

Saving & Investing Basics

Overview

Saving	<ul style="list-style-type: none"> Storing money safely so that it is available for future needs (short-term focused) <ul style="list-style-type: none"> How: Holding onto money, or depositing it at a Bank, Credit Union or similar institution Pro: Money is readily available for future needs with a low risk of loss Con: Savings institutions may have fees, and money may lose value if interest < inflation
Investing	<ul style="list-style-type: none"> Committing surplus savings to items that can earn money over time (long-term focused) <ul style="list-style-type: none"> How: Purchasing securities & assets that provide interest, dividends, and/or capital gains Pro: Investments have the potential for higher rates of return since profits are not fixed Con: Investments may have fees, as well as a risk of losing the original money invested

Basic Saving & Investing Terminology

Principal	○	<ul style="list-style-type: none"> The original amount of money saved, invested, borrowed or loaned <ul style="list-style-type: none"> Interest is calculated based on the principal for a given time period
Interest	+	<ul style="list-style-type: none"> The money earned by lending (or spent by borrowing), expressed as a % of the principal <ul style="list-style-type: none"> In the U.S., interest is usually taxed as ordinary income
Dividend	+	<ul style="list-style-type: none"> The distribution of money earned by a corporation to its shareholders (per share of stock) <ul style="list-style-type: none"> In the U.S., dividends are usually taxed as ordinary income
Capital Gain (or Loss)	+ -	<ul style="list-style-type: none"> The money gained (or lost) on the sale of an investment that has changed in value <ul style="list-style-type: none"> In the U.S., short-term gains (< 12 months) are taxed at a higher rate than long-term gains
Fee	-	<ul style="list-style-type: none"> Payment of money for a service, privilege, or right <ul style="list-style-type: none"> Many fees are necessary, but they should be avoided whenever possible
Tax	-	<ul style="list-style-type: none"> A compulsory payment of money to the government (% of income, earnings, or purchases) <ul style="list-style-type: none"> In the U.S., education & retirement accounts enjoy tax-free growth
Inflation	-	<ul style="list-style-type: none"> A general increase in the overall price of goods and services in an economy <ul style="list-style-type: none"> As a result of inflation, money today will generally be worth less over time

Saving & Investing Execution Strategies

5 Basic Saving Strategies	<ol style="list-style-type: none"> Budget: Understand spending needs & habits and establish a plan to keep spending < earnings Economize: Minimize fees, taxes, and non-essential spending Automate: Use payroll deduction and automatic transfers to help ensure financial discipline Have an Emergency Fund: Save enough money for 3-6 months of unexpected expenses Pay-off Credit Cards: Pay-off credit cards each month to avoid high interest rates and fees
5 Basic Investing Strategies	<ol style="list-style-type: none"> Start Early: Buy & hold investments to allow money to grow (see compound interest below) Diversify: Spread money across different investments to reduce risk Contribute Regularly: Make uniform, recurring investments (known as dollar cost averaging) Monitor: Ensure investments continue to align with your needs, goals and risk tolerance Be Disciplined & Patient: Avoid buy/sell decisions based on emotion or market timing
Compound Interest	<ul style="list-style-type: none"> Adding the previously earned interest to the principal in order to earn additional interest <ul style="list-style-type: none"> Compound interest has been called the 8th wonder of the world <ul style="list-style-type: none"> Allows principal to grow over time at an increasing rate (exponential growth) Rule of 72: Divide 72 by the interest rate to determine when the principal will double <ul style="list-style-type: none"> For example: At a 2% interest rate/year, money will double in 36 years (72/2)
5 Advanced Investment Strategies Short-term Investment Strategies	<ul style="list-style-type: none"> Advanced investment strategies have increased risk, which may increase the reward (profit) <ol style="list-style-type: none"> Margin Trading: Using borrowed money (leverage) to purchase investments Day Trading: Actively buying & selling securities like stocks to quickly gain money Flipping: Actively buying & selling assets like real estate to quickly gain money Penny Stocks: Purchasing stocks that sell for less than a dollar per share but may recover Currency Trading: Trading in currency on the foreign exchange/cryptocurrency markets

Basic Saving & Investing Products								
Saving & Investing Products	<ul style="list-style-type: none"> The following products are commonly used for saving & investing <table border="1"> <thead> <tr> <th>SAVING</th> <th>INVESTING – SECURITIES</th> <th>INVESTING - ASSETS</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> Checking Account Saving Account Money Market Account Certificate of Deposit (CD) <p>NOTE: The principal amount saved is insured by the FDIC against loss up to \$250,000</p> </td> <td> <ul style="list-style-type: none"> Bond Stock Mutual Fund Index Fund Exchange Traded Fund Derivative (e.g., Future, Option) Cryptocurrency </td> <td> <ul style="list-style-type: none"> Real Estate Commodities (e.g., Oil, Gold) Collectables Non-fungible Tokens <p>NOTE: Securities and assets are items that can be traded to others (i.e., bought & sold)</p> </td> </tr> </tbody> </table>	SAVING	INVESTING – SECURITIES	INVESTING - ASSETS	<ul style="list-style-type: none"> Checking Account Saving Account Money Market Account Certificate of Deposit (CD) <p>NOTE: The principal amount saved is insured by the FDIC against loss up to \$250,000</p>	<ul style="list-style-type: none"> Bond Stock Mutual Fund Index Fund Exchange Traded Fund Derivative (e.g., Future, Option) Cryptocurrency 	<ul style="list-style-type: none"> Real Estate Commodities (e.g., Oil, Gold) Collectables Non-fungible Tokens <p>NOTE: Securities and assets are items that can be traded to others (i.e., bought & sold)</p>	
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Checking Account	<ul style="list-style-type: none"> An account that is typically used to store the money needed for day-to-day transactions <ul style="list-style-type: none"> Checking accounts typically do not pay interest and often have fees 							
Saving Account	<ul style="list-style-type: none"> An account that is typically used to store money for future expenses (an emergency fund) <ul style="list-style-type: none"> Savings accounts have low interest rates that may not outpace inflation over time 							
Money Market Account	<ul style="list-style-type: none"> A type of savings account that offers higher interest rates in exchange for certain restrictions <ul style="list-style-type: none"> Often has higher minimum deposits and limited withdrawals 							
Certificate of Deposit (CD)	<ul style="list-style-type: none"> A savings certificate in which depositors have no access to their funds over a specified term <ul style="list-style-type: none"> Provides a higher interest rate than other savings accounts with a fixed maturity date 							
Bond	<ul style="list-style-type: none"> An investment certificate in which money is loaned to an organization for a specified term <ul style="list-style-type: none"> Provides a specified interest rate with a fixed maturity date, and can be traded to others 							
Stock	<ul style="list-style-type: none"> A stock certificate that represents partial ownership of a corporation (per share of stock) <ul style="list-style-type: none"> Entitles the owner (shareholder) to voting rights & dividends, and can be traded to others 							
Mutual Fund	<ul style="list-style-type: none"> An investment fund that pools money from investors to buy a diversified financial portfolio <ul style="list-style-type: none"> Uses active management, in which buy/sell decisions are made by the fund managers 							
Index Fund	<ul style="list-style-type: none"> An investment fund that replicates the performance of a financial index (see section below) <ul style="list-style-type: none"> Uses passive management, in which buy/sell decisions are made automatically 							
Exchange Traded Fund	<ul style="list-style-type: none"> An investment fund traded on a stock exchange, where its value can change during the day <ul style="list-style-type: none"> By contrast, the value of a mutual fund is calculated after the close of a trading day 							
Derivative	<ul style="list-style-type: none"> A financial contract whose value is derived from the future performance of a security or asset <ul style="list-style-type: none"> Derivatives can be used to address the risk of future changes in the value of an investment 							
Cryptocurrency	<ul style="list-style-type: none"> A digital currency or virtual currency whose value is secured by blockchain technology <ul style="list-style-type: none"> Cryptocurrency operates independent of a central bank 							
Real Estate	<ul style="list-style-type: none"> Land and the permanent structures and natural resources attached to it <ul style="list-style-type: none"> Examples include homes and buildings 							
Commodity	<ul style="list-style-type: none"> An asset that is not man-made (a natural resource) <ul style="list-style-type: none"> Examples include energy (oil), metal (gold), agriculture (wheat), and livestock (pork) 							
Collectable	<ul style="list-style-type: none"> An asset that is sought by collectors due to its rarity, history, or artistic value <ul style="list-style-type: none"> Examples include coins, stamps, antiques, art, vintage toys, etc. 							
Non-fungible Token	<ul style="list-style-type: none"> A digital asset that can be verified using blockchain technology <ul style="list-style-type: none"> Examples include digital art, digital music, or other digital media 							
Other Saving & Investing Products/Indexes								
Annuity <i>Life Annuity</i>	<ul style="list-style-type: none"> An investment that is purchased today in order to obtain recurring payments in the future <ul style="list-style-type: none"> The annuity seller assumes the risk of making enough money for the future payments 							
Retirement Account	<ul style="list-style-type: none"> A taxed-advantaged account that is used to save money for retirement <ul style="list-style-type: none"> Accounts such as a Pension, IRA, Roth IRA, 401(k) and 403(b) 							
Education Account	<ul style="list-style-type: none"> A taxed-advantaged account that is used to save money for education <ul style="list-style-type: none"> Accounts such as a Coverdell and 529 							
Stock Market Index	<ul style="list-style-type: none"> An index that measures the general performance of securities on a stock market <ul style="list-style-type: none"> Indexes such as a Dow Jones Industrial Average, NASDAQ, S&P 500, and Russel 2000 							
Key Commodity Benchmarks	<ul style="list-style-type: none"> Commodities that are historically important and affect other investments <ul style="list-style-type: none"> Assets such as oil, gold, and wheat 							