Welcome to...

Get Savvy
Grow Your Green Stuff

Nov 11 Steps towards Investing
Where Are You Logging In Today?
Meet the Speakers

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Consumer Economics Educators
University of Illinois Extension
Tweet Chat Wednesday @ 1:00 PM CST

http://goo.gl.HMHvx

HASHTAG

#GetSavvy
Steps Towards Financial Security

1. Investments & Home Ownership
2. Emergency Savings
3. Insurance – Protection against Risk
4. Healthy Finances
   - Good Credit
   - Budget
   - Bills Paid On Time
Emergency Savings

Rule of Thumb

Have 3 – 9 months of essential living expenses in a liquid format, or easily accessible
## The Impact of Saving & Investing

<table>
<thead>
<tr>
<th>$20 per Week</th>
<th>5%*</th>
<th>10%*</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 Years</td>
<td>$13,700</td>
<td>$18,200</td>
</tr>
<tr>
<td>20 Years</td>
<td>$36,100</td>
<td>$65,000</td>
</tr>
<tr>
<td>30 Years</td>
<td>$72,600</td>
<td>$188,200</td>
</tr>
<tr>
<td>40 Years</td>
<td>$131,900</td>
<td>$506,300</td>
</tr>
</tbody>
</table>

*Annual rate of return
Match Investment to Meet Time Frame

- Short-term goals
- Long-term goals
- Stay ahead of inflation
- Access to money
Money Market Accounts

- Limited access
- Good tool to accumulate savings
- More interest return

Good tool to accumulate savings
How Do Companies Raise Money?

Sam wants to start a new business – a tennis shop.

How can he get money?
Polling Question

Do I want to buy a piece of Sam’s company or loan him money?

A. I want to buy
B. I want to lend him money
C. I don’t like tennis
Polling Question

Who has the potential to make more money?

A: Owner

B: Loaner
How will my risk of losing money be different?
Stocks vs. Bonds

**Stocks**
I own a piece of the company

**Bonds**
I loan the company money
How do I make money on stocks?

**Capital gains**
- The company does well.
- Stock’s price goes up.
- Sell at a profit
  Note: main way to make money on stocks.

**Dividends**
- The company pays stockholders a dividend.
- Some companies don’t pay dividends.
How do I lose money on stocks?

**Capital Loss**

- The company does poorly and the price goes down
- Lose money when you sell
How do I make money on bonds?

Capital gains

- Interest rates go down.
- The value of my bond goes up.
- I sell before maturity at a profit.
How do I lose money on bonds?

Capital Losses

- Interest rates go up.
- The value of my bond goes DOWN.
- I sell before maturity at a loss.
Polling Question

Who has the potential to make more money?
Polling Question

Who has the potential to lose the most money?
What is a mutual fund?

My money is pooled with other investors and a manager handles the buying and selling of investments.
What is a mutual fund?

Mutual funds can be either ownership or loanership investments, or a hybrid

- Stock Mutual Funds
- Bond Mutual Funds
- Other types: Balanced, Target-date, Special Sector mutual funds
Mutual Fund Categories

- Mid Cap
- Value
- Small Cap
- Large Cap
- International
- Growth
Need Investments for Long-Term Goals

Research tells us that, in the long-run, the stock market is our best bet against inflation and price increases.
Return Rates on Investments

- S&P 500 Stocks
- US Bond Index
- CDs (Certificate of Deposits)

Average Return 10 Years
Average Return Long Term
Purchasing Power Risk

Bonds, CDs, other loanership investments

Inflation eats away at the value of the investments.

When I get my investment back, I can’t buy as much with it as I could before.
Purchasing power risk (inflation risk) isn’t much of a problem in the short-term, but for long-term investments, it is your worst enemy.
Market Risks

Stocks

The stock market goes up and down, and the value of my investment goes up and down with it.
Market Volatility

*This example is an exaggeration. Not based on real market data and not to scale. Industries perform differently in the market.
Sam’s tennis shop does poorly and he is forced to close the shop.

The tennis industry as a whole has a problem, and Sam’s tennis shop suffers.
Polling Question

Who lost the most?

A
Ann – loaned $10,000 with payments every 6 months

B
Mike – bought into business with $50,000
How Can We Minimize Risk?
Diversification

- Invest in more than one company or industry.
- Lessen the impact of any one investment.
- Small investors diversify by buying mutual funds.
- Reduces business risk and market risk.
A Single Stock: The Least Diversified Portfolio

- Dell Computer
Single Industry: Slightly Diversified

- Apple
- Dell
- Lenovo
Diversified Stock Portfolio

- Pharmaceuticals
- Finance
- Aerospace
- Auto Manufacturing
- Agribusiness
Allocated Across Asset Classes
Adding International Diversification

- Stocks
- Bonds
- Cash
- Other

Foreign Investments

U.S. Investments
Dollar-cost Averaging

- Invest on a regular basis over extended period of time.
- Buy more shares when prices are down, fewer shares when prices are up.
- Invest the same dollar amount each time.
- Reduces market risk.
## Dollar Cost Averaging

<table>
<thead>
<tr>
<th>Date</th>
<th>Investment</th>
<th>Price per Share</th>
<th>Shares Purchased</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1</td>
<td>$100</td>
<td>$25</td>
<td>4</td>
</tr>
<tr>
<td>February 1</td>
<td>$100</td>
<td>$33</td>
<td>3</td>
</tr>
<tr>
<td>March 1</td>
<td>$100</td>
<td>$20</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>$300</strong></td>
<td><strong>Avg. Price:</strong></td>
<td><strong>Total:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>$26</strong></td>
<td><strong>12 shares</strong></td>
</tr>
</tbody>
</table>
Time-Frame Matching

Choose investments appropriate for the time I will hold the investment.

- **Long-term**: Inflation is the greatest risk.
- **Short-term**: Choose investments whose values don’t fluctuate.
What types of risk do mutual funds have?

Mutual funds have the risk of the investments they hold.

Most mutual funds are diversified, reducing business risk and financial risk.
How can I control these risks?

Indexing

These mutual funds use passive management instead of active.

Goal is to match performance of a benchmark such as S&P 500.

Reduces market risk and business risk.
Costs of Investing

- Fees to purchase (commission and loads)
- Fees to manage mutual funds
- Fees to sell investment

No-load mutual funds with low maintenance fees are often a best buy for consumers.
## Impact of Time on Money

<table>
<thead>
<tr>
<th>Age</th>
<th>Contributions Made Early</th>
<th>Contributions Made Later</th>
</tr>
</thead>
<tbody>
<tr>
<td>22-30 (9 years)</td>
<td>$2,000 annually</td>
<td>$0</td>
</tr>
<tr>
<td>31-65 (35 years)</td>
<td>$0</td>
<td>$2,000 annually</td>
</tr>
<tr>
<td>Total Saved</td>
<td>$18,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Amount available at 65</td>
<td>$579,471</td>
<td>$470,249</td>
</tr>
</tbody>
</table>

*Assumes money earns a 9% return.*
When and how will you start investing?
Choosing a Financial Professional

web.extension.uiuc.edu/financialpro/
Tweet Chat Wednesday
@ 1:00 PM CST

HASHTAGS
#UIMoney
Or
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Jan 27
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badges.illinois.edu/usfsco/financialliteracyprogram

Launch of the Financial Literacy Badges program is supported through the Financial Literacy Counts Grant from HigherOne.
Questions?
Thank You