SAVING AND INVESTING

PERSONAL FINANCIAL MANAGEMENT STANDARDIZED CURRICULUM - 2010

SAVING AND INVESTING

MODULE DESCRIPTION

Saving and Investing is a 60- to 75-minute program designed to develop knowledge and skills that will enable learners to achieve their financial goals. Due to the complexity of the subject matter and a requirement for the presenter to possess sufficient background knowledge to field questions, this module provides more detail than can normally be presented in a 60-minute program. The instructor should have a listing of current rates of return and yields on all asset classes mentioned. Some updates are required to provide the most current information.

Short program option: A 30-minute short program option is included as part of this module. See the end of the content material for information and instructions on how to use this option.

LEARNING OBJECTIVES

Terminal: Upon completion of this course, learners should be able to understand the purpose and value of saving and investing, and evaluate and choose appropriate tools and techniques to build wealth.

Enabling:

- Learners will articulate the impact of inflation using the eight examples in the *Has Inflation Affected You?* activity.
- During the *One-Minute Review*, learners will demonstrate knowledge of saving and investing tools by correctly identifying and categorizing at least five different saving and investing tools.
- During the *Post-it Polling* activity, learners will demonstrate their recognition of saving and investing concepts and tools by choosing options to three scenario questions based on time horizon, risk tolerance and financial situation.

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MODULE PREPARATION

Handouts:

- *Compound Interest and Time (Rate of Return = 10%)*
- *The Financial Planning Pyramid*
- *Creative Savings Strategies*
- *Has Inflation Affected You?*
- *Thinking About Investing?*
- *Investing Resources*
- *What is "The Market"?*
- *Which Tool Is It?*
- *Thrift Savings Plan: Wealth Building Made Easy*
- *I Can't Invest Now*

Materials (varies depending on activities chosen):

- Whiteboard or chart paper
- Pens, pencils and markers
- Post-it notes and blank paper
- Optional Excel file-Compound Interest and Time
- Optional *What is the Market* PowerPoint game

SUMMARY OF LEARNER ACTIVITIES

Has Inflation Affected You?: A short activity to illustrate the impact of inflation.

One-Minute Review: A short review of different saving and investment tools and their purpose.

What is "The Market"? (Optional) Several optional presentation methods are described to introduce learners to key terms used in the financial marketplace.

"***Post-it***" ***Polling:*** A group activity in which learners review content material and then plan options that will help them build a portfolio to increase financial security.

Which Tool Is It? (Optional): A matching game that reviews all the savings and investment tools covered during the program.

CONTENT OUTLINE

1. Welcome and Introduction (5 minutes)
   a. Topics
2. Understanding the Basics (5 minutes)
   a. Starting Early
   b. The Effects of Compound Interest and Time
   c. The Financial Planning Pyramid
3. The Tools of Saving (15 minutes)
   a. Safety, Liquidity and Yield
   b. Regular Savings Accounts
   c. Certificates of Deposit
   d. Money Market Accounts
   e. U.S. Savings Bonds

   f. Saving vs. Investing
   g. Time Frame
   h. Risk
   i. Inflation
   j. Learner Activity: Has Inflation Affected You?
   k. Taxes
   l. Compounding
4. The Tools of Investing (10-25 minutes)
   a. Asset Classes
   b. Fixed-Income: Bonds
   c. Equity: Stocks
   d. The Lessons
   e. Mutual Funds
   f. Learner Activity: One-Minute Review
   g. What Is “The Market”?
   h. Optional Learner Activity: What is “The Market”?
   i. Putting It All Together: The TSP Funds
5. The Techniques of Saving and Investing (20 minutes)
   a. Pay Yourself First
   b. Participate in The Military Saves Campaign
   c. Maximize Any Tax-Deferred Investment Opportunities
   d. Make Regular, Steady Investments
   e. Learner Activity: “Post-it” Polling
6. Summary and Conclusion (5 minutes)
   a. Take Action
7. Optional Short Program

CONTENT

SLIDE 1

SLIDE 3

WELCOME AND INTRODUCTION

Topics

This class will explore how to use saving and investing to achieve financial security. We will start with a discussion of the basics, like using compound interest and time to your advantage. Then we will discuss the different saving and investing tools and uses. Finally, we will talk about some basic investing techniques to help you reach your goals and achieve financial security.

UNDERSTANDING THE BASICS

Starting Early

How much wealth is enough? How much should a person save each month or year? What is a good goal? A few years ago, the head of the Social Security Administration suggested that the average middle-aged person today will need at least $500,000 of their own money to retire comfortably (in addition to Social Security benefits and any employer-provided pensions). Are you on track to reaching $500,000 by the time you retire? Did you know that the earlier you start to save and invest, the less you need to put away? Let's get right to work on the importance of starting early by looking at an example.

A 25-year old investor would have to invest $79 per month at a rate of return of 10 percent — a total out-of-pocket expense of $37,920 — to have $500,000 at age 65. If the investor delayed starting for 10 years, at age 35, a monthly amount of $221 would need to be invested — a total out-of-pocket expense of $79,560 — to get the same $500,000 at age 65. What if the investor delayed until age 45? He or she would have to invest $658 each month — a total out-of-pocket expense of $157,920 — to have $500,000 by age 65. (All examples assume a 10 percent long-term rate of return, with taxes deferred.)

What does this example show? The earlier you start to invest, the less you have to save each month. This is the "magic" of compound interest and time. The sooner you begin to put money aside, the longer your money will be working for you. This is so important that it is almost impossible to overemphasize. Just like the key to building wealth is saving and investing, the keys to successful investing are pretty simple: start early in life, be consistent and disciplined, and let compound interest and time work for you.

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SLIDE 6

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SLIDE 8

The Effects of Compound Interest and Time

Compound interest, simply defined, is when the money that your money makes, makes more money. This form shows four different plans to grow money. In the first column, Plan A, $3,000 is put away each year for six years (a total of $18,000 out-of-pocket) starting at age 21. Without ever saving another cent, if the money were left to grow at 10 percent per year with no withdrawals, the plan would amount to over $1 million by age 65.

Plan B shows the result of a 10-year delay in the same investment. Rather than investing $3,000 for six years starting at age 21, this scenario starts at age 31. For the same investment, the total will end up being $403,898. That 10-year delay cost about $600,000!

Plan C shows what the investments would add up to if, at the 31-year point, the investor put away $3,000 a year every year up to age 65, a total out-of-pocket expense of $105,000. Will it equal Plan A? No, the return in this scenario would be $894,380.

Plan D shows investment of a $30,000 lump sum over three years ($10,000 per year) starting at age 36. The growth would amount to $477,335.

Some service members object to these projections. Objections include, "But I'll be dead by the time I'm 65!" Actually, financial planners are planning out to 100 years of age these days. Another common objection is, "You can't get 10 percent anywhere that I know of!" Again, this is not true. Reasonable investment returns and where to get them will be discussed later in this program.

Earlier, a figure of $500,000 might have seemed impossible. After looking at these scenarios and how invested money, through the "magic" of compound interest and time, can grow into substantial sums, it clearly is possible (and easy if you start early) to reach twice that figure!

Trainer's note: *Distribute the Compound Interest and Time (Rate of Return = 10%)* handout. Note that Scenario D is based on receiving the $30,000 Redux bonus at the 15-year point and investing it under the TSP installment plan. For further examples, you can use the Excel spreadsheet for this handout to show the differences in time and rate of return. Before making the presentation, open the spreadsheet included with this module and practice entering numbers for different scenarios. Note that you can change the percentage rate on the right of the worksheet, as well as the annual amount invested. ($3,000/year = $250/month or $125/pay period.)

Trainer's note: For this segment, you can explain that it is an average return over time including the effects of inflation. And according to Standard and Poor's, the average annual compounded rate of return for the S&P 500 (including reinvestment of dividends) from January 1970 to December 2009 was 10.1 percent. Even including the Great Depression, the average annual compounded rate of return from 1926 to 2008 was 9.68 percent (source: <http://www.standardandpoors.com>).

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THE FINANCIAL PLANNING PYRAMID

With the Financial Planning Pyramid, building wealth can be easy if you follow a few simple steps. What is the first thing to do? The Financial Planning Pyramid provides a simple and organized approach to achieving your financial goals. For this session, we are going to look at Savings and Investment levels of the pyramid.

Once your management "tools" are in place, there is another level to emphasize before you start investing — establishing savings. Although you can certainly save and invest at the same time, you should focus on establishing your savings, especially emergency savings, before you concentrate on the investment levels.

The Financial Planning Pyramid shows that a sound savings plan consists of three components. These do not actually need to be three separate accounts (although some people find it easier to keep the money separate that way) but should be three separate "accountings."

Emergency Fund: These are cash reserves set up in a safe, easy-to-access savings account to provide money for unexpected financial situations, such as emergency leave to visit a sick parent, car repairs, etc. You should strive to have one to three months of your monthly expenses and debt payments set aside in your emergency fund.

Reserve Fund: Money should be available in savings to cover expenses that are predictable but do not occur on a monthly basis, such as car insurance, regular maintenance, taxes, birthdays, anniversaries and holiday spending. Calculate the annual expense and divide it by 12, and put that amount aside monthly.

Goal-Getter Fund: The purpose of this fund is to provide savings for short-term goals (money needed in less than five years) such as buying a car, putting a down payment on a house or financing a special vacation.

Trainer's note: Refer learners to the *Financial Planning Pyramid* handout.

Trainer's note: Refer learners to the *Creative Saving Strategies* handout for ideas on how they come up with the funds to complete the savings level of the Financial Planning Pyramid.

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THE TOOLS OF SAVING

SAFETY, LIQUIDITY AND YIELD

Where do you put your money when you are filling up your savings funds? Typically, you will use some type of savings tool. Before discussing the different types available, though, it is important to understand the three main factors used to evaluate the appropriateness of a saving or investing tool (or "product"). These factors are safety, liquidity and yield.

Safety: When you save and/or invest $1, you want to be certain you at least will get your $1 back. Is the account insured? How safe is the principal? Some products guarantee you'll get your money back, but others do not. You could lose some or all of what you invested.

Liquidity: How quickly and easily can you get to your money? Some money is available immediately, such as money in a savings or checking account. Other money could take a long time to get, such as equity in a real estate investment.

Yield (or rate of return): The yield is how much money your money earns. Some financial tools, such as a savings account, usually have a low rate of return, while others, like a growth stock, have the potential for high returns. When considering the "S-L-Y" factors, it is important to know that you never can have all three working in your favor — there always will be a trade-off. The trade-off you are willing to accept will depend on your goals and your time frame for the money you have. For example: For your emergency fund, safety and liquidity will be most important, so you will have to sacrifice some yield.

There are four options for savings: savings accounts, certificates of deposit, money market accounts, and U.S. savings bonds. Each should be evaluated in view of safety, liquidity and yield.

Trainer's note: Check and regularly update the rates for all tools discussed. These can be found at <http://www.bankrate.com> and <http://www.savingsbonds.gov>. Current Consumer Price Index/rate of inflation can be found at <http://www.bls.gov>. Other current market data such as S&P 500, NASDAQ and Dow Jones indexes can be found at any financial website such as <http://www.morningstar.com> or the financial section of your local newspaper. USA Today also has a daily summary of the financial markets that is quite useful.

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Regular Savings Accounts

- Safety. Guaranteed up to $250,000 (per Social Security number) if federally insured.
- Liquidity. No restrictions on withdrawals.
- Yield. Generally carry lowest rates of interest. The current average rate is less than .32 percent (as of May 2010).
- Go to your local credit union or bank to open a regular savings or share savings account.

Certificates of Deposit

A deposit of a fixed sum of money for a fixed period of time.

- Safety. Guaranteed up to $250,000 if federally insured.
- Liquidity. Funds are invested for a fixed period, usually six months to five years. CDs may be liquidated at any time, but if it is before the maturity date, some interest may be forfeited.
- Yield. Higher than savings deposits; the longer the term, the higher the yield. The average rate or return is for a one-year CD is .70 percent (as of May 2010).
- Minimum deposits (usually at least $500) are required. These often are called share certificates at credit unions. Go to your local credit union, bank or brokerage to purchase a CD.

Money Market Accounts

An interest-earning savings account offered by FDIC-insured institutions, with limited transaction privileges.

- Safety: Safe but may not be federally insured, depending on where the account is maintained. A money market deposit account at a bank or credit union should be insured up to $250,000 per account. A money market account held at a brokerage or through a mutual fund typically will not be insured.
- Liquidity: Generally, there are no restrictions on withdrawals. Money market accounts may have a large minimum deposit required, a

Trainer's note: The Federal Deposit Insurance Corporation protects the majority of banks. Credit union accounts have similar protection from the National Credit Union Administration. Both organizations are backed by the U.S. government and insure as much as $250,000 per account, per individual. This means that accounts are insured against a loss up to a balance of $250,000, even if the financial institution were to fail. (Note: The rate increased from $100,000 to $250,000 in 2009; however, the higher rate is only guaranteed through Dec. 31, 2013.)

required minimum balance, fees for withdrawals, and/or limited check-writing privileges.

- Yield: Generally low but higher than regular savings. The yield varies with changes in interest rates. Money market accounts may be attractive if rates are rising rapidly. The current national average rate is .84 percent (as of May 2010).
- Go to your local credit union, bank or a brokerage to open a money market account. Remember that many brokerages may help you open a money market *fund* account, which will not be insured. For savings purposes, an insured money market *account* is appropriate.

U.S. Savings Bonds

- Safety. Guaranteed by the U.S. Treasury.
- Liquidity. Can be redeemed after 12 months but subject to a three-month interest penalty if held for less than five years.
- Yield for Series EE Bonds. A fixed rate of return determined twice a year. The current rate is 1.4 percent (valid from May to October 2010).
- Yield for I-Bonds. Yield is indexed for inflation and has two parts: a fixed rate of return and a variable, semi-annual inflation rate. The current rate is 1.7 percent (valid from May to October 2010).

Series EE savings bonds are an easy, convenient and disciplined way to begin your investing. The S-L-Y trade-off is that the yield is relatively low. If you are going to invest in savings bonds, make it a part of your investment plan but not all of it. Features of Series EE U.S. savings bonds include:

- Minimum investment is $25.
- Purchased for half of their face value; the value of the bond builds over time to achieve full face value ("original maturity"). For example, an EE Bond with a face value of $100 is purchased for $50. It is guaranteed to reach its face value in 20 years. (Note: I-bonds are purchased at their full face value, and the value is adjusted for inflation.)
- Risk is lower than most investments, because the principal (amount you invested) and interest (amount your money earned) are backed by the full faith and credit of the U.S. government.

- Convenient to purchase via allotment from military paycheck, from a bank or credit union, or directly from the government at <http://www.savingsbonds.gov>.
- There are no commissions or fees.
- Interest earned on savings bonds is exempt from state and local taxes, and federal taxes are postponed until you redeem the bonds.
- Interest earned on bonds purchased by a person age 24 or older and used to pay certain qualified education expenses may be excluded from gross income. In other words, these can be an important element of an education savings plan for a child. (The bonds must be issued in the parent's name, not the child's, to get this tax benefit.)
- Savings bonds earn interest for 30 years. They can be redeemed as early as 12 months after purchase, but if cashed in within five years of purchase there is a three-month interest penalty. Rates of interest change every six months.
- If the bond has not reached face value within 20 years, the government automatically will make an adjustment to get it to face value.

Saving vs. Investing

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What is the difference between saving and investing? After working on the Management Level of the Financial Planning Pyramid, savings becomes the next critical step toward financial security. Do not start an investment plan until you have a solid emergency fund for a safety net. However, for long-range goals, it is important to get a better rate of return than is available with savings tools, and it is here that we move up the pyramid to look at investment options.

How does investing differ from savings? They differ in the time frame in which the money is needed; in the higher risk associated with investment tools; in the impact of inflation and taxes on investment earnings; and in the significant effect of compound interest and time.

Time Frame

As discussed earlier, it is most appropriate to use savings tools for short-term financial goals — money to be used in five years or less. If the money is needed for a goal in five or more years, investment tools that offer the potential for a higher yield are the best option. This is because in the short term, money that is placed in investment tools is subject to market fluctuations, and the investor has a higher risk of losing money. The longer your investment horizon (the distance from making the investment to using the investment), the better your ability to lower some of the risk of market fluctuations.

Risk

There is risk involved in every type of investment tool. These risks differ, depending on what investment product is used. Many people never invest their money because they are afraid of losing any of it — they do not want to take on any risk whatsoever — so they keep all their money in a low-earning savings tool. Unfortunately, doing that may mean they never will achieve their financial goals, because they never take advantage of the bigger earnings available in the investment market.

Some risk can be minimized through diversification (not putting all your money in one investment type), which will be addressed later. Some risk also can be minimized by investing for the long term, as discussed above. In fact, the riskiest thing you can do with your money is to do nothing at all. Risk is not something to be feared but is something to be managed. Knowledge of investing will help you manage risk. Among the most common types of risk are:

- **Physical Risk.** Theft, loss of principal.
- **Market Risk.** The ups and downs of the stock market. This is what most people consider when they weigh the risks of investing. If an investment drops in price, you have lost money at that point (assuming you have sold). However, market risk often is reduced when money is in a sound investment over a long period of time. Savvy investors often will invest more of their money when the market is "down" in value, because they see it as a big sale, and what could be a better time to buy than when a sale is in progress?
- **Interest Rate Risk.** The price of some investments fluctuates with changes in interest rates, particularly fixed-income investments.

- **Inflation Risk.** Probably the greatest risk to your money over the long term. To keep ahead of inflation in your long-term savings/investments, you will need to accept a greater degree of other risks. An annual inflation rate of 3 percent will cut the value of your money in half in 20 years.

INFLATION

Inflation is an increase in the cost of goods and services. Inflation means that what costs $1 today will cost more than $1 in the future; for example, $100 in 1980 had the same buying power as $264.57 in 2010 (30 years).

The current inflation rate is 2.2 percent (as of April 2010). Historically, the annual rate of inflation, also referred to as the "CPI" or consumer price index, has averaged about 3 percent during the past 90 years.

Learner Activity: Has Inflation Affected You?

Purpose: To illustrate the effects of inflation.

Time: 5 minutes

Materials: *Has Inflation Affected You?* handout and writing utensils

Procedure: Distribute the *Has Inflation Affected You?* handout. Ask learners to fill in the blank spaces for the prices of products in 1980. Allow about three minutes for completion and then poll the class for their responses to each item. Provide the correct answers:

- First–class stamp $0.15
- One dozen Grade A large eggs $0.74
- Can of shaving cream $.46
- Package of Oreo cookies $0.99
- Ford Mustang $6,572
- Movie ticket $2.69
- Bayer aspirin (100 count) $1.49
- Gallon of regular, unleaded gasoline $1.13

Discussion: This exercise shows the impact of inflation on items we use in everyday life. Why does it matter? It matters because the cost of living rises every year. The purpose of investing is to get your money to increase in value even when the effect of inflation is taken into account. That means that if you do not earn at least the rate of inflation on your investment, then you are losing money every year.

Taxes

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Along with risk and inflation, taxes become a bigger consideration when working with investment tools and therefore they provide another difference between saving and investing. Taxes are calculated differently depending on the type of investment account opened and the length of time the investment is held.

Regular savings and investment accounts: There are three types of accounts that have an effect on taxes. The first is a regular savings or investment account that has no special tax treatment associated with it. Money earned on these accounts is taxed as follows:

On savings: Earnings on your savings are taxed each year. If you earn interest or dividends on your savings and/or checking account, you will receive a statement from the bank or credit union at tax time indicating how much you earned. You must include it as unearned income on your IRS Form 1040, and you will be taxed on it at what is called your marginal income tax bracket (MITB), which usually is 15 percent or 25 percent for most military taxpayers. Typically taxes on savings are minimal, because earnings are minimal.

On investments: Earnings on your investments come in a couple of forms — dividends and capital gains. At the end of each year, tax statements are sent out noting the earnings on investments, and these earnings need to be included on tax returns.

Here is an example of how taxes on investment tools can work:

One share of stock is purchased for $50 and sold for $60. The difference between the purchase price and the higher selling price is called a "capital gain." In this example, the capital gain of $10 will be taxed based on how long the investment was held and on the investor's income-tax bracket. Taxes are due only if there is a capital gain. If the investment is sold for less than the purchase price, the difference is called a "capital loss." In some circumstances, these types of losses can be used to offset gains when paying income taxes.

Mutual funds, on the other hand, pass capital gains to the investor every year, regardless of whether shares are sold. This will be discussed further later in this program. For now, be sure to keep all financial statements in order to calculate taxes due correctly.

Short-term capital gains (on investments held 12 months or less) are taxed at the investor's MITB up to 35 percent. Long-term capital gains (on investments held more than 12 months) are taxed at zero percent for taxpayers in the 10 percent and 15 percent MITB, and 15 percent for taxpayers in the 25 percent, 28 percent, 33 percent and 35 percent MITBs. The zero percent rate is expected to expire at the end of 2010 and bump to 15 percent.

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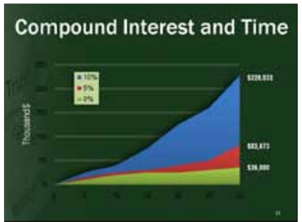
Tax-deferred accounts: These accounts allow the investor to delay paying taxes on any earnings. They typically are used for retirement planning. Tax-deferred accounts include the Thrift Savings Plan; civilian retirement plans such as a 401(k); and a regular "deductible" individual retirement account (IRA). An immediate benefit of these accounts is that the contributions made to them are deducted from paychecks *before* income taxes are calculated, so taxable pay is reduced. Special withdrawal rules apply to these types of accounts, and the money earned on them is taxed when it is withdrawn. Tax rates are at the investor's MITB at the time of withdrawal.

The Roth IRA account: The Roth IRA is a type of after-tax account. The money put into a Roth IRA cannot be deducted from income before taxes, so the contribution is considered an "after-tax" contribution. All withdrawals (contributions and earnings) made after a specified period are not taxed. For more information on retirement plans, attend a Retirement Planning workshop at your local Fleet and Family Support Center, or visit your Command Financial Specialist.



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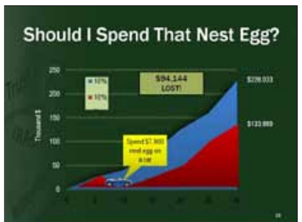
COMPOUNDING

The only way to overcome taxes and inflation is to put the power of compound interest and time to work with a long-term, disciplined investment plan. Here is one more example of how money can grow over time. Over 30 years, $100 saved monthly with no interest will equal $36,000. The same amount accumulating earnings at 5 percent will grow to about $83,673. This amount with a 10 percent rate of return grows to about $228,033. This example, along with earlier examples, shows again that the greater the rate of return and the longer your money works for you, the more you eventually will earn. Compound interest is a powerful force.



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There is a difference, however, between what an investment can do on paper and what investors do in real life. Unfortunately, when some people see their money begin to add up, they feel a temptation to spend. Using the above example, what if, after five years of saving, the investor decided to use the approximately $7,800 that had grown (at 10 percent) to buy a car? Continued investing at the same rate would grow only to $133,889 instead of the $228,033 if *all* of the money had been left to grow. In other words, you could say that the car did not cost you $7,800 but $94,144 when you account for the lost growth. The message? Save regularly, and leave it alone to grow.

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THE TOOLS OF INVESTING

Trainer's note: Distribute the *Thinking About Investing* and *Investing Resources* handouts to learners.

So far this program has considered the magic of compound interest and time; the Savings level of the Financial Planning Pyramid; the differences between saving and investing; and some characteristics of both saving and investing tools, namely safety, liquidity and yield. Moving up the pyramid to the Investment levels, one can see that various tools are available to help us achieve our investment goals. Let's now explore some of the more popular and useful tools available.

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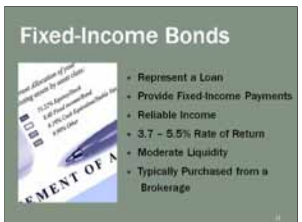
ASSET CLASSES

There are three main types of asset classes available to investors. An asset class is a group of securities that have similar characteristics, behave similarly in the marketplace and are subject to similar laws. The three are equities (stocks), fixed-income (bonds) and cash equivalents (money market instruments). Everything else is a combination of these three. When you invest in equity — when you buy a stock — you become an owner. When you invest in fixed-income — buy a bond — you become a lender. Often fixed-income securities also are known as "debt" securities, but this is good debt, the kind where people owe *you* money. A well-planned financial portfolio will have a combination of equities, fixed-income and cash, depending on investment goals, time frame and risk.

The Financial Planning Pyramid lists some of the better-known forms of equity and debt: stocks (equity); bonds (fixed-income or debt); mutual funds (explained below); hard assets (things you can touch) such as real estate, precious metals (gold or silver) and collectible items; and a few others. Several of these are worthy of a more detailed discussion because they are the best investment tools for Sailors and their families.

Fixed-Income: Bonds



SLIDE 21

Companies and governments issue bonds to fund their day-to-day operations or to finance specific projects. When you buy a bond, you are lending your money for a certain period of time to the issuer, be it General Electric or Uncle Sam. In return, bond holders get back the loan amount plus interest payments, which usually are distributed twice a year.

- Bonds represent money owed to the investor — an IOU.
- Companies and governments (i.e., local, state and federal governments) issue bonds.
- Bonds can be very safe (guaranteed by the full faith and credit of the U.S. government); have a high risk of default (if a company is heading toward bankruptcy, etc.); or fall somewhere in between. As an investor, you need to research the "rating" of a bond to ensure you buy only ones that match your risk tolerance.
- Bond returns have averaged between 3 to 5.5 percent during the past 81 years.
- Bonds are moderately liquid, however, you will not likely get money out of a bond the same day you need it.

- Bonds have a fixed interest payment, so they usually provide a reliable stream of income.
- Bonds typically are purchased through a brokerage.

EQUITY: STOCKS

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SLIDE 23

Common stocks are the classic equity investment. You can buy stocks in U.S. companies, foreign companies, large companies, small companies, companies that analysts think will grow (growth), and companies that analysts think currently are selling at a bargain (value).

Common stocks represent ownership in a company.

- Returns come from dividends and/or an increase in stock prices; dividends represent profits passed to shareholders.
- Stocks have averaged an annual return of 8 percent to 10 percent for the past 81 years.
- Stocks can be purchased through a brokerage (online or in person); through an employer investment plan; or even directly from the company that sells the stock through a dividend reinvestment plan (DRIP).
- Developing an individual stock portfolio takes research and time. Financial experts suggest having 10 to 30 different stocks in a portfolio to be well-diversified.
- Stocks normally are the best long-term way to beat inflation and represent the best opportunity for long-term growth of your money.

THE LESSONS

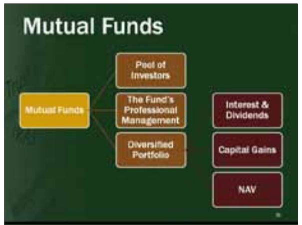
SLIDE 24

What should you be learning from this discussion of asset classes?

- It should be clear that an investor can have higher potential earnings by putting money in the stock market than by putting it in bonds or in a savings product.
- There always is the S-L-Y trade-off to consider. The higher the potential yield of an investment, the higher the risk (lower the safety). We already said you always should be prepared to lose money, but you also should expect a decent rate of return if you have done your homework.

- A well-balanced portfolio will contain a combination of asset classes (stocks, bonds, cash), and the stocks and bonds chosen should be diverse as well.
- Assets are neither good nor bad, but there are good and bad uses. Which investment is best for an investor depends on the time horizon, objective, risk tolerance and age.
- For young people starting to invest, over long periods of time it usually is better to be an owner (stocks) rather than a lender (bonds). Stocks have a higher return over extended periods than bonds and will provide the greater opportunity for long-term growth.
- Use bonds to receive a stream of income (useful for those in retirement).
- This investing thing can be complex! It can be, but it does not need to be.

There are several options that make investing easy almost to the point where it takes care of itself!



SLIDE 25

MUTUAL FUNDS

Mutual funds provide an easy alternative to selecting individual stocks or bonds. A mutual fund is a company that pools money from many investors and invests in the different asset classes or some combination of them. The combined holdings are called a mutual fund's portfolio. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate.

Mutual funds make money for shareholders in several ways:

- The investments the fund owns may pay dividends (stocks) or interest (bonds).
- When the manager sells an investment for a profit, there will be a capital gain.
- There will be an increase in share price (net asset value) if the fund performs well.
- Dividends and capital gains must be paid regularly to the fund's shareholders. Many people choose to reinvest this money into their account.

Whether they take the money or reinvest it, income tax still must be paid on the profits at the end of the year (unless the mutual fund is a tax-deferred account, which will be discussed later).

Mutual funds offer a number of advantages:

- **Professional management:** An individual who invests in a mutual fund actually is hiring a professional money manager to research, select and monitor the performance of the portfolio.
- **Diversification:** Mutual funds can offer automatic and immediate diversification. When you diversify, you put your money in a mixture of individual securities; if one performs poorly, the others may make up for it. Diversification helps spread the risk and also the opportunity. This can be difficult to do for a new investor developing a portfolio independently. It takes time, education and larger investment amounts. Mutual funds make diversification easy and cost effective.
- **Liquidity:** Shares can be redeemed at net asset value (plus any fees and charges) at any time.
- **Affordability:** Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.

There also are some disadvantages:

- **Costs despite negative returns:** Sales charges, annual fees and other expenses must be paid annually whether or not the fund makes money. Also, there is the possibility of having to pay taxes even when the fund performed poorly, depending on when the shares were purchased.
- **Lack of control:** The portfolio is determined by the manager, not the investor. The investor may not be able to determine the exact makeup of the portfolio at any given time.
- **Price uncertainty:** Net asset value may not be computed until many hours after a redeem order has been placed. Mutual funds generally calculate their net asset value after the major U.S. exchanges close.
- **Not insured:** Mutual funds are not federally insured like deposits in a bank or credit union. You can lose your money.

SLIDE 28

SLIDE 29

- **Complex records:** Mutual funds can be complex when it comes to tracking purchases, sales and earnings over long periods of time. Keep all end-of-year statements.

Here are some of the common types of mutual funds:

- Funds invested in the stock market
- Funds invested in the stock market and bond market
- Funds invested in the bond market
- Funds invested in the money market

Choosing a Mutual Fund:

There are thousands of mutual funds available — how do you choose one? You can narrow the field by looking at the following:

- **Your goals and objectives:** The objective of the fund should match your objective. For example, if you just want your money to grow, go with a large "growth" fund.
- **The fund's performance history:** Although past performance is not an indicator of future performance, sometimes that is all the information you have available. Look for a fund with good returns over one, three, five and 10 years. The returns should be at least as good as other funds in its category and its benchmark index.
- **Management:** The manager's performance history and length of time with the fund may help in the decision. The longer the manager has been with the fund, the more you can rely on getting the same returns the fund has earned in the past.
- **Costs:** There are costs to buying mutual funds. You can buy "no-load" funds, where no commission is charged, or "load" funds.
    - A "load" is a sales commission you will pay to the person who sold you the fund. Loads can be as high as 8.5 percent and can be assessed when the fund is purchased (front-load) or redeemed (contingent deferred sales charge or back-load). If you are going to buy a mutual fund with a load, be sure you are satisfied with the services of the person who is selling the fund.

- Funds also will have annual expenses (you will not see them taken out of your account, but they affect fund performance). All loads, expenses and fees are disclosed in the fund prospectus.

- **Services:** Many mutual funds are part of a larger organization (called a "family" of funds) that will offer many funds with different investment objectives. Investors may be permitted to transfer money to a different fund at little or no charge as their goals or investment outlook changes. Some funds allow withdrawals by check-writing. Other services also may be available.

- **Buying a mutual fund:** Mutual funds can be purchased through a full-service broker, discount broker, financial planner, a bank or credit union investment adviser, or directly and easily from a fund family via the phone and the mail. A financial service professional can provide both a prospectus and an annual report for a mutual fund. When dealing with a fund directly, the prospectus will be sent when you request information on the fund. It also may be helpful to consult additional sources of information on mutual funds before investing. A wide range of information is available, and most of the information you need can be found easily by consulting rating services such as Morningstar or Lipper.

SLIDE 30

Learner Activity: One-Minute Review

Purpose: To review of different saving and investment tools and their purpose.

Time: 5 minutes

Materials: Pens and pencils, blank paper, chart paper or white board

Procedure: Divide the class into small groups. Explain that they are to write down as many of the tools of saving and investing as possible in one minute but they must come up with at least five tools. After learners have completed their lists, ask for each to call out one tool from their list. Write their input on the board or chart paper, ask the group if this is a tool of saving or a tool of investing, and note this on the paper (probable answers are below). Continue around the room until you have all the group answers. Clarify answers or fill in information as necessary.

Possible answers could include:

1. Savings account (Saving)
2. Money market account (Saving)
3. Certificate of deposit (Saving)
4. Savings bonds (Saving)
5. Stocks (Investing)
6. Bonds (Investing)
7. Mutual funds (Investing)
8. Hard assets: precious metals, real estate, collectibles (Investments)

SLIDE 31

WHAT IS "THE MARKET"?

This would be a good time to discuss a term that is used frequently but may not be understood completely. When you hear "the market" on the television, usually as in, "Today the market was…" to what does the term refer?

- **The Dow:** The Dow Jones industrial average tracks the daily gains and losses of 30 stocks from the New York Stock Exchange that are considered to be key players in the market and the economy. In other words, the Dow is an index. An index is a tool for comparing your investment's performance against other similar investments. It is a measurement of the combined average performance of groups of similar securities. For the Dow, they take the value of all 30 stocks, run a formula on it each day (like an average), and then track the changes in that number every day.
- **The NASDAQ:** The North American Securities Dealers Automated Quotation System. The NASDAQ is a computerized trading system on which stocks (typically smaller companies or high-tech companies) are bought and sold. The NASDAQ is not a bricks-and-mortar place. Every day, an average of all the stocks traded on the NASDAQ is computed, and the change in that index, the NASDAQ Composite Index, is reported daily.
- **The S&P 500:** The Standard and Poor's 500 is an index that tracks the large company stock population. S&P is a financial research and publishing company. The S&P tracks 500 large American stocks. It is like the Dow, only it includes more companies, and in fact the components of

Trainer's note: This section can be presented as a lecture, or using one of the optional learner activities that follow.

the S&P 500 can comprise 70 percent to 75 percent of the economic base of this country.

- **The Wilshire 4500:** This is an index of small-company stocks that reflects the rest of the market not included in the S&P 500.
- **The Wilshire 5000:** This is an index of 5,000 companies designed as a measure of the entire U.S. stock market.
- **The Barclays Capital U.S. Aggregate Index:** This is an index designed to measure both government and corporate bonds. This index formerly was known as the Lehman Brothers U.S. Aggregate Bond Index.
- **The NYSE:** The New York Stock Exchange is an actual building in New York City where stocks are bought and sold. Also, every day an index for all the stocks traded on the exchange is reported.
- **The AMEX:** The American Stock Exchange is another brick-and-mortar building where stocks are bought and sold, and there also is an index computed on it. It is the second-largest options-exchange market.
- **The Nikkei:** A place in Japan where stocks are bought and sold, and there also is an index computed on it.
- **The EAFE:** Computed by Morgan Stanley, this index tracks the performance of about 1,200 non-U.S. companies representing 21 countries in Europe, Australia, New Zealand and the Far East.

When you hear the term “the market,” it may be in reference to all of these elements taken together. However, when you hear, “For the past 10 years the market returned…” that generally refers to the S&P 500, the broader U.S. market index. These indexes can be a valuable way of determining how your investments are performing. For example, if you hold stocks that are included in the S&P 500 and you want to see if your portfolio returns are keeping up with the market in general, you would compare your portfolio returns with the S&P 500 for the same period. If you held a mutual fund with technology stocks, you would be better to compare the return on your mutual fund to the NASDAQ, as that would be a better comparative index. If most of your stock or mutual fund investments are in foreign companies, you would compare the rate of return on your portfolio with that of the EAFE index.

Optional Learner Activity: What Is "The Market"?

Purpose: introduce learners to key terms used in the financial marketplace.

Time: 10 minutes

Materials: *What Is "The Market"?* handouts and writing utensils

Activity Options: A PowerPoint game version of this activity is included on the PFM Standardized Curriculum CD in the *Saving and Investing* folder. You can choose to conduct this activity as a whole class using the game version or in a quiz format. You can also use this activity to facilitate the "What is 'the Market'" section of the class.

Procedure: Choose your method of presentation. If you are using the paper version, divide the class into groups or allow them to work alone to match the proper term to its definition. Call out the names and allow learners to provide the number of the correct definition. Provide further detail on the term as required.

Answers to the paper version:

1. The S&P 500

2. The Nikkei

3. The Dow

4. The NYSE

5. The Wilshire 5000

6. The Barclays Capital U.S. Aggregate Index (formerly the Lehman Brothers

U.S. Aggregate Bond Index)

7. The Wilshire 4500

8. The NASDAQ

9. The EAFE

10. The AMEX

SLIDE 32

Putting It All Together: The TSP Funds

A great way to understand how mutual funds and indexes relate to each other is to consider the Thrift Saving Plan funds. Briefly, the TSP is a retirement savings and investment plan sponsored by the federal government. This plan allows for each member to invest a certain amount of money each month into one of 10 mutual funds. The majority of these funds have a portfolio designed to mimic the performance of some of the indexes just discussed.

G Fund: The Government Securities Investment Fund, which invests in special, non-traded U.S. Treasury securities guaranteed against any loss. The G Fund has a low level of volatility and a 10-year average return of 4.62 percent.

F Fund: The Fixed Income Index Investment Fund invests in government and corporate bonds and is designed to track the Barclays Capital U.S. Aggregate Index. The F Fund has a low to moderate level of volatility and a 10-year average return of 6.39 percent.

C Fund: The Common Stock Index Investment Fund, which invests in stocks in the S&P 500 Index. The C Fund has a moderate level of volatility and a 10-year average return of –0.94 percent. However, the average return since inception (1988) is 9.31 percent.

S Fund: The Small Capitalization Stock Index Fund, which invests in small- and medium-size companies in the U.S. and is designed to track the Dow Jones Wilshire 4500 Completion Index. The S Fund has a moderate to high level of volatility and a five-year average return of 2.25 percent. The S fund average return since inception in 2001 is 4.86 percent.

I Fund: The International Stock Index Investment Fund, which invests entirely in non-U.S. companies and is designed to track the EAFE Index. The I Fund has a moderate to high level of volatility and a five-year average return of 3.67 percent and an average return since inception of 4.03 percent.

Life-Cycle Funds: Life-Cycle, or L Funds, consist of five pre-packaged portfolios with professionally determined asset allocation among the G, F, C, S and I Funds. The L Funds are professionally managed to meet your retirement needs. Assets are rebalanced daily, maintaining your portfolio

Trainer's note: The fund averages information provided is current as of May 2010 and based on averages as of Dec. 31, 2009. You should update this information annually for the presentation and on the PowerPoint slides. When the 10-year averages are negative, it is sometimes helpful to provide averages since inception to illustrate the value of the TSP investments. Be sure to provide learners with the *Thrift Savings Plan: Wealth Building Made Easy* handout.

mix. Assets are reallocated quarterly (redistributed among the available funds), creating a more conservative (less risk) mix with age. When a fund reaches maturity (reaches the year it is named for), it rolls to the next more conservative fund and a new fund is added.

SLIDE 33

THE TECHNIQUES OF SAVING AND INVESTING

Pay Yourself First

Make sure you have adequate income to pursue a savings and investment plan and that you have adequate insurance. Save from the top of your spending plan versus the bottom (do not save whatever is left after your expenses are paid; make your savings and investments a regular expense, too.) Set up a savings allotment — you will not miss it if you do not see it — or join the TSP.

Participate in the Military Saves Campaign

This program is sponsored by the Consumer Federation of America through an agreement with the Department of Defense. It is designed to encourage you to set your savings goals and provide suggestions and information on how to make that happen. The goal of the program is to help service members and families become financially prepared and put them on the path toward financial freedom. Contact your CFS, Fleet and Family Support Center, or <http://www.militarysaves.com> to enroll.

Maximize Any Tax-Deferred Investment Opportunities

When you have all the necessary savings funds in place, decide how much money you can invest regularly and how much of that amount will go into retirement accounts. Put the maximum amount possible into any tax-deferred opportunities. These would include the TSP, a 401(k) and an IRA. However, once money is put into retirement accounts, it cannot be withdrawn without a penalty. Therefore, it is wise to put some of your available dollars into retirement accounts and some into regular, taxable accounts.

Trainer's note: Pass out the *I Can't Invest Now* handout. You can use it to introduce the following techniques. You can also use the handout to engage learners on additional ideas to help them reach their saving and investing goals at any stage in their lives.

Make Regular, Steady Investments

Earlier in this discussion, an example was used that showed the impact of spending money that had accumulated in an investment account. Even if you continue investing at the same rate, you never will catch up to what you could have had if you had not withdrawn your money early. Keep in mind that investment performance is not the same as investor performance. The stock market could be posting a return of 25 percent, but if you are not investing regularly, you will not see your investments grow.

If you have a lump sum of money to invest, research the options, consult a professional and invest it in an appropriate investment tool for your goals, time frame and risk tolerance. But if you are like most small investors, you do not have a large sum of money and are investing a smaller amount on a monthly basis. Keep at it, and do not stop the flow of money into your investments.

SLIDE 34

Learner Activity: "Post-it" Polling

Purpose: Review activity which allows learners to plan how they will might apply the information and techniques discussed in the class.

Time: 15 minutes

Materials: Post-it Notes, chart paper or white board, markers, pens or pencils

Preparation: First, prepare three sheets of chart paper or sections of white board by writing one of the following topics on each sheet/section: Risk Tolerance, Time Horizon, Your Plan. Next, divide the chart paper or white board sections into four equal areas. Write the following subtopics in the four sections: Savings, Bonds, Mutual Funds, Stocks. See the example below.

Time Horizon	
Savings	Bonds
Mutual Funds	Stocks

Procedure: Distribute three Post-it Notes to each learner. Explain that they are going to use the Post-it Notes to "vote" on their choices for the following three scenarios. For clarification, the three scenarios are listed on Slide 34. Allow the learners about two minutes to "vote" by placing their Post-it Note in the section which corresponds with their choice for each scenario.

- **Risk Tolerance:** Assuming you have $1,000 to invest tomorrow, which one of the tools would you choose?
- **Time Horizon:** Based solely on your time horizon, which is the best tool to use?
- **Your Plan:** Based on your situation and the knowledge gained in this class, which will you most likely do in the next year?

Summarize the results and discuss various reasons why the results are similar or different. For example, you may note that based on time horizon alone, you might expect to see different or similar results to the risk tolerance scenario. Conclude by asking if any of the learners would like to share their reasons for their choice on the "your plan" scenario.

SUMMARY AND CONCLUSION

Take Action

The investment markets never have been friendlier to small investors. Employer-provided retirement plans such as the TSP, the Internet and mutual funds make investing easy and effective. Remember: The riskiest thing you can do with your money is to do nothing at all. Inflation will guarantee that you will move away from building wealth as the value of your money erodes. So keep first things first, and put your money where it can grow.

- **Determine financial goals:** Set short- and long-term goals and determine which types of investments are appropriate for the time horizons associated with each.
- **Review your budget:** Cut expenses, pay down your debt and determine how much you can put into savings and investments each month. Pay yourself just like you would pay any other bill — except pay yourself first!

- **Save money you do not have … yet!** Commit a portion of every future raise to your investment plan. You do not have it now, so you will not miss it when you invest it.
- **Establish emergency, reserve and Goal-Getter savings funds:** Goals should include having three months of expenses in emergency savings and putting aside about 10 percent of net income for long-term goals.
- **Get help if you need it:** Talk to trusted family, friends and co-workers and ask how they invest their money. Encourage members to meet with you or the Fleet and Family Support Center financial educator for additional information. Explore the possibility of hiring a financial professional (such as a certified financial planner) to help you with your plan if you need it.
- **Build an investment portfolio:** Maximize tax-deferred opportunities. Choose a mutual fund or the stock of a company you have researched. Interview and hire a financial professional if you prefer to have assistance.
- **Keep learning:** New information is available all the time, and the investment environment changes frequently. Read books and magazines, attend classes, talk to fellow investors, start an investment club. Even if you plan to work with a broker, financial planner or other investment adviser, it still will help if you improve your knowledge about how you plan to invest; no one is as interested in your family's financial future as you are. A course on investing at a local community college or adult education center can be interesting as well as informative. Free seminars, given by individuals and organizations in financial services as a way to attract potential clients, also can be useful as long as you remain on guard for the sales pitch. Scan the Internet or visit the local library and read financial magazines and newspapers.
- **Keep at it!** Finally, once you get started, keep at it! Continue saving for short- and long-term goals. It takes time to produce virtually anything worthwhile. Never take money out of your TSP, IRA or other long-term investments for short-term objectives — that's why you have established a goal-getter or emergency fund.

OPTIONAL SHORT PROGRAM

Description: A shorter version *of Saving & Investing* covering a few of the topics. Can be used as a marketing pitch or when presentation time is limited. Start by introducing yourself and the topic. Use Slides 3 through 8 to discuss the effects of compound interest and time, and to motivate learners to save and invest. Use Slides 9 and 10 to discuss the Financial Planning Pyramid, how it lays out the steps to take to build wealth, and what needs to be done at the management and savings levels. Do not discuss the tools of savings yet. Go to Slide 12 and discuss the difference between saving and investing. Finally, distribute the *Which Tool Is It?* handout and have the group complete it either individually or in groups. Explain that they may not know the answers, but to answer the ones they think they know. After everyone is finished, go through the answers, explaining each of the tools as time permits. End by inviting learners to the full *Saving and Investing* program, and to visit their Command Financial Specialist for guidance on starting an investment program.

Time: 30 Minutes

Materials and Handouts:

- *The Financial Planning Pyramid*
- *Compound Interest and Time (Rate of Return = 10%)*
- *Which Tool Is It?*
- *Investing Resources*
- PowerPoint slides as indicated in outline

Topics:

- Welcome and Introduction, Slide 1
- Effect of Compound Interest and Time, Slides 2 through 7
- The Financial Planning Pyramid, Slides 8 and 9
- Saving vs. Investing, Slide 11
- *Which Tool Is It?* Handout Activity
- Invitation to other classes and to consult CFS

***Which Tool Is It?* Answers:**

- Savings
- Money market account
- Certificate of deposit
- U.S. savings bonds
- Bond
- Stocks
- Mutual funds
- Collectibles, options, etc.
- Stocks
- Bonds
- Certificate of deposit
- Hard assets
- Mutual funds
- Thrift Savings Plan (TSP)
- Compound interest and time