

# Why should you save and invest?

Diversify! Don't put all of your eggs in one basket.



## SAVING VS. INVESTING

### What is the difference?

#### Saving...

Is a short-term commitment to meet unexpected shortfalls.

Helps meet short-term goals

Yields lower return with lower risk

#### Reasons for Saving

- Achieve personal and financial goals
- Build an emergency fund
- Keep funds secure while increasing them

#### Investing...

Is a long-term commitment to put money away and let it grow.

Helps meet long-term goals

May yield higher return with higher risk

#### Reasons for Investing

- Plan for long-term goals such as retirement
- See value increase over time
- Take more risk for possibly more return on investment

### Watch it grow

**Rule of 72** – Estimates the length of time (in years) for funds to double with compound interest.

$72/\text{interest rate} = \text{number of years to double}$



## COMPOUND INTEREST

- Deposit \$5,000 today at 2% interest rate:  $72/2 = 36$   
(36 years for \$5,000 to double to \$10,000)

- Deposit \$5,000 today at 8% interest rate:  $72/8 = 9$   
(9 years for \$5,000 to double to \$10,000)

### Common saving tools



#### Savings Account

Often used for emergency fund and other short-term savings goals



#### Money Market Account

Higher minimum deposit and gets a higher return than savings accounts



#### Certificate of Deposit

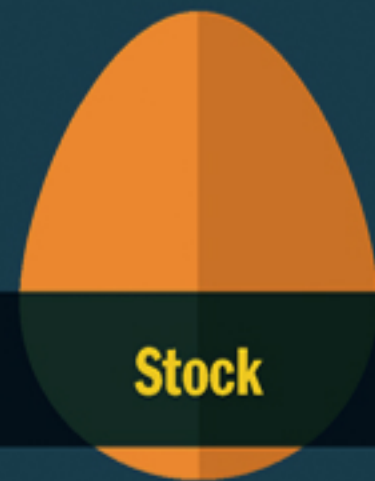
Deposits locked in for specified time, earns interest, and has penalties for early withdrawal



#### Savings Bond

Has low risk and growth, is government issued and backed

### Common investment tools



#### Stock

Ownership of a company that may grow in value or earn dividends



#### Bond

Money lent to a government or corporation; Earns interest and the face value at maturity



#### Mutual Fund

Funds invested in a diversified portfolio that may earn dividends



#### Physical Asset

Items such as art, real estate, and land whose values may rise over time

### Diversification



Reduce risk by allocating funds among a wide variety of investments and savings tools.



In other words: Don't put all of your eggs in one basket.

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