Saving and Investing

In this lesson, students will be able to identify characteristics of saving and investing.

Students will be able to identify and/of define the following terms:

Mutual Fund

Return

Diversification

Do Now:

- What are some of the powers of the "Fed"?
  - They control interests rates, lend money to banks, and require banks to hold adequate reserves.

- There is a difference between saving money and investing money.

Saving and Investing

- When a person saves money, he is storing money.
- When a person invests money, he is trying to significantly increase his money.
- Investing money involves greater risk but also potentially greater gain.

- People invest when they buy stocks and bonds.
- Investment is the act of redirecting resources from being consumed today so that they may create benefits in the future.

STOCKS & BONDS

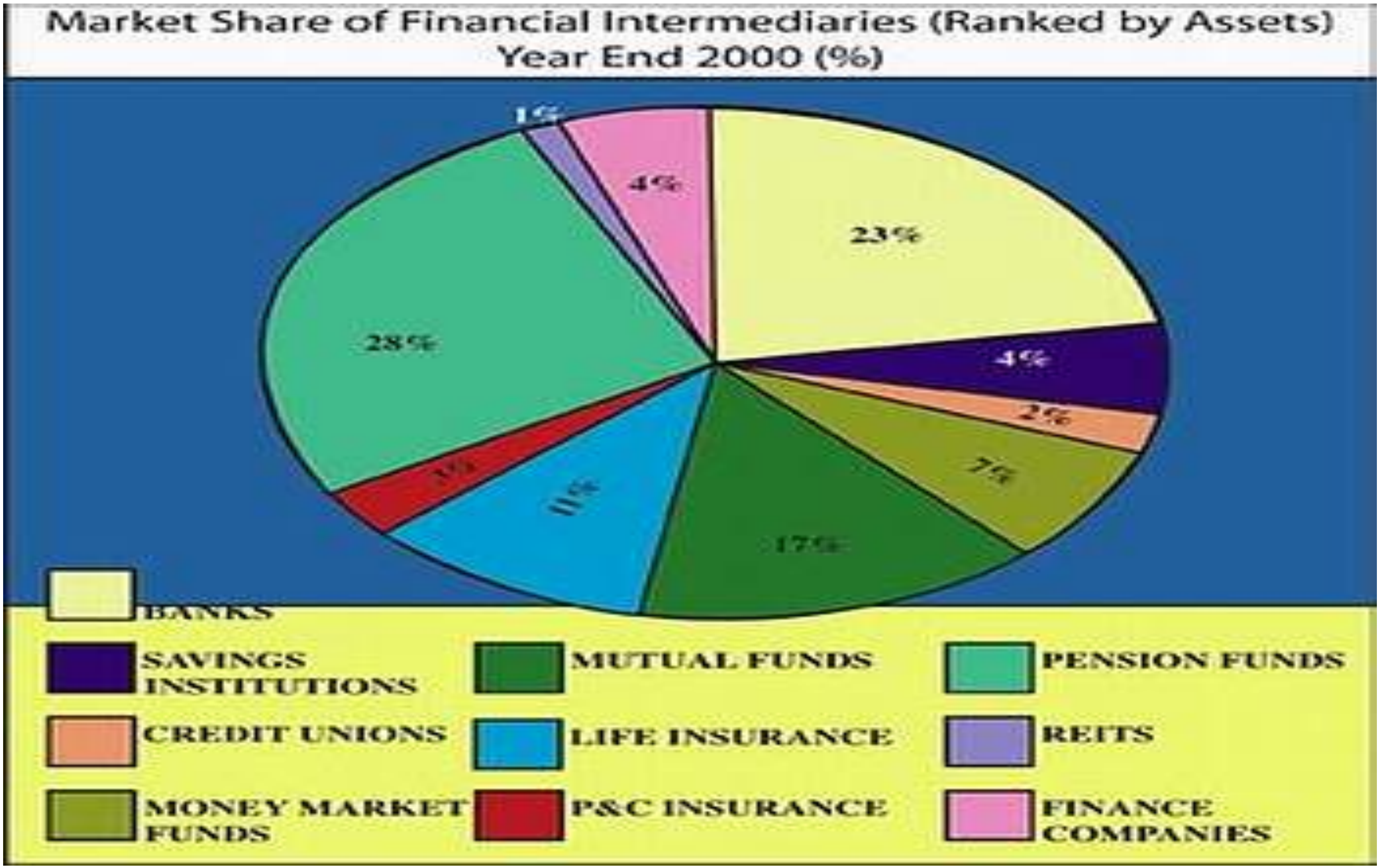
Stocks and Bonds

- When a person buys stock, he is buying partial ownership in a corporation.
- When a person buys a bond, he is loaning money to a corporation or government.
- It is important to remember the investment poem: Stocks, you own. Bonds, you loan.

Stocks and Bonds

- Bonds are certificates sold by a company or government to finance projects or expansion.
- Basically, bonds are loans that represent debt that the government or corporation must repay an investor.

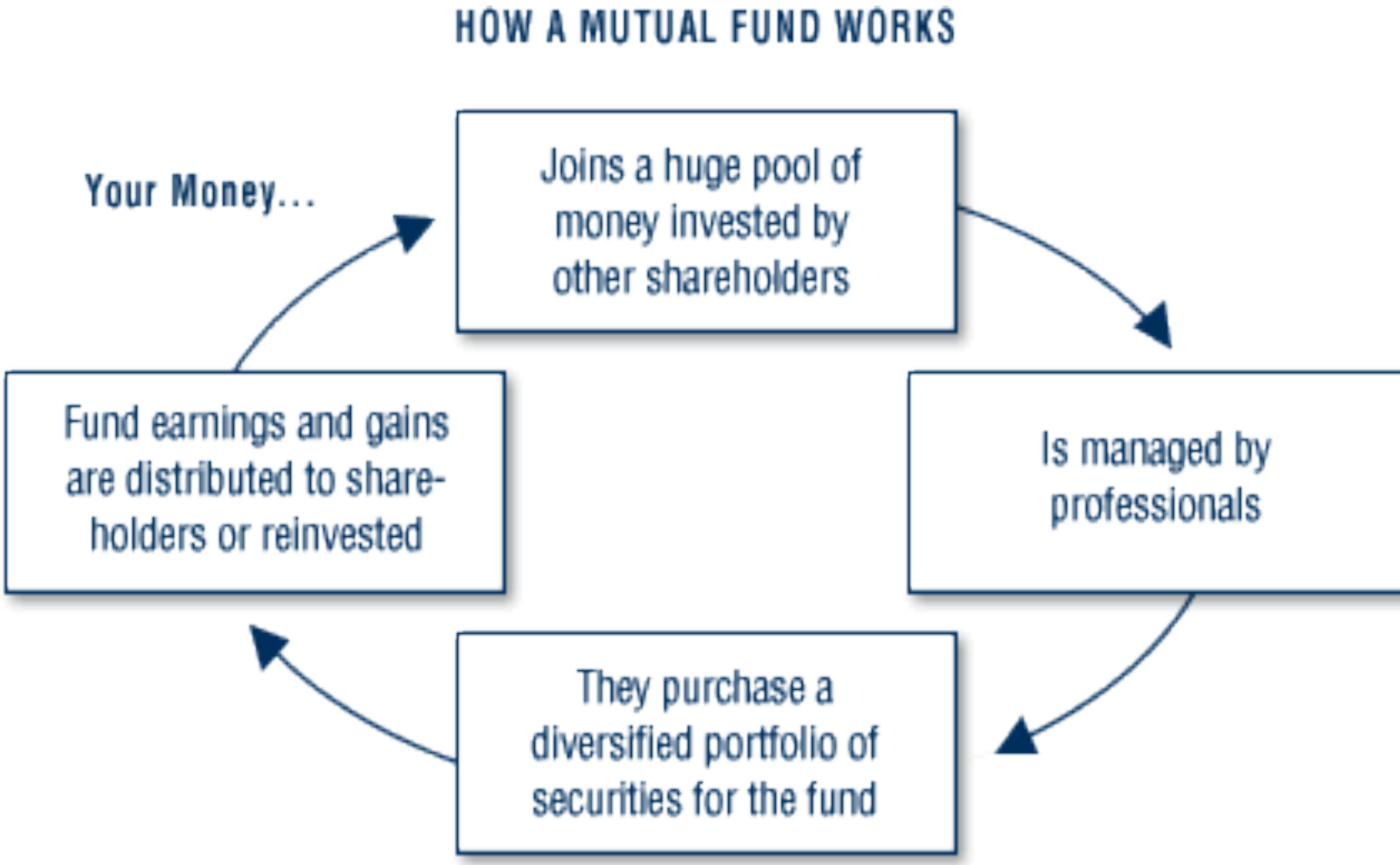
- There are many financial intermediaries to help people invest.



Financial Intermediaries (Mediators)

- A financial intermediary transfers money from savers to borrowers.
- Financial intermediaries can help a person invest.
- Banks, finance companies, and mutual funds are examples of financial intermediaries.

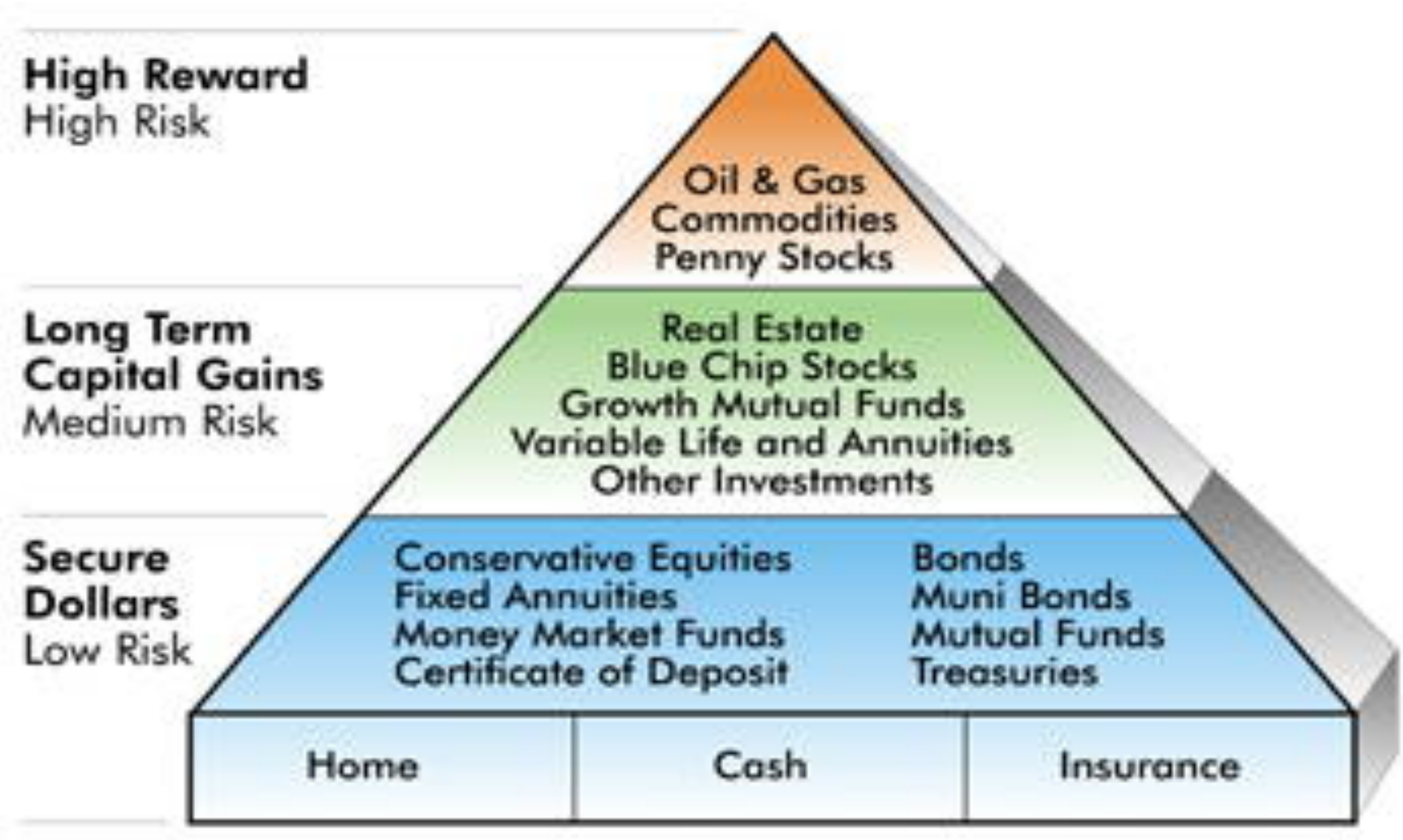
- A mutual fund pools money from many investors.



Mutual Fund

- A mutual fund pools savings from many people and invests the money in a variety of different ways.
- When a person invests in a mutual fund, his money is invested in a variety of stocks and bonds.
- The investor ideally profits as does the mutual fund company.

- By investing in a variety of stocks and bonds, a person reduces his risk.



Diversification

- The idea of spreading out investments to reduce risk is called diversification.
- Think of diversification as not putting all your eggs in one basket!
- By investing in a variety of stocks and bonds, the investor is less likely to lose his entire investment.

- People invest money to ideally make more money.
- Yes, money can make money!

Return

- A return is money made above the investment.
- If an investor invests $1,000 dollars and makes $1,250, his return is $250.
- Investors invest hoping for returns.

Questions for Reflection:

- What is the primary difference between saving and investing?
- Explain the investment poem concerning stocks and bonds.
- Why do many investors prefer investing in mutual funds?
- Why must an investor diversify his investments?
- Why do investors want returns?