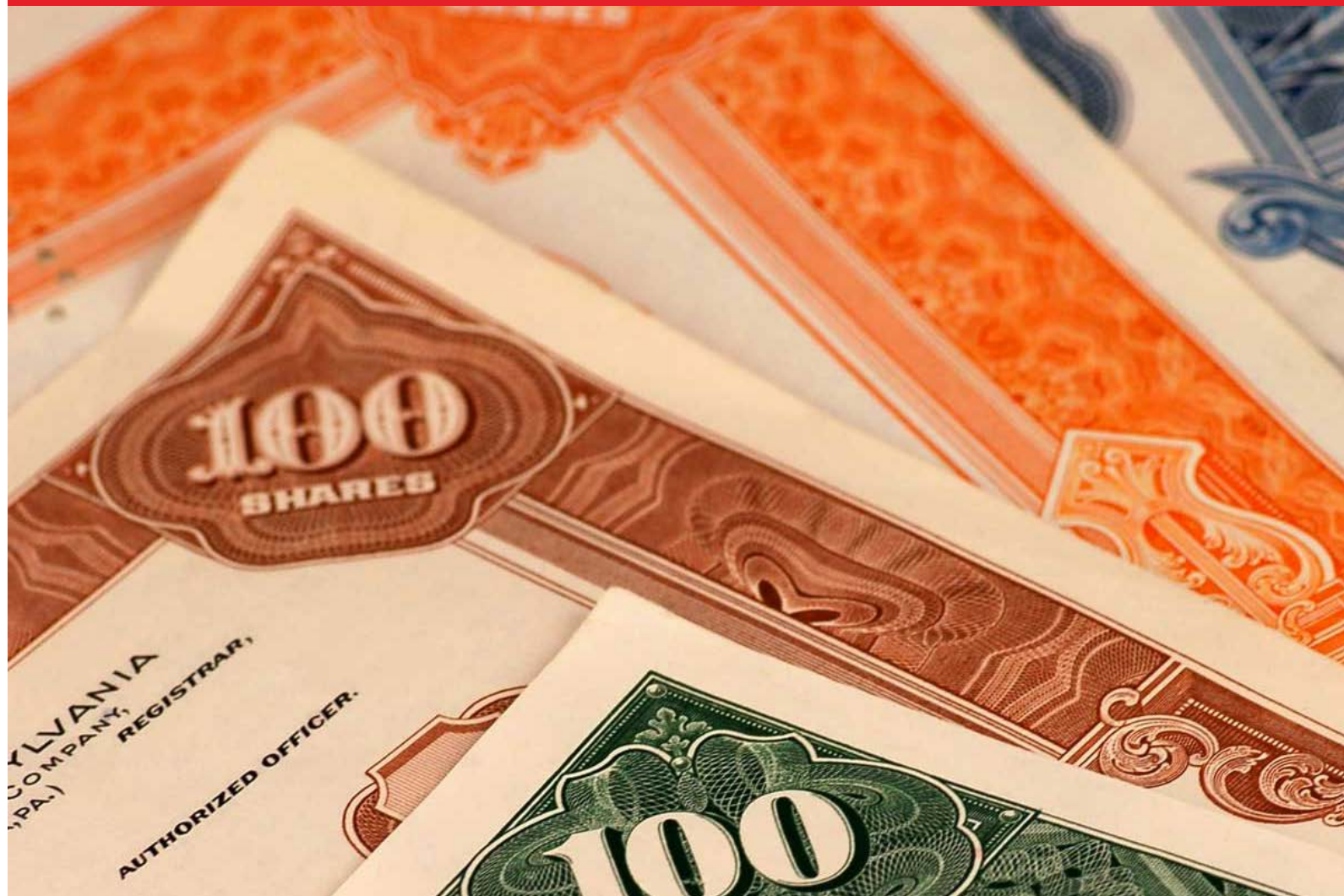


# Investments





# Investments

In this unit you will gain an understanding of what investing is. Within these lessons you will learn about a variety of investment strategies and techniques to increase long-term financial security.

## Why People Invest

### Warm-up Activity

What does the word investing mean to you?

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### Why People Invest

Ask yourself: Is it better to bury your money in the ground where it could lose value due to inflation, or to invest your savings and potentially see your dollars grow for you?

Investing makes sense. It's all about making your money work for you, instead of the other way around. Best of all, if you take the time to become an investing expert, you may see your money double, triple, and quadruple. The earlier you begin investing, the more you can increase your original investment – at least in theory. So start studying now.

Imagine being able to earn money while you sleep, vacation, study, or shop. You can be making money all day, every day. This is possible when you earn profit and income by investing your savings in the stock market, bonds, real estate, entrepreneurial endeavors, and other investments. There are many good reasons why people choose to invest their money.

- **FINANCIAL SECURITY.**

Many people decide to learn about investing because they want to become financially secure. They don't want to worry about bills or being able to afford things they want.

- **LIFESTYLE.**

Earning money through investments helps you afford your desired lifestyle. Investing gets your money working for you, instead of you having to work for every dollar. And investments can provide you more free time to enjoy life.

# Why People Invest

- **RETIREMENT.**

Most people today rely on Social Security (SSI), a social welfare program that provides monthly payments to people over the age of 65; and Medicare, a program that provides medical insurance coverage to seniors; for their retirement incomes. SSI and Medicare have been projected to be bankrupt by 2033, so you should put an alternative plan in place.

- **BEAT INFLATION.**

Inflation is defined as “too many dollars chasing too few goods.” Inflation drives prices up. Putting your money to work for you through investing can help you become financially comfortable and give you the freedom to live the lifestyle you choose. There are two ways to achieve financial comfort:

- Build up your net worth; and
- Build up your cash flow.

It is also important to understand the meaning of “cash flow” and “net worth.”

- **NET WORTH** is the measure of your net economic position – how much money you have left after your liabilities are subtracted from your assets.
- **CASH FLOW** is the amount of money you have coming in on a regular basis from investments or other sources.

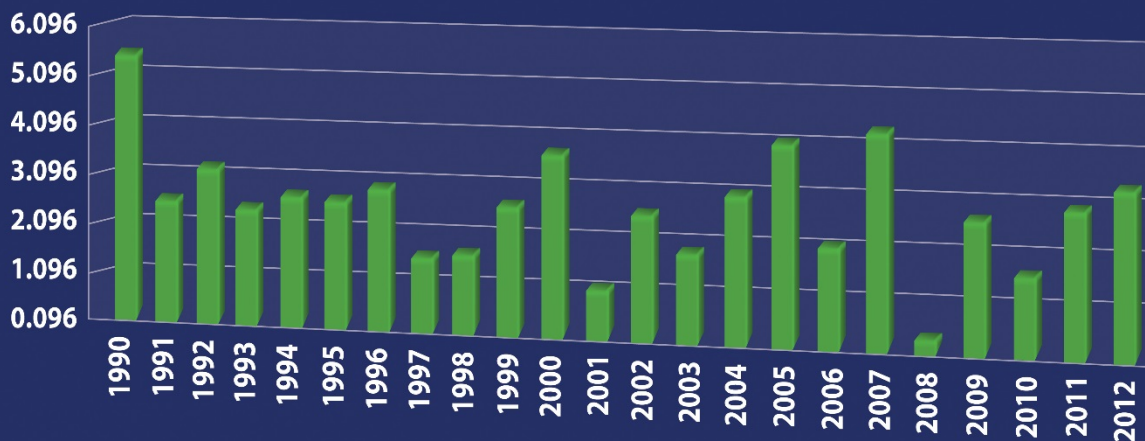
Look at the **Inflation Charts** on the following page to see how inflation has affected the purchasing power of the dollar over the years.



## How Much Will You Need To Have The Purchasing Power of \$10,000?



## Historic Inflation Rates



## The Effects of Inflation on Purchasing Power



# Why People Invest

Historical US Inflation Rates									
Year	Percent	Year	Percent	Year	Percent	Year	Percent	Year	Percent
1921	-11.1	1941	11.3	1961	0.7	1981	8.4	2001	1.1
1922	-0.6	1942	7.6	1962	1.3	1982	3.7	2002	2.6
1923	3.0	1943	3.0	1963	1.6	1983	4.2	2003	1.9
1924	0.0	1944	2.3	1964	1.0	1984	3.5	2004	3.0
1925	3.5	1945	2.2	1965	1.9	1985	3.9	2005	4.0
1926	-2.2	1946	18.4	1966	3.5	1986	1.5	2006	2.1
1927	-1.1	1947	10.2	1967	3.6	1987	4.0	2007	4.3
1928	-1.2	1948	1.3	1968	4.4	1988	4.7	2008	0.03
1929	0.0	1949	-2.1	1969	6.2	1989	5.2	2009	2.63
1930	-7.0	1950	8.1	1970	5.3	1990	5.7	2010	1.63
1931	-10.1	1951	4.3	1971	3.3	1991	2.6	2011	2.93
1932	-9.8	1952	0.4	1972	3.6	1992	3.3		
1933	2.3	1953	1.1	1973	9.4	1993	2.5		
1934	3.0	1954	-0.7	1974	11.8	1994	2.8		
1935	1.5	1955	0.4	1975	6.7	1995	2.7		
1936	2.2	1956	3.0	1976	5.2	1996	3.0		
1937	0.7	1957	3.6	1977	6.8	1997	1.6		
1938	-1.4	1958	1.4	1978	9.3	1998	1.7		
1939	-0.7	1959	1.0	1979	13.9	1999	2.7		
1940	1.4	1960	1.7	1980	11.8	2000	3.7		

## Lesson Activity: Inflation Quiz

If you are earning 1% in a savings account and inflation is at 3%,  
will you be able to purchase more or less next year?

☐ More ☐ Less

What if you are earning 7% on a stock market investment with 3% inflation,  
would you be able to purchase more or less next year?

☐ More ☐ Less

What if your bank offered you a CD at 4% but you had to keep your money in the CD for 5  
years. What are the risks?

In Year #1 of the example above, if the inflation rate was 3% for all 5 years, would that give you more or less purchasing power? ☐ More ☐ Less

If inflation jumped to 8% in Year #2, would that investment still make sense for you?

☐ Yes ☐ No

## CASE STUDY

The Federal Reserve is a company that acts as the central bank of the United States. It is not part of the government; however, the Federal Reserve is designed to work within the overall economic and financial policies established by the government. The Federal Reserve is primarily funded by interest on US government securities.

One of the Reserve's duties is to regulate money supply. In 2010, the Reserve increased money supply by \$600 billion. This is commonly referred to as "printing money," although nowadays they're able to create money electronically.

Knowing what you now know about inflation, what do you think happened to the inflation rate in 2010 : ☐ Increase ☐ Decrease

What do you think will happen to the purchasing power of the dollar:

Will you be able to purchase more or less with \$1.00? ☐ More ☐ Less

## Lesson Activity: Budget at Retirement

This activity will help you estimate your budget when you reach retirement and plan ahead for the impact of inflation.

First, you will need to fill out the **Net Worth Chart**. List the current value of your assets and costs of your liabilities. Place the totals in the designated cells, then subtract the total cost of your liabilities from the total value of your assets to determine your net worth.

# Why People Invest

## NET WORTH CHART

Assets		Liabilities	
<input type="checkbox"/> Personal Residence		<input type="checkbox"/> Real Estate Mortgages	
<input type="checkbox"/> Rental & Other Properties		<input type="checkbox"/> Retirement Loans	
<input type="checkbox"/> Physical Metals (i.e., gold, silver)		<input type="checkbox"/> Student Loans	
<input type="checkbox"/> Jewelry, Art, etc.		<input type="checkbox"/> Credit Card Debt	
<input type="checkbox"/> Automobiles		<input type="checkbox"/> Payday Loans	
<input type="checkbox"/> Other		<input type="checkbox"/> Personal Loans	
		<input type="checkbox"/> Auto Loans	
<input type="checkbox"/> US Government Bonds		<input type="checkbox"/> Life Insurance Loans	
<input type="checkbox"/> Corporate Bonds		<input type="checkbox"/> Margin Account Loans	
<input type="checkbox"/> Municipal Bonds		<input type="checkbox"/> Other	
<input type="checkbox"/> Bond-Based Mutual Funds		<input type="checkbox"/> Other	
<input type="checkbox"/> Other		<input type="checkbox"/> Other	
		<input type="checkbox"/> Other	
<input type="checkbox"/> Stocks			
<input type="checkbox"/> Stock-Based Mutual Funds			
<input type="checkbox"/> Variable Annuities			
<input type="checkbox"/> Other Annuities			
<input type="checkbox"/> Life Insurance with Cash Value			
<input type="checkbox"/> Business Partnership Interest			
<input type="checkbox"/> Other			
<input type="checkbox"/> Savings Account		<b>TOTALS</b>	
<input type="checkbox"/> Checking Account			
<input type="checkbox"/> Money Market Account			
<input type="checkbox"/> Certificate of Deposit			
<input type="checkbox"/> Other			
		<b>Total Assets</b>	
		<b>Total Liabilities</b>	
		<b>Net Worth</b> <b>(Assets minus Liabilities)</b>	



## Future Living Expenses

You need to calculate your possible living expenses in the future to create a solid retirement plan.

First, you need to determine an annual inflation rate. There is no crystal ball for determining an accurate rate; but gaining knowledge, keeping up-to-date with monetary policy, and having a trusted team of advisors can help you decide on an average figure.

Next, calculate your possible living expenses in the future. For example, if you think the inflation rate will be 3% and your expenses total \$2,000 per month right now, here's what you would enter into your calculator:  **$\$2,000 \times 1.03 = \$2,060$**

That figure estimates your expenses to increase by \$60 at the end of the first year. To calculate inflation for 5 years, simply keep multiplying each new total by 1.03. For example:

Year 1	\$2,000	X 1.03	= \$2,060
Year 2	\$2,060	X 1.03	= \$2,121
Year 3	\$2,122	X 1.03	= \$2,185
Year 4	\$2,185	X 1.03	= \$2,251
Year 5	\$2,251	X 1.03	= \$2,318

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### Lesson Activity: Future Impact Calculator

Now, complete the Future Impact Calculator below, following these steps:

1. Add up all the items that will be adjusted by inflation;
2. Add up those items that will not be adjusted by inflation;
3. Multiply your inflation-affected expenses by the inflation rate;
4. Then add your non-inflated expenses to that total.

# Why People Invest

## FUTURE IMPACT CALCULATOR

Monthly Expense of Items

Not Affected by Inflation

\_\_\_\_\_

Monthly Expense of Items

Affected by Inflation

\_\_\_\_\_

Estimated Inflation Rate

\_\_\_\_\_

Inflation-adjusted Expenses

Year

Year 10

Year 20

Year 30

Total Expense

Items Affected by Inflation +  
Items Not Affected by Inflation

Year

Year 10

Year 20

Year 30

What steps will you take now to ensure that your income is enough to support your retirement lifestyle?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

What expenditures will you reduce at retirement to ensure that your lifestyle goals are met?

\_\_\_\_\_

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\_\_\_\_\_

Finally, complete the charts “Budget Now” and “Budget at Retirement”. If you have more liabilities than assets in your net worth calculation, you will need to include a monthly payment towards this “expense” to compensate. You can either include the detailed (year to year) effects of inflation on your expenses or simply take the average to help in your forecasting.

# Investments

## Budget Now

Money Coming In		
Employment Income	Current	Goal
Employment Income		
Federal Income Tax	-	
State & Local Tax	-	
Social Security/Medicare	-	
Tips		
<b>Net Income</b>		

Other Income		
Rental Properties		
Stock Market		
Entrepreneurial Endeavors		
Interest Income		
Other		
<b>Total</b>		

<b>Total Income</b>		
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Money for Savings		
Emergency Fund		
Retirement Plans		
Investments		
Short Term 'Fun' Savings		
Charities		
<b>Total</b>		

<b>Total Income</b>		
<b>Total All Expenses</b>		
<b>Total Savings</b>		
<b>Money Left Over</b>		

Expenses		
Living Expense	Current	Goal
Rent / Mortgage		
Taxes / Insurance		
Utilities: Electric /Gas		
Utilities: Water / Garbage		
Cable/Satellite		
Internet		
Phone		
Other		
<b>Total</b>		

Travel Expenses		
Car payment		
Insurance		
Registration		
Gas		
Maintenance		
Other		
<b>Total</b>		

Other Expenses		
Student Loan Debt		
Credit Card Debt		
Groceries		
Clothes		
Personal Items		
Entertainment		
Eating Out		
Additional Liabilities		
<b>Total</b>		

<b>Total All Expenses</b>		
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# Why People Invest

## Budget At Retirement

Money Coming In	
Employment Income	Goal
Employment Income	
Federal Income Tax	
State & Local Tax	
Social Security/Medicare	
Tips	
<b>Net Income</b>	

Other Income	
Rental Properties	
Stock Market	
Entrepreneurial Endeavors	
Interest Income	
Other	
<b>Total</b>	

<b>Total Income</b>	
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Money for Savings +/-	
Emergency Fund	
Retirement Plans	
Investments	
Short Term 'Fun' Savings	
Charities	
<b>Total</b>	

<b>Total Income</b>	
<b>Total All Expenses</b>	
<b>Total Savings</b>	
<b>Money Left Over</b>	

Expenses	
Living Expense	Goal
Rent / Mortgage	
Taxes / Insurance	
Utilities: Electric /Gas	
Utilities: Water / Garbage	
Cable/Satellite	
Internet	
Phone	
Other	
<b>Total</b>	

Travel Expenses	
Car payment	
Insurance	
Registration	
Gas	
Maintenance	
Other	
<b>Total</b>	0

Other Expenses	
Student Loan Debt	
Credit Card Debt	
Groceries	
Clothes	
Personal Items	
Entertainment	
Eating Out	
Additional Liabilities	
<b>Total</b>	0

<b>Total All Expenses</b>	
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## Lesson Questions

1. How do you calculate your net worth?
  - a. Subtract your assets from your liabilities.
  - b. Total up your assets and liabilities.
  - c. Add up your income and expenses and adjust for inflation.
  - d. Subtract your liabilities from your assets.
2. Over the past five years, what has been the average rate of inflation in the US?
  - a. 1%
  - b. 3%
  - c. 6%
  - d. 12%
  - e. 25%
3. When the Federal Reserve increases the money supply, what happens to the purchasing power of the dollar?
  - a. It does not change
  - b. It goes up
  - c. It goes down
  - d. It goes up briefly, and then goes down
  - e. It goes down briefly, and then goes up
4. Precious metals (such as gold or silver) that you own are an example of:
  - a. An asset
  - b. A liability
  - c. An annuity
  - d. A bond



# Why People Invest

## Essential Questions

What is investing? \_\_\_\_\_

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\_\_\_\_\_

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Why do people invest? \_\_\_\_\_

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What is inflationary risk? \_\_\_\_\_

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## Introduction to Investing

### Warm-up Activity:

What do each of the following quotes mean to you?

*“When you’re making money doing what you love, you are already retired.”*

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*“Many describe the new retirement as having the freedom to do what you want to do, when you want to do it.”*

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### ■ Preparing to Invest

The reason many people invest is to achieve financial freedom. The term “financial freedom” means something different to each person, but many define it as being able to have the lifestyle they want and knowing they can afford it financially. To work toward attaining this goal it’s important to get your money started growing for you instead of having to work for every penny.

# Introduction to Investing

Here are some important terms that relate directly to your financial freedom:

- **CASH FLOW** is the difference between the money you have available at the beginning and end of an accounting period.
  - **Positive** cash flow: Cash coming in is greater than cash going out.
  - **Negative** cash flow: Cash going out is greater than cash coming in.
  - **Breakeven** cash flow: Cash coming in and cash going out are the same.
- **NET WORTH** equals Assets minus Liabilities.
- **ASSET** is any item of economic value owned by a person or corporation
  - **Tangible** assets include gold, real estate, stocks.
  - **Intangible** assets include copyrights, trademarks, brand recognition.
- **LIABILITY** is a loan and/or other obligation you have to pay.
- **RETURN ON INVESTMENT (ROI)**. This performance measure helps investors compare the return offered by one investment to returns on other investments. ROI is calculated by dividing an investment's financial yield by its cost. The result is expressed as a percentage or ratio.

## Lesson Activity: Investment Definitions

### 1. CASH FLOW

You receive a **\$1,500** check from a tenant on a rental property that you own. That month, your mortgage, insurance, taxes, and other rental property- related expenses for that unit come to **\$1,300**. Complete the following statement:

In the example above, the rental property provides the owner a  
[type] \_\_\_\_\_ cash flow of  
[amount] \$ \_\_\_\_\_ per month.

### 2. ASSETS

Which are more secure: \_\_\_\_\_ **tangible** assets or \_\_\_\_\_ **intangible** assets?

Why? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

### 3. ROI (RETURN ON INVESTMENT)

Assume you purchased \$1,000 worth of stock. After a year, the stock is worth \$1,100.  
What did you earn on the investment? \$\_\_\_\_\_ [*financial gain*]

Use the formula to determine the percentage of ROI.

$$\frac{\text{[Financial Gain]}}{\text{[Cost of Investment]}} = \text{[ROI]} \%$$

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## Lesson Questions

1. Having a *break-even* cash flow at the end of an accounting period means:
  - a. You had more cash going out than coming in.
  - b. You had more cash coming in than going out.
  - c. You had a net worth higher than your amount of assets.
  - d. Your cash going out and cash coming in were the same.
  - e. Your bank account is empty.
2. *Tangible assets* might include:
  - a. Real estate and stocks.
  - b. Net worth and liabilities.
  - c. Clothing and food.
  - d. Copyrights and trademarks.
3. ROI is calculated by:
  - a. Dividing net worth by investments.
  - b. Dividing tangible assets by intangible assets.
  - c. Dividing financial gain by the cost of the original investment.
  - d. Multiplying risk times potential return.
  - e. Multiplying assets times liabilities.

# Introduction to Investing

## Essential Questions

What is cash flow? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What is net worth? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What does ROI stand for and what does it mean? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What does financial freedom mean to you? \_\_\_\_\_  
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## Investment Checklist

### Warm-up Activity:

What steps should I take before I start investing?

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### ▀ Becoming Prepared to Invest

You now know some very compelling reasons why you should begin investing to get your money working for you, instead of you having to work for every dollar. But before you dive into investments you also must take some important steps to become prepared.

Knowledge forms the foundation of your investment strategy and financial planning. Once you have gained a solid knowledge base about all the available investment options, your next most important step is to build a trusted team of advisors.

Another key component of investment preparation is freeing up risk capital to use for your investments. Before implementing any investment strategy you should build up an emergency savings fund that equals between 6 and 24 months' worth of your expenses. Then if your income source were to dry up (for example, if you lose your job), you could still meet your obligations for that number of months.

Once you have an emergency fund that would last you 6-24 months and a working budget that includes a good savings plan, you can start building up risk capital that you can afford to invest. Minimizing bad debt should be an important focus of your budget.

# Investment Checklist

Finally, you need to develop an overall investment plan that aligns with your lifestyle goals and matches your risk tolerance. You should include an exit plan in case an investment doesn't perform as predicted. Don't forget to conduct due diligence research on every investment you're considering.

## Lesson Activity: Investment Preparation Checklist

### KNOWLEDGE

Circle the number that represents your current financial knowledge level. Then underline the number that represents the knowledge level to which you plan to improve your personal financial knowledge within one year.

1 2 3 4 5 6 7 8 9 10

Low

High

### TRUSTED TEAM

Place a check mark next to those trusted team members you will have in place within one year.

- |   |  |
|---|--|
| <input type="checkbox"/> Tax planner                      | <input type="checkbox"/> College planner   |
| <input type="checkbox"/> Attorney                         | <input type="checkbox"/> Financial mentors |
| <input type="checkbox"/> Financial advisors               | <input type="checkbox"/> Insurance agent   |
| <input type="checkbox"/> Realtor or mortgage professional |  |

### EMERGENCY SAVINGS

Depending on your qualification and ability to get a job, a 6- to 24-month emergency fund will prepare you for an unexpected event or job loss.

- ☐ I currently have \_\_\_\_ months in emergency savings.
- ☐ Within one year I will have \_\_\_\_ months of emergency money saved.
- ☐ I have a working budget in place. ☐

### RISK CAPITAL

Once I build up my emergency fund, I will start to save risk capital. Risk capital is money that I can invest without risking dangerous financial circumstances. I will start saving risk capital to invest by [date]\_\_\_\_\_.

## MINIMAL BAD DEBT

Many people pay 20% or higher credit card interest rates. Those people earn less on their investments.

If your investments are earning 6% and you're paying 24% interest on credit card debt, what action should you explore? Why?

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If you owed \$20,000 on a credit card at a 0% interest rate and you received \$20,000, would it be better to pay off your credit card or to invest that money? Why?

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## PLAN

I will have solid ideas on my investment and retirement plan by the end of this coursework.

*Check here* ☐ if over the next 12 months you will take time to finalize your plan, even if you don't yet have enough money saved to risk yet.

## DUE DILIGENCE

*Check here* ☐ if you will perform due diligence on the specific investments or companies in which you consider investing.

## Lesson Questions

1. What is the first, most important step you should take before you start investing?
  - a. Conducting due diligence
  - b. Having a trusted team
  - c. Gaining knowledge
  - d. Borrowing money
  - e. Selling off assets

# Investment Checklist

2. Why is minimizing bad debt important to an investment plan?
  - a. Bad debt carries high interest rates that will decrease the amount you earn on your investments.
  - b. Having bad debt looks negative on a budget.
  - c. Bad debt increases the brokerage fees you have to pay.
  - d. Having bad debt will interfere with your exit plan.
3. It's a good idea to start creating an overall investment plan even if you don't yet have enough money saved to risk investing.
  - a. True
  - b. False

## Essential Questions

Name at least four important steps you should take to prepare for investing:

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. \_\_\_\_\_  
\_\_\_\_\_  
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3. \_\_\_\_\_  
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4. \_\_\_\_\_  
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\_\_\_\_\_