

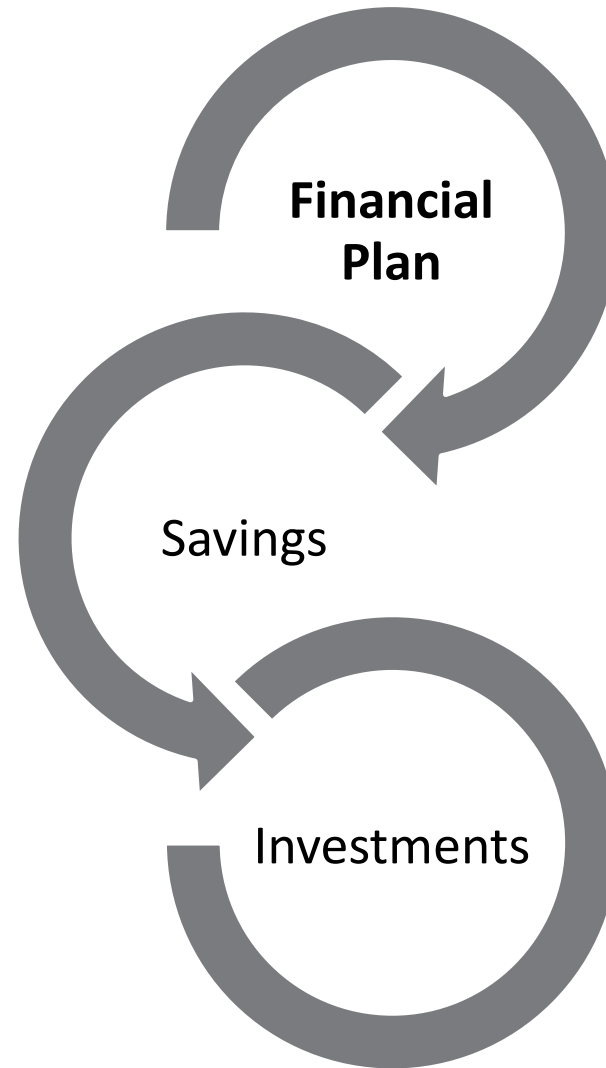


The Fundamentals of Investing

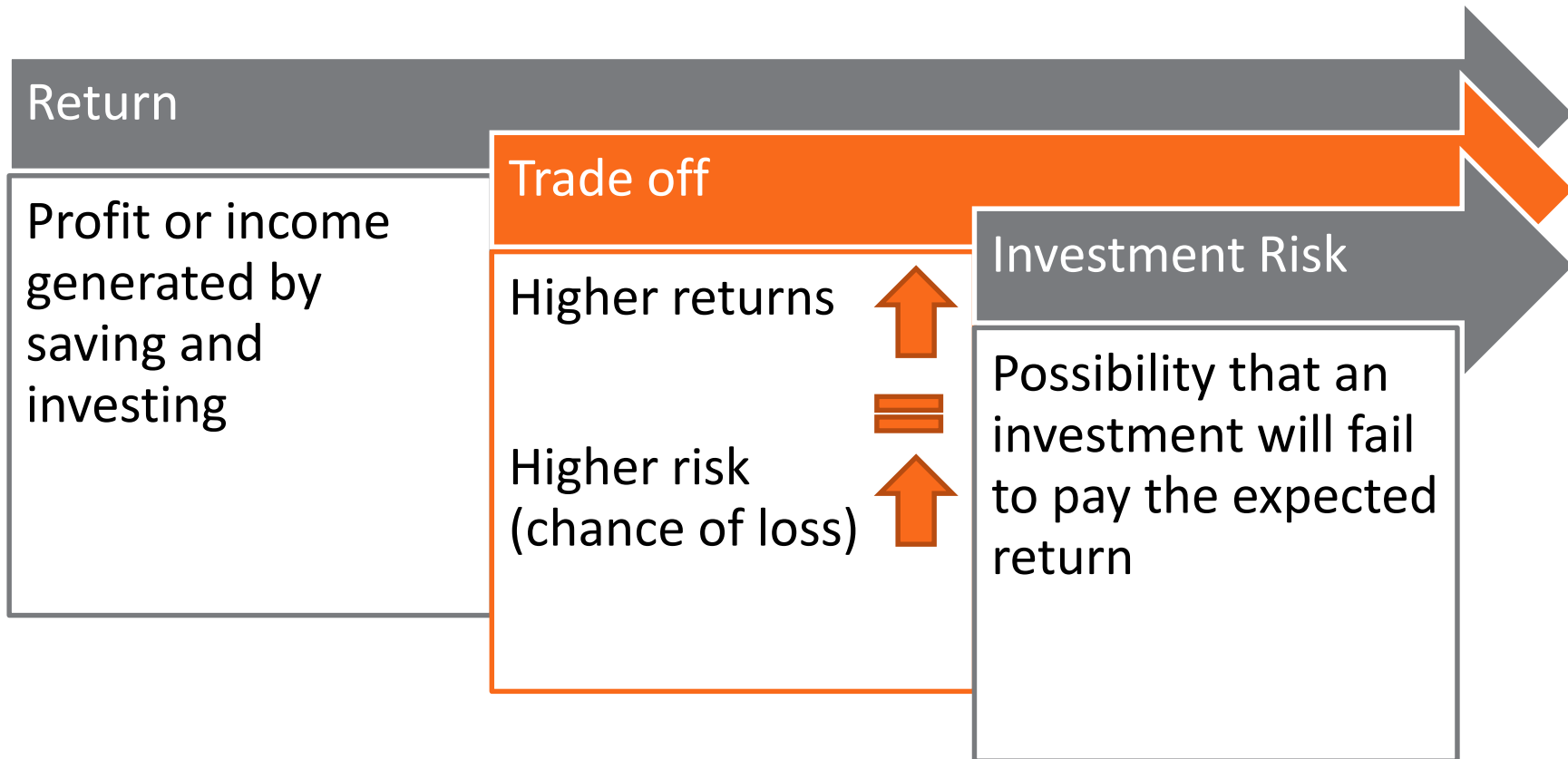
Advanced Level

Investments

Investments -
assets purchased
with the goal of
providing
additional income
from the asset
itself but with the
risk of loss



All Investments Have Some Risk



Investments have the potential for higher returns

Investments are Important to Building Net Worth

Savings Tools = Monetary Assets
(liquid – quickly and easily converted to cash)

Investment Tools = Investment Assets
(may not be easily converted to cash or penalties charged to access the funds early)

Statement of Financial Position for:	
Date:	
Assets	
Monetary assets	
Cash on hand	
Value of checking account and savings account	
Other:	
<i>Subtotal of monetary assets</i>	\$
Tangible Assets	
Market value of home	
Market value of household furnishings	
Market value of automobile	
Market value of electronics	
Market value of clothing	
Other:	
<i>Subtotal of tangible assets</i>	
Investment Assets	
Value of investments	
Other:	
<i>Subtotal of investment assets</i>	
Total Assets	
Liabilities	
Home mortgage balance	
Installment loan balance for automobile	
Student loan balance	
Credit card balance	
Money owed to others	
Other:	
Total Liabilities	
Net Worth = Total Assets - Total Liabilities	



Investments are less liquid than savings tools

Investments Help Accomplish Long-Term Goals

Money invested is usually used to pay for **long-term** goals

Buying a House

Higher Education

Retirement



It is recommended that at least 10% of net income is dedicated to savings and investments each time income is received

Saving vs. Investing

Saving	Investing
Emergencies	Long-term goals
More liquid	Less liquid
Limited risk	Higher risk
Lower returns (0-4%)	Higher returns (8-12%)
Financial security	Net worth



What types of feelings result from saving and investing?

Rate of Return

Total return on investment expressed as a percentage of the amount of money saved



What is Mandy's Rate of Return?

Mandy saved \$2,200 in a money market deposit account. After one year, she has a return of \$110.

What is Mandy's rate of return?

$$\$110 \div \$2,200 = .05 = 5\%$$

Mandy's rate of return on investment is 5%


Inflation

Inflation

Rise in the general level of prices

Inflation Risk

The danger that money won't be worth as much in the future as it is today

Strive to have
 the rate of
return on
investment be
higher than the
rate of inflation



How does inflation relate to investing?

Types of Investment Tools

Bond

Stock

Real Estate

Speculative
Investments


Mutual
Funds

Index Funds



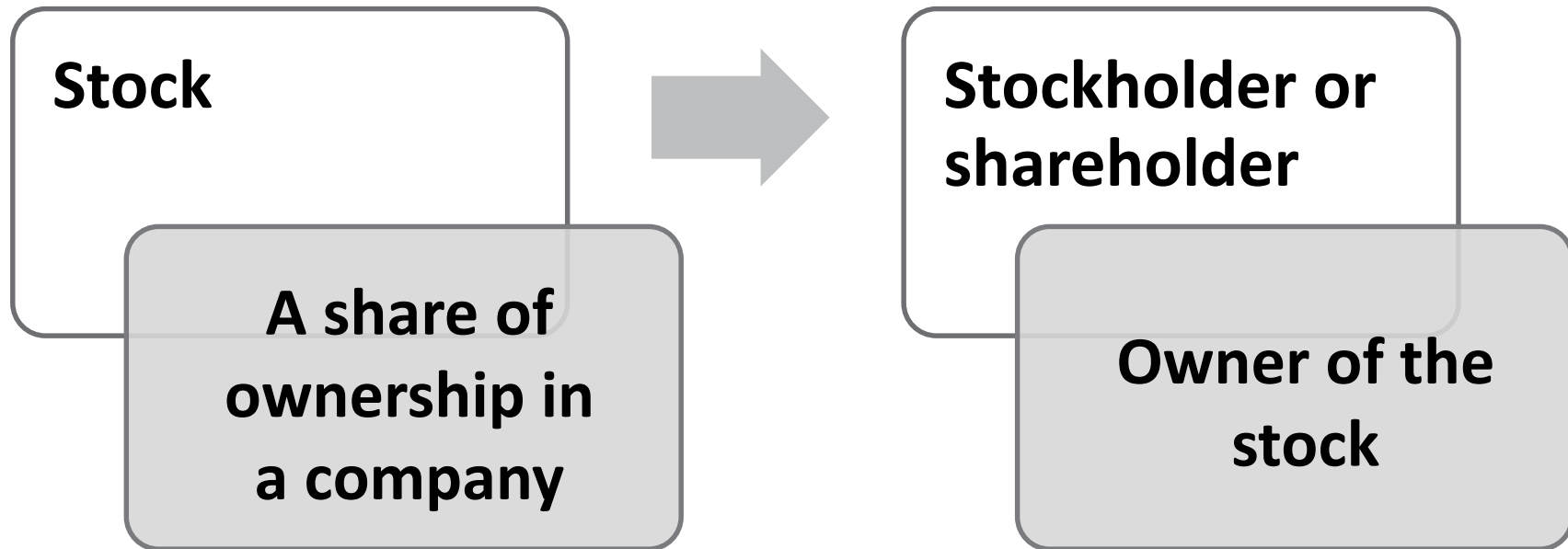
What do you already know about each investment tool?

Bond

Definition	Description	Investment Risk	Return
<ul style="list-style-type: none">• Form of lending to a company or the government	<ul style="list-style-type: none">• Organization pays interest to the lender (purchaser) until the maturity date is reached 	<ul style="list-style-type: none">• Least amount (typically)• Depends on the type of bond	<ul style="list-style-type: none">• Fixed interest rate

Maturity date – specified time in the future when the principal amount of the bond is repaid to the bondholder

Stock



Usually a stockholder owns a very small part of a company

Stock Returns - Dividends

Dividends

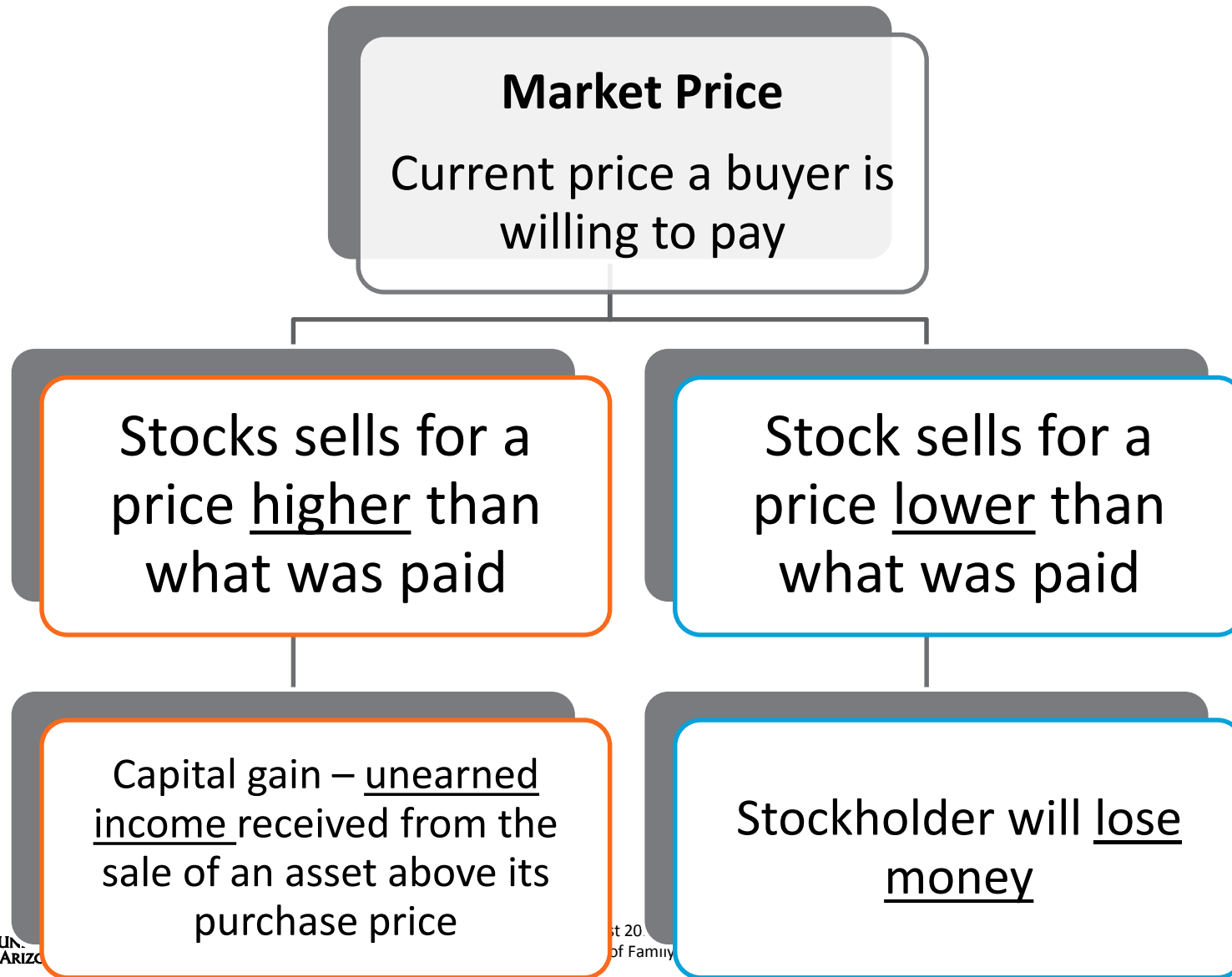


Share of
profits
distributed in
cash to
stockholders



Stockholder
may or may
not receive
dividends

Stock Returns – Capital Gains



Real Estate

Ownership of residential or commercial property or land

Potential for
Returns

Capital gains
(selling the property
for more than what
was paid)

Rent
(charging others for
use of the property)



Real estate can be time consuming but the potential for returns is high

Speculative Investments

High risk investments

Have the potential for significant fluctuations in return over a short period of time



Futures



Options



Collectibles

Type of return depends on the investment

Mutual Funds

When a company combines the funds of many different investors and then invests that money in a diversified portfolio of stocks and bonds

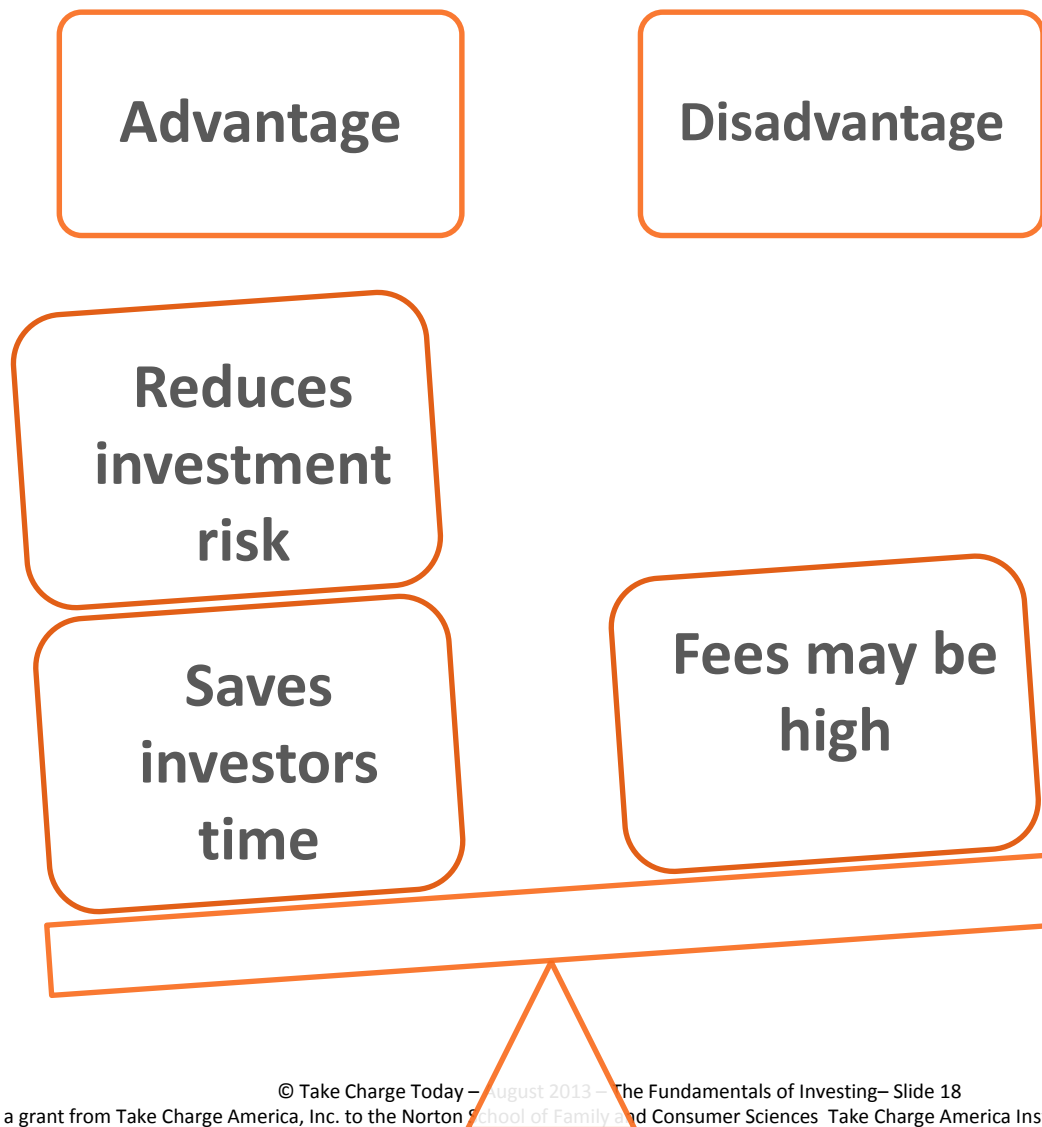
What is Included

Bonds
Stocks
Real Estate
Speculative Investments

Type of Returns

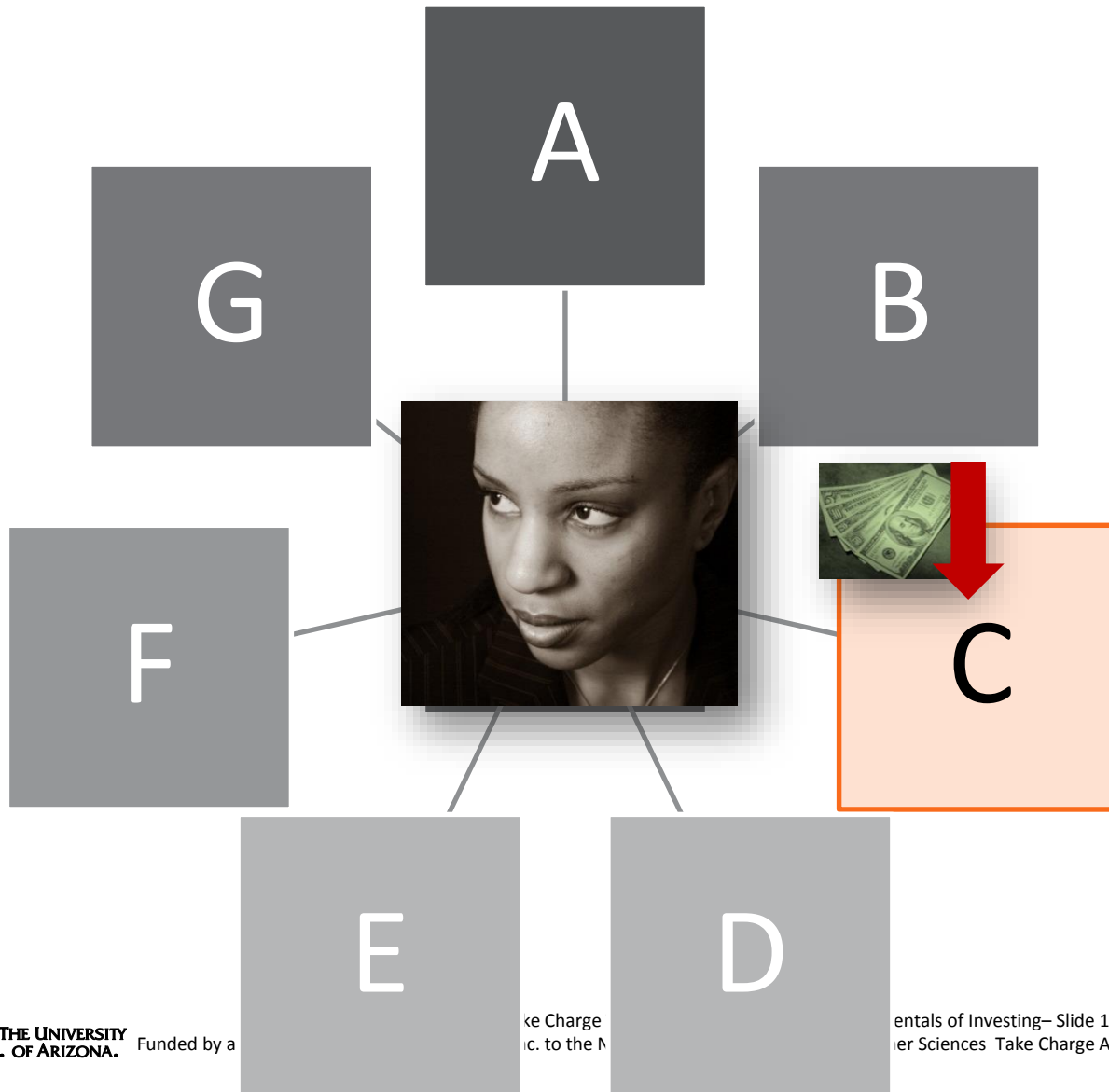
Interest
Dividends
Rents
Capital Gains

Mutual Funds



Ariana has \$150 to Invest

Option 1 - Stock



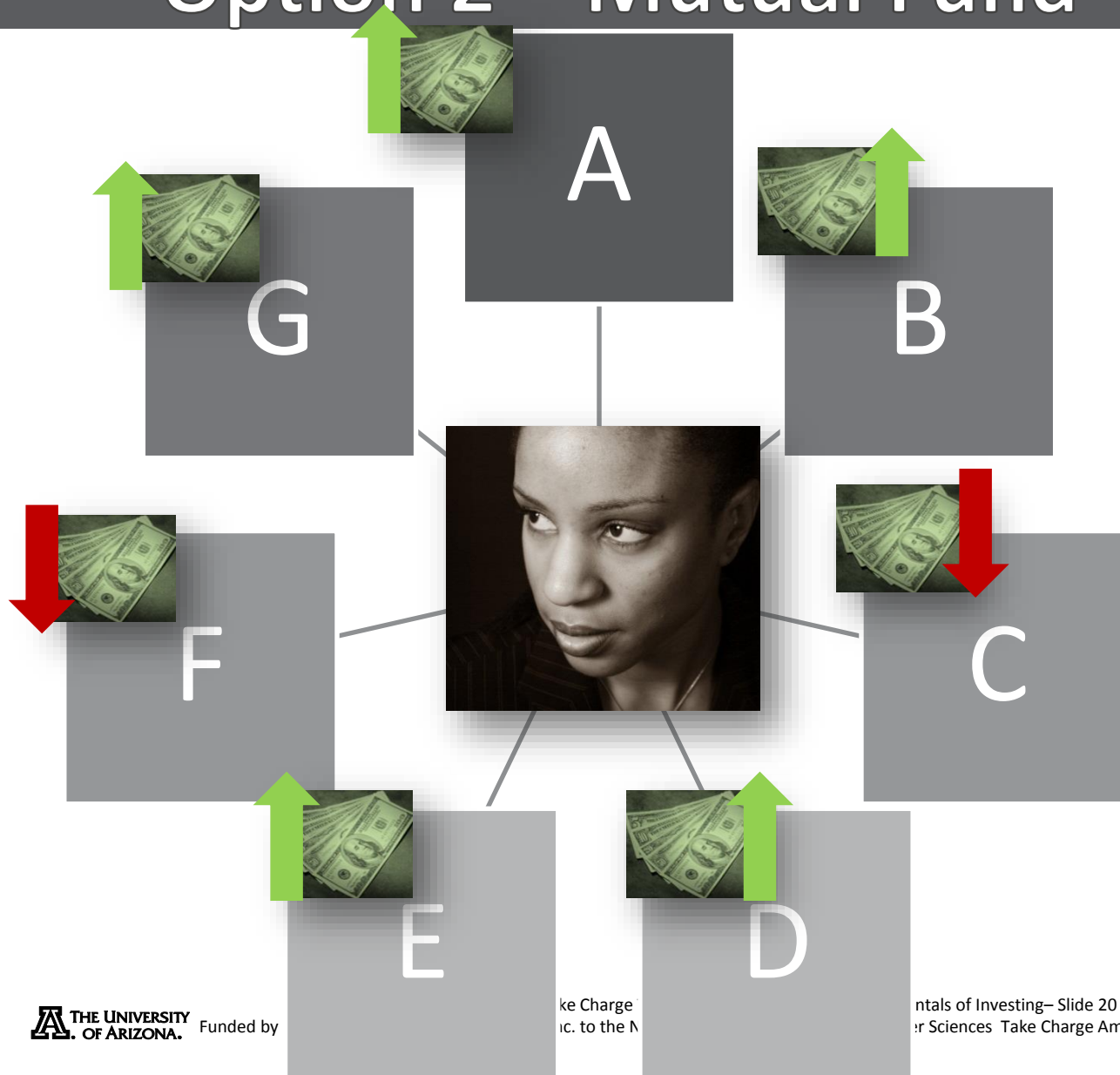
Ariana invests in one company's stock

Company C has had a bad year and their market price drops significantly.

Ariana may lose her \$150 investment

Ariana Has \$150 to Invest

Option 2 – Mutual Fund



- Market price of companies C and F decreased
- Market price increased for all other companies

Ariana has reduced her investment risk and may still earn money

Index Fund

Index Fund

- Type of mutual fund designed to reduce fees by investing in the stocks and bonds that make up the index

Index

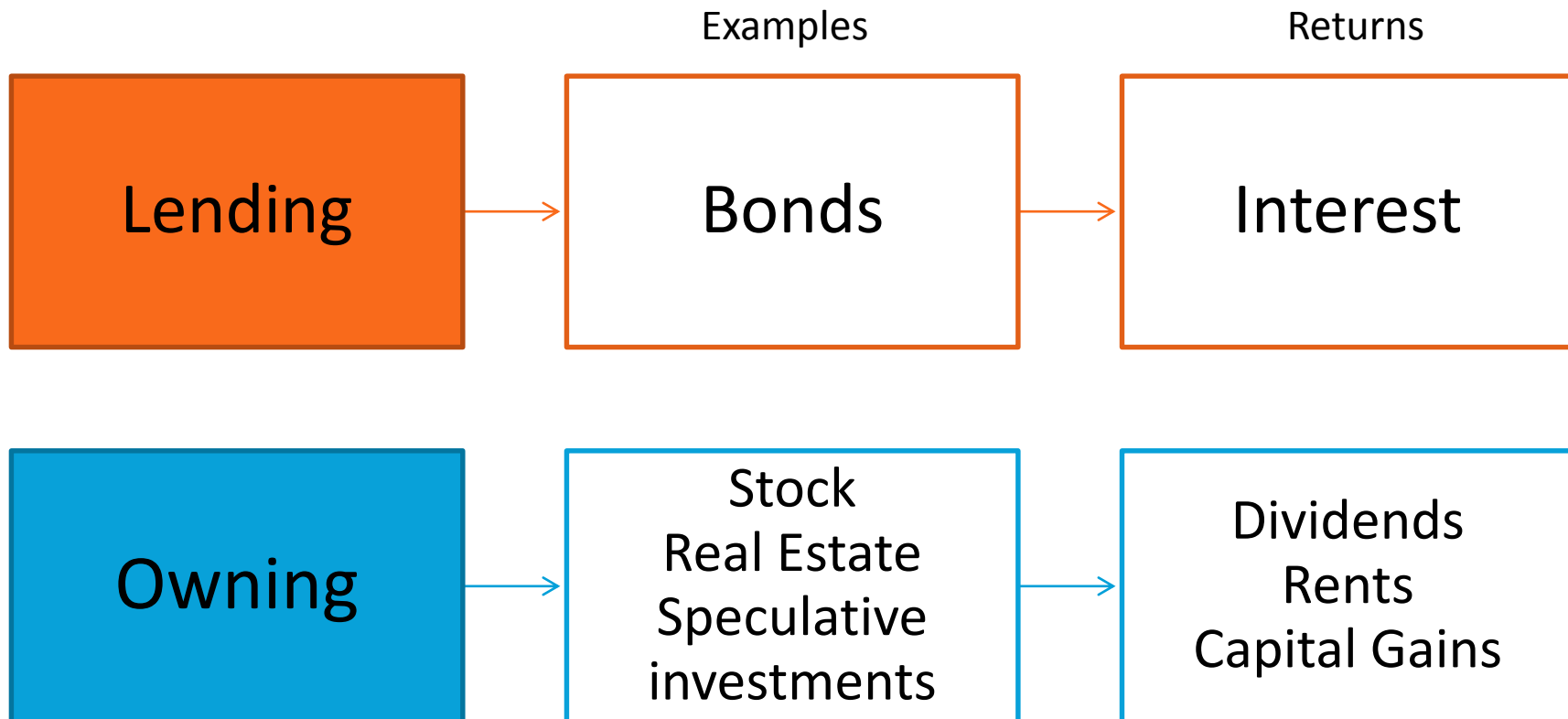
- Group of similar stocks and bonds

Example

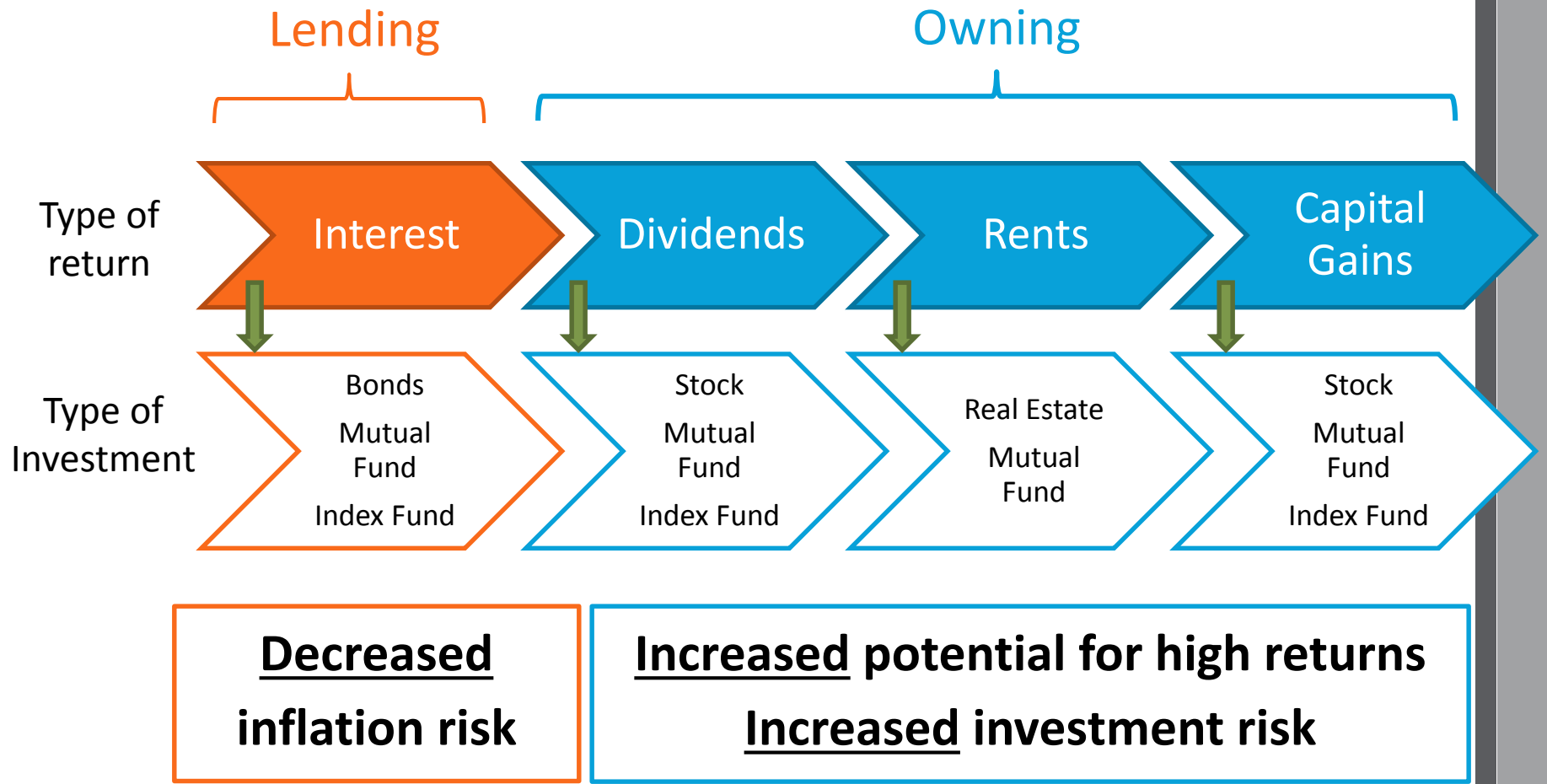
- Standard and Poor's 500

Lending vs. Owning

When investing, consumers either lend money to the company/organization or they own the asset



Knowledge of the General Risk Level Helps Manage Risk



Characteristics of Investment Tools

Order cards from lowest to highest

Investment Risk

Order cards from lowest to highest

Potential Returns

Order cards from lowest to highest

Inflation Risk

Speculative

Stock and
Real Estate

Mutual Funds
and Index Funds

Bonds

Investment Philosophy

Everyone has a tolerance level for the amount of risk they are willing to take on



Generally divided into three categories: conservative, moderate, aggressive



Time may influence investment philosophy



If someone was an aggressive investor, what types of investment tools would they primarily have in their portfolio?

Portfolio Diversification

Portfolio diversification – reduces risk by spreading money among a wide array of investments

Goal: create a collection of investments that will provide an acceptable return with an acceptable exposure to risk

Reduces investment risk



Investing in a mutual fund is an automatic form of portfolio diversification

Stock Exchange

Investments are purchased from a stock exchange (except for real estate and some speculative investments)

Stock exchange provides an organized, central service to buy and sell all stocks, bonds and other investments that are traded

Worldwide, there are many different stock exchanges

A limited number of people are allowed to buy and sell directly from each stock exchange

Brokerage Firms

Brokerage firms facilitate the buying and selling of investments on the stock exchange

Discount

Only completes orders to buy and sell investments

Advice is not offered

Full-service

Offer investment transactions and a financial advisor

Financial advisor – trained professional that helps make investing decisions

Discount Brokerage Firm Fees

Will usually charge a fee for completing a buy/sell transaction

Additional fees may include:

Service fee

Maintenance
fee

Inactivity fee

Fees specific
to an
investment



Total fees are often lower, but an individual must have the knowledge and time to monitor their investments

Full-Service Brokerage Firm Fees

Financial advisors are compensated for the time and knowledge they provide investors.

Most charge fees using one of these methods.

% of the Investment Value

% of the Amount Invested

Hourly Rate & Flat Fee



In addition to fees, financial advisors may earn commissions paid by the company.

Choosing a Brokerage Firm

Important to research the financial advisor and firm he/she works for

Questions to ask:

How are the firm's financial advisors compensated?

How long has the firm been in business?

Does the firm have a history of positive reviews and success?

How does the firm rank in comparison to other brokerage firms?

Tax-Advantaged Investments

Government encourages people to invest in certain types of investments



Savings and investments are a form of unearned income and therefore subject to income tax

Tax-advantaged investments reduce, defer or adjust the current year tax liability

Most common:

- Retirement
- Education

When are taxes for tax-advantaged investments usually paid?

Money is invested and **taxes are paid**



Money grows untaxed with help from compounding interest



Money is withdrawn

OR

Money is invested

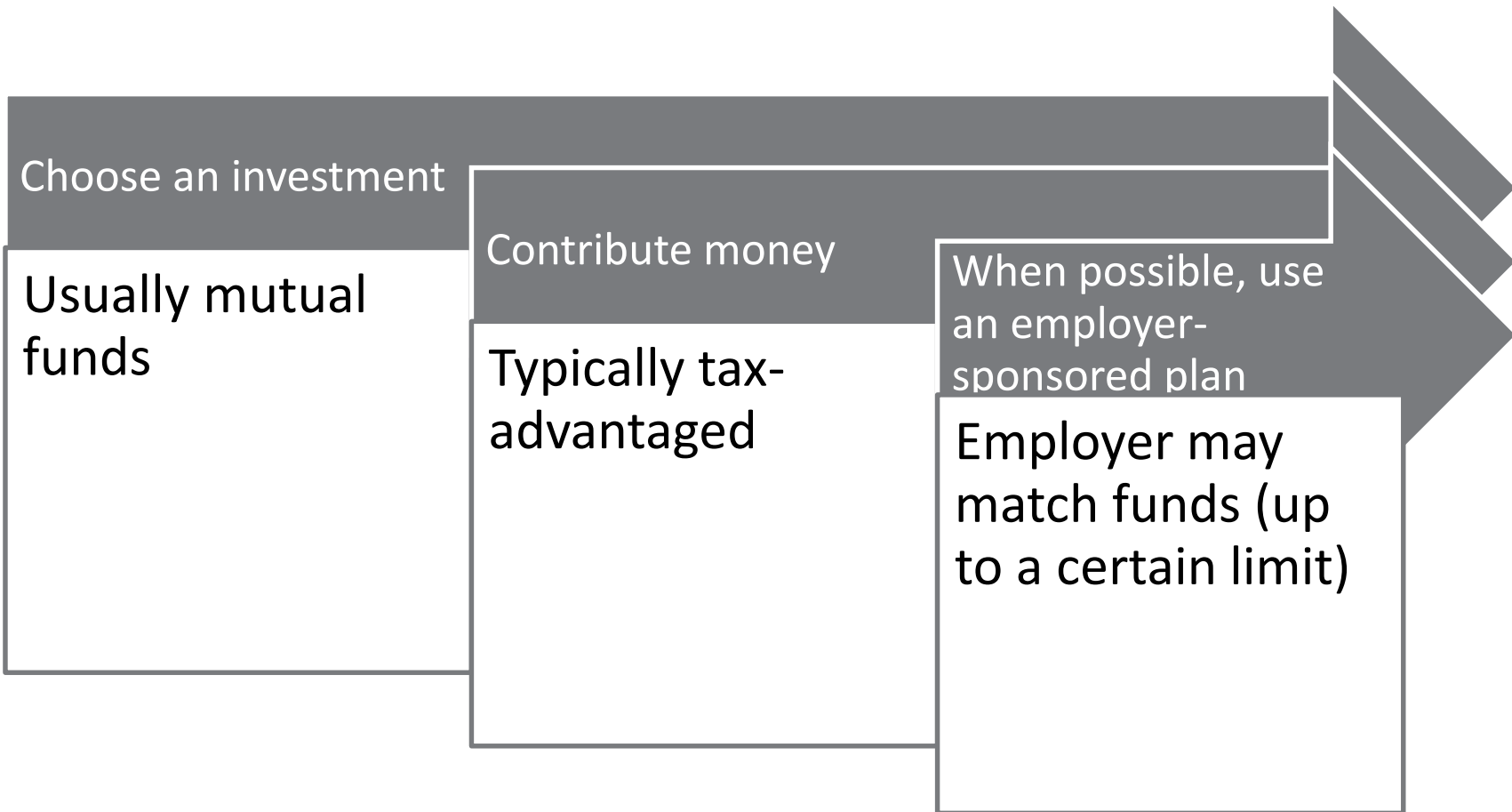


Money grows untaxed with help from compounding interest



Money is withdrawn and **taxes are paid**

Investing for Retirement



Retirement Accounts

Employer Sponsored

- Similar plans
- 401(k)
- 403 (b) (tax-exempt organizations)

Personal Retirement

- Traditional IRA (taxes when money withdrawn)
- Roth IRA (taxes paid when money deposited)



The trade-off to tax advantages is most accounts have penalties if money is withdrawn early

There are many other types of plans available

Summary

Investments are important to building net worth

A trade-off to higher returns is lower liquidity and higher risk

Investments are ideal for the long-term

Take advantage of portfolio diversification

Discuss your goals with a financial advisor

Use tax-advantaged investments & employer-sponsored plan