

Name: \_\_\_\_\_

## Saving & Investing – Requirements #4, 5 & 6

**Saving** - putting money aside in a bank account for buying something in the future or to have on hand in case of emergency

- Bank guarantees that your money will be readily available when you need it – “principal”
- FDIC – “Federal Deposit Insurance Corporation”
- Short term goals – for example, a vacation
- Bank pays you “interest” but interest rate is low and doesn’t keep up with inflation

**Investing** – invest money in order to make more money

- Long terms goals – for example, college tuition
- Investing involves risk – you may lose your principle because there is no guarantee
- Generally, the higher the risk, the higher the potential “earnings” or “loss” and the lower the risk, the lower the potential earnings or loss
- Bull market
- Bear market

### Types of investments

- **Loaned investments** – you loan money to a company or the government in return for its promise (not a guarantee) to repay the principal plus interest
  - Money market funds
  - Certificates of deposit (CDs)
  - U.S. government bonds
  - Corporate bonds
  - Municipal bonds
  - Annuities
  - Savings bond
- **Owned investments** – you own part of a company, real estate or other asset and share in the profits (“dividends”)
  - Stocks
  - Mutual funds
  - Real estate
  - Commodities
  - Collectibles

### Investment concepts

- Diversification – “don’t put all your eggs in one basket”
- Risk
- Rule of 72 – 72 divided by the interest rate = number of years it will take your money to double
- Dollar cost averaging
- Buy low, sell high

**The power of compounding** – money earns more money

- **Simple interest** – the interest earned on the principal amount

For example, if you deposit \$100 in a savings account that earns 10% interest annually, you will have \$110 at the end of the year

- **Compound interest** – in addition to paying interest on the principal amount, interest is also paid on the interest earned

For example, if you deposit \$100 in a savings account that earns 10% interest annually and you leave the money in the account for 10 years:

Year	Annual interest	Total at end of year
1	$\$100 \times 10\% = \$10.00$	\$110.00
2	$\$110 \times 10\% = \$11.00$	\$121.00
3	$\$121 \times 10\% = \$12.10$	\$133.10
4	$\$133.10 \times 10\% = \$13.31$	\$146.41
5	$\$146.41 \times 10\% = \$14.64$	\$161.05
6	$\$161.05 \times 10\% = \$16.11$	\$177.16
7	$\$177.16 \times 10\% = \$17.72$	\$194.88
8	$\$194.88 \times 10\% = \$19.49$	\$214.37
9	$\$214.37 \times 10\% = \$21.44$	\$235.81
10	$\$235.81 \times 10\% = \$23.58$	\$259.39

**List the advantages and disadvantages of each of the following:**

Type	Advantages	Disadvantages
Savings account at a bank		
Certificate of deposit		
Common stock		
Mutual fund		
Savings bonds		
Treasury bill		
Life insurance		