redirected to investing
- Continue to learn more about investing
- Interview at least 3 investment advisors

Slide 24: Financial Literacy: Investing for Beginners