



Welcome to “Becoming a Millionaire: Savings and Investment” sponsored by the Student Loan Outfitters Program through the (insert your school’s name) Office of Student Financial Aid. My name is (counselor’s name), and I am a Student Assistant for the Outfitters Program.). The purpose of this program is to help you to gain skills in managing your income and expenses effectively. This will help you make the most of the money you have for college, and develop good habits for life after school.

Please feel free to ask questions as we go through the presentation.

Becoming a millionaire is not easy, but it’s still possible for those of us who can’t play basketball like LeBron James, or sing like Britney Spears to achieve wealth. Through disciplined saving and investment, you can become one of America’s millionaires.



Starting a Savings Plan

“Getting rich is not a function of investing a lot of money; it is a result of investing regularly for long periods of time.”



Source: Garman & Forgue (2003), *Personal Finance* Seventh Edition. Houghton Mifflin pg. 18

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Responsible Borrowing + Successful Repayment

Many of us have heard the adage “a penny saved is a penny earned.” So we know the value of saving money. However, many of us delay getting started because we feel like we don’t have the income to do so. Yet, the simple truth is that the earlier you start the more you can accumulate. Getting rich is not a function of investing a lot of money; it is a result of investing regularly for long periods of time. So getting started as soon as possible is key. If you don’t have much income from which to save, remember this: one of the reasons you are in college is to build good habits, so at this stage the amounts are not as important as the action.



Start As Soon As Possible ...

Annual Interest Rate	Age Investment Started			
	20	30	40	50
3%	\$185,440	\$129,924	\$72,919	\$37,198
6%	\$425,487	\$222,870	\$109,729	\$46,552
10%	\$1,437,810	\$542,049	\$196,694	\$68,545

...and Become a Millionaire!

Assuming: \$2000 annual contribution accumulated to age 65;
used Future Value of Annuity Formula to compute



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If you are a young man or woman just starting your college career, you have a fantastic advantage in building wealth ... **TIME!** Don't waste this valuable advantage. Starting now to build the habits that will help you reach your financial goals will serve you well in the long run. Let's say that you plan to start saving \$20 a month once you graduate from college and to save that amount for 10 years. At 6% you'd have \$1,537 **more** money if you started today instead of waiting 4 years!

It's a mathematical fact that saving and investing early and often can result in a net worth of over one million dollars. If we assume that you save \$2000 and put this amount into investments that earn 9% or 10% at the end of each year starting at age 20, you would have over \$1.4 million by the time you reach age 65. If you put it in at the beginning of each year you would have over \$1.5 million. Even if your investments only earn 3% you'd have \$185,440. If you can't save \$2000 a year but you could save \$1,000 at 10%, you'd have \$718,905!



Time IS On Your Side!

**The miracle of compound interest:
Interest *earning* interest**

Example: \$100 @ 5% = \$105

**With compound interest, in Time 2:
\$105 @ 5% = \$110.25**



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Compound interest means that your interest earns interest. Let's say you have \$100. At 5%, you've earned \$5 in interest. In the second period, your original \$100 earns another \$5 in interest, but *so does the interest you earned in the first period*. So, instead of earning \$5 again in the second time period, you earn \$5.25!

Think of compound interest like a snowball rolling down hill. Without your adding any more snow, that snowball just keeps getting bigger. The steeper the hill (or the higher the interest rate), the faster your snowball (or savings) grow. The longer that snowball has to roll (or the longer you leave your savings in adding interest), the more both grow!



Find Money to Save

WATCH THE DAILY LEAKS!!

Save \$5 a day (lunch, soda, snacks, etc)

$$5 \times 7 = \$35 \text{ a week}$$

$$35 \times 4 = \$140 \text{ a month}$$

$$140 \times 12 = \$1680 \text{ a year!!!}$$

A LITTLE ADDS UP!!!



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While \$2000 a year may sound like a lot to save, it is probably easier than you think. You can save \$1680 a year by just concentrating each day on stopping daily leaks from your wallet or purse. Just saving \$5 dollars a day by making your lunch, avoiding buying those extra cokes, beers, snacks, or cigarettes can save most of the \$2000 by itself. A little adds up!



Save Regularly!

- **Do it now**
- **Pay yourself first**
- **Use simple and creative ways to save**
- **Make saving a part of every spending decision**
- **Use a goal statement to plan**

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You should save at least 10% of your take home pay first - along with saving for emergencies and seasonal expenses. If you don't have income from a job and thus don't have take-home pay, save at least 10% of the money you do have – gifts from your parents, relatives, etc.

You can also find simple and creative ways to save money. Some examples are:

- put all your change in a jar (good for seasonal expenses or to purchase special items)

- set up automatic withdrawal with your bank to move money from checking to savings

-build the habit of never spending \$1 dollar bills. Think how much you would have now if you had every \$1 dollar bill that ever passed your way.

-once you've paid something off (a loan from your parents or a bill you owe), keep paying – but now pay yourself! Just put that same amount aside for your future.

Keeping in mind the goals you are saving for may help provide the continuous motivation you'll need to save regularly. A goal statement, which is a written declaration of your financial goals can help you do this. To reach these goals you may have to increase income, decrease expenses, or use a combination of the two.

(This connects to the Budgeting module / presentation)



Your Major Savings Goals

- **Down payment on a house**
- **Down payment on a car**
- **Education**
- **Travel**



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Take a second to think about your major financial goals. Do you want to be able to make a down payment on a car or house? What about paying for graduate school? Maybe you want to travel to another country. Or, maybe it's something more immediate – like going on a big spring break trip.

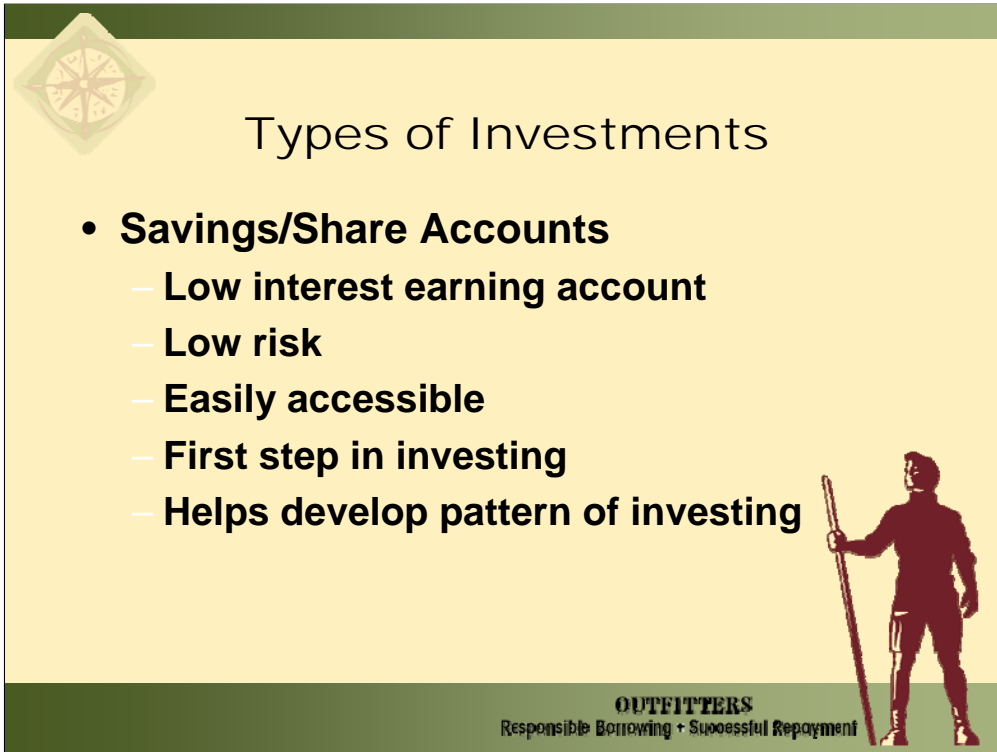
Let's take a look at which savings or investment products may help you best achieve those goals. But before you do, see how you would answer the 10 questions in the **What's Your Savings IQ quiz (HO#1)**.

Slide 7

S4 Note from Bill Fleming

Changed the UGA-related "Georgia-Florida game" reference to something more general: "a big spring break trip."

SLC, 5/26/2004



Types of Investments

- **Savings/Share Accounts**
 - **Low interest earning account**
 - **Low risk**
 - **Easily accessible**
 - **First step in investing**
 - **Helps develop pattern of investing**

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While disciplined savings is an important part of reaching your financial goals, it's the investment part of your plans that will help you earn a good return on your money. The difference in the return is a major distinction between mere savings and investing.

One way to invest that is very similar to pure savings is to use savings or share accounts. These accounts are low risk, are easily accessible and help develop a pattern of investing for the first time investor. However, along with the low risk comes a low return for these type of accounts. You'll find savings/share accounts at local banks, savings and loans, and credit unions. Interest from savings/share accounts is taxable.

Note to presenter: You can find current interest rates at www.bankrate.com. In May 2005, the Annual Percentage Yield (APY) on savings accounts was less than 1%.



Types of Investments

- **Certificates of Deposit**
 - Higher interest than savings accounts
 - Must leave money in for fixed time
 - The longer you leave it in the higher the interest rate
 - Available at banks and credit unions



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Another way of saving/investing is with a certificate of deposit (CD). A CD is a savings instrument for a specific amount of time from a depository institution like a bank or a credit union. A CD pays a higher interest rate than a savings account, but you must leave the money in from seven days to eight years. CDs have a maturity date and if you take the money out before that date, you don't earn as much interest. Owners of CD's also benefit from the added protection of federal deposit insurance. The longer you leave your money in a CD the higher the interest rate you can earn.

Interest from certificates of deposit is taxable. In May 2005 interest rates on CD's ranged from less than 3% on a six-month CD to just over 4% on a 5 year CD (Source: www.bankrate.com)

Before you show the next slide, ask "How did you answer Question 2 on the Savings IQ quiz?" *Note to Presenter: Answers are in HO#2 "Answers to What's Your Savings IQ."*

Types of Investments

- **Bonds**
 - You loan money to a corporation or government
 - Earns higher interest than CDs but not as high as stocks
 - Low risk for government bonds
 - Higher risk for corporate bonds
 - Can purchase from employers, banks, and brokerages
 - You can buy U.S. savings bonds online – www.treasurydirect.gov

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Bonds are another investment vehicle. You can invest in corporate bonds, U.S. government bonds, or municipal bonds. All three entities offer these investments to the public to raise money for themselves. When you invest in bonds, you are actually loaning money to them, and they pay you interest on your loan. Bonds pay higher interest than CD's but not as high as stocks do. Government bonds, whether federal or municipal, are usually less risky than corporate bonds. Usually the higher the risk, the higher the return as seen in the extreme case of high yielding junk bonds that have low bond ratings.

You owe income tax on interest from all bonds except those that are tax-exempt – usually those sold by a unit of government.

Note to Presenter: If you want more information about bonds, stocks, and mutual funds, check the Web resources in Handout #2. A good place to start is <http://www.fool.com/investing.htm>

The correct answer to Question 2 is TRUE.

Before you show the next slide, ask, “How did you answer Question 1 on the Savings IQ quiz?” and “How did you answer Question 4?”

Types of Investments

- **Stocks**
 - **Buying a part of a publicly traded company**
 - **As profits increase value of stock increases**
 - **Highest potential rate of return**
 - **Highest risk**
 - **No limit on how long you have to invest or how much you could lose**
 - **Available from stock brokers and online brokerages**

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While bonds are ways for companies to borrow from you, stocks are ways you can actually own shares of a business corporation. You are buying a part of a publicly traded company, and as profits increase the value of the stock increases. Investing in stocks can pay the highest rate of return, but also has the highest risk of all of the investment vehicles discussed so far. There is no minimum length of time you have to own a stock – you can sell it right after you buy it. Stocks are available from stock brokers and online brokerage houses.

You pay taxes on the dividends (a return of company profits) paid by stocks as well on capital gains – the difference between the value of the stock when you sold it and when you bought it.

The correct answer to Question 1 is TRUE.

The correct answer to Question 4 is FALSE. The value of a stock could go to zero!

Before you show the next slide ask, “How did you answer Question 9 on the Savings IQ quiz?”



Types of Investments

- **Mutual Funds**

- Investment companies pool money from lots of individuals to invest in stocks and bonds
- Easy way to invest in a variety of stocks and bonds
- Depending on the type of fund, risk and rate of return vary
- Can purchase from mutual fund companies, brokerages, and online



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A mutual fund is an investment company that raises money by selling shares to the public and then investing that money in a diversified portfolio of investments. When you own shares of a mutual fund, you actually own minute parts of all of the investments of that company. So, it's a easy way to invest in a variety of stocks and bonds.

There are *many* different types of mutual funds. Some mutual funds have an income objective – the primary focus is earning a high level of current interest. Others have a balanced objective; these funds have both stocks and bonds to achieve a balanced flow of current income and, in the long-term, an increase in the value of the investments. Some funds have both a growth and an income objective, investing in companies expected to show average or better growth with steady or rising dividends. Finally, some mutual funds have a long-term growth objective, seeking growth in the value of the securities in the portfolio rather than income.

Each mutual fund company typically offers a variety of different funds with different levels of risk and return to match almost any consumer goal.

You pay income tax on returns from mutual funds except those that are invested in tax-exempt bonds.

The correct answer to Question 9 is TRUE. Ask “How did you answer Question 7 on the Savings IQ quiz?” The correct answer is FALSE. Although many mutual funds are low-risk, NO investment offers a guaranteed return.

Slide 12

S5 Note from Bill Fleming to Brenda Cude

It may be a good idea to add a slide about the "Roth IRA" let me know if you would like me to research it and add the slide.

by the way there is no note 3 (S3) - I deleted it
SLC, 5/26/2004

Criteria for Selecting Savings/Investment Products

- **Yield**
- **Safety**
- **Liquidity**
- **Risk Tolerance**
- **Time Horizon**

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How can you tell if an investment is right for you? Here are some ways to compare the different investments you may consider:

Yield - rate of financial return you earn – look for the average annual return. If it's a taxable investment, what's the after-tax return?

Safety - the dollars you invest will remain intact.

Ex: \$1000 in - \$1000 + earnings out (you do not lose any principal)

Liquidity - the ease with which your investment can be converted to cash without loss.

Ex: Funds in a regular savings account would be available at all times as opposed to a 6 month certificate of deposit

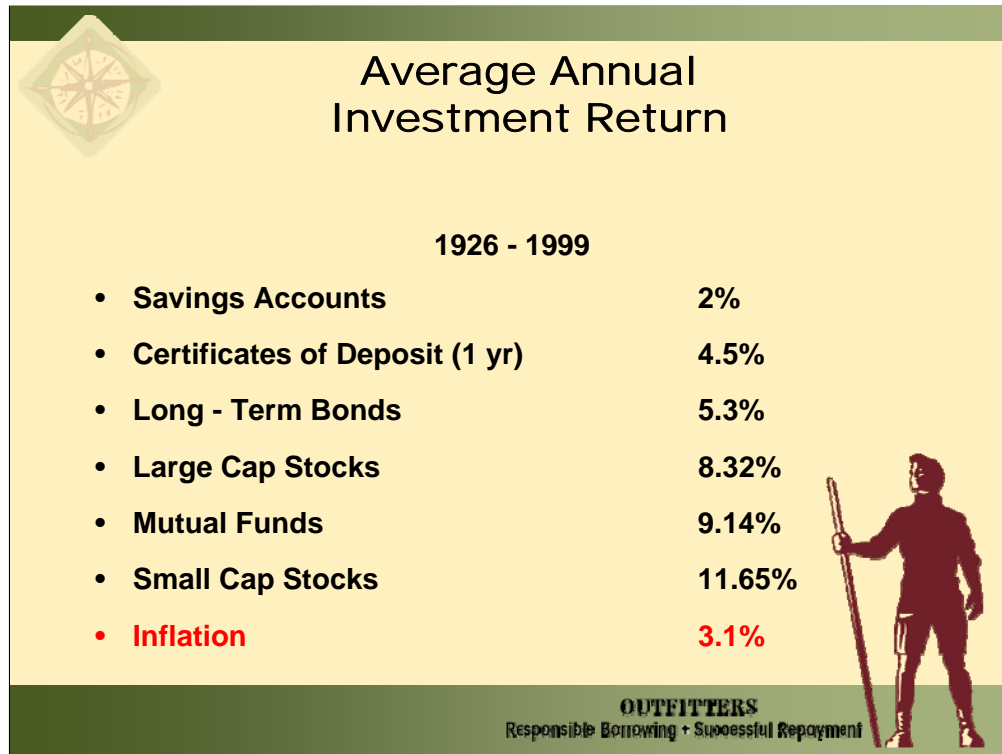
Risk Tolerance - how secure you feel with the risk of your investment decreasing in value

Ex: Fluctuation of stocks

Time Horizon - how long you are going to be able to leave the money invested

Ask “How did you answer Question 10 on the Savings IQ quiz?” The correct answer is TRUE. You can afford to take more risk if you won't need the money in your investment in the near term.

Before you show the next slide, ask “How did you answer Question 3 on the Savings IQ quiz?”




Fees or penalties can reduce these returns. For example, most mutual funds have “loads” or fees. Often these are sale charges or commissions – typically 5.5% to 8.5% paid at the time of purchase. So-called “no-load” funds may have a “service fee” of .25% or less.

What rate of return you expect depends in part on whether you’re willing to accept the risk that you’ll lose some or all of your principal. The higher the interest rate, the greater that risk. Most investors manage risk by diversifying their portfolio – having several different types of investments with different expected returns – and systematically investing an equal amount of money at regular intervals regardless of the price of the investment. This is called “dollar cost averaging.” The rate of return relative to the inflation rate is important – if the rate is lower than the inflation rate, your money loses buying power.

The correct answer to Question 3 is FALSE. Stocks, and specifically small cap stocks, have earned the higher returns. A small cap stock just means a smaller company in terms of its market value – a “small” company is one with \$300 million to \$1 billion in assets.

Ask “How did you answer Question 6 on the Savings IQ quiz?” The correct answer is FALSE. What interest rate is Carlos likely paying on his credit card? It’s probably higher than anything he can earn on an investment so he should pay that off before investing.


Ask “How did you answer Question 8 on the Savings IQ quiz?” The correct answer is FALSE. Although stocks and stock mutual funds can be risky investments, Bob has a long time and they tend to earn a higher return than other investments.



Time It Takes to Double Money

The “Rule of 72”


Formula	Example
$\frac{72}{\text{rate}} = \text{time}$	$\frac{72}{10\%} = 7.2 \text{ years}$
$\frac{72}{\text{years}} = \text{yield}$	$\frac{72}{10} = 7.2\%$



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The Rule of 72 is a simple way to figure out how long it takes to double principal using compound interest. You simply divide the interest rate the money will earn *into* the number 72. So, at 10% it takes 7.2 years to double your investment.

You can also use the Rule of 72 to figure out what interest rate you need to earn to double your money in a certain number of years. So, if you want to double your money in 10 years, you need to earn 7.2%.



Time It Takes to Double Money

- **Savings Account earning 2%**
 - $72/2\% = 36$ years
- **Certificate of Deposit earning 4%**
 - $72/4\% = 18$ years
- **Government Bonds earning 5.3%**
 - $72/5.3\% = 13.38$ years



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The Rule of 72 is a good way to make investment comparisons considering the investment yield and the time horizon. Here are some other examples of the use of the Rule of 72. As you can see, the investment that would take the longest time to double your money in this example is a savings account earning 2% at 36 years...

Time It Takes to Double Money

- **Common Stock earning 11.2%**
 - $72/11.2\% = \underline{6.43}$ years
- **Mutual Funds earning 9.14%**
 - $72/9.14\% = 7.88$ years

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...while the investment that would take the shortest time to double your money in is common stock earning 11.2% at 6.43 years.



Ways to Invest

- Investment Club
- Internet
- No-load (low fee) mutual fund
- Full service vs. discount broker
- Open an IRA



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The members of an investment club are usually people who have something in common. They pool their money and make group decisions about which investments to buy and sell.

There are lots of opportunities today to invest online. One way to check out online brokers *before* you invest is to visit Gomez.com. They rate the different online brokers.

All of the mutual funds have websites where you can learn more information. Or, you can buy shares of a mutual fund from a local broker or an online broker.

If you want investment advice (and are willing to pay higher fees), use a full service broker such as Merrill Lynch. A discount broker charges less, but doesn't offer as many services.

An Individual Retirement Account (IRA) is a personal retirement vehicle. You can make annual tax-deductible contributions. You have to be a working taxpayer to make tax-deductible contributions to a traditional IRA. If you aren't working, you can make contributions to a non-deductible IRA account. Contributions to a Roth IRA aren't deductible either but the funds in the account grow tax-free. So, you pay taxes on the money *before* you put it in, but you don't pay any taxes on the money you take out. Almost any investment can be an IRA – CDs, mutual funds, stock, bonds, etc. The maximum allowed contributions and rules about withdrawing change, so check with the IRS at www.irs.gov.

Before you show the next slide, ask “How did you answer Question 5 on the Savings IQ quiz?”

Slide 18

S6 Note from Bill Fleming to Brenda Cude:

I think the OSFA wanted the IRA to have a separate slide. Let me know if you want me to separate it.
SLC, 5/26/2004

Diversify

- **Variety of Investments: Not Just One Type**
 - **Stock**
 - **Bond**
 - **Mutual Fund**
 - **CD**

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Diversification is the process of reducing risk by spreading your investment funds among several investment vehicles to reduce risk. How much you diversify depends on how much money and time you have to invest. For example, if you have under \$500 you can use different investments for different purposes:

savings accounts which are good for emergencies,

savings bonds which are a long-term commitment for your money,

mutual funds which are better for the long term,

some money market accounts that provide easy access to your money,

and stocks which can be a gamble short term.

If you have over \$500 to invest you can use:

certificates of deposit which are another long-term commitment, mutual funds, savings bonds, and stocks.

Remember that having more different types of investments means more to keep track of and more time spent managing your investments.

The correct answer to Question 5 is TRUE.



For individual help contact:

Student Loan Outfitters
www.studentloanoutfitters.org
(800) 383-4222
outfitters@csac.state.ia.us

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The Outfitters Program funds Student Assistantship Grants to allow students like me to work on campus and offer peer counseling and financial literacy programs. I can help answer your questions and refer you to helpful resources. (Insert your school's info.)

Don't forget to ask participants to complete and return the evaluations!



Special thanks to the organizations involved in bringing this module to you.