

LESSON 9

BUILDING WEALTH OVER THE LONG TERM



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LESSON DESCRIPTION

The students are introduced to the case of Charlayne, a woman who becomes, accidentally, a millionaire. Charlayne's success, the students learn, was unexpected, but not a miracle. It can be explained by three widely understood rules for building wealth over the long term: saving early, buying and holding, and diversifying. The lesson uses Charlayne's decisions to illustrate each of these rules. It also addresses the risks and rewards associated with different forms of saving and investing.

INTRODUCTION

Making use of compound interest, holding for the long term, and diversification are widely regarded as successful strategies for building wealth. Albert Einstein once called compounding "the greatest mathematical discovery of all time." Time is critical: starting to save early allows savings to earn interest on the interest earned previously. Allowing savings to grow over many years is also an important strategy for success. This means that to build wealth over time, you have to hold on to your long-term savings. You can't be dipping into them frequently, or they won't compound over time in the same way. Finally, don't put all your eggs in one basket. To diversify means to hold a variety of financial assets rather than just one. To diversify is to take on many small risks rather than one large risk.

CONCEPTS

Compound interest

Diversification

Forms of saving and investing

Reward

Risk

OBJECTIVES

Students will be able to:

- Explain why an early start in saving and investing increases a household's capacity to build wealth.
- Compare the strategy of buying and holding financial assets as opposed to trading assets frequently.
- Explain the benefits of diversification.
- Identify different forms of saving and investing; discuss the costs and benefits of each.

CONTENT STANDARDS

Voluntary National Content Standards in Economics, 2nd Edition

- **Standard 2:** Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Many choices involve doing a little more or a little less of something: few choices are "all or nothing" decisions.
- **Standard 10:** Institutions evolve and are created to help individuals and groups accomplish their goals. Banks, labor unions, markets, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and enforced property rights, is essential to a market economy.
- **Standard 12:** Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, which affects the allocation of scarce resources between present and future uses.

National Standards in K-12 Personal Finance Education, 3rd edition

- **Financial Responsibility and Decision Making Standard 1:** Take responsibility for personal financial decisions.
- **Financial Responsibility and Decision Making Standard 4:** Make financial decisions by systematically considering alternatives and consequences.
- **Planning and Money Management Standard 6:** Develop a personal financial plan.
- **Saving and Investing Standard 1:** Discuss how saving contributes to financial well-being.
- **Saving and Investing Standard 2:** Explain how investing builds wealth and helps meet financial goals.
- **Saving and Investing Standard 3:** Evaluate investment alternatives.

TIME REQUIRED

90 minutes

MATERIALS

- Slides 9.1 to 9.17
- One copy of Activities 9.1, 9.2, and 9.3 for each student
- Duplicated copies of Floor Markers 1 through 5 listing alternative assets: Savings Accounts, Certificates of Deposit, Bonds, Stocks, Real Estate

PROCEDURE

1. Tell the students that the purpose of this lesson is to explain how individuals can build wealth over the long term. **Display Slide 9.1;** introduce, briefly, the three rules of saving and investing to be emphasized in the lesson:
 1. Start early

2. Buy and hold
 3. Diversify
2. Explain that it is possible to become a millionaire by saving regularly. The lesson will show how an ordinary wage earner named Charlayne did just that. **Display the first line of Slide 9.2.** Mask the other lines on the slide. Explain that savings of \$25 per week, matched by an employer's contribution of \$25 per week, comes to \$2,600 per year. Show how that sum of money can grow to \$2,704 at the end of the year. **Then reveal the next line of Slide 9.2** and indicate that the second-year total would be \$5,624.32. Note that because all her earnings stay in her account, Charlayne is now receiving earnings on earnings.
 3. Move down to year 9 of Slide 9.2 and show that Charlayne's account at that point was worth \$39,171.66. Point out that in this year, Charlayne continued to save. And because she had started early and kept at it, she did amazingly well. **Display Slides 9.3 through 9.5** to show that by the time Charlayne reached retirement age, the value of her account had grown to more than \$1 million.
 4. **Display Slide 9.6.** Explain that when you leave money in an account to earn a return for a long time, it's not just your original money that's working for you. Instead, you earn interest on interest, or earnings on earnings.
 5. **Display Slide 9.7.** Explain that Charlayne's co-worker Marcus had the same opportunity that Charlayne had. But Marcus didn't get an early start. He tried to make up for his later start by saving diligently for 36 years. **Display Slides 9.8 through 9.10.** Note that while Marcus accumulated an impressive \$500,000 plus, he never caught up with Charlayne.

6. **Display Slide 9.11.** Explain that in addition to starting early, individuals also can help themselves to be financially successful if they buy and hold for the long run. To buy and hold for the long run, people should do the following:
- Spend less than they receive.
 - Become connected to financial institutions.
 - Manage credit responsibly.
7. Develop the idea of buying and holding stocks, bonds, and mutual funds for the long run. **Display Slide 9.12.** Explain that Charlayne held on to her investments over the years as financial markets went up and down. Emphasize these points:
- It's easy to get pessimistic when financial assets go down, but that's a bad time to sell.
 - It's easy to get optimistic when financial assets go up, but that's a bad time to buy.
 - Historically, the stock-market roller coaster ends up higher than it started out. Over long periods of time, people have done well by leaving their money in the stock market.
8. Introduce the topic of diversification. **Display Slide 9.13.** Explain that people have long known it is unwise to concentrate risk. For investors, reducing risk involves holding various assets instead of concentrating wealth on a single asset. Diversifying is taking on many small risks rather than one large risk.
9. **Distribute a copy of Activity 9.1** to each student. Explain that Activity 9.1 reviews the saving experiences of Charlayne and Marcus and explains the other two rules for building wealth

over the long term. Ask the students to read Activity 9.1 and complete the **Questions for Discussion. Ask:**

- A. What are the three rules of wealth building?

(Start early, buy and hold, and diversify.)

- B. Explain how Charlayne, the accidental millionaire, followed all three rules.

(Charlayne began saving regularly when she started her first job. She left her savings alone even when she encountered financial difficulties. Her savings therefore grew, enhanced by compound interest. Her savings plan provided for diversification; she was able to own many different financial assets at the same time.)

10. **Distribute a copy of Activity 9.2** to each student; ask the students to read the Activity and then follow along as you explain several of its key points. **Display Slide 9.14** and discuss the advantages and disadvantages of different forms of saving and investing.
11. Place Floor Markers 1 through 5 on the floor at the edges of the room. Tell the students that each of them has \$5,000 to invest. Ask them to show where they would put their money. For example, those who prefer stocks will walk over to the floor marker that says **Stocks**.
12. When all the students have chosen a position, ask them to explain their decisions. Then have them sit down again. In their explanations, the students usually mention both risk and return. Some will insist they need more information to make a decision.
13. **Display Slide 9.15.** Explain that the students may be able to make better decisions if they learn more about the

situation. The first item on Slide 9.15 is the \$5,000 decision the students just made in procedure 11. Read the second item and ask the students to stand up and show where they would put their money. Some students will return to the same floor marker as before, but some will make different decisions. Go through the other items on Slide 9.15, showing how the students' movements correspond to "movements" by investors—making different decisions, depending on the circumstances.

14. **Display Slide 9.16.** Explain that the preceding activity has illustrated something about the trade-off between risk and return. If you want a safe investment, you have to settle for a low return (at the bottom of the pyramid). If you want the prospect of higher returns, you have to take risk (move toward the top of the pyramid).
15. **Display Slide 9.17.** Explain that a mutual fund pools investors' money and puts it into the markets on their behalf. Tell the students that mutual funds allow people in effect to own small amounts of many different assets. Thus mutual funds provide one means by which investors can easily diversify.
16. Ask the students to respond to the **Questions for Discussion** on Activity 9.2.

Ask: What are the advantages and disadvantages of alternative forms of saving and investing?

- Savings accounts: They provide a small but steady return, and they involve virtually no risk.
- Certificates of deposit (CDs): They are safe, too, but they pay little more in interest than regular savings accounts.

- Bonds: Buying bonds is in effect lending money to a corporation or government. The return on bonds is higher than the return on savings accounts and CDs, but bonds also involve more risk.
- Stocks: When investors buy stock, they acquire ownership shares in a company. Stocks are a higher-risk investment option than bonds and savings accounts; stocks also offer the potential of higher returns.
- Real estate: People who invest in real estate face the risks and potential benefits of being a landlord. (Note that here we're talking about owning real estate as an investment—not owning our own homes.)

CLOSURE

17. Summarize the lesson briefly by stating that, over time, it is possible for ordinary people to become well off.

Ask: What are the three rules for building wealth?

(Start early, buy and hold, diversify.)

18. Stress the importance of diversification. Explain that it is very difficult to know in advance how stocks, bonds, or mutual funds are likely to perform in the future. **Distribute a copy of Activity 9.3** to each student (or download and print a more recent version from <http://www.callan.com/research/periodic/>). Explain that the Callan Periodic Table of Investment Returns illustrates how investment returns change from year to year by sector. Point out that the top row is always the top performer for each year. For example, the top performer in 2008 was U.S. bonds (abbreviated BC Agg in the table) at 5.24 percent. However, show students how badly those same bonds performed in the next two years, achieving the very

bottom return on the table both in 2009 and in 2010. Or, show students why it would have been a bad idea to dump emerging markets stocks (MSCI Emerging Markets on the table) after their devastating 53.18 percent loss in 2008. They had the worst return on the table that year, but rebounded to the best return of all in 2009 with a striking 79.02 percent gain. Explain to students that the table shows how no one can predict which asset class will be next year's winner. It pays to diversify!

ASSESSMENT

Multiple-Choice Questions

- What are the three rules for building wealth over the long term?
 - Start early, buy and hold, and diversify.*
 - Seek liquidity, loans, and limits.
 - Trade early, trade often, trade confidently.
 - Short buy, short cover, and buy on margin.
- Trying to “time the market” by frequent buying and selling violates which rule of long-term savings?
 - Start early
 - Buy and hold*
 - Seize and desist
 - Diversify
- Which of the following would be considered the savings alternative with the highest risk and the highest reward?
 - Bonds
 - Individual stocks*
 - Certificate of deposit
 - Stock mutual funds

- Which of the following would be considered the savings alternative with the lowest risk and the lowest reward?
 - Bonds
 - Real estate
 - Certificate of deposit*
 - Stocks

Constructed-Response Items

- Roosevelt is 25 years old and has just started his job as an elementary-school teacher. He had never thought much about becoming financially independent until he attended a seminar called Three Rules to Help Teachers Become Millionaires. Based on Charlayne's experience, explain the three rules that Roosevelt learned to consider.

(Roosevelt learned about the importance of starting to save at a young age. He also learned that it is important to buy and hold. This would allow his savings to grow from compound interest. Finally, he learned that the savings plan he chooses should provide for diversification. By investing in a mutual fund, for example, he would be able to own many different financial assets at the same time.)

- Will has saved \$3,000. He intends to use it to make a down payment on a car. But he wants to buy the car in six months, not right now. He is thinking about using the \$3,000 in the meantime to buy stock in a company he has been studying. Use the concepts of risk and reward to explain why this may not be his best alternative. Suggest a better alternative for him to consider.

(All investment decisions involve at least an implicit decision about risk and reward. Buying stock usually involves more risk than putting money into a savings account or a certificate of deposit. Investing over time and spreading the risk over several alternatives

[that is, diversifying] helps to reduce the risks associated with holding stocks. Will is planning to use his \$3,000 relatively soon. If he buys stock now in one company, he gets none of the benefits that come with diversification. A better idea would be to place the \$3,000 in a savings account or a certificate of deposit. The rewards would be less, but the risks would be near zero. Will could count on having his \$3,000, plus a bit more, in six months.)

Note to Teachers: Is 8 Percent Reasonable?

The examples in this lesson assume a long-run return to holding stocks of 8 percent. In view of recent financial market turmoil, is that reasonable? We believe that it is, considering the following evidence:

- The longest data series on stocks reflect returns above 8 percent. One conservative calculation puts the average return at 9.23 percent (See Aswath Damodaran, “Annual Returns on Stock, T.Bonds and T.Bills: 1928 - Current,” available online: http://w4.stern.nyu.edu/~adamodar/New_Home_Page/data-file/histret.html)
- As for mutual funds that people can buy, conservatively managed funds have averaged more than 8 percent for long periods of time. The Vanguard Wellington Fund, originated in 1929, currently reports a return since inception of 8.16 percent. (See The Vanguard Group, “Vanguard Wellington Fund Investor Shares,” available online: <https://personal.vanguard.com/us/FundsSnapshot?FundId=0021&FundIntExt=INT>)
- Passively managed index funds, which do not seek to beat the market but only mirror its returns, have returns since inception of greater than 8 percent. Two widely cited examples include the Vanguard Total Stock Market Index at 8.31 percent. See The Vanguard Group,

“Vanguard Total Stock Market Index Fund Investor Shares,” available online: <https://personal.vanguard.com/us/FundsSnapshot?FundId=0085&FundIntExt=INT>) and the Vanguard 500 Index at 10.47 percent (see The Vanguard Group, “Vanguard 500 Index Fund Investor Shares,” available online: <https://personal.vanguard.com/us/FundsSnapshot?FundId=0040&FundIntExt=INT>).

These past returns do not guarantee that future stock returns will equal or exceed 8 percent. That’s part of the risk: you simply don’t know how stocks will do. Almost certainly, there will be some years with hair-raising losses. However, if stocks remained below the return of other investments across the long-term future, it would amount to a reversal of long-standing patterns in the U.S. economy.



Gen i Connection

Mission 1 of the Gen i Revolution game provides an interactive introduction to the principles of wealth building: start early, buy and hold, and diversify. The principles are specifically taught and reinforced in a 4-1-1 tutorial titled, “Three Rules for Building Wealth.” In the mission, students take on the role of operatives advising Angela Morrison, who has just started a new job. Angela has been told she has the opportunity to put aside money through a company plan known as a 401(k), but she doesn’t know where to start. After working through the tutorials and answering question from operatives, students conclude the mission by making specific recommendations on Angela’s 401(k).

In classroom experience, Mission 1 is relatively demanding and it calls for a number of computations by the students. Students do not have to do these computations by hand, however, because an interactive calculator is available within the mission.



Gen i Reflection

You have just started work on your first job, like Angela in Mission 1. Your employer has automatically enrolled you in a program to set aside \$80 a month toward your retirement—but, if you wish, you may fill out paperwork to cancel your enrollment. If you do that, you’ll get \$80 more per month (before taxes) to spend but you won’t be saving automatically for your future. Will you stay in the program or get out? Explain your answer.

ACTIVITY 9.1

STRATEGIES FOR WEALTH BUILDING

For many people who are struggling from month to month financially, even the term “wealth building” seems alien. Yet when people spend less than they receive and make good decisions, they can, slowly over time, build up the value of what they own.

Wealth building is good for individuals, families, and society because it improves people’s quality of life. Whatever goods and services you would like for yourself, your family, or nation—better housing, higher-quality medical care, or anything else—they can be more nearly within reach if you engage effectively in wealth building.

The Three Rules

Many people act as if wealth building were very complex. In fact, an effective approach to wealth building can be summarized in three rules:

1. Start early.
2. Buy and hold.
3. Diversify.

Case Study: Charlayne, the Accidental Millionaire

When Charlayne was getting started in her first job, she didn’t use any of her pay to play the lottery or head for the casino along with all her friends. “Come on,” they said. “It’s the only way you’ll ever be a millionaire.” She took note of the “Who Wants to Be a Millionaire?” show on television. But she was pretty sure she would never become a millionaire by hitting the lottery or answering game-show questions. Yet Charlayne became a millionaire. How?

Charlayne made an important decision when she began to work. With advice from the company’s benefits manager, she decided to have \$25 withheld from each weekly paycheck and put into a mutual fund account. That wasn’t easy to do. Charlayne had many possible uses for an extra \$25 each week. But the benefits manager persuaded her that putting \$25 aside each week would be the best thing to do for her future.

Charlayne’s company matched the \$25 deposit she made each week. This meant an immediate doubling of Charlayne’s weekly savings.

Over time, Charlayne didn’t exactly forget about her account, but she didn’t always monitor it closely. As printed statements arrived in the mail, generally showing that the value of her account was increasing, Charlayne became increasingly comfortable about her retirement plan.

There were times when Charlayne really would have liked to have the money she was saving. But she never considered trying to take her money out of the retirement account. Somehow she found a way to scrape through when there was a financial crisis.

When Charlayne retired, it became clear that her sustained program of investment had served her well. She had become a millionaire. Her retirement account was worth more than a million dollars. Steady payments from that account enabled Charlayne to travel and visit her grandchildren, go to movies or concerts when she wanted to, and live in comfort. She was even able to help with college expenses for next-generation members of her family.

Most people are skeptical when they're told that matched weekly contributions of \$25 could make them millionaires — but the math works. The next chart shows how the money kept growing, in this case, until Charlayne became a millionaire.

The chart assumes an average return of 8 percent each year, calculated on the average yearly balance and compounded once per year.

Charlayne Becomes a Millionaire — Accidentally

Year	Beginning Balance	Addition to Principal	Return	Ending Balance
0	\$0.00	\$2,600.00	\$104.00	\$2,704.00
1	\$2,704.00	\$2,600.00	\$320.32	\$5,624.32
2	\$5,624.32	\$2,600.00	\$553.95	\$8,778.27
3	\$8,778.27	\$2,600.00	\$806.26	\$12,184.53
4	\$12,184.53	\$2,600.00	\$1,078.76	\$15,863.29
5	\$15,863.29	\$2,600.00	\$1,373.06	\$19,836.35
6	\$19,836.35	\$2,600.00	\$1,690.91	\$24,127.26
7	\$24,127.26	\$2,600.00	\$2,034.18	\$28,761.44
8	\$28,761.44	\$2,600.00	\$2,404.92	\$33,766.36
9	\$33,766.36	\$2,600.00	\$2,805.31	\$39,171.66
10	\$39,171.66	\$2,600.00	\$3,237.73	\$45,009.40
11	\$45,009.40	\$2,600.00	\$3,704.75	\$51,314.15
12	\$51,314.15	\$2,600.00	\$4,209.13	\$58,123.28
13	\$58,123.28	\$2,600.00	\$4,753.86	\$65,477.14
14	\$65,477.14	\$2,600.00	\$5,342.17	\$73,419.32
15	\$73,419.32	\$2,600.00	\$5,977.55	\$81,996.86
16	\$81,996.86	\$2,600.00	\$6,663.75	\$91,260.61
17	\$91,260.61	\$2,600.00	\$7,404.85	\$101,265.46
18	\$101,265.46	\$2,600.00	\$8,205.24	\$112,070.70
19	\$112,070.70	\$2,600.00	\$9,069.66	\$123,740.35
20	\$123,740.35	\$2,600.00	\$10,003.23	\$136,343.58
21	\$136,343.58	\$2,600.00	\$11,011.49	\$149,955.07
22	\$149,955.07	\$2,600.00	\$12,100.41	\$164,655.47
23	\$164,655.47	\$2,600.00	\$13,276.44	\$180,531.91
24	\$180,531.91	\$2,600.00	\$14,546.55	\$197,678.46
25	\$197,678.46	\$2,600.00	\$15,918.28	\$216,196.74
26	\$216,196.74	\$2,600.00	\$17,399.74	\$236,196.48
27	\$236,196.48	\$2,600.00	\$18,999.72	\$257,796.20
28	\$257,796.20	\$2,600.00	\$20,727.70	\$281,123.89
29	\$281,123.89	\$2,600.00	\$22,593.91	\$306,317.80

30	\$306,317.80	\$2,600.00	\$24,609.42	\$333,527.23
31	\$333,527.23	\$2,600.00	\$26,786.18	\$362,913.41
32	\$362,913.41	\$2,600.00	\$29,137.07	\$394,650.48
33	\$394,650.48	\$2,600.00	\$31,676.04	\$428,926.52
34	\$428,926.52	\$2,600.00	\$34,418.12	\$465,944.64
35	\$465,944.64	\$2,600.00	\$37,379.57	\$505,924.21
36	\$505,924.21	\$2,600.00	\$40,577.94	\$549,102.14
37	\$549,102.14	\$2,600.00	\$44,032.17	\$595,734.32
38	\$595,734.32	\$2,600.00	\$47,762.75	\$646,097.06
39	\$646,097.06	\$2,600.00	\$51,791.76	\$700,488.83
40	\$700,488.83	\$2,600.00	\$56,143.11	\$759,231.93
41	\$759,231.93	\$2,600.00	\$60,842.55	\$822,674.49
42	\$822,674.49	\$2,600.00	\$65,917.96	\$891,192.45
43	\$891,192.45	\$2,600.00	\$71,399.40	\$965,191.84
44	\$965,191.84	\$2,600.00	\$77,319.35	\$1,045,111.19
45	\$1,045,111.19	\$2,600.00	\$83,712.90	\$1,131,424.08

Call Charlayne lucky if you want to, but most people could do what she did. In getting her lifetime net wealth to \$1 million by age 65, she followed the three rules:

1. Start early. Charlayne began saving when she turned 20, so she had 45 years in which her savings could grow.
2. Buy and hold. Charlayne bought a tiny bit more in financial assets each payday with the small amount withheld from her pay. She never touched that account as it grew over the years. Most importantly, she did not withdraw her money and spend it even when times were tough.
3. Diversify. Charlayne's retirement account was invested in a broad variety of financial assets. It wasn't put into any one asset.

And that is how Charlayne became a millionaire. Let's look at the three rules she followed in more detail.

Rule 1: The Importance of an Early Start

Rule 1 says "Start early." Money that's saved early so that it can work for a long time has a great deal of importance in overall wealth building.

An early start works well because of the magic of compounding. When you save money, you receive a return. In the case of bank accounts, that return is called interest. If you leave the interest in the account, that money also earns interest. In other words, you earn interest on interest. The longer this process goes on, the more it works for you.

Next is a different example that also shows the importance of an early start: Charlayne had a co-worker who didn't start early. Instead of starting to save at the beginning of his career, Marcus held off for 10 years. Then, like Charlayne, he saved \$25 per week, and his company matched these deposits for the next 35 years. Marcus accumulated more than \$500,000 by

saving as he did. (See the chart.) That’s a lot of money. But because Charlayne started early, she became a millionaire and Marcus did not. This example shows how you need to get an early start in order to build significant wealth in a lifetime.

But even if you don’t get an early start, then (like Marcus) you can still take big steps toward wealth building. You just have to save more (or settle for less) than if you had gotten off to an early start.

Marcus’s Mistake: Waiting to Start Saving

Year	Beginning Balance	Addition to Principal	Return	Ending Balance
0	\$0		\$0	\$0
1	\$0		\$0	\$0
2	\$0		\$0	\$0
3	\$0		\$0	\$0
4	\$0		\$0	\$0
5	\$0		\$0	\$0
6	\$0		\$0	\$0
7	\$0		\$0	\$0
8	\$0		\$0	\$0
9	\$0		\$0	\$0
10	\$0.00	\$2,600.00	\$104.00	\$2,704.00
11	\$2,704.00	\$2,600.00	\$320.32	\$5,624.32
12	\$5,624.32	\$2,600.00	\$553.95	\$8,778.27
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28	\$101,265.46	\$2,600.00	\$8,205.24	\$112,070.70
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38	\$257,796.20	\$2,600.00	\$20,727.70	\$281,123.89
39	\$281,123.89	\$2,600.00	\$22,593.91	\$306,317.80
40	\$306,317.80	\$2,600.00	\$24,609.42	\$333,527.23
41	\$333,527.23	\$2,600.00	\$26,786.18	\$362,913.41
42	\$362,913.41	\$2,600.00	\$29,137.07	\$394,650.48
43	\$394,650.48	\$2,600.00	\$31,676.04	\$428,926.52
44	\$428,926.52	\$2,600.00	\$34,418.12	\$465,944.64
45	\$465,944.64	\$2,600.00	\$37,379.57	\$505,924.21

Rule 2: Buy and Hold

The second rule is “Buy and hold.” This means that to build wealth over time, you have to hold on to your long-term savings. You can’t be dipping into them frequently, or they won’t compound over time in the same way.

To buy and hold, you have to have your finances in order. Here are three steps to consider:

- Spend less than you receive. You do this either by earning more or spending less. You can help yourself to spend less by keeping track of where your money is going; then you cut back in places where you can save small amounts. You take the small amounts you’re saving and get them out of sight so you won’t be tempted to spend what’s there.
- Make intelligent choices about financial institutions. Here the goal is to open and maintain accounts at mainstream financial institutions such as banks, credit unions, and brokerages. Then you can accomplish savings and budgeting goals that simply wouldn’t be possible if you were still operating on a cash basis.
- Manage your credit properly. When you’re managing your credit properly, you’re limiting the number of credit cards you have. You’re limiting your purchases to what you can pay off each month, without leaving a balance to accumulate interest that you’ll also have to pay. As time goes by, your credit score goes up, making it possible for you to borrow when you have a good reason to borrow.

If you’re doing all this, you can buy and hold with confidence. Remember the case of Charlayne, the accidental millionaire? Surprisingly, one of the smartest things she did with her retirement account was to neglect it. She just kept having money taken out of her paycheck and put into financial assets, no matter what.

That meant that when her financial assets declined in value because of the normal ups and downs of the market, she didn't change her strategy. Even when the market crashed and the news was full of doom and gloom, she kept her money invested. Financial assets were then, at down-market times, relatively cheap, and her regular contributions bought more than they bought when financial assets were more expensive.

When financial markets went up, those inexpensively-bought financial assets became worth a whole lot more. Charlayne saw televised accounts of people who became rich overnight playing the stock market because the values of their financial assets had become so high. But she didn't think she could play that game, so she just left her retirement fund alone. She held onto it and kept most of the gains, though she was aware that markets were always going up and down.

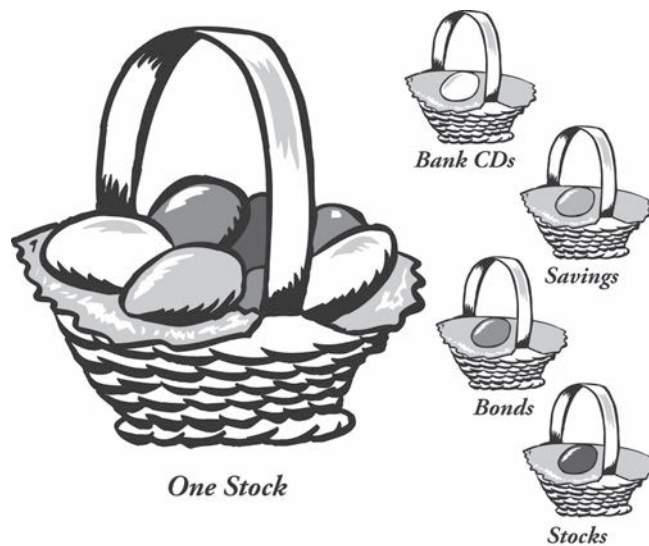
Over time, Charlayne came out better than many people who worked much harder trying to make more. They tried to jump in and out of the markets with their retirement money. They tried to "buy low" and "sell high," but in the end didn't do as well as people like Charlayne who stuck with the unexciting rule, "buy and hold."

Rule 3: Diversify

Somebody probably once told you, "Don't put all your eggs in one basket." This saying harkens back to the time when knocking over a single basket might wipe out a week's supply of eggs from the henhouse—if you had put all the eggs in one basket.

To diversify is to take on many small risks rather than one large risk. If you put all of your savings into a new start-up toy company, you could get rich if the company succeeded. Or you could lose all your money if the company failed. That's like having all your eggs in one basket. The same point would apply if you were approached by someone proposing that you invest in a business opportunity. If you put all your savings there, you would again be putting your money at risk.

Any time you take one large risk with your money, you're not diversifying. That's dangerous. It's far safer to spread risks out. This means holding a variety of financial assets rather than just one.



Questions for Discussion

- A. What are the three rules of wealth building?
- B. Explain how Charlayne, the accidental millionaire, followed all three rules.

ACTIVITY 9.2

FORMS OF SAVING AND INVESTING

Below are some of the assets you can choose when you're thinking about where to put your money. We'll start with the safest kinds and then proceed down the list to some riskier ones.

- **Savings Accounts.** These accounts are kept at banks. They are insured by the federal government, and no one has ever lost even a penny of federally-insured individual savings deposits. Your money will be safe in a savings account. There are two other things to know about savings accounts, however. The first is that the money won't be as easy to spend as cash or money in a checking account. You'll have to make a separate transaction to withdraw the money from a savings account before you can spend it. The second is that the money will not earn a high return. The interest paid on savings is small but steady.
- **Certificates of Deposit.** Just like savings accounts, certificates of deposit (often called CDs) are made available by banks and are federally insured. When you buy a certificate of deposit, you're tying your money up for a specified period—from one month to a number of years. That means it's harder to spend than money from a checking or savings account. Before spending it, you have to wait until the term is up—or be assessed interest penalties for an early withdrawal. In return for giving the bank greater use of your money, you earn interest at rates somewhat higher than the rates paid on a savings account.
- **Bonds.** When you buy a bond, in effect you're making a loan. You're lending your money to the organization that issued the bond. The bond will specify under what terms you get your money repaid and what the interest will be. Some bonds are very safe, such as those issued by the federal government.

Some bonds have medium safety, such as those issued by major corporations. Almost certainly, you'll get your money back with interest, but there's a chance that a major corporation could fail. Some bonds are known as "junk bonds." Junk bonds are high-risk investments. There is a real probability that the companies issuing them may not be able to pay investors back.

- **Stocks.** When you buy a stock, you're actually becoming a part-owner of a corporation. Ownership is easy to see when four people contribute equally to a new corporation and each owns a fourth of the venture. All four would share in the profits of the business and all four would have a fourth of the decision-making authority. Ownership is harder to see in today's corporations. But while modern corporations issue millions of shares, the principle is the same. If a corporation issues 200 million shares of stock, then buying a share makes you a 1 200-millionth owner of the corporation. You have a claim on 1 200-millionth of the worth of the corporation, and you have 1 200-millionth of the decision-making authority in the corporation. More importantly for investors, some corporations make payments to shareholders, called dividends. You can earn money with stocks by getting dividends, and also by the increase in the value of the stock over time, if the company does well. Of all the assets mentioned so far, stocks carry the highest risk. Some stocks are considered safe or conservative—such as stocks of well-established companies in stable markets. Other stocks are more speculative, such as those of new and growing companies. But there is always risk in holding stocks, along with the possibility of a high return.

- **Real Estate.** When you own your own home for a long time, it's a relatively safe investment. You pay on the home and you get a place to live. Over time, its value will likely go up and you'll pay down the amount of the loan. But it's also possible to invest in real estate as a landlord. You might buy half of a duplex and rent it out, for example. Being a landlord can be rewarding, but you should know that there are risks that come with investing in real estate (other than your own home). You are responsible for the upkeep on a rental property you own, and also for finding renters who will pay their rent on time. If something breaks, you have to fix it or hire someone to fix it. If a renter is late with a monthly payment, that doesn't excuse you from making payments to the bank on any loans you used to buy the property.

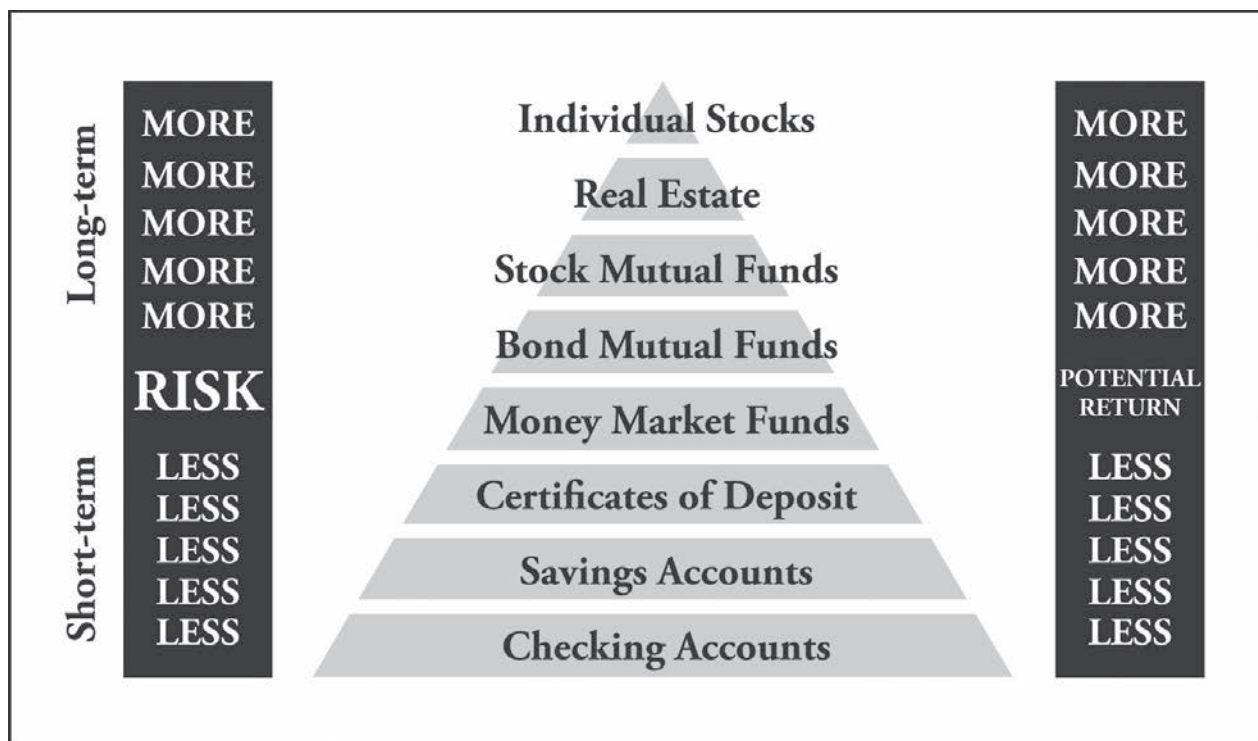
Risk and Return

You may have noticed a relationship in reading about different forms of investing. Safe investments don't offer a big return. If you choose the safety of a bank account for your money, you won't earn a lot of money on your account.

The other side of the coin is that riskier investments offer the possibility of a larger return. If they didn't, nobody would invest in them. As we move from bank assets to bonds to stocks and real estate, we're moving toward assets with many possibilities for things to go wrong—and for things to go right. A company whose stock you buy may succeed wildly or go bankrupt, or anything in between. You take that risk when you own a single company's stock.

Look at the pyramid in the accompanying figure. Toward the bottom of the pyramid there are safe places to keep money. They offer lower returns than the riskier investments noted toward the top. In investing, you should build the bottom of the pyramid with safe investments like bank accounts and certificates of deposit first. Later you can venture into riskier choices, closer to the top of the pyramid.

The Risk-Return Pyramid



Mutual Funds

How do we get a high return while managing the risk? The answer lies in diversifying. When we diversify, we take a lot of small risks rather than a single large risk. The small risks don't add up to much, and they get smaller and smaller over time for an investor who buys and holds onto a variety of financial assets.

We might think of diversifying as a matter of buying small amounts of a lot of different stocks or bonds. But because it costs something to buy each asset, that approach would quickly get to be expensive. Fortunately, there are mutual funds that buy financial assets on behalf of individual investors.

A mutual fund gets a pool of money by accepting payments from thousands of individual investors. It invests its pool of money in a collection of assets. As that collection generates income, the mutual fund sends that income back to its investors in proportion to how much money they have put in. Because of its large size, a mutual fund can efficiently buy large numbers of different stocks and bonds. In the pyramid diagram we saw, mutual funds have lower risks than the individual stocks and bonds that make them up. For example, a single speculative stock has high risk near the top of the pyramid—but a mutual fund made up of speculative stocks has somewhat lower risks because it pools a variety of those stocks. A mutual fund made up entirely of government bonds has very low risks.

Charlayne, the accidental millionaire, owes much of her success to mutual funds. The money in her retirement fund—as is true for most retirement funds—was invested in diversified mutual funds. Charlayne indirectly owned stock in a wide variety of companies. Thus when technology stocks boomed, some of her money was in technology stocks. Also, when automotive company stocks lost value, she didn't lose nearly as much as she would have if she had owned only auto stocks.

Mutual funds are nowhere near as safe as bank deposits. When markets go down, mutual funds follow them down, depending on which stocks and bonds the funds are holding. Over time, however, mutual funds have been an excellent investment, far surpassing bank accounts and bonds in their long-term returns. Many ordinary people have become millionaires by starting early, buying and holding, and using mutual funds to diversify.

Questions for Discussion

What are the advantages and disadvantages of alternative forms of saving and investing?

- Saving Accounts
- Certificates of Deposit
- Bonds
- Stocks
- Real Estate

ACTIVITY 9.3 DIVERSIFICATION

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices (1992–2011) Ranked in Order of Performance

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Russell 2000 Value	291.4%	74.84%	7.78%	38.13%	23.97%	36.52%	42.16%	66.42%	22.83%	14.02%	-10.26%	56.28%	25.95%	34.54%	32.59%	39.78%	5.24%	79.02%	29.00%	7.84%
Russell 2000 Growth	18.41%	32.57%	3.13%	37.58%	22.96%	33.36%	26.58%	43.09%	11.63%	8.43%	-6.00%	48.54%	22.25%	13.54%	11.17%	11.17%	-28.92%	34.47%	26.85%	4.65%
MSCI Emerging Markets Value	11.40%	23.77%	1.32%	36.99%	22.00%	31.78%	20.00%	28.24%	6.08%	2.49%	-11.43%	47.25%	20.25%	5.82%	23.48%	9.13%	-33.79%	31.79%	24.50%	2.11%
S&P/Citi 500 Value	10.52%	18.88%	-0.64%	31.04%	21.37%	29.98%	14.69%	26.96%	-3.02%	-2.37%	-15.94%	46.03%	18.33%	4.91%	20.81%	7.05%	-34.92%	31.57%	19.20%	-0.48%
Russell 2000 Growth	7.77%	18.61%	-1.54%	28.45%	16.49%	22.36%	8.70%	21.26%	-9.11%	-9.23%	-20.48%	38.59%	15.71%	4.71%	18.37%	6.97%	-37.00%	27.17%	15.10%	-2.91%
S&P 500 Value	7.62%	13.37%	-1.82%	25.75%	11.28%	12.95%	1.25%	21.04%	-14.17%	-11.71%	-20.85%	31.79%	14.31%	4.55%	15.79%	5.49%	-36.54%	26.47%	15.06%	-4.18%
BC Agg Value	7.40%	10.08%	-2.43%	18.46%	6.05%	9.64%	-2.56%	12.73%	-22.08%	-11.89%	-22.10%	28.68%	10.88%	4.15%	13.35%	1.99%	-39.22%	21.17%	15.05%	-5.50%
S&P/Citi 500 Growth	5.08%	9.75%	-2.92%	11.21%	6.03%	1.78%	-6.45%	-0.82%	-22.43%	-12.73%	-23.59%	25.66%	6.13%	4.00%	11.01%	-1.57%	-43.38%	20.58%	7.75%	-12.14%
MSCI EAFE Value	-12.18%	1.65%	-7.32%	-5.21%	3.64%	-11.59%	-25.34%	-1.48%	-30.61%	-21.44%	-30.26%	4.10%	4.34%	2.43%	4.33%	-9.78%	-53.16%	5.93%	6.54%	-18.17%
BC Agg Growth																				

- **S&P 500** measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the index performance directly proportional to that company's market value.
- **S&P/Citigroup 500 Growth** and **S&P/Citigroup 500 Value** measure the performance of the growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the market capitalization of the S&P 500 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those S&P 500 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.
- **Russell 2000** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ.
- **Russell 2000 Value** and **Russell 2000 Growth** measure the performance of the growth and value styles of investing in small cap U.S. stocks. The indices are constructed by dividing the market capitalization of the Russell 2000 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those Russell 2000 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-earnings ratios than those in the Growth Index. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.
- **MSCI EAFE** is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia and the Far East.
- **MSCI Emerging Markets** is a Morgan Stanley Capital International Index that is designed to measure the performance of equity markets in 21 emerging countries around the world.
- **BC Agg** is the Barclays Capital Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index). This index includes U.S. government, corporate and mortgage-backed securities with maturities of at least one year.

SLIDE 9.1

LESSON 9 - BUILDING WEALTH OVER THE LONG TERM

Three Rules for Building Wealth

1. Start early.
 - Give money time to grow.
2. Buy and hold.
 - Keep your money invested.
3. Diversify.
 - Don't put all your eggs in one basket.

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SLIDE 9.2

LESSON 9 - BUILDING WEALTH OVER THE LONG TERM

Charlayne Becomes a Millionaire - Accidentally

Year	Beginning Balance	Addition to Principal	Return	Ending Balance
0	\$0.00	\$2,600.00	\$104.00	\$2,704.00
1	\$2,704.00	\$2,600.00	\$320.32	\$5,624.32
2	\$5,624.32	\$2,600.00	\$553.95	\$8,778.27
3	\$8,778.27	\$2,600.00	\$806.26	\$12,184.53
4	\$12,184.53	\$2,600.00	\$1,078.76	\$15,863.29
5	\$15,863.29	\$2,600.00	\$1,373.06	\$19,836.35
6	\$19,836.35	\$2,600.00	\$1,690.91	\$24,127.26
7	\$24,127.26	\$2,600.00	\$2,034.18	\$28,761.44
8	\$28,761.44	\$2,600.00	\$2,404.92	\$33,766.36
9	\$33,766.36	\$2,600.00	\$2,805.31	\$39,171.66
10	\$39,171.66	\$2,600.00	\$3,237.73	\$45,009.40

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SLIDE 9.3

LESSON 9 - BUILDING WEALTH OVER THE LONG TERM				
Charlayne Becomes a Millionaire – Accidentally (Cont.)				
11	\$45,009.40	\$2,600.00	\$3,704.75	\$51,314.15
12	\$51,314.15	\$2,600.00	\$4,209.13	\$58,123.28
13	\$58,123.28	\$2,600.00	\$4,753.86	\$65,477.14
14	\$65,477.14	\$2,600.00	\$5,342.17	\$73,419.32
15	\$73,419.32	\$2,600.00	\$5,977.55	\$81,996.86
16	\$81,996.86	\$2,600.00	\$6,663.75	\$91,260.61
17	\$91,260.61	\$2,600.00	\$7,404.85	\$101,265.46
18	\$101,265.46	\$2,600.00	\$8,205.24	\$112,070.70
19	\$112,070.70	\$2,600.00	\$9,069.66	\$123,740.35
20	\$123,740.35	\$2,600.00	\$10,003.23	\$136,343.58
21	\$136,343.58	\$2,600.00	\$11,011.49	\$149,955.07
22	\$149,955.07	\$2,600.00	\$12,100.41	\$164,655.47
23	\$164,655.47	\$2,600.00	\$13,276.44	\$180,531.91

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SLIDE 9.4

LESSON 9 - BUILDING WEALTH OVER THE LONG TERM				
Charlayne Becomes a Millionaire – Accidentally (Cont.)				
24	\$180,531.91	\$2,600.00	\$14,546.55	\$197,678.46
25	\$197,678.46	\$2,600.00	\$15,918.28	\$216,196.74
26	\$216,196.74	\$2,600.00	\$17,399.74	\$236,196.48
27	\$236,196.48	\$2,600.00	\$18,999.72	\$257,796.20
28	\$257,796.20	\$2,600.00	\$20,727.70	\$281,123.89
29	\$281,123.89	\$2,600.00	\$22,593.91	\$306,317.80
30	\$306,317.80	\$2,600.00	\$24,609.42	\$333,527.23
31	\$333,527.23	\$2,600.00	\$26,786.18	\$362,913.41
32	\$362,913.41	\$2,600.00	\$29,137.07	\$394,650.48
33	\$394,650.48	\$2,600.00	\$31,676.04	\$428,926.52
34	\$428,926.52	\$2,600.00	\$34,418.12	\$465,944.64
35	\$465,944.64	\$2,600.00	\$37,379.57	\$505,924.21
36	\$505,924.21	\$2,600.00	\$40,577.94	\$549,102.14

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SLIDE 9.5

LESSON 9 - BUILDING WEALTH OVER THE LONG TERM

Charlayne Becomes a Millionaire – Accidentally (Cont.)

37	\$549,102.14	\$2,600.00	\$44,032.17	\$595,734.32
38	\$595,734.32	\$2,600.00	\$47,762.75	\$646,097.06
39	\$646,097.06	\$2,600.00	\$51,791.76	\$700,488.83
40	\$700,488.83	\$2,600.00	\$56,143.11	\$759,231.93
41	\$759,231.93	\$2,600.00	\$60,842.55	\$822,674.49
42	\$822,674.49	\$2,600.00	\$65,917.96	\$891,192.45
43	\$891,192.45	\$2,600.00	\$71,399.40	\$965,191.84
44	\$965,191.84	\$2,600.00	\$77,319.35	\$1,045,111.19
45	\$1,045,111.19	\$2,600.00	\$83,712.90	\$1,131,424.08

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SLIDE 9.6

- LESSON 9 - BUILDING WEALTH OVER THE LONG TERM**
- The Magic of Compounding**
- When you save, you earn interest.
 - When you take the interest out and spend it, it stops growing.
 - But if you leave the interest in your account so it can grow, you start to earn interest on the interest you earned previously.
 - Interest on interest is money you didn't work for. It is money your money makes for you!
 - Over time, interest on interest can increase your total savings greatly.
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SLIDE 9.7

LESSON 9 - BUILDING WEALTH OVER THE LONG TERM				
Marcus's Mistake				
Year	Beginning Balance	Addition to Principal	Return	Ending Balance
0	\$0		\$0	\$0
1	\$0		\$0	\$0
2	\$0		\$0	\$0
3	\$0		\$0	\$0
4	\$0		\$0	\$0
5	\$0		\$0	\$0
6	\$0		\$0	\$0
7	\$0		\$0	\$0
8	\$0		\$0	\$0
9	\$0		\$0	\$0
10	\$0.00	\$2,600.00	\$104.00	\$2,704.00

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SLIDE 9.8

LESSON 9 - BUILDING WEALTH OVER THE LONG TERM				
Marcus's Mistake (Cont.)				
11	\$2,704.00	\$2,600.00	\$320.32	\$5,624.32
12	\$5,624.32	\$2,600.00	\$553.95	\$8,778.27
13	\$8,778.27	\$2,600.00	\$806.26	\$12,184.53
14	\$12,184.53	\$2,600.00	\$1,078.76	\$15,863.29
15	\$15,863.29	\$2,600.00	\$1,373.06	\$19,836.35
16	\$19,836.35	\$2,600.00	\$1,690.91	\$24,127.26
17	\$24,127.26	\$2,600.00	\$2,034.18	\$28,761.44
18	\$28,761.44	\$2,600.00	\$2,404.92	\$33,766.36
19	\$33,766.36	\$2,600.00	\$2,805.31	\$39,171.66
20	\$39,171.66	\$2,600.00	\$3,237.73	\$45,009.40
21	\$45,009.40	\$2,600.00	\$3,704.75	\$51,314.15
22	\$51,314.15	\$2,600.00	\$4,209.13	\$58,123.28
23	\$58,123.28	\$2,600.00	\$4,753.86	\$65,477.14

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SLIDE 9.9

LESSON 9 - BUILDING WEALTH OVER THE LONG TERM				
Marcus's Mistake (Cont.)				
24	\$65,477.14	\$2,600.00	\$5,342.17	\$73,419.32
25	\$73,419.32	\$2,600.00	\$5,977.55	\$81,996.86
26	\$81,996.86	\$2,600.00	\$6,663.75	\$91,260.61
27	\$91,260.61	\$2,600.00	\$7,404.85	\$101,265.46
28	\$101,265.46	\$2,600.00	\$8,205.24	\$112,070.70
29	\$112,070.70	\$2,600.00	\$9,069.66	\$123,740.35
30	\$123,740.35	\$2,600.00	\$10,003.23	\$136,343.58
31	\$136,343.58	\$2,600.00	\$11,011.49	\$149,955.07
32	\$149,955.07	\$2,600.00	\$12,100.41	\$164,655.47
33	\$164,655.47	\$2,600.00	\$13,276.44	\$180,531.91
34	\$180,531.91	\$2,600.00	\$14,546.55	\$197,678.46
35	\$197,678.46	\$2,600.00	\$15,918.28	\$216,196.74
36	\$216,196.74	\$2,600.00	\$17,399.74	\$236,196.48

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SLIDE 9.10

LESSON 9 - BUILDING WEALTH OVER THE LONG TERM				
Marcus's Mistake (Cont.)				
37	\$236,196.48	\$2,600.00	\$18,999.72	\$257,796.20
38	\$257,796.20	\$2,600.00	\$20,727.70	\$281,123.89
39	\$281,123.89	\$2,600.00	\$22,593.91	\$306,317.80
40	\$306,317.80	\$2,600.00	\$24,609.42	\$333,527.23
41	\$333,527.23	\$2,600.00	\$26,786.18	\$362,913.41
42	\$362,913.41	\$2,600.00	\$29,137.07	\$394,650.48
43	\$394,650.48	\$2,600.00	\$31,676.04	\$428,926.52
44	\$428,926.52	\$2,600.00	\$34,418.12	\$465,944.64
45	\$465,944.64	\$2,600.00	\$37,379.57	\$505,924.21

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SLIDE 9.11

LESSON 9 - BUILDING WEALTH OVER THE LONG TERM

Buy and Hold

In order to leave money in savings or investments, you have to do these things:

- Spend less than you receive. How?
 - Perhaps you could...
 - Earn more by improving your formal education or job skills.
 - Spend less by using a budget to keep track of where your money is going.
- Become connected to financial institutions. How?
 - Open and maintain accounts at mainstream financial institutions — banks, credit unions, and brokerages.
- Manage your credit responsibly. How?
 - Limit the number of credit cards you have.
 - Limit your purchases to amounts you can pay off each month.
 - Apply for loans when you are confident that your current income (in the case of college loans, future income) will allow you to repay the loan.

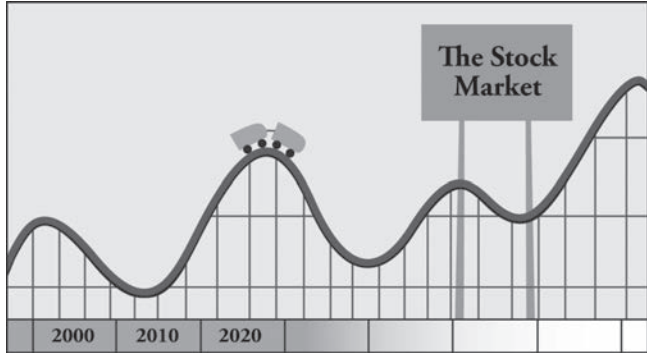
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LESSON 9 - BUILDING WEALTH OVER THE LONG TERM

The Stock Market Roller Coaster

If you buy and sell on the ups and downs, you may lose money.



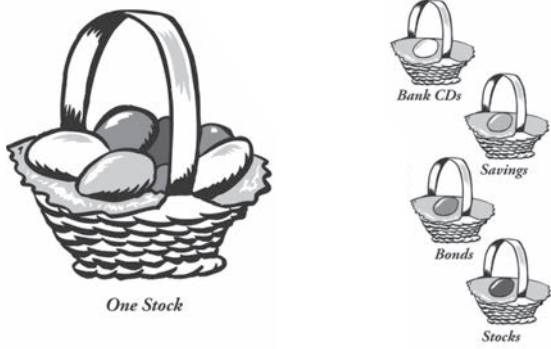
Those who have held stocks for the long term have found the ups are greater than the downs.

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LESSON 9 - BUILDING WEALTH OVER THE LONG TERM

Don't Put All Your Eggs in One Basket



With your money spread out across a variety of assets (stocks, bonds, and cash, for example), you're not hurt badly when any one asset does poorly.

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LESSON 9 - BUILDING WEALTH OVER THE LONG TERM

**Forms of Saving and Investing:
Some Benefits and Costs**

- Savings accounts: provide a small but steady return.
- Certificates of deposit: very safe, but instant access carries a penalty.
- Bonds: lending money to a corporation or government, with a promise of higher returns than those offered by bank savings accounts and CDs.
- Stocks: part ownership in a company, offering higher risks and, potentially, higher returns than some other investments.
- Real estate: the risks and benefits of being a landlord.

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LESSON 9 - BUILDING WEALTH OVER THE LONG TERM

Investment Situations

1. You have \$5,000 to invest. No other information is available.
2. You have \$4,000 that you'll need six months from now.
3. You inherited \$10,000 from your great-aunt; she has suggested that you save it for use in your old age.
4. You are just starting a career and can save \$50 per month for retirement.
5. A new baby arrives, and Mom and Dad plan to save \$100 a month for the child's college education.

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LESSON 9 - BUILDING WEALTH OVER THE LONG TERM

The Pyramid of Risk and Return

Long-term	MORE	Individual Stocks	MORE	
	MORE	Real Estate	MORE	
	MORE	Stock Mutual Funds	MORE	
	MORE	Bond Mutual Funds	MORE	
	MORE	Money Market Funds	MORE	
	RISK	Certificates of Deposit	POTENTIAL RETURN	
	Short-term	LESS	Savings Accounts	LESS
		LESS	Checking Accounts	LESS

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LESSON 9 - BUILDING WEALTH OVER THE LONG TERM

Mutual Funds

- A mutual fund pools investors' money.
- The fund puts its investors' money into the markets on their behalf.
- In effect, investors own small amounts of many different assets.
- Mutual funds enable investors to avoid the risk that comes from owning any one asset. In other words, mutual funds make it easy to diversify.

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LESSON 9 - BUILDING WEALTH OVER THE LONG TERM

Floor Marker 1**Savings
Account**

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Floor Marker 2

Certificate of Deposit

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Floor Marker 3

Bonds

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Stocks

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Real Estate

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