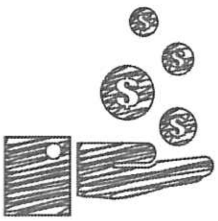


Saving, Investing, and Risk Management

Lesson One: Saving and Investing

Saving only occurs when you choose not to spend all your income. To avoid the temptation to overspend, you need to learn to **"Pay Yourself First" (PYF)**, which means to automatically save a portion of your income for future use.

So, where should your hard-earned savings go? A **financial institution**, such as a bank, credit union, savings and loan, or investment firm, helps people save for the future with simple savings accounts and more complex investments. Putting money into a **savings account** is a safe way to save money. Saving accounts, however, offer low **interest** rates. There are many ways to **invest** to earn higher rates of return. Three common long-term investment types are **stocks**, **mutual funds**, and **bonds**. They allow savers to invest their **principal** and earn, over time, a higher rate of return than money placed in more conservative savings accounts. But stocks and mutual funds are not guaranteed investments. Investors can lose part or all of their money. The value of bonds can erode if interest rates rise. Students, like investors, must learn to gauge **risk** when they decide how to make their savings work for them.

The **opportunity cost** of starting a savings program with income from a summer job may seem challenging. And for those who choose to save, the number of options can be overwhelming. This lesson will introduce you to various methods of saving, such as savings accounts, stocks, and mutual funds.

Vocabulary

Bond
An IOU issued by a company, municipality, or the federal government in exchange for a loan from an investor that will be repaid with a set rate of return.

Financial institution
A business that provides money-related services.

Interest
A fee received or paid for the use of money.

Invest
To commit money to gain a profit or earn interest.

Mutual fund
A collection of stocks or bonds of various corporations.

Opportunity cost
The next best alternative given up when making a financial choice.

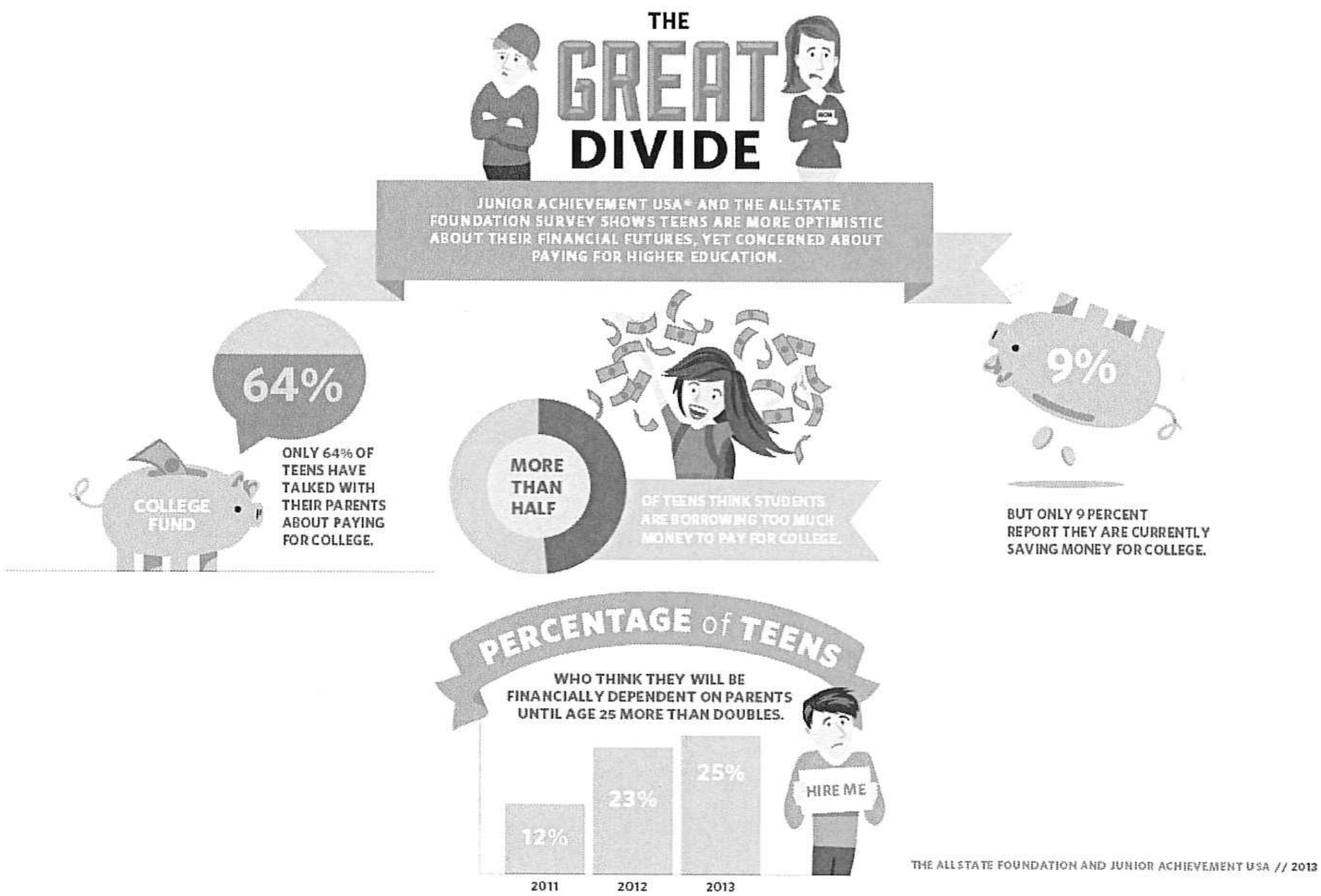
Pay Yourself First (PYF)
To automatically save a specified amount from a paycheck for future use.

Principal
The amount of money originally invested.

Risk
The possibility of financial loss or physical harm.

Savings account
An interest-bearing account where people put money for future use.

Stock
A share of a corporation sold to the public.

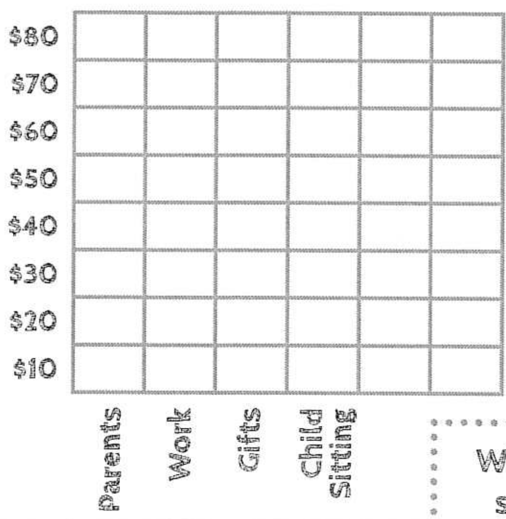

THE
GREAT
DIVIDE
JUNIOR ACHIEVEMENT USA® AND THE ALLSTATE FOUNDATION SURVEY SHOWS TEENS ARE MORE OPTIMISTIC ABOUT THEIR FINANCIAL FUTURES, YET CONCERNED ABOUT PAYING FOR HIGHER EDUCATION.
64%
ONLY 64% OF TEENS HAVE TALKED WITH THEIR PARENTS ABOUT PAYING FOR COLLEGE.
COLLEGE FUND
MORE THAN HALF
OF TEENS THINK STUDENTS ARE BORROWING TOO MUCH MONEY TO PAY FOR COLLEGE.
9%
BUT ONLY 9 PERCENT REPORT THEY ARE CURRENTLY SAVING MONEY FOR COLLEGE.
PERCENTAGE of TEENS
WHO THINK THEY WILL BE FINANCIALLY DEPENDENT ON PARENTS UNTIL AGE 25 MORE THAN DOUBLES.
12%
23%
25%
2011
2012
2013
HIRE ME
THE ALLSTATE FOUNDATION AND JUNIOR ACHIEVEMENT USA // 2013

Notes:

Doodling for Dollars

What are your goals? Do you want to live on your own someday? Go to college? How much money do you think you'll need? Create an infographic to show what saving looks like for you. Start by writing your savings goal in the center. Complete each square.

To begin, shade in the bar graph to show the money you receive each month. If you don't receive a regular amount, use $50.



Make a pie chart below to show how you spend money each month (music, eating out, movies, clothes, etc.).

What are you saving for?

Pay Yourself First. Show how you can save more money (even if it's just a dollar or two).

Where do you keep your money? (piggy bank, credit union, bank)

Know It All Savings Cards

Know It All Savings Card

Bonds

Bonds: A bond is essentially an IOU. The issuer promises to pay the bond buyer a certain sum of money at the end of a stated period, plus interest payments at specific intervals or when the bond matures. A bond fund pools money from many investors. Unlike stocks, bonds do not represent ownership in the corporation, government agency, or utility borrowing the money.

Medium risk

Keep in mind: Unlike bank savings accounts, bonds aren't insured. Bond buyers could lose some or all of their money, but this is less likely than with stocks. Cashing in before the maturity date could result in the loss of principal (the amount bondholders put in). Bond funds are subject to the rise and fall of interest rates.

Know It All Savings Card

Stocks

Stocks represent a fractional ownership in a company. Traditionally, they pay higher *average* returns than most any other investment. Stocks are sold in shares, and their prices can change daily. They are long-term investments because they are meant to gain value over a longer period of time (although they can be bought and sold anytime) based on the company's performance. Some companies pay dividends to stockholders based on the company's profits.

Medium to high risk

Keep in mind: Stock markets go up and down. Stocks are not insured for loss, so stockholders could lose their principal (the amount they put in) and any return.

Know It All Savings Card

Mutual Funds

A **mutual fund** is a professionally managed investment with money pooled from shareholders (plus interest earned) to buy a collection of stocks or bonds of various corporations.

Each investor buys shares of the fund that represent partial ownership of the fund's collective holdings. A mutual fund's goals are explained in the fund's published report, called a prospectus. Shareholders can elect to take the money earned (paid as dividends) or reinvest it to buy more shares.

Low to high risk

Keep in mind: As with stocks, money invested in mutual funds is not insured and can lose value in stock market swings. Fund objectives and fees vary by fund.

Know It All Savings Cards

Know It All Savings Card

Savings Accounts Certificates of Deposit

Savings accounts carry low risk because most bank and credit union accounts are insured by the government (Federal Deposit Insurance Corporation, or FDIC, or the National Credit Union Administration, or NCUA) for up to $250,000 per savings account. Savings accounts pay a small interest rate, less than what stocks or mutual funds yield, but you can take your funds out at any time without penalty. Banks also offer **certificates of deposit** (CDs), which are safe and offer higher interest rates than savings accounts. CDs often require that you commit larger amounts of money for longer periods of time.

Low risk

Keep in mind: Minimum deposits and fees may apply. Early CD withdrawal may incur penalties. The interest earned on saving accounts and CDs is lower than the potential interest on other investments that carry more risk.

Know It All Savings Card

Money Market Accounts

Money market accounts are interest-earning accounts offered by FDIC-insured (Federal Deposit Insurance Corporation) financial institutions. Money market accounts usually pay a higher interest rate than savings accounts in exchange for a larger deposit. Accounts may come with check-writing privileges.

Low risk

Keep in mind: Minimum deposits and fees may apply. Federal regulation limits certain types of withdrawals and transfers from money market accounts to a total of six per monthly statement period.

Tweet

Look over the savings option on your Know It All Savings Card. Briefly summarize its benefits and risks in a 140-character message, and print it below.

Count your characters—140 is tops!

Print your *Know It All Savings Card* title here
(Note: The card title is not part of your tweet.)

______________________________________.

Post your tweet here.