


Saving *and* Investing

A Roadmap To Your Financial Security
Through Saving and Investing

U.S. SECURITIES AND EXCHANGE COMMISSION
MCMXXXIV

OFFICE *of* INVESTOR
EDUCATION *and* ADVOCACY

Information is an investor's best tool

Dear Reader

While money doesn't grow on trees, it can grow when you save and invest wisely.

Knowing how to secure your financial well-being is one of the most important things you'll ever need in life. You don't have to be a genius to do it. You just need to know a few basics, form a plan, and be ready to stick to it. No matter how much or little money you have, the important thing is to educate yourself about your opportunities. In this brochure, we'll cover the basics on saving and investing.

At the SEC, we enforce the laws that determine how investments are offered and sold to you. These laws protect investors, but you need to do your part, too. Part of this brochure tells you how to check out investments and the people that sell them so you do not fall victim to fraud or costly mistakes.

No one can guarantee that you'll make money from investments you make. But if you get the facts about saving and investing and follow through with an intelligent plan, you should be able to gain financial security over the years and enjoy the benefits of managing your money.

Please feel free to contact us with any of your questions or concerns about investing. It always pays to learn before you invest. And congratulations on taking your first step on the road to financial security!

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Don't Wait to Get Started

YOU CAN DO IT!
IT'S EASIER THAN YOU THINK.

No one is born knowing how to save or to invest. Every successful investor starts with the basics—the information in this brochure.

A few people may stumble into financial security—a wealthy relative may die, or a business may take off. But for most people, the only way to attain financial security is to save and invest over a long period of time.

Time after time, people of even modest means who begin the journey reach financial security and all that it promises: buying a home, educational opportunities for their children, and a comfortable retirement. If they can do it, so can you!

KEYS TO FINANCIAL SUCCESS

1. Make a financial plan.
2. Pay off any high interest debts.
3. Start saving and investing as soon as you've paid off your debts.

Your First Step—Making a Financial Plan

What are the things you want to save and invest for?

- a home
- a car
- an education
- a comfortable retirement
- your children
- medical or other emergencies
- periods of unemployment
- caring for parents

Make your own list and then think about which goals are the most important to you. List your most important goals first.

Decide how many years you have to meet each specific goal, because when you save or invest you'll need to find a savings or

YOUR FINANCIAL GOALS

If you don't know where you are going, you may end up somewhere you don't want to be. To end up where you want to be, you'll need a roadmap, a financial plan.

What do you want to save or invest for?	By when?
1. ______________________________	_______
2. ______________________________	_______
3. ______________________________	_______
4. ______________________________	_______
5. ______________________________	_______

investment option that fits your time frame for meeting each goal. Many tools exist to help you put your financial plan together.

You'll find a wealth of information, including calculators and links to non-commercial resources at **www.investor.gov**.

KNOW YOUR CURRENT FINANCIAL SITUATION

Sit down and take an honest look at your entire financial situation. You can never take a journey without knowing where you're starting from, and a journey to financial security is no different. You'll need to figure out on paper your current situation—what you own and what you owe. You'll be creating a "net worth statement." On one side of the page, list what you own. These are your "assets." And on the other side list what you owe other people, your "liabilities" or debts.

YOUR NET WORTH STATEMENT

Assets	**Current Value**	**Liabilities**	**Amount**
Cash	__________	Mortgage balance	__________
Checking accounts	__________	Credit cards	__________
Savings	__________	Bank loans	__________
Cash value of life insurance	__________	Car loans	__________
Retirement accounts	__________	Student loans	__________
Real estate	__________	Other	__________
Home	__________		__________
Other investments	__________		__________
Personal property	__________		__________
TOTAL	__________	**TOTAL**	__________

Subtract your liabilities from your assets. If your assets are larger than your liabilities, you have a "positive" net worth. If your liabilities are greater than your assets, you have a "negative" net worth.

You'll want to update your "net worth statement" every year to keep track of how you are doing. Don't be discouraged if you have a negative net worth. If you follow a plan to get into a positive position, you're doing the right thing.

KNOW YOUR INCOME AND EXPENSES

The next step is to keep track of your income and your expenses for every month. Write down what you and others in your family earn, and then your monthly expenses.

PAY YOURSELF OR YOUR FAMILY FIRST

Include a category for savings and investing. What are you paying yourself every month? Many people get into the habit of saving and investing by following this advice: always pay yourself or your family first. Many people find it easier to pay themselves first if they allow their bank to automatically remove money from their paycheck and deposit it into a savings or investment account.

Likely even better, for tax purposes, is to participate in an employer-sponsored retirement plan such as a 401(k), 403(b), or 457(b). These plans will typically not only automatically deduct money from your paycheck, but will immediately reduce the taxes you are paying. Additionally, in many plans the employer matches some or all of your contribution. When your employer does that, it's offering "free money."

Any time you have automatic deductions made from your paycheck or bank account, you'll increase the chances of being able to stick to your plan and to realize your goals.

FINDING MONEY TO SAVE OR INVEST

If you are spending all your income, and never have money to save or invest, you'll need to look for ways to cut back on your expenses. When you watch where you spend your money, you will be surprised how small everyday expenses that you can do without add up over a year.

KNOW YOUR INCOME AND WHAT YOU SPEND	
Monthly Income	________________
Monthly Expenses	
Savings	________________
Investments	________________
Housing	________________
Rent or mortgage	________________
Electricity	________________
Gas/oil	________________
Telephone	________________
Water/sewer	________________
Property tax	________________
Furniture	________________
Food	________________
Transportation	________________
Loans	________________
Insurance	________________
Education	________________
Recreation	________________
Child care	________________
Health care	________________
Gifts	________________
Other	________________
TOTAL	________________

Small Savings Add Up to Big Money

How much does a cup of coffee cost you?

If you buy a cup of coffee every day for $1.00 (an awfully good price for a decent cup of coffee, nowadays), that adds up to $365.00 a year. If you saved that $365.00 for just one year, and put it into a savings account or investment that earns 5% a year, it would grow to $465.84 by the end of 5 years, and by the end of 30 years, to $1,577.50.

That's the power of "compounding." With compound interest, you earn interest on the money you save and on the interest that money earns. Over time, even a small amount saved can add up to big money.

If you are willing to watch what you spend and look for little ways to save on a regular schedule, you can make money grow. You just did it with one cup of coffee.

If a small cup of coffee can make such a huge difference, start looking at how you could make your money grow if you decided to spend less on other things and save those extra dollars.

If you buy on impulse, make a rule that you'll always wait 24 hours to buy anything. You may lose your desire to buy it after a day. And try emptying your pockets and wallet of spare change at the end of each day. You'll be surprised how quickly those nickels and dimes add up!

PAY OFF CREDIT CARD OR OTHER HIGH INTEREST DEBT

Speaking of things adding up, few investment strategies pay off as well as, or with less risk than, merely paying off all high interest debt you may have.

Many people have wallets filled with credit cards, some of which they've "maxed out" (meaning they've spent up to their credit limit). Credit cards can make it seem easy to buy expensive things when you don't have the cash in your pocket—or in the bank. But credit cards aren't free money.

Most credit cards charge high interest rates—as much as 18 percent or more—if you don't pay off your balance in full each month. If you owe money on your credit cards, the wisest thing you can do is pay off the balance in full as quickly as possible. Virtually no investment will give you the high returns you'll need to keep pace with an 18 percent interest charge. That's why you're better off eliminating all credit card debt before investing savings.

Once you've paid off your credit cards, you can budget your money and begin to save and invest. Here are some tips for avoiding credit card debt:

Put Away the Plastic

Don't use a credit card unless your debt is at a manageable level and you know you'll have the money to pay the bill when it arrives.

Know What You Owe

It's easy to forget how much you've charged on your credit card. Every time you use a credit card, write down how much you have spent and figure out how much you'll have to pay that month. If you know you won't be able to pay your balance in full, try to figure out how much you can pay each month and how long it'll take to pay the balance in full.

Pay Off the Card with the Highest Rate

If you've got unpaid balances on several credit cards, you should first pay down the card that charges the highest rate. Pay as much as you can toward that debt each month until your balance is once again zero, while still paying the minimum on your other cards.

The same advice goes for any other high interest debt (about 8% or above) which does not offer the tax advantages of, for example, a mortgage.

Now, once you have paid off those credit cards and begun to set aside some money to save and invest, what are your choices?

Making Money Grow

THE TWO WAYS TO MAKE MONEY

There are basically two ways to make money.

1. **You work for money.**
   Someone pays you to work for them or you have your own business.

2. **Your money works for you.**
   You take your money and you save or invest it.

YOUR MONEY CAN WORK FOR YOU IN TWO WAYS

Your money earns money. When your money goes to work, it may earn a steady paycheck. Someone pays you to use your money for a period of time. When you get your money back, you get it back plus "interest." Or, if you buy stock in a company that pays "dividends" to shareholders, the company may pay you a portion of its earnings on a regular basis. Your money can make an "income," just like you. You can make more money when you and your money work.

You buy something with your money that could increase in value. You become an owner of something that you hope increases in value over time. When you need your money back, you sell it, hoping someone else will pay you more for it. For instance, you buy a piece of land thinking it will increase in value as more businesses or people move into your town. You expect to sell the land in five, ten, or twenty years when someone will buy it from you for a lot more money than you paid.

And sometimes, your money can do both at the same time—earn a steady paycheck and increase in value.

THE DIFFERENCES BETWEEN SAVING AND INVESTING

Saving

Your "savings" are usually put into the safest places, or products, that allow you access to your money at any time. Savings products include savings accounts, checking accounts, and certificates of deposit. Some deposits in these products may be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration. But there's a tradeoff for security and ready availability. Your money is paid a low wage as it works for you.

After paying off credit cards or other high interest debt, most smart investors put enough money in a savings product to cover an emergency, like sudden unemployment. Some make sure they have up to six months of their income in savings so that they know it will absolutely be there for them when they need it.

But how "safe" is a savings account if you leave all of your money there for a long time, and the interest it earns doesn't keep up with inflation? What if you save a dollar when it can buy a loaf of bread. But years later when you withdraw that dollar plus the interest you earned on it, it can only buy half a loaf? This is why many people put some of their money in savings, but look to investing so they can earn more over long periods of time, say three years or longer.

Investing

When you "invest," you have a greater chance of losing your money than when you "save." The money you invest in securities, mutual funds, and other similar investments typically is not federally insured. You could lose your "principal"—the amount you've invested. But you also have the opportunity to earn more money.

THE BASIC TYPES OF PRODUCTS	
Savings	**Investments**
Savings accounts	Bonds
Certificates of deposit	Stocks
Checking accounts	Mutual funds
	Real estate
	Commodities (gold, silver, etc.)

What about risk?

All investments involve taking on risk. It's important that you go into any investment in stocks, bonds or mutual funds with a full understanding that you could lose some or all of your money in any one investment. While over the long term the stock market has historically provided around 10% annual returns (closer to 6% or 7% "real" returns when you subtract for the effects of inflation), the long term does sometimes take a rather long, long time to play out. Those who invested all of their money in the stock market at its peak in 1929 (before the stock market crash) would wait over 20 years to see the stock market return to the same level.

However, those that kept adding money to the market throughout that time would have done very well for themselves, as the lower cost of stocks in the 1930s made for some hefty gains for those who bought and held over the course of the next twenty years or more.

It is often said that the greater the risk, the greater the potential reward in investing, but taking on unnecessary risk is often avoidable. Investors best protect themselves against risk by spreading their money among various investments, hoping that if one investment loses money, the other investments will more than make up for those losses. This strategy, called "diversification," can be neatly summed up as, "Don't put all your eggs in one basket." Investors also protect themselves from the risk of investing all their money at the wrong time (think 1929) by following a consistent pattern of adding new money to their investments over long periods of time.

Once you've saved money for investing, consider carefully all your options and think about what diversification strategy makes sense for you. While the SEC cannot recommend any particular investment product, you should know that a vast array of investment products exists—including stocks and stock mutual funds, corporate and municipal bonds, bond mutual funds, certificates of deposit, money market funds, and U.S. Treasury securities.

Diversification can't ***guarantee*** that your investments won't suffer if the market drops. But it can improve the chances that you won't lose money, or that if you do, it won't be as much as if you weren't diversified.

What are the best investments for me?

The answer depends on when you will need the money, your goals, and if you will be able to sleep at night if you purchase a risky investment where you could lose your principal.

For instance, if you are saving for retirement, and you have 35 years before you retire, you may want to consider riskier investment products, knowing that if you stick to only the "savings" products or to less risky investment products, your money will grow too slowly—or, given inflation and taxes, you may ***lose*** the purchasing power of your money. A frequent mistake people make is putting money they will not need for a very long time in investments that pay a low amount of interest.

On the other hand, if you are saving for a short-term goal, five years or less, you don't want to choose risky investments, because when it's time to sell, you may have to take a loss. Since investments often move up and down in value rapidly, you want to make sure that you can wait and sell at the best possible time.

What are investments all about?

When you make an investment, you are giving your money to a company or enterprise, hoping that it will be successful and pay you back with even more money.

Stocks and Bonds

Many companies offer investors the opportunity to buy either stocks or bonds. The example below shows you how stocks and bonds differ.

Let's say you believe that a company that makes automobiles may be a good investment. Everyone you know is buying one of its cars, and your friends report that the company's cars rarely break down and run well for years. You either have an investment professional investigate the company and read as much as possible about it, or you do it yourself.

After your research, you're convinced it's a solid company that will sell many more cars in the years ahead.

The automobile company offers both stocks and bonds. With the bonds, the company agrees to pay you back your initial investment in ten years, plus pay you interest twice a year at the rate of 8% a year.

If you buy the stock, you take on the risk of potentially losing a portion or all of your initial investment if the company does poorly or the stock market drops in value. But you also may see the stock increase in value beyond what you could earn from the bonds. If you buy the stock, you become an "owner" of the company.

You wrestle with the decision. If you buy the bonds, you will get your money back plus the 8% interest a year. And you think the company will be able to honor its promise to you on the bonds because it has been in business for many years and doesn't look like it could go bankrupt. The company has a long history of making cars and you know that its stock has gone up in price by an average of 9% a year, plus it has typically paid stockholders a dividend of 3% from its profits each year.

THE MAIN DIFFERENCES BETWEEN STOCKS AND BONDS	
Stocks	**Bonds**
If the company profits or is perceived as having strong potential, its stock may go up in value and pay dividends. You may make more money than from the bonds.	The company promises to return money plus interest.
Risk: The company may do poorly, and you'll lose a portion or all of your investment.	**Risk:** If the company goes bankrupt, your money may be lost. But if there is any money left, you will be paid before stockholders.

You take your time and make a careful decision. Only time will tell if you made the right choice. You'll keep a close eye on the company and keep the stock as long as the company keeps selling a quality car that consumers want to drive, and it can make an acceptable profit from its sales.

WHY SOME INVESTMENTS MAKE MONEY AND OTHERS DON'T

You can potentially make money in an investment if:

- The company performs better than its competitors.
- Other investors recognize it's a good company, so that when it comes time to sell your investment, others want to buy it.
- The company makes profits, meaning they make enough money to pay you interest for your bond, or maybe dividends on your stock.

You can lose money if:

- The company's competitors are better than it is.
- Consumers don't want to buy the company's products or services.