YELLOW RIBBON REINTEGRATION PROGRAM®

DEPARTMENT OF DEFENSE · UNITED STATES OF AMERICA

Financial Literacy: Investing for Beginners

Facilitator Guide

FOR THOSE WHO SERVE AND THOSE WHO SUPPORT

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Financial Literacy: Investing for Beginners

Facilitator Note:

The following two symbols are used as indicators:
💻 *(computer) indicates it is time to advance the slide on the associated PowerPoint;*
✋ *(hand) indicates there is an exercise associated with the content.*

Essential class content is noted in ***bold****.*

All class handouts are available for download on the YRRP website at www.yellowribbon.mil/cms/event-handout. Unless otherwise specified as online only in the Materials section below, all handouts should be printed for distribution to class participants.

Class Description:
This class covers the importance of and concepts related to investing.

Stage:
Pre-deployment, During deployment, Post-deployment

DoDI:
1342.28 DoD Yellow Ribbon Reintegration Program (YRRP)

The content of this class has been developed for the Department of Defense Yellow Ribbon Reintegration Program. The Clearinghouse for Military Family Readiness at Penn State has reviewed the class and is responsible for content management.

Audience:
YRRP attendees

Time:
45 minutes

Equipment:
- Projector
- Laptop
- Pens
- Paper

Materials:

- Facilitator Guide
- Core Material Checklist
- PowerPoint Presentation
  1. Financial Literacy: Investing for Beginners
  2. Objectives
  3. Managing Personal Finances
  4. Reasons to Invest
  5. Saving Defined
  6. Investing Defined
  7. Saving vs. Investing
  8. Investing Building Block: Stocks
  9. Investing Building Block: Bonds
  10. Investing Building Block: Mutual Funds
  11. Example of Mutual Fund Objectives
  12. Key Term: Portfolio
  13. Key Term: Compounding
  14. Key Concept: Time Value of Money
  15. Time Value of Money Rules of Thumb
  16. Time Value of Money Graph 1
  17. Time Value of Money Graph 2
  18. Time Value of Money Takeaways
  19. Investing Rule of Thumb
  20. Key Term: Diversification
  21. Key Term: Dollar Cost Averaging
  22. Review of Objectives
  23. Now What?
  24. Financial Literacy: Investing for Beginners
- Handouts
  1. Advantage of Starting Early

Exercises:

1. The Impact of Time on the Value of Money

Objectives:

After completing this class, participants will be able to do the following:

1. Identify the difference between saving and investing.
2. Define key terms related to investing.

3. Identify the key investing concept - time value of money.
4. Identify rules of thumb that can guide early investing behaviors.

Introduction

SHOW Slide 1: Financial Literacy: Investing for Beginners

Facilitator Note:

Introduce yourself as the facilitator. State your name, military experience or affiliation, and perhaps one additional brief bit of relevant personal information that establishes your credibility (i.e., your professional training or experience).

Please limit your personal introduction to no more than 2 minutes to maximize the time attendees are able to engage with course content, practice skills, and participate in self-reflection activities.

Welcome to Financial Literacy: Investing for Beginners. This class will focus on helping you understand key investment terms and concepts that can help you to start investing to secure your financial future and to build wealth.

SHOW Slide 2: Objectives

After completing this class, you will be able to do the following:

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

SHOW Slide 3: Managing Personal Finances

Managing personal finances is something every adult has to do at some point. **How we manage personal finances depends mostly on a combination of our knowledge about money matters, behaviors we have seen demonstrated in our developing years, our interest in managing money, and**, of course, **our access to money** (Drever et al., 2015; Grohmann et al., 2015; Gudmunson & Danes, 2011; Hilgert et al., 2003; Hira et al., 2013; Kuhnen & Miu, 2017).

As kids, after we learned that money could be exchanged for toys or candy, the next lesson many of us learned was to save by putting money in a piggy bank or another special place until we had enough to buy what we wanted. It is important to establish the savings habit because **saving is a precursor or forerunner to investing**. In other words, **before you start to invest, you should have a savings program in place** (Hira et al., 2013; Loibl et al., 2011).

Let me ask some questions so we can get to know each other a little bit better. Raise your hand if the following statements apply to you.

PAUSE for a show of hands after each statement or question.

As a child, I had a piggy bank or a special place where I saved money.

I have no experience with investing.

I can recall my parents talking about investing.

I have a little experience with investing.

I have a lot of experience with investing and can teach this class.

SMILE and tell anyone who raised their hand for this question that they are your back up if you faint or have an emergency during the class.

How many of you have been overwhelmed by the thought of investing and have, therefore, not taken any steps to start investing?

It appears that there are people who can benefit from this class. Let's get started.

SHOW Slide 4: Reasons to Invest

Before we discuss the details that can help you get started with investing, it is important to talk about why investing can be beneficial. I assume that if you are in this session you have already decided that investing is important. Nevertheless, let's go over a few good reasons. First, **investing can help you achieve personal financial goals faster because the money you invest will grow and increase your purchasing power**. Second**, invested money can generate a paycheck for you in terms of the interest and dividends**. Finally, investing can improve your financial security and give you peace of mind.

SHOW Slide 5: Saving Defined

Saving is focused on short-term goals or projects, such as money to buy a washing machine, holiday presents, or a family vacation or to build an emergency fund. **Short-term may be defined as anything less than 5 years.**

Saved money is typically put aside for future use in low risk, very safe instruments such as a **savings account at a bank, a certificate of deposit (CD), or a money market deposit account**. **These savings instruments are also called cash equivalents because there is almost no risk that the money or the value of this money will**

decrease, and your money will be available when you need it.

SHOW Slide 6: Investing Defined

Investing is focused on long-term goals or projects, such as a down payment for a home, a child's college education, and retirement. **Long-term may be defined as anything over 5 years.**

Money that is invested is expected to increase in value from the amount originally deposited. Instruments used to invest include stocks, bonds, and mutual funds. These instruments are the building blocks for investing and will be defined later in this lesson. There are other investing instruments that will not be covered in this course, such as exchange traded funds (ETFs) that are derived from these three building blocks.

To reiterate, when the word invested is used, you should think of something that increases in value over time. When you deposit money into an investment account and the account value grows beyond the principal amount you deposited, that is investing. Typically, when you purchase a car, the value of the car begins to decline the moment you drive it off the car lot. In most cases, buying a car is not investing.

With invested money, there is some risk of losing the original value of the amount deposited. It is also money that can increase in value from the original deposit *if* deposits are left untouched for a long time.

SHOW Slide 7: Saving vs. Investing

So, let's recap the difference between saving and 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.

Please note that it is typical in the financial planning world to define goals as short (1 year or less), mid-term (1-10 years), and long-term (more than 10 years). For simplicity, in this lesson, financial goals are being defined as short- or long-term goals.

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.

Investing Building Blocks

SHOW Slide 8: Investing Building Block: Stocks

Now, let's define the building blocks of any investment program. The key instruments or tools are stocks, bonds, and mutual funds.

A stock is a share or piece of ownership in the assets and earnings of any company or business that is publicly traded on a stock exchange. **Sometimes, stocks are called equities.** Buying shares of stock is one way to invest in a specific public company.

SHOW Slide 9: Investing Building Block: Bonds

A bond is a loan that investors make to large businesses and governments (local, state, and federal). It is an I.O.U. or promise to return the principal amount borrowed (i.e., face value of the bond) plus interest to the investor on a predetermined future date.

Bonds are issued to raise money to fund public projects, such as improve roads, build new schools, or expand businesses.

Examples of bonds include the U.S. Savings bond (the most common U.S. bond), Municipal bonds, and Corporate bonds.

Bonds may also be called bills, notes, debt securities, or debt obligations.

One final note, does anyone remember paper-based U.S. Savings Bonds? Maybe you have some or got some as gifts as a child? You can still redeem paper savings bonds at most financial institutions. Today, the U.S. Treasury only allows U.S. savings bond purchases online on the Treasury Direct website at www.treasurydirect.gov or as part of your federal income tax refund.

SHOW Slide 10: Investing Building Block: Mutual Funds

A mutual fund is an investment instrument that combines the money of many investors into one bucket or pool. That pool or bucket of money is managed by a professional money manager to buy stocks, bonds, and cash equivalents.

There are thousands of mutual funds. Mutual funds have specific objectives that are used by managers to select what investment instruments to buy or sell. Mutual fund objectives vary by the type of mutual fund. Objectives are listed on the fund's websites and printed in the literature used to promote funds.

An **index fund is a type of mutual fund that matches or tracks the components of a market index, such as the Standard & Poor's 500 Index (S&P 500**). An index mutual fund lets you buy a large number of stocks, which means you will get the average return for the overall market, with low expenses. This is a very popular type of fund. **Target-date funds are designed to take more risk at first, then become a more conservative allocation by the target date—which is often your expected retirement age** or when you think you will need to use the money you invested. For example, a 2040 fund would be more in equities now, but it would move to mostly bonds by 2039.

SHOW Slide 11: Example of Mutual Fund Objectives

Here are a few examples of mutual fund objectives.

The fund could seek to obtain current income while preserving the principal and liquidity.

The objective could be to provide a high level of current interest income exempt from regular federal; state; and, in some instances, local income taxes.

The objective could be to seek growth of capital (i.e., money) over the long term.

Imagine that a container was passed around and each person contributed differing amounts of money to it. The container would represent a mutual fund. Using the pooled amount of money contributed, a mutual fund manager could then buy shares of stocks, bonds, and cash equivalents that an individual could not purchase alone. The differing amounts of money contributed would represent each account holders' assets or investment in the mutual fund.

Key Terms

SHOW Slide 12: Key Term: Portfolio

To understand investing, you need to master a few terms that will help you communicate with others, such as financial advisors or representatives of mutual fund companies that you explore before investing.

The first investment term we will discuss is Portfolio. Simply stated, **a portfolio is your collection of investments**. Your portfolio is what you have in your personal investment bucket. New or beginning investors might only have one item in his or her investment bucket (i.e., one balanced mutual fund for retirement).

The portfolio you choose will depend on your age, your goals, and how much risk you

are willing to take. Not everyone is likely to have the same portfolio, and it will change over time.

A key idea is **risk tolerance**. **If you have $50,000 invested in a stock fund and it drops to $30,000 over a few weeks, what would you do?** Would you sell it? Would you wait and see? Would it make you nervous? Riskier investments, like stocks or mutual funds that invest globally, can move up and down a lot even if they increase in value over time. If you need the money soon, the account balance may not be there. You have to decide **how much risk you want to live with for each investment**.

SHOW Slide 13: Key Term: Compounding

Now, let's cover some terms that are critical to understanding how investing in stocks, bonds, and mutual funds makes your money grow. The first term is compounding.

Compounding occurs when you earn interest on the principal amount deposited plus the interest earned on that deposit each compounding period. Compounding allows your money to grow faster when it is invested. You can think of compounding as planting a tiny seedling of an oak tree. Fast forward and, before you know it, 10 to 20 years later, that tiny seedling has grown into a large tree that provides shade and can withstand a harsh thunderstorm with little or no damage.

For example, the chart on this slide shows what happens year by year.

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.

SHOW Slide 14: Key Concept: Time Value of Money

The **Time Value of Money (TVM)** is another key term to understand. It involves the relationship among the amount of money you invest, the length of time money is invested, and the interest rate that the money is earning.

SHOW Slide 15: Time Value of Money Rules of Thumb

TVM is an *extremely* important concept to understand if you are going to build financial security and wealth. The premise behind TVM is this -- **a dollar today is worth more than a dollar tomorrow or next year *if* it is invested**. The impact of compounding interest is very evident when you look at TVM.

Rules of thumb are shortcuts that consumers can use daily to make complicated day-to-

day financial decisions easier (Consumer Financial Protection Bureau, 2016). There are three statements or **rules of thumb** that are generally true as it relates to TVM.

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

SHOW Slide 16: Time Value of Money Graph 1

Suppose, instead of a one-time deposit of $100, you deposited $100 into an investment account each month. Over a 30-day month, that is just $3.33 a day. We will keep the interest rate at 3% as in the previous example. This picture illustrates the growth of the $100 monthly deposit from age 30 to 65 - 35 years.

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%).

SHOW Slide 17: Time Value of Money Graph 2

Now, let's take a look at what the investment would look like if we found an account that earns 8% annually.

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%).

SHOW Slide 18: Time Value of Money Takeaways

Now, let's understand the value of seeking an investment account with the highest interest rate and risk with which you are comfortable by comparing graph 1 with graph 2.

Thinking about risk tolerance and TVM, what are your takeaways from these two graphs?

PAUSE for responses. (Possible answers: Graph 1: a relatively small amount deposited

consistently will grow to a decent sum over time, the safe investor who invests money in less risky accounts does not earn as much interest, thus the account value does not grow as quickly; Graph 2: the higher the interest earned, the faster your savings will grow, the more risk you take when investing money, the more reward [i.e., increased account value] you will likely receive)

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.

SHOW Slide 19: Investing Rule of Thumb

EXERCISE 1: The Impact of Time on the Value of Money

Facilitator Note:

Handout 1 will be used. The purpose of this exercise is for participants to understand the advantages of starting to invest early. This should take approximately 3 minutes.

Another rule of thumb to remember when it comes to investing and growing wealth follows:

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

Let's take a look at **Handout 1: Advantage of Starting Early**.

Column A = You. You save $2,000 from age 18 to 27 (10 years) and stop. The total amount you would have invested is $20,000.

Column B = Your Friend. Your friend waits until age 31 to start saving $2,000 per year. He or She continues to save the $2,000 until age 65 (35 years). The total amount your friend would have invested is $70,000.

Assume that both of you have your money in an account that earns 7% per year, and the $2,000 deposits are made at the end of each calendar year. By age 65, your account value will be $361,418, and your friends account will be valued at $276,474. A difference of $84,944. You invested less but ended up with a larger account value because of compounding over a longer period of time.

By the way, $2,000 translates to:

- $2000/365 days =$5.48 a day or
- $2000/52 weeks = $38.46 a week

We have only covered a small aspect of how you can use time value of money strategies to build wealth.

There are more applications that we do not have time to cover, such as using TVM to determine how much principal you should be investing each month or year if you want a specific amount of money accumulated in X years.

For additional financial resources, visit the Financial Resource Guide on the YRRP website at www.yellowribbon.mil/cms/financial-resource-guide.

If you choose to invest your money, you may want to consider using an investment adviser. An **investment adviser is a person who assists with providing information about various investments to his or her clients and is paid a fee for the service**. There are various ways adviser's fees are paid. Be sure to ask questions so you **understand how the adviser is paid and how each payment method impacts your investments.** Some advisers are required to be registered with the U.S. Securities and Exchange Commission (SEC) and pass exams controlled by the Financial Industry Regulatory Authority (FINRA). Some advisers fall under the "fiduciary standard," which means the client's needs are priority, and advisers should act in the client's best interest. FINRA and SEC provide compliance records of advisers to the public. However, it is still important to be cautious when using these advisors as it is not guaranteed that they will not charge you high fees or sell you products with hidden costs. **The Broker Check website at https://brokercheck.finra.org can be used as an online tool to research the backgrounds and experiences of brokers, advisers, and firms**.

Federal employees or members of the military are eligible to use the Thrift Savings Plan (TSP) to invest. This plan is very similar to a 401(k), and contributions are tax deferred as lower individual taxable income. In addition, users of this plan are able to roll previous employer plans and Individual Retirement Accounts (IRAs) into the TSP even if they are no longer in the military. TSP has a varied selection of investment fund options to encourage diversification.

SHOW Slide 20: Key Term: Diversification

Diversification is our next term. **Diversification simply means to have a mixture of the different types of investment instruments in your portfolio or investment bucket**. A diverse portfolio will have some stocks, some bonds, and some cash equivalents. Once again, when you first start investing, your portfolio may not be very diverse. As time passes and you have more money to invest, your portfolio may be more diversified.

However, with **one mutual fund known as a balanced fund, you can achieve instant diversification as balanced funds have a mixture of stocks, bonds, and cash equivalents**.

A common phrase used to describe diversification is "Don't put all your eggs in one basket."

What is the purpose of diversifying? It reduces the risk that all of your investments will perform poorly at the same time and cause the value of your account to drop dramatically. Say for instance, if stocks are performing poorly, there is a chance that bonds are doing better. If you have a mixture of these two investment instruments in your portfolio, they could balance out each other. **Just as you try to eat a balanced diet to get all the nutrients your body needs to stay healthy, the same advice can be applied to creating and maintaining an investment portfolio. You need a mixture of various types of investments to reduce your risk of your account value dropping drastically.**

This is where index funds come in. Some investors will pick all the best stocks one year and make huge gains. But few investors—almost none—will pick the winners every year. On average, the index fund will beat the active investor (Fama, 1965; Malkiel, 2005).

Imagine taking a handful of M&M'S® out of a large bowl. It is likely that your handful would include a variety of different colors of M&M'S®, and the number of each color would also be different. This represents a diversified portfolio – where each color of M&M'S® represents a different dollar value. Having a mixture of types of investments is helpful for adding stability to your total portfolio value. If the price of one investment type decreases, it is likely that other investments in the portfolio may remain the same or increase in value. Thus, if you have a diverse portfolio of investments, you reduce some of the risk of investing.

SHOW Slide 21: Key Term: Dollar Cost Averaging

The last term I would like to discuss is dollar cost averaging. **Dollar cost averaging (DCA) is an investing approach wherein you invest the same amount of money in an investment account at regular intervals.** For example, each month for 20 years you invest $200 in the same mutual fund. **DCA lowers your cost per share**.

Let's look at this 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.

Summary

SHOW Slide 22: Review of Objectives

We are nearly at the end of our time together. When we started, our objectives were to explain the difference between saving and investing. I also indicated that key investing terms would be explained and some rules of thumb shared that could help shape investing behaviors.

I know a great deal of information has been covered in the past 30-40 minutes. How much do you recall?

Let's see if we met our objectives:

1. **What are three types of investing building blocks?** *PAUSE for responses.*
   (Possible answer: stocks, bonds, mutual funds)

2. **What term is used to describe all of the assets in your basket of investments?** *PAUSE for responses.*
   (Possible answer: Portfolio)

3. **What term describes the consistent behavior of investing the same dollar amount into an investment account each period (i.e., monthly)?** *PAUSE for responses.*
   (Possible answer: Dollar Cost Averaging [DCA])

4. **What term describes interest paid on the initial deposit and the interest earned that allows your principal or deposits to increase in value faster?** *PAUSE for responses.*
   (Possible answer: compounding)

5. **What can the common phrase "Don't put all your eggs in one basket" be used to describe?** *PAUSE for responses.*
   (Possible answer: diversification)

6. **What is the investing concept that involves the relationship among the amount of money invested, the length of time money is invested, and the rate of interest the money is earning?** *PAUSE for responses.*
   (Possible answer: Time Value of Money)

SHOW Slide 23: Now What?

At this point, some of you may be saying, “Now what do I do?” That depends on how comfortable you are with some of the investing terms and concepts that were covered today. For some of you this might have been review; for others, maybe the terms and concepts were new.

If you want to become financially secure and build wealth to reach your financial goals, do something today to advance yourself on the journey.

Possible actions include:

- Post the rules of thumb we discussed in a location where you will see them daily.
- Enroll in your workplace retirement plan. This is a no brainer investing step. If you are working, you ought to put some of your earnings aside for the later years when you are retired. What you set aside today will become your paycheck in retirement.
- 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 three investment advisers to determine which one, if any, you would like to work with as you learn more and invest your money.

One of the biggest factors that can lead to successful investing will be your behaviors, primarily consistency with sticking to a predetermined investing plan.

Good luck as you start or continue your investing journey.

SHOW Slide 24: Financial Literacy: Investing for Beginners

Thank you, and please complete your evaluation for this class.

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