Savings and Investments

Personal savings are of vital importance to the economy. Money invested in the stock market, deposited into bank accounts, and mutual funds provides the capital needed by companies to build new factories, purchase materials, and create more jobs. By purchasing government backed bonds, you are helping the government use money for such things as roads and new schools.

It is important to save money so that:

1. We can reach our financial goals
2. Cover emergencies
3. Make major purchases
4. Provide for retirement. 87% of retirees are retiring with income of $10,000 or less.

Learn to pay yourself first. Savings should be a fixed expense so that saving becomes a habit. No two savings plans will be exactly alike, because each of us has different wants and needs. A good basic savings plan should include:

1. A specific amount set aside regularly
2. An emergency fund equal to three to six months’ income, without a monthly check most families would last 1-2 months.

**Bonds**   
The term bond is commonly used to refer to any securities that are founded on debt. When you purchase a bond, you are lending out your money to a company or government. In return, they agree to give you interest on your money and eventually pay you back the amount you lent out.   
  
The main attraction of bonds is their relative safety. If you are buying bonds from a stable government, your investment is virtually guaranteed, or risk-free. The safety and stability, however, come at a cost. Because there is little risk, there is little potential return. As a result, the rate of return on bonds is generally lower than other securities.

**Stocks**   
When you purchase stocks, you become a part owner of the business. This entitles you to vote at the shareholders' meeting and allows you to receive any profits that the company allocates to its owners. These profits are referred to as dividends.   
  
While bonds provide a steady stream of income, stocks are volatile. That is, they fluctuate in value on a daily basis. When you buy a stock, you aren't guaranteed anything. Many stocks don't even pay dividends, in which case, the only way that you can make money is if the stock increases in value - which might not happen.   
  
Compared to bonds, stocks provide relatively high potential returns. Of course, there is a price for this potential: you must assume the risk of losing some or all of your investment.

**Mutual Funds**

A mutual fund is a collection of stocks and bonds. When you buy a mutual fund, you are pooling your money with a number of other investors, which enables you (as part of a group) to pay a professional manager to select specific securities for you. Mutual funds are all set up with a specific strategy in mind, and their distinct focus can be nearly anything: large stocks, small stocks, bonds from governments, bonds from companies, stocks and bonds, stocks in certain industries, stocks in certain countries, etc.   
  
The primary advantage of a mutual fund is that you can invest your money without the time or the experience that are often needed to choose a sound investment. Theoretically, you should get a better return by giving your money to a professional than you would if you were to choose investments yourself.

**Savings Accounts**

A deposit account held at a bank or other financial institution that provides principal security and a modest interest rate. Depending on the specific type of savings account, the account holder may not be able to write checks from the account (without incurring extra fees or expenses) and the account is likely to have a limited number of free transfers/transactions. Savings account funds are considered one of the most liquid investments outside of demand accounts and cash. Savings accounts are generally for money that you don't intend to use for daily expenses. To open a savings account, simply go down to your local bank with proper identification and ask to open an account.

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|  | Because savings accounts almost always pay lower interest rates than Treasury bills and certificates of deposit, they should not be used for long-term holding periods. Their main advantages are liquidity and superior rates compared to checking accounts. |

**CDs**

A certificate of deposit is a promissory note issued by a bank. It is a time deposit that restricts holders from withdrawing funds on demand. Although it is still possible to withdraw the money, this action will often incur a penalty. CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks and are insured by the FDIC. The term of a CD generally ranges from one month to five years.  
  
For example, let's say that you purchase a $10,000 CD with an interest rate of 5% compounded annually and a term of one year. At year's end,  the CD will have grown to $10,500 ($10,000 \* 1.05).  
  
CDs of less than $100,000 are called "small CDs"; CDs for more than $100,000 are called "large CDs" or "jumbo CDs". Almost all large CDs, as well as some small CDs, are negotiable.