



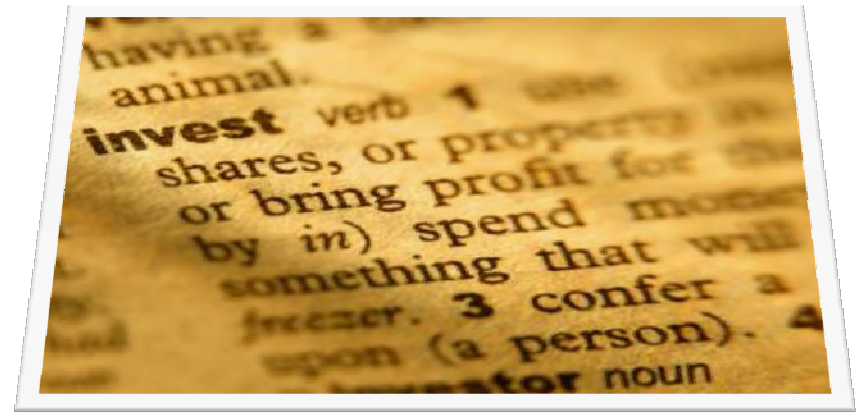
Inspire. Educate. Connect.

Investing Matters

Part of BestPrep's Financial Matters Program

What is investing?

- To spend money on something in the hope of a future return or benefit.
- People invest to grow their money and preserve purchasing power.



Why does investing matter?



Who can invest?



Boom!
I just bought some
stocks....

True or False

Only adults can invest?

True, but

Minors can open a custodial investment account with their parents.

How do I find money to invest?

- **Analyze your current situation**
 - Have you created a budget?

- **Identify goals**
 - Identify short term and long term goals.



Saving and Investing

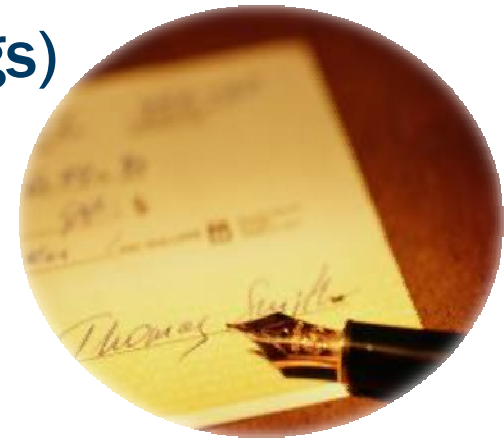
- **Save for short-term goals (< 5 years)**
 - Saving is a prerequisite to investing.
 - Saving means setting income aside for emergencies and immediate needs.
 - Saving is low risk but earns a low return.
- **Invest for long-term goals (>5 years)**
 - Investing is more risky than saving but has the potential for higher returns over time.



Savings Options

Savings Accounts and CDs

- Accounts you can access quickly
 - Bank accounts (checking & savings)
 - CDs (Certificates of deposit)
 - Money market accounts
- FDIC Insurance
 - Whenever you give money to a bank, the federal government insures it. Up to \$250,000 in your account is protected.
 - You also get paid interest!



Why should I invest?

- To set money aside for future financial independence and peace of mind.
- To meet long term goals and financial plans.
- To beat inflation and maintain preferred lifestyle.



What can I invest in?



- **Stocks**



- ◉ **Bonds**



- ◉ **Real Assets**

Stocks

- Stocks allow you to own a portion of a public corporation.



Bonds

- **Bonds allow you to lend money to the government or a company.**
 - Examples may include schools or municipalities



Real Assets

- ◎ Real assets allow you to invest in tangible things such as land, crops, and metals.



How do I buy investments?

- You can either purchase investments directly, such as a buying a share of a company's stock;

-or-

- You can purchase a share of a bundle of investments, such as a mutual fund.

Let's take a look at how mutual funds work!



Investors

Pool their savings



Mutual funds



Invest in



Securities

Generate



Returns

Passed to



Evaluating Investment Options

- Investments differ in their potential rate of return and level of risk.
- What is risk?
 - Risk is the potential for loss.
 - In the case of investing, it's the potential loss of your investment's value.

How do I choose what to invest in?

- Ask yourself:
 - When will I spend my money?
 - Time Horizon
 - How much does my money need to grow to meet my financial goals?
 - Return Objective
 - Can I sleep at night knowing the money I invested may decrease in value?
 - Risk Tolerance



Time Horizon

When will I spend my money?



Inflation Risk

Private Four-Year College Tuition¹

1979-80	\$9,501
1989-90	\$14,997
1999-00	\$20,047
2011-2012	\$28,500



Movie Ticket²

1980	\$2.69
1990	\$4.22
2000	\$5.39
2011	\$7.93

¹ Source: The College Board, *Trends in College Pricing 2011*

² Source: National Association of Theatre Owners

Time is on Your Side Compounding

The more time you have the more you can benefit from compound growth.



Tim begins investing at age 15.



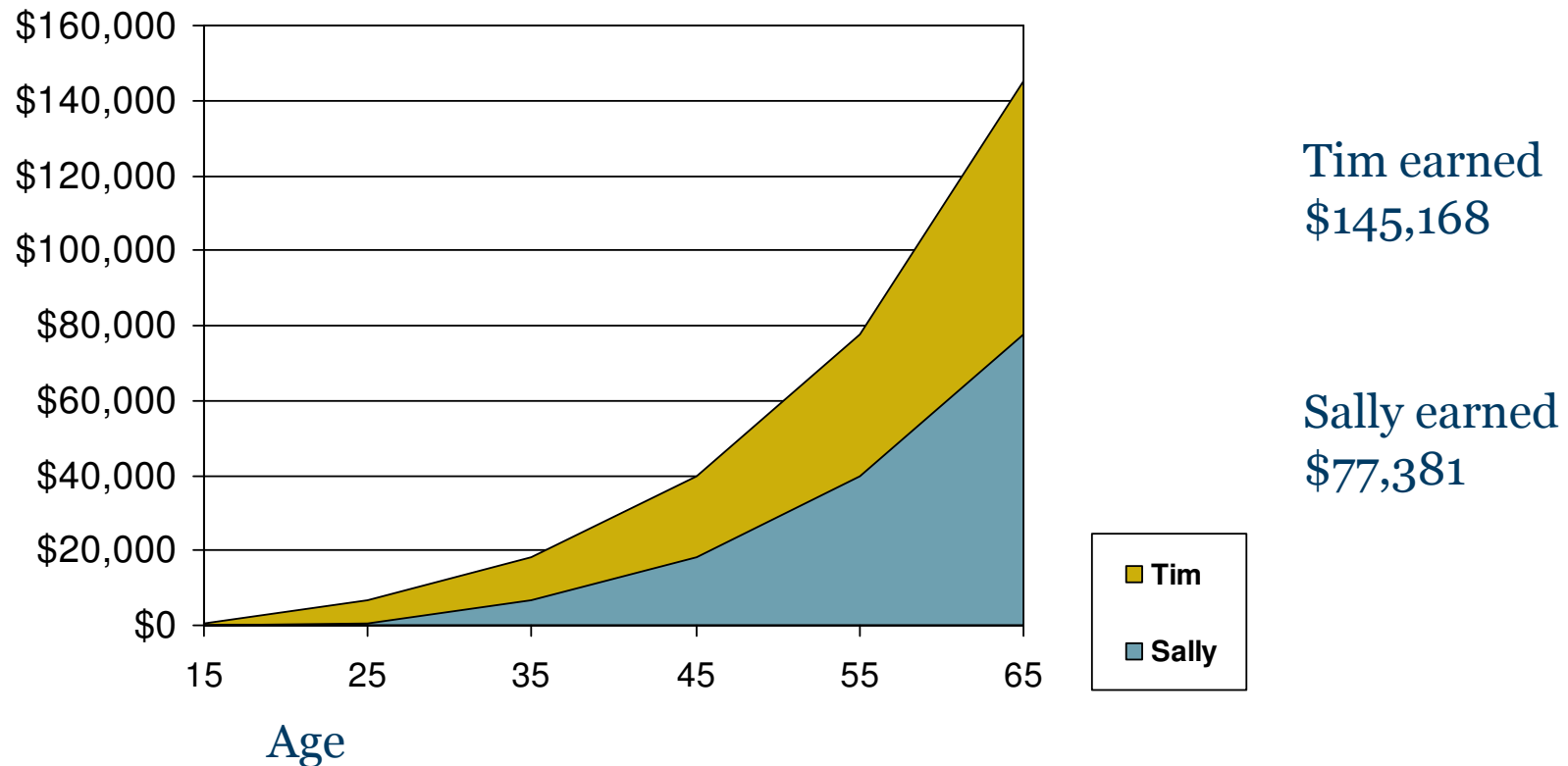
Sally waits until she is age 25.

Both invest \$500 per year. Who will have more?

Time is on Your Side Compounding

Hypothetical Example:

At age 15, Tim begins investing \$500 per year. Sally waits until age 25 to invest the same amount. Both earn 6%* annualized return.



* 6% is not a guaranteed rate of return.

Rule of 72 and Rate of Return

The “Rule of 72” is a simplified way to determine how long an investment will take to double, given an annual rate of return.

72 ÷ 2% interest = 36 years

With a 2% rate of return, your money will double in approximately 36 years.

72 ÷ 4% interest = 18 years

72 ÷ 6% interest = 12 years

72 ÷ 8% interest = 9 years

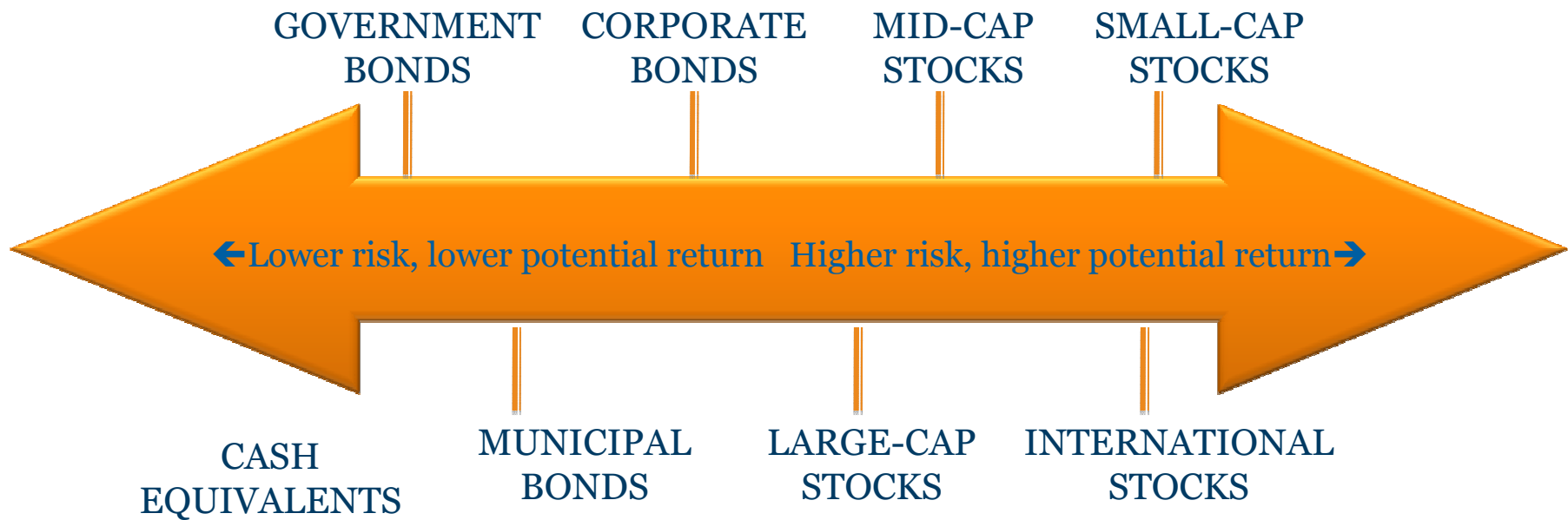
72 ÷ 12% interest = 6 years

With a 12% rate of return, your money will double in approx. 6 years

“It is the greatest mathematical discovery of all time.” Albert Einstein

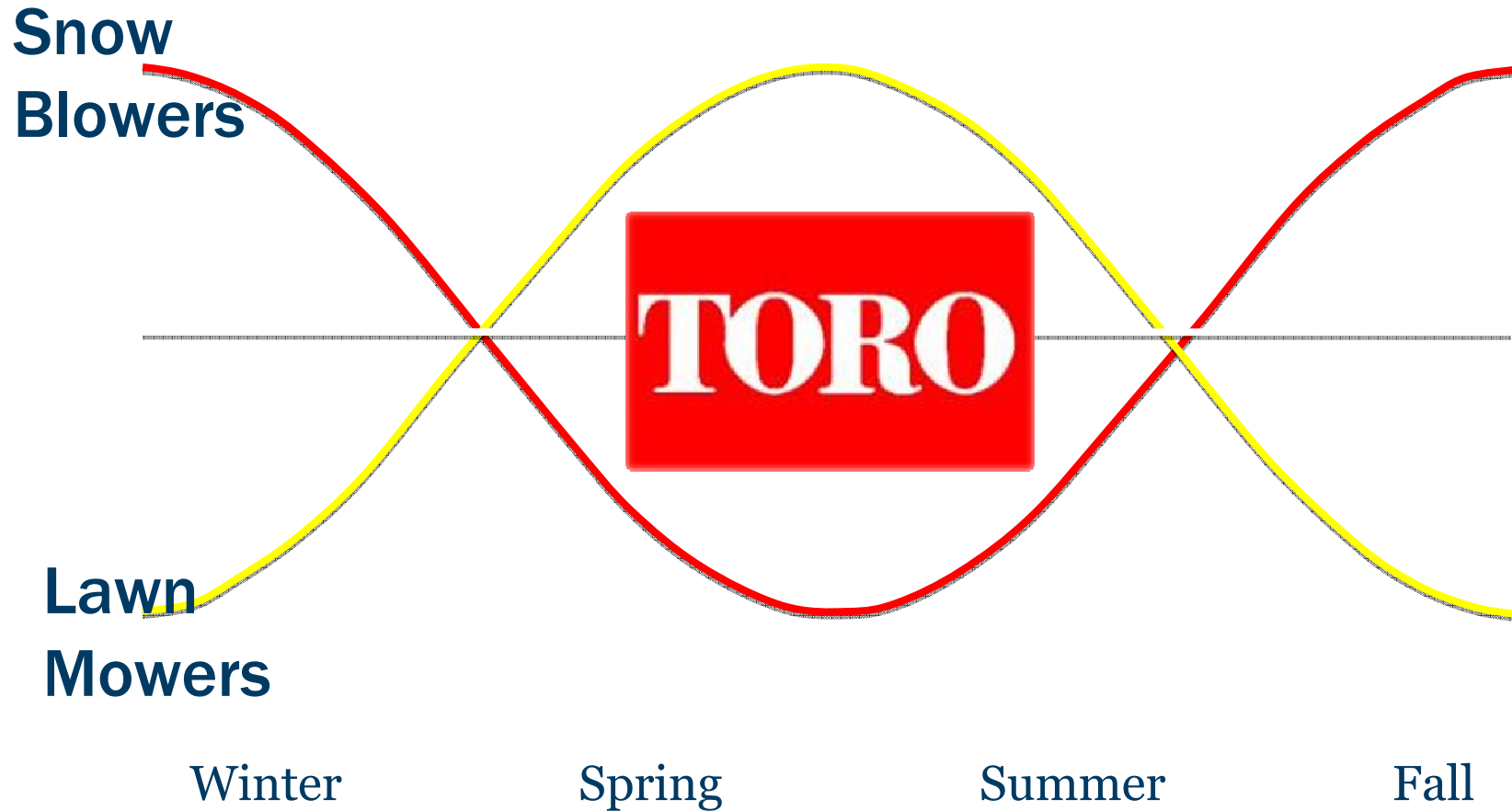
Remember that risk and return go hand-in-hand. Higher returns usually mean greater risk. Lower returns generally promise greater safety.

Return Objective- How much does your money need to grow to meet your financial goals?



Risk Tolerance- Can I sleep at night knowing the money I invested may decrease in value?

Managing Risk - Diversification



Managing Risk

Dollar Cost Averaging

Hypothetical Example:

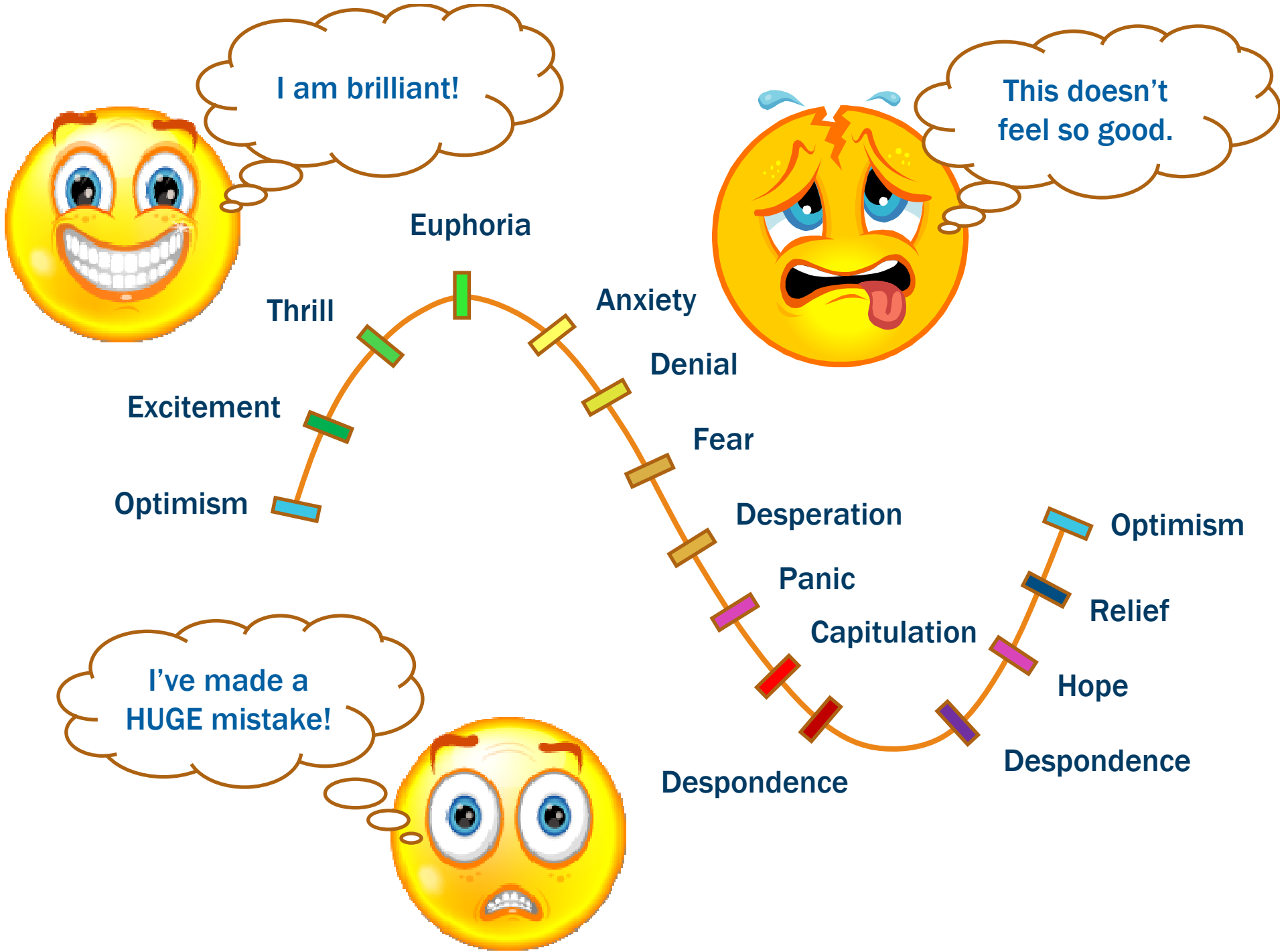
<u>Year</u>	<u>\$\$</u>	<u>Price/share</u>	<u># of Shares</u>
1929	\$100	\$10	10
1930	\$100	\$4	25
1931	\$100	\$2	50
1932	\$100	\$1	100
1933	\$100	\$2	50
1934	<u>\$100</u>	\$4	<u>25</u>
	\$600		260

Total value of all the shares after year 6 = \$1040

Results in 21.84% average annual return

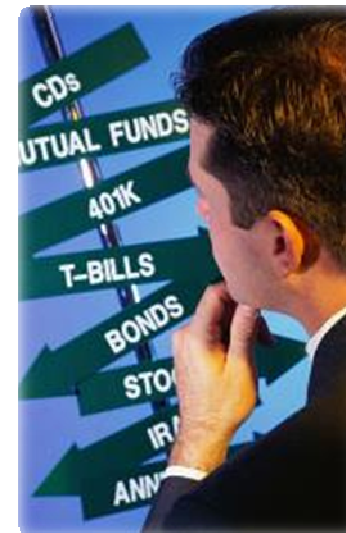
Dollar Cost Averaging

- Works if you are willing to continue during bad markets. You need to keep investing when share prices are declining.
- Dollar cost averaging does not guarantee a profit and does not prevent against a loss.
- Lessens the emotional roller coaster of investing.



What can I do now?

- Identify goals
- Create a strategy
- Get started
- Diversify, diversify, diversify
- Use resources/Get advice





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Thank You!

BestPrep gratefully acknowledges the financial and volunteer support provided by the Foundation for Financial Planning and the Financial Planning Association of Minnesota to offer the Financial Matters PowerPoint series of Money Matters, Budgeting Matters, Credit Matters and Investing Matters to the students and teachers of Minnesota.

