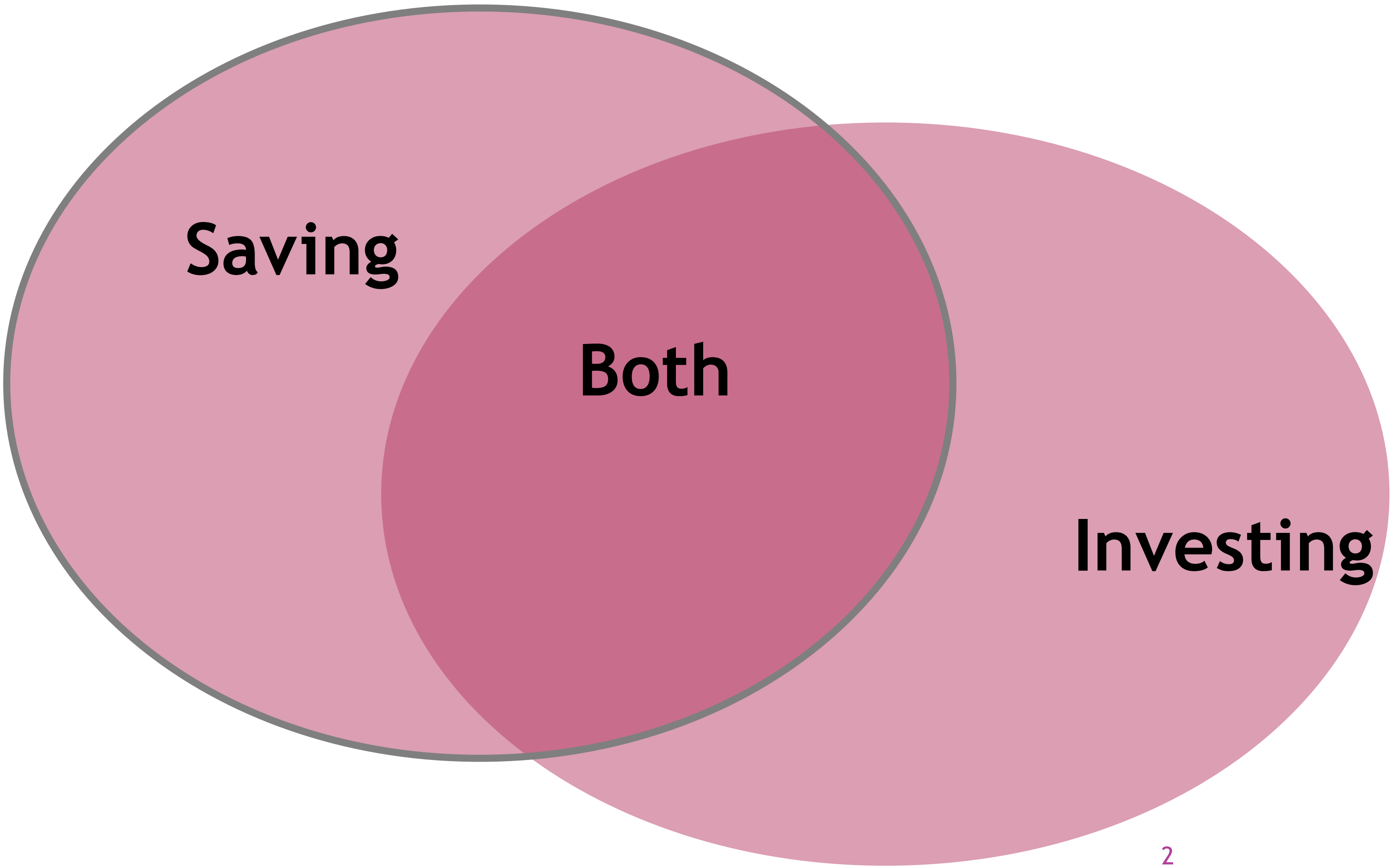
SAVING AND INVESTING FOR WEALTH

Hard Core Boot Camp
Content Session #1

New Jersey Coalition for Financial Education

A Jump$tart Affiliate

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



VIDEO: THE PROS AND CONS OF SAVING AND INVESTING

http://www.youtube.com/watch?v=2DBdWeTxXeU&feature=related (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

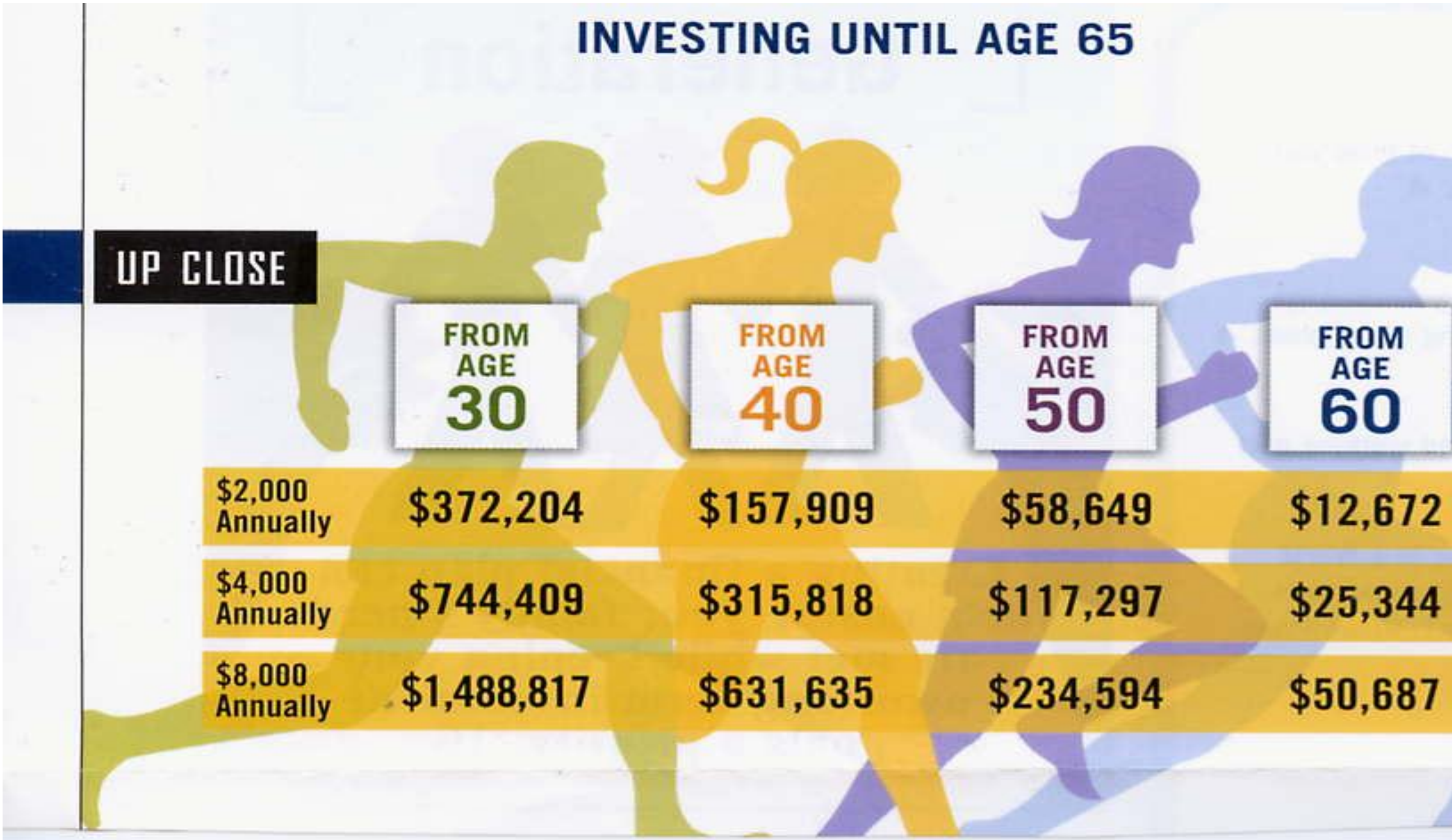
- **Examples:**

  - $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"



INVESTING UNTIL AGE 65

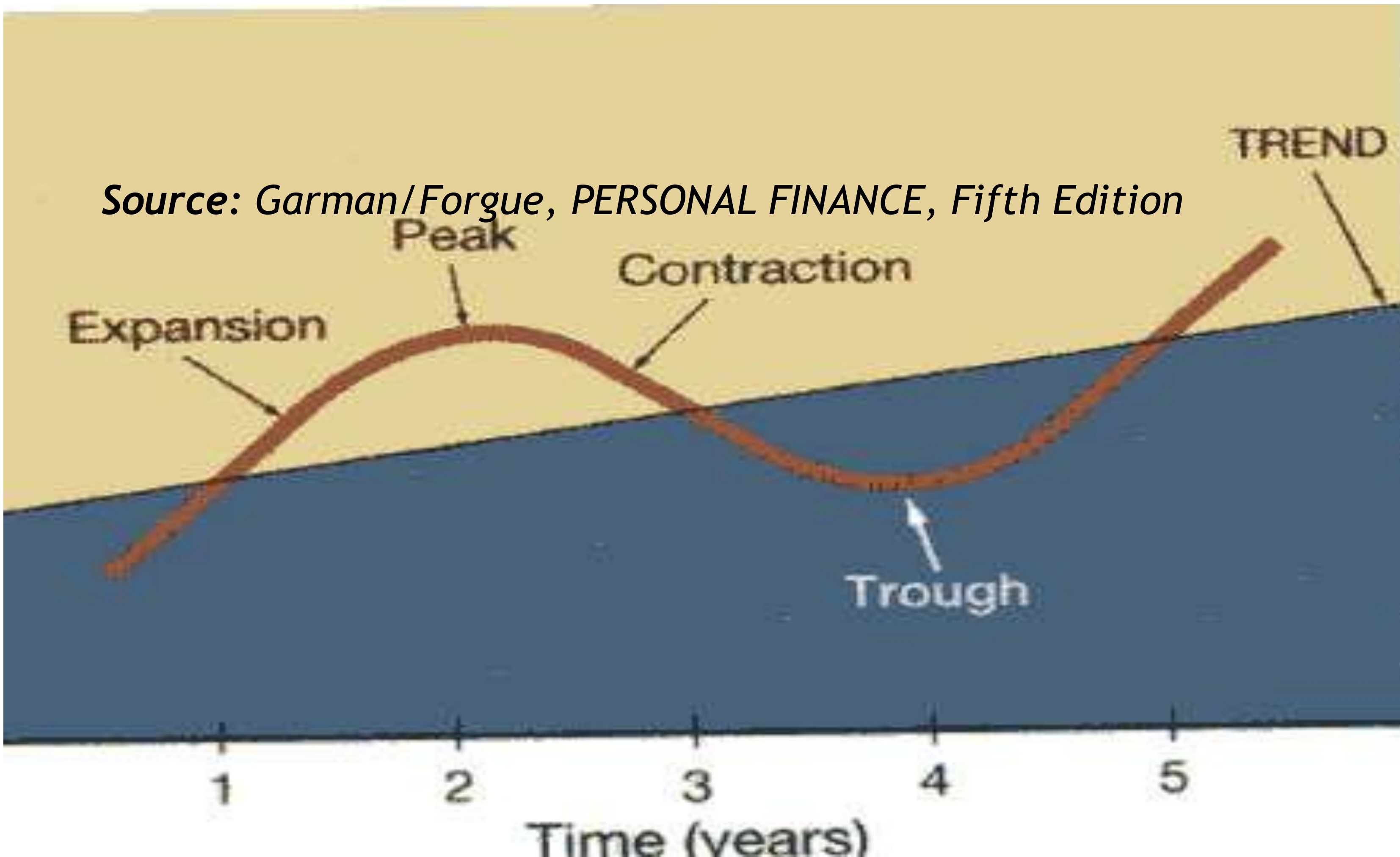
UP CLOSE

	FROM AGE 30	FROM AGE 40	FROM AGE 50	FROM AGE 60
$2,000 Annually	$372,204	$157,909	$58,649	$12,672
$4,000 Annually	$744,409	$315,818	$117,297	$25,344
$8,000 Annually	$1,488,817	$631,635	$234,594	$50,687

Illustration assumes an 8% average annual return

INVEST FOR LONG-TERM GOALS

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



Source: *Garman/Forgue, PERSONAL FINANCE, Fifth Edition*

INVESTMENT PRE-REQUISITES

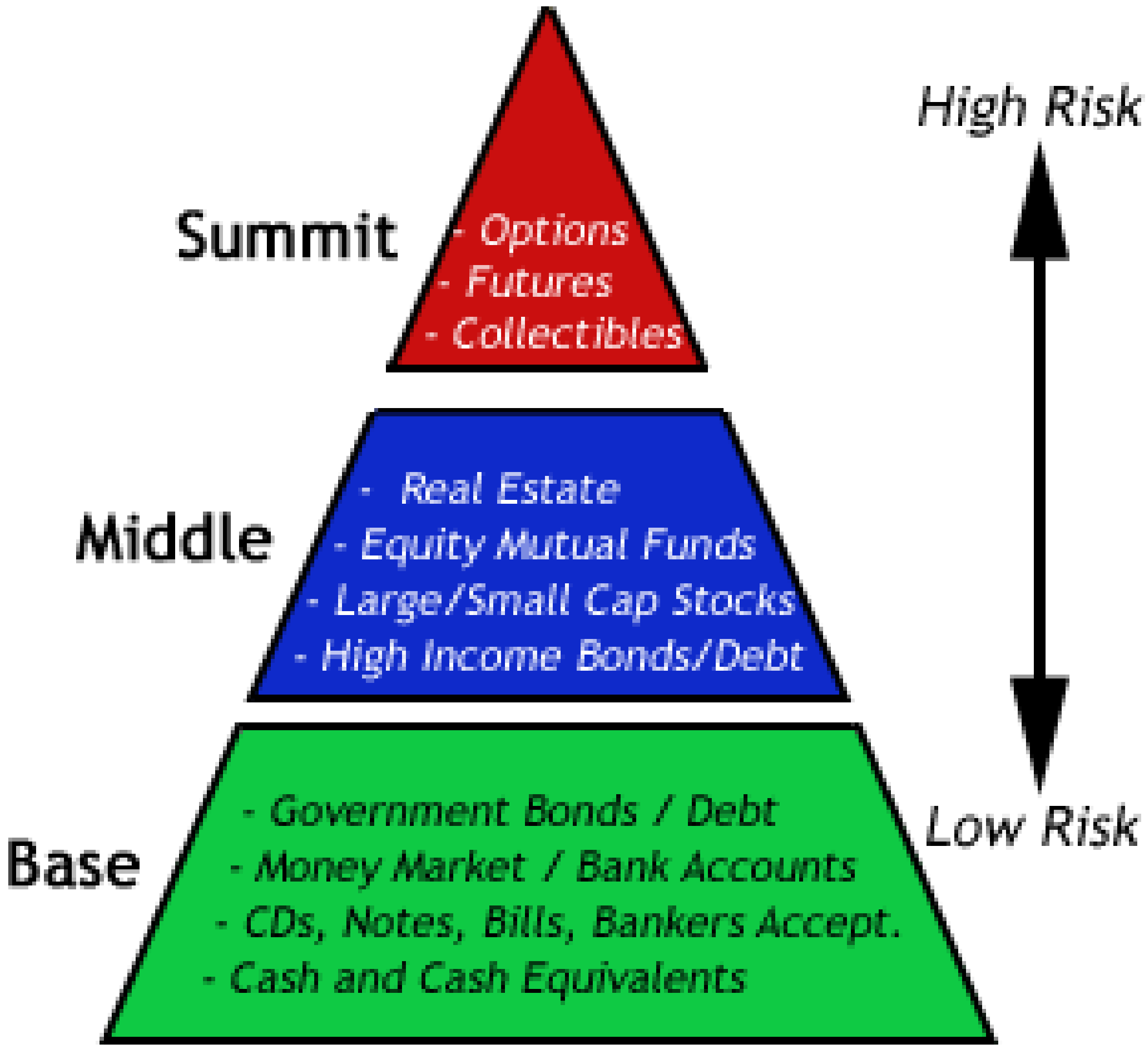
- Adequate emergency fund
- Adequate insurance
- No or low consumer debt balance
- Written financial SMART goals
- An "investor's mindset"

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#axzz1rH9rDBUo

- **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_averaging_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

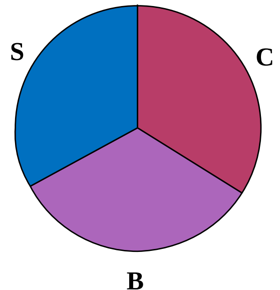
Total Number of Shares: 31.15 shares

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

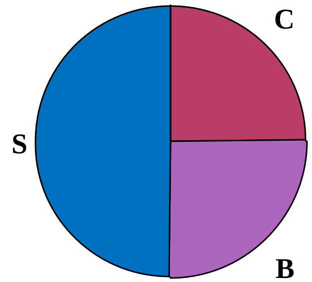
ASSET ALLOCATION

- 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
  - Conservative portfolio: less stock in portfolio

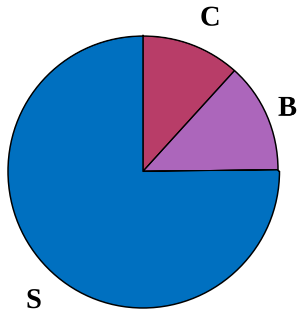
Conservative



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.

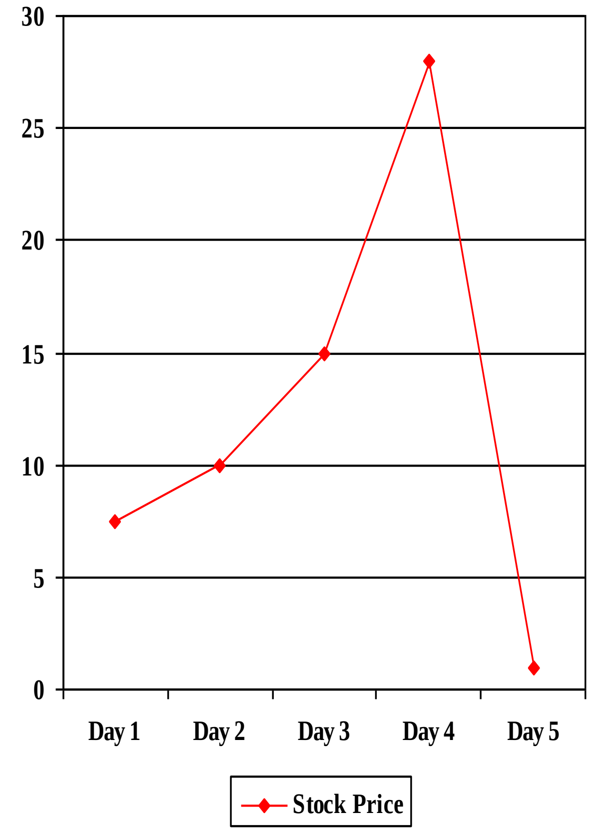
- On the other hand, a pyramid schemer will offer you an opportunity to make money yourself by recruiting new “investors” into the “franchise” similar to a multi-level marketing firm.

PYRAMID SCHEMES

Levels	Number of Participants
1	6
2	36
3	216
4	1,296
5	7,776
6	46,656
7	279,936
8	1,679,616
9	10,077,696
10	60,466,176
11	362,797,056 - more than U.S. Population
12	2,176,782,336
13	13,060,694,016 - more than 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

Investing For Your Future

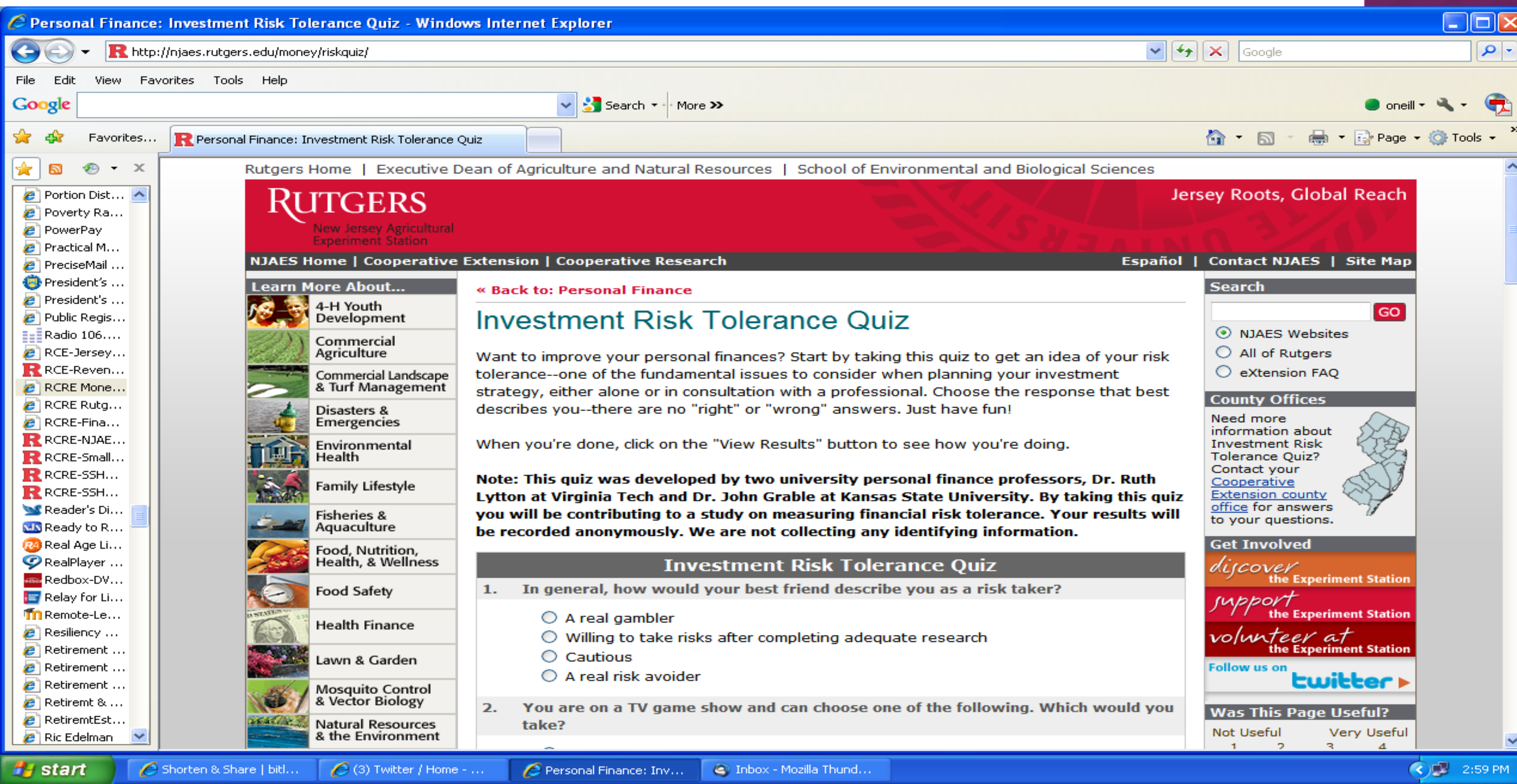
FINRA INVESTOR EDUCATION FOUNDATION CONTENT MODULES

- Free of charge and downloadable
- 11 content modules
- Designed for beginning investors
- Used for library investor education programs
- http://www.finrafoundation.org/resources/education/modules/

INVESTMENT RISK TOLERANCE QUIZ

Rutgers Cooperative Extension

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



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!


palm
Sprint
2:02 pm
Main
My Treo
Quick Tour
Bluetooth
Calc
Calendar
Contacts
Documents
Downloads
Email
GetGood
GoogleMaps
IM
Treo