

MONEY MANAGEMENT

ACTIVITY 4



Investing for the Long Term

RECOMMENDED TIME

Allow 50-60 minutes. Required time may vary depending on the audience.

OBJECTIVES

Participants will:

- Compare the historical performance of the S&P 500 with returns on savings accounts.
- Understand the purpose of investing.
- Define personal investment goals.
- Recognize questions to ask when making an investment (safety, returns, stability, access to funds, and diversification).
- Compare and contrast places to invest.
- Learn about online money management.

MATERIALS NEEDED

- Overhead projector and screen*
- Overhead transparencies and handouts for the activity
- Flipchart, blank transparencies, or white board
- Overhead (or other appropriate) marking pens

ADVANCE PREPARATION NOTES

Review the activity plan. Think about the audience, and decide whether to present the total activity or to use parts of this activity in combination with other activities.

For clarity, use print instead of script when writing on a flipchart, white board, or transparency.

The suggested dialogue in the delivery notes does not always mirror the wording on a transparency. Try to vary the dialogue, rather than reading transparencies verbatim.

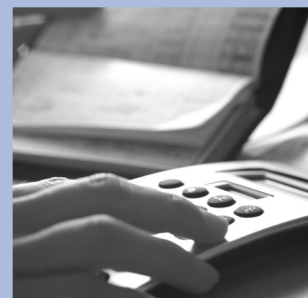
This activity uses handouts. Have sufficient copies for all participants; a few extras provide good insurance.

If the group has not covered the exercise on setting financial goals from Activity 1 (“**Handout 3: Setting My Financial Goals**”) in a previous session, consider using the handout here. It is included with this activity so that you can decide whether to disregard the handout or use it as a refresher.

* If an overhead projector isn't available, consider making photocopies of the overhead transparencies for handouts instead.

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ACTIVITY 4 - DELIVERY NOTES



Investing for the Long Term

Presentation Opening

- Welcome the participants.
- Introduce yourself briefly.
- If this is the first meeting with the class or group, do a brief round of introductions by everyone.
- When introducing yourself, print your name where participants can see and refer to it during the session. Some people may be a little nervous and may not remember your name. Just as you want to use their names, encourage them to call you by your name.

Activity Overview

Review the topics for discussion in this activity:

- The Historical Performance of the S&P 500
- Reasons to Invest
- Investing Considerations
 - ✿ Investment Concerns
 - ✿ Places to Invest
- Online Money Management

As a review, use **“Overhead 1: Saving vs. Investing”** (shown in a previous activity) to distinguish between the two financial terms.

- Introduce the idea that although it is important for everyone to save a percentage of their income, many people really want to move to the next step—investing.
- Ask for a show of hands of participants who agree.
- Ask for reasons why they believe this.

Display **“Overhead 2: Saving vs. Investing, Historically.”** Have students study the overhead and then share their reactions to the data on it.

Review the major concepts illustrated by the graph:

- Over time, stocks show a higher return than savings.
- However, the return on stocks is NOT guaranteed; some stocks rise in value over and over, while others lose their value completely.
- Investing is a useful tool for long-term needs when someone has the time to allow the investment plan to produce positive results, earnings, or profits.

Briefly discuss the concept of diversification. Most people need to have a combination of savings and investments to meet their short- and long-term financial goals. The exact amount of each and the balance among types are up to each individual or family.

Visual Aids

Overhead 1

Saving vs. Investing

Overhead 2

Saving vs. Investing,
Historically

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ACTIVITY 4 - DELIVERY NOTES



Emphasize that investing is not “betting” and growth or profits are not the result of “luck.” Instead, the careful choice of savings, stocks, insurance, annuities, and other financial instruments should be based on facts and judged by reasonable expectations for growth or profit. It is strongly encouraged that investors consult a licensed investment professional before making an investment.

Use **“Overhead 3: Places to Invest”** to establish baseline knowledge among participants about investments. Use the list on the overhead to ask participants to talk about what they know about the various investments.

Distribute **“Handout 1: Characteristics of Investments,”** and review the information. Encourage participants to take notes for later reference.

Younger participants may wonder why they should consider a retirement plan at their current age. Explain that the longer the wait, the more they will have to save or invest each year to have enough for retirement. Display **“Overhead 4: Planning Early for Retirement,”** and briefly discuss the chart.

Use **“Handout 2: Questions to Ask Before Making an Investment”** for group discussion.

- Stress the need to identify your investment goals first.
- Stress the need to study all investments carefully before making a commitment. Never invest in something you do not understand.
- Match one’s investment goals to the appropriate type of investment.

Briefly discuss the use of the Internet for managing savings and investments. Most banks and many investment firms have websites where users can immediately access their personal financial information, research savings and investment options, and even move their investments around.

Display **“Overhead 5: Internet Privacy & Security,”** and review the privacy and security issues that apply to managing your money and investments online.

Wrap up this discussion by explaining that millions of people use the Internet on a daily basis and only a small percentage become victims of fraud or identity theft. It is important to be aware of potential problems so that you can avoid them or, in the rare case that they do occur, get help immediately.

Encourage participants to look for further savings and investment information from reliable sources, on the Internet and in the community. Banks and credit unions are good places to start researching savings and investment choices.

Visual Aids

Overhead 3

Places to Invest

Handout 1

Characteristics of Investments

Overhead 4

Planning Early for Retirement

Handout 2

Questions to Ask Before Making an Investment

Overhead 5

Internet Privacy & Security

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ACTIVITY 4 - DELIVERY NOTES



Closing

Use **“Handout 3: Setting My Financial Goals”** for session closure. If participants have already completed the handout in a previous session, consider using it as a review tool.

Since the participants have now been exposed to specific types of savings and investment opportunities, they might want to reassess their strategies for achieving short- and long-term financial goals.

Thank everyone for their participation, and encourage them to return for additional sessions. If such sessions are planned, you might provide a “sneak preview” of any activity to come.

Visual Aids

Handout 3

Setting My
Financial Goals

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ACTIVITY 4 - OVERHEAD 1



SAVING vs. INVESTING

SAVING

- Short-term.
- Postpones spending.
- Has safety precautions.

INVESTING

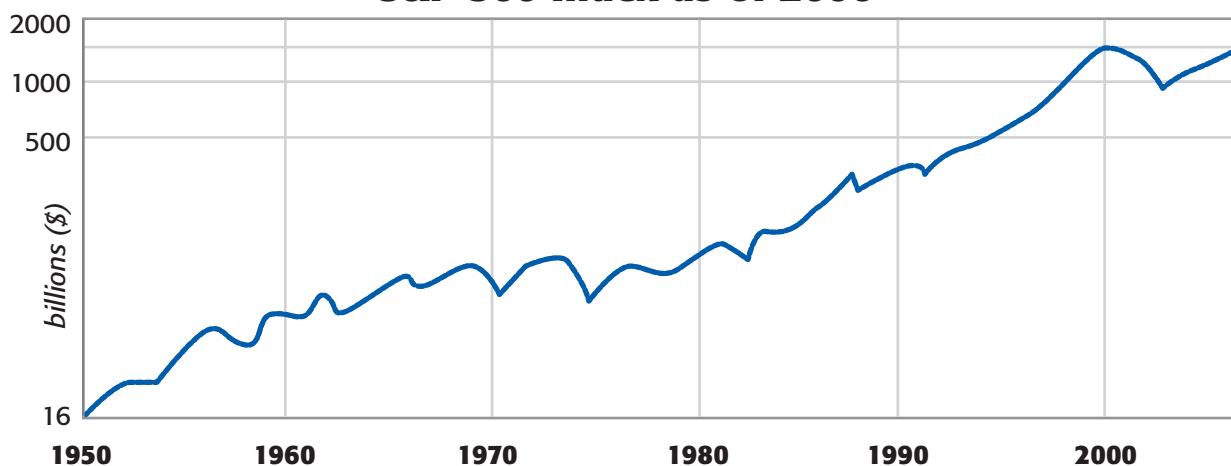
- Long-term.
- Exchanges money for something with the future expectation of receiving a profit.
- Has risk factors.

MONEY MANAGEMENT ACTIVITY 4 - OVERHEAD 2



SAVING vs. INVESTING, HISTORICALLY

S&P 500 Index as of 2006



The Standard & Poor's 500 (S&P 500) stock index, which is generally used as the benchmark for the overall US market, has increased almost 200 percent since 1970. Therefore, an investment of \$1000 in 1970 would be worth \$200,000 today.

On average, the stock market returns 12 percent per year, including dividends.

Savings rates, by comparison have been much lower – anywhere from 1.5% to 5%, usually depending on the length of time the savings are deposited.

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ACTIVITY 4 - OVERHEAD 3



PLACES TO INVEST

- **Stocks**
- **Bonds**
- **Mutual Funds**
- **Retirement Plans**
- **Real Estate**
- **Collectibles/Valuables**

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ACTIVITY 4 - HANDOUT 1



CHARACTERISTICS OF INVESTMENTS

TYPE	CHARACTERISTICS
Stocks	<ul style="list-style-type: none"> • Ownership in a corporation. • Individuals that hold shares of the corporation are shareholders. • Returns from the shares are called dividends. • Returns can be volatile, making this a more risky investment. • Historically, returns are higher than other investment types. • Should be used only for long-term goals.
Bonds	<ul style="list-style-type: none"> • Represent a loan, an IOU. • Money loaned to the government or a business for a limited time, with established terms of repayment. • Bonds can be corporate, municipal, or federal government. • Returns are more stable than with stocks. • Typically risks are less than with stocks.
Mutual Funds	<ul style="list-style-type: none"> • Professionally managed. • Pool the money from many investors to purchase stocks, bonds, or other types of investments. • Investors pay a fee for the professional service. • Can sell or buy easily. • Returns and risk depend on the types of investments in the mutual fund. • The investments most funds purchase are usually diverse.
Retirement Plans	<ul style="list-style-type: none"> • Allow individuals to set aside part of their income for use when they no longer work. • Includes a wide variety of options such as a company pension program, IRAs, 401(k) plans, and others. • Risk depends on the type of retirement plan and the type of investments held in the retirement plan.
Real Estate	<ul style="list-style-type: none"> • Homeownership is generally less volatile than stocks, but there is risk of loss. • Provides protection against inflation. • Not very liquid. Cannot access money quickly. Ease of selling depends on local market conditions.
Collectibles/Valuables	<ul style="list-style-type: none"> • Purchasing and selling is subject to availability and the desire of buyers and sellers. • Includes such things as cars, antiques, sports memorabilia, and many others.

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ACTIVITY 4 - OVERHEAD 4



PLANNING EARLY FOR RETIREMENT

How much money would you need to save each year to have enough retirement income to support yourself until the age of 85?*

AGE AT WHICH YOU BEGIN SAVING	AMOUNT NEEDED TO SAVE EACH YEAR
20	\$2,700
25	\$3,700
30	\$5,200
35	\$7,300
40	\$10,600
45	\$16,000

*Assumptions: Retirement at 65 years, withdrawing \$40,000 from savings each year upon retirement. Based on ROI of 9% before retirement and 6% after retirement.

Where would you find money to save the amount indicated for your age? Reducing your energy consumption at home and following “green” practices in your daily life is one easy way to cut your expenses and find more money to save or invest.

Source: Bach, David. *Go Green, Live Rich*. Broadway, 2008.

MONEY MANAGEMENT

ACTIVITY 4 - HANDOUT 2



QUESTIONS TO ASK BEFORE MAKING AN INVESTMENT

- 1. SAFETY – How safe is the investment?**
- 2. RETURNS – What types of returns can I expect?**
- 3. STABILITY – What kind of risk is involved?**
- 4. ACCESS TO FUNDS – Can I get my money back if I need it? How long will it take and how much will it cost to get the money back quickly?**
- 5. DIVERSIFICATION – Are my investments in a variety of places, to spread (and thereby minimize) my risks?**

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ACTIVITY 4 - OVERHEAD 5

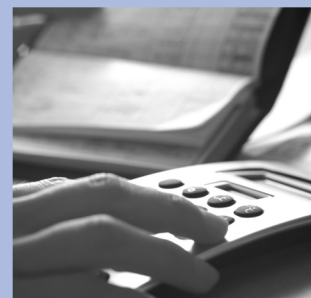


INTERNET PRIVACY & SECURITY

- **Avoid passwords or screen names that are easy to guess, including your birthday, address, or last name.**
- **Change passwords often.**
- **Read the privacy policies on the websites you visit; they include valuable information to help you protect yourself and your money.**
- **Check online accounts often; report transactions that look unfamiliar immediately.**
- **Do not open e-mails that say “Error on your Account,” “A Money Making Opportunity,” or any other unsolicited offer that sounds too good to be true; it usually is too good to be true. Further, the email could be infected with a virus that could harm your computer or retrieve personal information from your system.**

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ACTIVITY 4 - HANDOUT 3



SETTING MY FINANCIAL GOALS

Take the first step toward establishing a financial plan. What are your short- and long-term financial goals? How do you plan to achieve those goals? Begin the planning process by thinking about your goals and strategies.

FINANCIAL GOALS		
My short-term financial goals are:		
Purpose	Financial Amount Needed	Time Frame
	\$	
	\$	
	\$	
My long-term financial goals are:		
Purpose	Financial Amount Needed	Time Frame
	\$	
	\$	
	\$	
FINANCIAL STRATEGIES		
I plan to achieve my short-term financial goals by doing the following:		
•		
•		
I plan to achieve my long-term financial goals by doing the following:		
•		
•		