Saving and Investing Basics

WITH FINANCIAL SHARKTRESS GALIT

What is the difference between Saving and Investing?

- Saving means putting away money for later use in a safe place, such as in a bank account.
- Investing means taking some risk and buying assets that will ideally increase in value and provide you with more money than you put in, over the long term.

What does it mean for your money to be LIQUID?

- It means that it can be easily converted into CASH!

What is an Asset?

- An Asset is something you own that holds value and can be exchanged for money!
- Examples of Assets:
  - Cash and cash equivalents.
  - Accounts Receivable. (Money owed to your business)
  - Inventory.
  - Investments.
  - PPE (Property, Plant, and Equipment)
  - Vehicles. (Only if owned outright)
  - Furniture. (Only if owned outright)
  - Patents/Intangible asset (assets that you can’t really see or “hold” phsyically)

What is a Liability?

- A liability is what a person or organization owes money on.
- Examples of Liabilities:
  - Bank debt.
  - Mortgage debt.
  - Car loan debt.
  - Money owed to suppliers (accounts payable)
  - Wages owed.
  - Taxes owed.

What is Equity?

- Equity is the value you are left with if you sold all of your assets and paid off all of your liabilities.
- Equity = Assets - Liabilities

What is Net Worth?

- Net Worth is kind of like Equity but for an individual!
- Net worth is how much you are worth in dollars and cents.
  - It’s the amount of money you would have if you sold all of your assets and paid off all of your debt!
- Net Worth = Assets - Debt

Saving and Investing Deep Dive

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What Is Investing?

- Investing is the process of buying assets that you think will go up in value.
- Investments involve a risk of losing part or all of the money you invest but with that risk comes a higher return on your money!
- Types of Investing:
  - Active investing: Active investing is a hands-on approach to investing. Active investors frequently buy and sell stocks or other investments. Active stock traders might look at trading volume, price trends and past stock market data to help anticipate where market prices might go.
  - Dollar-cost averaging: This strategy involves investing set amounts of money at regular intervals, such as once per week or month. Having money diverted from each paycheck into a 401(k) plan is an example of dollar-cost averaging. It’s a smart strategy in all market conditions, but especially during periods of market volatility. Since the set amount of money buys more shares when investment prices are down and fewer shares when prices rise, the average price you pay evens out, ensuring you don’t buy only at high prices.

What are some types of Investments?

- Stocks
  - Companies sell shares of stock to raise money for start-up or growth. When you invest in stocks, you’re buying a share of ownership in a corporation. You’re a shareholder.
- Bonds
  - When you buy a bond, you’re lending money to a company or governmental entity, such as a city, state or nation. Bonds are issued for a set period of time during which interest payments are made to the bondholder. Bonds are considered a more stable investment compared to stocks because they usually provide a steady flow of income. But because they’re more stable, their long-term return probably will be less when compared to stocks.
- Mutual funds
  - A mutual fund combines cash from multiple investors to buy stocks, bonds or other assets. Mutual funds offer investors an inexpensive way to diversify or spread their money across multiple investments instead of just choosing one or two investments. This helps protect against losses.
- Index funds
  - These are mutual funds that are designed to mimic the stocks in a particular market. That way if the market as a whole performs well, so does the mutual fund.

What is the difference between Simple and Compound Interest?

- Interest, typically expressed as a percentage, can be either simple or compounded.
- Simple interest is based on the principal amount of a loan or deposit. That means you are always receiving or paying interest on the same amount.
- Compound interest is based on the principal amount and the interest that accumulates on it in every period. That means that as the amount changes, you receive or pay interest on the new amount!
  - So with compounding interest you get interest on interest!
  - It has the potential to earn more return than just the simple interest from an investment. Investments you make can grow exponentially with compound interest!

What is the power of compounding?

- Compounding is when your interest earns interest!
- This means that when earnings are reinvested, both the initial investment and the reinvested earnings grow at a constant rate.
- Compounding frequency is the number of times that the interest is calculated in a year. The higher the compounding frequency, the higher your return on investment will be.
- With compounding interest, you can make your money work harder for you.
- As you earn interest, that interest earns more interest for you.
- The longer you stay invested in something providing compound interest, the higher the return will be on your investment. That is why you never want to wait to start investing, the earlier you start, the more money you will make!

What are the Banking Products I can use?

- Checking Accounts
  - An account at a financial institution that allows for withdrawals and deposits. Great for paying bills and keeping track of spending.
- Savings Accounts
  - A deposit account held at a bank or other financial institution that safeguards funds and provides a modest interest rate. Great for building emergency savings or saving for short or medium term goal.
- Money Market Accounts
  - Low transaction checking accounts that offer a higher interest rate in exchange for a higher minimum balance requirement. Can be good for building emergency savings or paying for occasional expenses.
- Certificates of Deposit (CDs)
  - Savings accounts that offer a higher interest rate in exchange for committing your money for a set period of time (six months, 12 months, etc.).

What are the Banking Products I can use?

- Mortgages
  - Loans to purchase a home where the collateral is the home itself.
  - What is collateral? It is something pledged as security for repayment of a loan, to be forfeited in the event of a default. That means if you don’t pay back the loan they can take the item you pledged instead!
- Home Equity Loans
  - Loans offered to homeowners where the loan amount is capped at a percentage of the equity that the owner has on the home.
- Auto Loans
  - Loans used to finance the purchase of an automobile. It is usually unsecured and based on the borrower's integrity and ability to pay. The collateral is the vehicle.
- Personal Loans
  - Unsecured loans offered to bank customers.

What are the Banking Products I can use?

- Credit Cards
  - Unsecured, revolving loans that comes with a card and is primarily used for purchases, though some also provide cash advances. The credit card issuer sets a maximum limit that can be charged. Borrowers make monthly payments on the amount charged to the account, as well as on the interest that is charged by the issuer. When payments are made, those funds become available for borrowing again.
- Debit Cards
  - Cards issued in association with checking or savings accounts that allow point-of-sale purchases that are then deducted from bank balances and ATM withdrawals.
- ATM Cards
  - Cards issued in association with checking or savings accounts that allow cash deposits and withdrawals at Automatic Teller Machines (ATM) but not point-of sale purchases.

What are the Banking Products I can use?

- Cashier’s Checks
  - Checks written by banks that verify that the bank customer has sufficient funds to cover the check. These checks are guaranteed by the bank or credit union. A cashier’s check may be required for closing costs in a home purchase, for example.
- Money Orders
  - Documents written against other accounts or bought with cash, which provide a receipt and are converted to cash by the recipient. Often used to pay bills when someone does not have a checking account.
- Traveler's Checks
  - Checks written against an account or bought with cash that are made valid when completed with the payee's name and signed by the owner. Less commonly used now.
- Wire Transfers
  - A way to move money from one person to another. Often used to send money internationally.
- Foreign Currency Exchange
  - Converting one country's currency to another's.
- Safe Deposit Boxes
  - A box located at a bank for use for personal possessions that can only be accessed with the assistance of bank personnel by lock and key.

What is the difference between GOOD debt and BAD debt?

- The most important question to ask yourself in determining whether debt is good or bad is this:
  - **Will this debt pay me back more than what I put in?**
    - How do you figure that out?
      - Total up how much you will pay back including the principal amount and interest.
      - Are you going to be getting all your money back plus a profit at the end?
      - Could you have done something better with the time and money you're investing?
- Good debt has the potential to increase your net worth or enhance your life in an important way. Good debt can be defined as money owed for things that can help you build wealth or even increase your income over time.
- Bad debt involves borrowing money to purchase depreciating assets or only for the purpose of consumption. Bad debt is debt that doesn't do anything to improve your financial situation. If something decreases in value the moment you take ownership, its BAD DEBT!

Is the Debt Good or Bad?

- Examples of Good Debt
  - Taking out a Mortgage – generally speaking, Real Estate Appreciates Over Time! This means that each year that passes, its worth more than you bought it for.
  - Getting a Student Loan – this is good debt IF you are getting an education that will lead to a high paying career. STEM fields (science, technology, engineering, and mathematics) have high earning potential.
  - Small Business Loan – starting your own business or expanding the one you've started using a loan is considered good debt because you can turn that initial investment into something that generates profit for years!
- Examples of Bad Debt
  - Credit Cards – this is high interest debt (costs you more to use) that people use to buy things they consume.
    - If you don't pay off the things you buy in full each month they cost more and more because of the interest charged. So you usually don't have the item to sell because you've used it or its worth less now and if you are able to sell it, you don't get as much as you paid for it.
  - Car Loans – a car is a depreciating asset and you end up paying for a car plus interest but the car is worth less than you paid for it.

What is a Depreciating Asset and why is buying them with a loan considered BAD Debt?

- These are assets that wear out and are worth less over time.
- An example of this would be a car or a piece of equipment purchased by taking out a loan from the bank.
- Why? Because the item will be worth less and less the more that you use it.
- So that means you are still paying a loan for the item as if it was new but if you sold it, you wouldn’t be able to pay back the loan in full!

What is an Appreciating Asset and why is buying them with a loan considered GOOD Debt?

- These are assets that are worth more as time goes on!
- So you are paying the loan back at the price that you purchased it but if you sold it, it would pay back the loan plus make you a profit!

How can I make my good debt even better?

- Paying it off early!
  - When you take out a loan they factor interest into your payments.
  - Each payment you make includes a portion of the principal amount you borrowed and a portion of the interest.
  - The interest is based on how much you owe so if you decrease the amount you owe faster than you also decrease the amount of interest you end up paying in the long run.
  - Paying off a loan early will save you money and cut down the length of time you spend repaying that loan. So you might be able to pay off your mortgage in 15 years instead of 30 and save yourself tons of money in interest!
  - Before you pay off something early make sure there is no fees associated with doing so or something called a Prepayment Penalty.
    - A prepayment penalty is a fee that some lenders charge if you pay off all or part of your loan early. It is something that you would have agreed to in the loan documents you signed when taking out the loan.

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