

SAVING AND INVESTING FOR WEALTH

Hard Core Boot Camp Content Session #1



SAVING AND INVESTING: WHAT'S THE SAME AND WHAT'S DIFFERENT?



VIDEO: THE PROS AND CONS OF SAVING AND INVESTING

<u>http://www.youtube.com/watch?v=2DBdWeT</u> <u>xXeU&feature=related</u> (ING Tutorial)



WHY PEOPLE INVEST



To achieve financial goals, such as purchase of a new car, down payment on a home, or a child's education

- To increase current income (e.g., retirees)
- To build wealth over time
- For financial security and peace of mind
- To have funds available during retirement years

INVESTMENT CHARACTERISTICS

	FACTORS TO BE EVALUATED				
Type of Investment	Safety	Risk	Income	Growth	Liquidity
Common stock	Average	Average	Average	High	Average
Preferred stock	Average	Average	High	Average	Average
Corporate bonds	Average	Average	High	Low	Average
Government bonds	High	Low	Low	Low	High
Mutual funds	Average	Average	Average	Average	Average
Real estate	Average	Average	Average	Average	Low

Source: Garman/Forgue, PERSONAL FINANCE, Fifth Edition

INVESTMENT RETURNS



- Rent payment received in return for use of your real estate, such as a building
- Interest "rent" for the use of your money
- Dividend portion of a company's earnings that the firm pays out to its shareholders
- Capital Gain occurs only when investment is sold; results from increase in value of initial investment.

http://www.aarp.org/money/investing/investment_return_calculator/

TOTAL RETURN



Measure of your profit before taxes and fees

• Formula:

Gain or loss in value + investment earnings

• Examples:

- \$1 per share dividend + \$5 increase in share value = \$6 per share TR before expenses
- \$1 per share dividend + \$5 loss in share value = <\$4> share TR before expenses

http://www.ehow.com/how_6500173_calculate-total-returns.html

TIME + MONEY = "MAGIC"



Illustration assumes an 8% average annual return

INVEST FOR LONG-TERM GOALS

http://njaes.rutgers.edu/money/pdfs/goalsettingworksheet.pdf



INVESTMENT PRE-REQUISITES

Adequate emergency fund

• Adequate insurance

• No or low consumer debt balance

Written financial SMART goals

• An "investor's mindset"



BASIC INVESTMENT PRINCIPLES

- Even small amounts invested regularly grow impressively over time
 - Time + Money = MAGIC!



- Volatility "comes with the territory" but not all investments are equally volatile
 - Volatility = "peaks and valleys" of investment value
 - Need an "investor's mindset" to handle
- The higher the potential rate of return, the greater the investment risk

INVESTMENT RISK PYRAMID



Historical Perspective

Historically, common stocks have out-performed other investments over long time periods **BUT**...it has not been a smooth ride!



Year	S&P 500 Return
2001	-11.90%
2002	-22.1%
2003	28.7%
2004	10.9%
2005	4.9%
2006	15.9%
2007	5.5%
2008	-37.0%
2009	26.5%
2010	15.1%

TECHNIQUES TO OFFSET RISK:

• Diversification

- Putting your money, "your eggs," into several "baskets" (e.g., stocks, bonds, cash, real estate)
- http://www.sec.gov/investor/pubs/assetallocation.htm
- http://www.investopedia.com/articles/02/111502.asp#axzz1rH9 rDBUo

Lup 2

• Dollar-Cost Averaging

- Investing regular amounts at regular intervals regardless of price
- Examples: \$50 on the 1st of every month or 6% of your gross income every payday
- Lowers average share price cost over time
- https://www.americancentury.com/calculator/dollar_cost_aver aging_calculator.jsp

DOLLAR-COST AVERAGING EXAMPLE

	January (Market High)	February	March	April (Market Low)
Amount Invested	\$200	\$200	\$200	\$200
Share Price	\$35	\$28	\$24	\$20
Number of Shares Purchased	5.7	7.15	8.3	10

Total Number of Shares: 31.15 shares

Average Share Cost: \$25.68/share (\$800 ÷ 31.15)

ASSET ALLOCATION

- Percentage of portfolio in different asset classes
- Important factor in overall investment success
- The more stock in portfolio, the more aggressive the asset allocation
 - One guideline: 110 age = % of portfolio in stock
 - o Conservative portfolio: less stock in portfolioConservative Moderate Aggressive







PORTFOLIO REBALANCING

- Get back to original asset class weights (percentages) to maintain same risk level
- Asset classes grow at different rates
- Two ways to do:



- Sell assets in over-weighted asset class
- Put new money in under-weighted asset class
- Forces you to "buy low, sell high"

INVESTMENT FRAUDS



PONZI SCHEMES

- The difference between a pyramid scheme and a Ponzi scheme is that a Ponzi schemer will only ask you to invest in something. You won't be asked to take any action other than handing over money.
- On the other hand, a pyramid schemer will offer you an opportunity to make money yourself by recruiting new "investors" into the "franchise" similar to a multi-level marketing firm.





PYRAMID SCHEMES

Levels	Number of Participants	
1	6	•
2	36	
3	216	
4	1,296	/-//
5	7,776	
6	46,656	1 ~ 19
7	279,936	
8	1,679,616	
9	10,077,696	Research and the second
10	60,466,176	
11	362,797,056 - more thar	n U.S. Population
12	2,176,782,336	
13	13,060,694,016 - more tha	an double World Population

"PUMP AND DUMP" SCAMS

- Promoter urges you to "buy now or lose out"
- Price rises sharply
- Fraudsters sell at peak
- Price drops when the hype stops
- Investors lose money

http://www.sec.gov/answers/pumpdump.htm



AFFINITY FRAUDS

- Target members of a group
 - Race Profession
 - Religion Age



- Recruit group leader to spread the word
- Key to scheme: trust

How to avoid: Ask questions!

IS IT TOO GOOD TO BE TRUE?

- High yield often means high risk
- Watch out for "guaranteed" returns



- "Red Flag" words: "limited time offer," "safe as a CD," "risk-free"
- Beware of exotic, unusual products
 - Don't invest in anything you don't understand or feel comfortable with

Warning:

If it sounds too good to be true, it probably is!

INVESTMENT RESOURCES



INVESTING FOR YOUR FUTURE HOME STUDY COURSE (COOPERATIVE EXTENSION)

• Free of charge and downloadable

- 11 units; do at your own pace
- Designed for beginning investors
- Monthly investment messages
- www.investing.rutgers.edu





FINRA INVESTOR EDUCATION FOUNDATION CONTENT MODULES

- Free of charge and downloadable
- 11 content modules



- Designed for beginning investors
- Used for library investor education programs

• <u>http://www.finrafoundation.org/resources/educ</u> <u>ation/modules/</u>

INVESTMENT RISK TOLERANCE QUIZ

Rutgers Cooperative Extension

http://njaes.rutgers.edu/money/riskquiz/

🥟 Personal Finance: Investment Risk Tolerance Quiz - Windows Internet Explorer						
00	- R http:/	//njaes.rutgers.edu/money/riskquiz/		v (+9	Google	P -
File Edit	View Favo	orites Tools Help				
Google				Search 🕶 More >>	🔵 oneill 🔹	- 🔌 - 👘
🚖 🏟	Favorites	R Personal Finance: Investment P	Risk Tolerance Quiz		🟠 🔹 🔝 🔹 🌐 🔹 🔂 Page 🔹	💮 Tools 👻 🎽
🚖 🖬 🕓	🐵 - 🗙 🛛	Rutgers Home	Executive Dean of Ag	riculture and Natural Resources School of Environmental and Biological Sciences		^
Portion	n Dist 🔼 :y Ra Pay :al M	Rutter New Jerse Experiment	ERS y Agricultural t Station		rsey Roots, Global Reach	
Precise	eMail	NJAES Home C	ooperative Extension	n Cooperative Research Español	Contact NJAES Site Map	
Preside	ent's ent's Regis	Learn More Abo	ut « Back t h ment Inves	to: Personal Finance stment Risk Tolerance Quiz	Search GO	
Radio : RCE-Je RCE-Ri	106 ersey even	Commer Agricultu	re Want to al Landscape tolerand	improve your personal finances? Start by taking this quiz to get an idea of your risk eone of the fundamental issues to consider when planning your investment	 NJAES Websites All of Rutgers eXtension FAQ 	
CRE F	Mone Rutg Fina	& Turf Ma Disasters Emergen	& describe	v, either alone or in consultation with a professional. Choose the response that best as youthere are no "right" or "wrong" answers. Just have fun!	County Offices Need more information about	
RCRE-: RCRE-: RCRE-:	Small SSH SSH	Family Li	festyle Lytton a	ou're done, click on the "View Results" button to see now you're doing. his quiz was developed by two university personal finance professors, Dr. Ruth	Tolerance Quiz? Contact your <u>Cooperative</u> Extension county	
Reader	r's Di	Fisheries	& you will ure be reco	I be contributing to a study on measuring financial risk tolerance. Your results will rded anonymously. We are not collecting any identifying information.	office for answers to your questions.	
Peal Age and the second	ge Li ayer x-DV	Food, Nu Health, 8	trition, Wellness	Investment Risk Tolerance Quiz	discover the Experiment Station	
E Relay f	for Li e-Le	Food Saf	nance	o general, how would your best friend describe you as a risk taker?	Support the Experiment Station	
C Resilier	ncy ment	Lawn & C	Garden	 Willing to take risks after completing adequate research Cautious A real risk avoider 	Volunteer at the Experiment Station Follow us on	
Retiren	ment mt & mtEst	Mosquite & Vector	Control Biology 2. Yo esources ta	ou are on a TV game show and can choose one of the following. Which would you lke?	Was This Page Useful?	
🛛 💋 Ric Ede	elman 💌	& the Env	vironment	<u>^</u>	1 2 3 4	✓

🛃 start

u... 🦲 (3) Twitter / Home -

TWENTY STEPS TO SEVEN FIGURES

- Set measurable (SMART) financial goals
- PYF starting today
- Diversify portfolio
- Invest regularly (DCA)
- Buy and hold stocks for the long term
- Take prudent investment risks
- Choose quality stocks
- Minimize investment expenses
- Take advantage of tax breaks
- Invest cash windfalls

- Live below your means
- Develop a spending plan
- Work hard
- Increase your "human capital"
- Grow your net worth
- Practice stability
- Take care of yourself (good health habits)
- Believe in yourself
- Pass the "Wealth Test"
 - Age x Income ÷ 10 = Adequate
 Net Worth
- Be patient



Slides: http://rci.rutgers.edu/~boneill/presentations/index.html

CONTENT SESSION 1 ACTIVITIES



BREAK TIME!







