"Emergency funds are necessary. You have to keep your little side thing. You never know when something might happen..."

_Walter, Graduate Student/Social Entrepreneur_

**CRYSTAL’S STORY: EMERGENCY SAVINGS**

Crystal went to college in an urban area that had a lot of crime. In Crystal’s first year of college, her car was broken into 6 times. Because of this, Crystal had over $1,000 in surprise expenses. **Who has $1,000 in their budget to pay for extra expenses!?**

These expenses drove Crystal into credit card debt. But what if Crystal had had an emergency savings account?

If Crystal had had an emergency savings account, she would have been able to pay for all of her repairs out of this account. This would have saved her thousands of dollars in credit charges and a lot of headache and worry!

"I found out that saving was going to save me!"

_Crystal, College Senior in Need of Emergency Savings_

**Emergency saving should be savings priority #1 for most young adults!**
CHAPTER TWO: SAVING AND INVESTING

How do you start an emergency savings account?

1. Start by setting aside whatever money you can for your emergency savings account.
   ⇒ By the time you are a working professional, experts recommend that you set aside 3 to 6 months of BASIC living expenses (just the essentials).

2. Deposit your emergency savings in an account that is SAFE and EASY TO GET TO. A regular savings account that has no fees AND is FDIC insured is a good option.

3. Don’t forget … this account is just for EMERGENCIES. If you withdraw money from your account for an urgent expense, REPLACE it as soon as possible.

4. Use summer money, gifts and/or some of your earnings from each paycheck, to build this account BEFORE you are on your own.

Another real world story …

Why does having emergency savings matter? Let’s check out a real world story… Beth and Bob were young adults. They had just bought a home. They had house payments, car payments and other bills to pay. About 5 months after they started working, Bob learned that he was probably going to get laid off. (The newest employees are sometimes the first to get laid off.) All young adults should be prepared with EMERGENCY SAVINGS! Because, Bob and Beth had set aside some money for emergencies, they knew this money would get them through for a few months if Bob had to look for new work.

How many people have enough emergency savings?

67% OF INDIVIDUALS DO NOT HAVE ENOUGH EMERGENCY SAVINGS!
(Consumer Federation of America/ Employee Benefits Research Council, 2012)
CHAPTER TWO: SAVING AND INVESTING

HOW ELSE SHOULD I BEGIN TO BUILD WEALTH? INVESTING!

“If I can do it, anyone can. No money is too little. You can start with $10 a month. Everybody can scrape up $10 a month.”

DAMON, FORMER CHICAGO PUBLIC SCHOOL STUDENT, MONEY SMART KID, YOUNG INVESTOR & RECENT COLLEGE GRADUATE

What can I do TODAY to help me build wealth for the future?

Get an education!

In Chapter 1, you learned about just how much education increases your earning power. How does your earning power help you build wealth?

Let’s look at 2 sample investors. Investor A earns $25,000 per year and works for 40 years investing 10% of their salary. Investor B earns $35,000 per year and also invests 10% over 40 years. The $10,000 increase in annual earnings results in an increase in total savings of $500,000 after 40 years. (See chart below.)

Savings Based on Starting Salary

*Uses same assumptions for investment return, years worked and salary growth. Both earnings listed refer to take home pay.
What can I do TODAY to help me build wealth for the future?

Save and Invest early!

How does starting early help you to build wealth? **When you save your money, you often earn extra money called INTEREST.**

*Interest = a small amount of money that you receive from a bank or financial institution in return for keeping your money in a bank account or other savings vehicle.*

What does this have to do with saving early? When you earn interest, you not only earn interest on the original amount of money you saved, BUT you also earn interest on any interest you earn. This is called **COMPOUND INTEREST.** Because of this, your money will grow and grow.

**THE RACE TO SAVE**

Check it out: If you look at an example of two women, one who invests about $100 per month* starting at age 20 and the other who invests twice this much – over $200 per month – starting at age 30, who will end up with more money at age 65?

The woman that started at **age 21** had more money in the end!

*Age 21, $100 Saver
*Age 31, $200 Saver

*The younger you are [as an investor] the better. Time is on your side.*

Damon– Teen Investor
CHAPTER TWO: SAVING AND INVESTING

What can I do TODAY to help me build wealth for the future?

Learn about different types of investments.

What is investing?

Investing = using your money to make more money

Beyond saving your money, there are several types of investments that you can consider. A few of the most common investments are stocks and bonds.

What are stocks and bonds?

Let’s say that you had a growing company and the company needs more funds. How could the company get those funds?

1) **Stocks** = A financial tool or security that means part ownership of a company

Your company could sell part ownership (stocks or equity) in return for generating funds.

2) **Bonds** = an investment in which an investor loans money to a company or the government for a set time period and a set return (or interest rate) and is obligated or required to pay it back.

Your company could generate funds through bond sales (similar to getting a loan).

Consider investment **RISK** when you are selecting investments.

**RISK** = the chance your investment may make LESS money than you expect. You could even LOSE money!

Often investors have to balance investment **RISK** with the chance for **RETURN**. (**RETURN** = the money you make on your investment)

Typically, investments with greater **RISK** also have a greater POTENTIAL or POSSIBLE RETURN BUT this does NOT mean you WILL be guaranteed to have a greater return, AND there is a greater risk that you could LOSE your money.

\[
\text{↑ RISK} = \text{↑ POTENTIAL RETURN}
\]

EXAMPLE: Think about it this way ... In the example above, if your company goes out of business who do you think will get paid back first - the stock holder (or part owner) or the person that has a bond or obligation that your company will pay them back - Right, the bond holder. This reduces their **RISK**. BUT if the company doubles its value, who will get more return? Right! The stock holder who owns part of the company. The bond holder always gets paid set interest but if the value of the stock greatly increases = the stock holder has more POTENTIAL RETURN!
"[Investing] gives me a sense of security ... a different outlook on life ... I see people scraping by and living paycheck to paycheck ... but now I have an understanding that that is not what I want to do ... I am trying to build wealth and that is something that everyone should strive to do."

(Damon – Chicago Money Smart Kid 2006)

What can I do TODAY to help me build wealth for the future?

Think about how LONG you have until you need to use the money you are investing and how much INVESTMENT RISK you can handle. (Generally, if you have a longer time period to invest, most experts say you can consider taking on investments with a higher level of risk.) Consider INVESTMENT RISK when deciding how to save or invest your money!

WEALTH BUILDER: EXAMPLE 1

Let’s look at a real world example… it is 1991…

You have $100 to save or invest for college. You do not need this money for 10 years. Where should you put this money? In a CD earning 4.5% APR GUARANTEED or in the stock market (through an Index Fund (see page 17 for a definition). The stock market has earned 9.5% APR on average between 1981 and 1991, but the earnings are not guaranteed.

Discuss this decision with your group. Make a choice and circle it.

A) CD  B) Stock Market Index Fund

WEALTH BUILDER: EXAMPLE 2

It is now 1999 …

You still have $100 to save or invest BUT NOW you need this money back in 2 years. Where should you put this money? In a CD earning 4.5% APR GUARANTEED or in the stock market which earned 19% last year? But, you can’t afford to lose more than 5%.

Discuss this decision with your group. Make a choice. Circle your choice.

A) CD  B) Stock Market Index Fund
CHAPTER TWO: SAVING AND INVESTING

WEALTH BUILDER EXAMPLE 1 & 2 ANSWERS

How much money did you make?

(Answers: Earnings for Example 1 & 2)
(Emphasize starting investing after having obtained emergency savings as a young professional and selecting a mix of saving and investing at that point as well.)

CD ONLY (EXAMPLE 1 A & EXAMPLE 2 A) = $55 IN EARNINGS

STOCK INDEX ONLY (EXAMPLE 1 B & EXAMPLE 2 B) = $217 IN EARNINGS

CD AND STOCK (EXAMPLE 1 A & EXAMPLE 2 B) = $24 IN EARNINGS

STOCK & CD (EXAMPLE 1 B & EXAMPLE 2 A) = $297 IN EARNINGS

Everyone made money - SAVING AND INVESTING PAYS! But … you can see in this example the people that invested in the stock market early, when they could wait for it to go up or down before they sold or needed the money, earned the most. WHY?

Look at the increase in the value of stocks (the S&P 500) from 1958 to 2006 (over 9% APR on average)!
People who have had a LONG time to wait out the times when stocks have lost value have made a LOT of money!

BUT returns are NOT guaranteed! Look at the loss in value around 2000 (17%!) – right when YOU needed the money! For the SHORT-TERM, consider saving in an FDIC insured account!
CHAPTER TWO: SAVING AND INVESTING

MUTUAL FUNDS – DIVERSIFY TO REDUCE RISK

• DIVERSIFY = to obtain a mix of investments to reduce risk.
• MUTUAL FUND = an investment that pools individuals’ funds together to buy a group or collection of stocks or bonds.
• INDEX FUND = a group of stocks meeting selected criteria (ie. Standard & Poors 500 or S & P 500)

= single stock
= mutual fund

WHICH HAS MORE RISK OVERALL? stock
DIVERSIFY to reduce your risk!

How does a mutual fund help to reduce risk? Imagine a farmer that just grows apples. If there is a disease that hits apples, the farmer loses everything. NOW let’s imagine another farmer that, instead of growing just apples, grows a fruit basket of products – apples, pears, peaches, grapes. What if the same apple killing disease hits? The farmer will still have grapes, pears, peaches, etc.

A mutual fund operates in the same way to reduce risk. If one of the stocks in your fund loses value, you still have the rest of the stocks that may perform well. This spreads around or reduces your risk.

What can I do TODAY to help me build wealth for the future?

Seek out investments with tax benefits!

When you are saving for your future or for the long-term – retirement, college, etc. - be sure to look for investments that have TAX benefits.

Why does this matter? Check it out!

If you contribute $200 per month to a Roth IRA (an investment vehicle with tax benefits – see below) for 40 years, you would have over $750,000 in earnings at a 7% APR. Because these earnings are NOT taxed in a Roth IRA, this saves you money - about $188,839 in taxes!

Employer Match = money your employer gives you as a contribution or deposit in your retirement account as a percentage of the money that you set aside (ex. you save $1 in your retirement account and they GIVE you $1 more in the retirement account) – Yes, this is free money!

Roth IRA = a retirement account in which your EARNINGS are not taxed
IRA/401-K = retirement accounts that allow you to invest with PRE-TAX dollars

* Assuming you are in a 25% tax bracket.
CHAPTER TWO: SAVING AND INVESTING

STOCK TRACKING ACTIVITY
What stock would you like to follow throughout the Get Real program? Select a first and second choice below. Simply, list the company name and go to Google Finance or Yahoo Finance or another financial site or newspaper to check the starting price OR the price the stock would have been at if you would have bought 1 share of the stock today.

Stock Choice # 1
Company Name: ____________ Date: ______________ Price: ___________

Stock Choice # 2
Company Name: ____________ Date: ______________ Price: ___________

▸ Question: Starting an emergency savings account is a good first saving step for young adults.

▸ Question: When you save money in a bank, the bank will give you extra money called interest. Saving EARLY allows you to earn MORE interest!

▸ Question: A mutual fund is an investment that pools funds together to buy a group of stocks or bonds. A mutual fund helps diversify your investment to reduce risk.

▸ Question: The stock market has gone UP in value over the past 30 years BUT there is always a risk that you could lose money especially over the short-term.

▸ Question: Investing is using money to make more money.

REMEMBER … you are working, learning, earning, saving and investing for the LONG TERM. You have many years to build wealth if you start today & don’t give up.

“It’s OK to fail, but you can’t quit and most importantly you can’t quit on yourself... Baby steps count, as long as you are going forward. You add them all up, and one day you look back and you’ll be surprised at where you might get to.” Chris Gardner: Self-made multi-millionaire who experienced domestic violence and foster care as a child, was formerly homeless, the single father of one son and the subject of the movie “The Pursuit of Happyness”. Columbia Pictures, 2006.

See Optional Investing Challenge Review Sheet If Desired