Young Adults’ Version

Instructor guide
Welcome to Wells Fargo’s *Hands on Banking*® program!

This fun, interactive, and engaging financial education program is designed for both self-paced, individual learning and classroom use. These Instructor Guides are designed to help you share this valuable program with groups of any size.

In these guides, you’ll find everything you need to lead participants through real-life scenarios, group discussions, and activities that will encourage them to apply these lessons to their daily lives.

By sharing the *Hands on Banking* program with others, you’ll help them to take control of their finances and build a brighter financial future.

**Program Overview**

The *Hands on Banking* program covers all the basics of smart money management. The curriculum is designed for four age groups: Adults, Young Adults (ages 15–21) Teens (grades 6–8) and Kids (grades 4 and 5).

The *Hands on Banking* program is an easy and enjoyable way to teach and learn the essentials of financial education: the basics of bank services, the importance of saving, smart money management, using credit responsibly, investing, wealth building, and more. Whether it’s opening a checking account, avoiding identity theft, paying for college, applying for a credit card, or starting a small business, the *Hands on Banking* program provides real-world skills and knowledge everyone can use.

**Educational Standards**

It’s easy to integrate the *Hands on Banking* program into the classroom: the lessons for school-aged students are aligned with national and state educational standards for economics, financial literacy, mathematics, and English language arts.

The segments in this program adhere to the following economics, financial literacy, mathematics, and English language arts standards:

- The National Council of Teachers of English (NCTE) and International Reading Association (IRA), *Standards for the English Language Arts* (1996); Grades K-12. For details, see [www.ncte.org](http://www.ncte.org).
Using the Instructor Guides

The Instructor Guides can be used alone or as an adjunct to the online/CD-ROM program; however, we strongly encourage you to review the program online or request a free CD-ROM. Even if participants will not experience the program online, gaining familiarity with the online program will help you present it more effectively. The online program includes simulations, calculators and an extensive resource library to help supplement these guides—please take advantage of all these great resources.

Each topic in the Hands on Banking program has its own Instructor Guide which follows the organization of the online program and includes much of the same content. The Young Adults’ version of the Hands on Banking program includes six topics:

1. Getting Started
2. Earning $
3. Spending Smart
4. Save, Invest & Build Wealth
5. All About Credit
6. School & $

Each Instructor Guide includes:

- A glossary of all the relevant terms introduced in the topic.
- A lesson introduction which includes:
  - An overview
  - Learning objectives
  - Sample discussion questions to start the lesson
  - “The Basics”—a list of bullet points outlining the key concepts of the lesson
- A lesson summary of all the key concepts of the lesson.
- Activities, quizzes, discussion questions, handouts and important tips for key concepts.
- A topic summary that lists all the major concepts of the topic.
- Additional activities designed to extend the concepts presented in the topic to the real world.
- A Library Resource section that includes additional reference materials and handouts.

The instructions for organizing your group for activities are recommendations only. You know what will work best when it comes to teaching and engaging your group.
Lesson Concepts and Icons
Each lesson of a topic will present several key concepts. These concepts are introduced to your participants in a variety of ways which are represented in the guides by these icons.

Activity
An activity usually involves some sort of class participation, whether it is a matching game, a fill in the blank exercise, or worksheet completion. Typically after an activity you will have the opportunity to lead a discussion.

Discussion
Discussions allow you to introduce key concepts while involving your participants in the conversation and making the information relevant to them. In some places, sample discussion questions are included to help you guide the discussion.

Quiz
Throughout all the topics, there are short quizzes designed to start discussions or quickly test participants’ knowledge of certain concepts.

Handout
All of the Instructor Guides include handouts that are designed as a resource for your participants to use outside the classroom in their daily lives. For example, one handout includes a list of web links for participants to use as they start, grow and manage their small business.

Activity and Discussion Handouts
Sometimes during a lesson, an activity or discussion will also use a handout to teach key concepts. In these cases the Handout icon is placed below the Activity or Discussion icon.

Transition
The Transition icon will let you know when the next concept is related to or follows up on the concept you’re presently discussing or covering with your participants.

Library Articles
The online/CD-ROM version of the Hands on Banking program includes a vast library with relevant articles, checklists, and worksheets for each topic and lesson.

Relevant library articles are recommended at the end of each lesson. These articles provide additional information to use in teaching key concepts (look for the library icon as seen above). We encourage you to review the full library selection online or on the CD-ROM. Feel free to enrich your sessions with additional articles from the library.

You can photocopy these articles and distribute them to participants to start a discussion, or you may want to give them away as handouts for participants to read on their on time. These library articles expand the topic content.
Pre-and Post-tests for Adults and Young Adults
When you use the Adults’ and/or Young Adults’ courses with a group or in a classroom setting, we invite you to use the Hands on Banking pre and post test we’ve developed. They can be accessed in the “Instructional Resources” section of handsonbanking.org.

- The Pre-test will help you to determine what topics to emphasis with your group.
- The Post-test will help you assess participants progress.

We'd like to request that you report the anonymous results of these tests to our Hands on Banking team. Your input will help us to continue to improve the program.

How to Access the Interactive Program
The Hands on Banking program is available free of charge in both English and Spanish.

- Available for free on CD-ROM—all four age groups are included.
- You may order a CD at HOB@wellsfargo.com. There is no charge for small quantities of the CD-ROM. Please email for information regarding high-volume requests. Allow two weeks for delivery.

Once again, Thank You!
Thank you for sharing these valuable financial education programs with students and adults in our communities. As an instructor, your training and guidance will provide others with the knowledge and skills they need for a brighter financial future.

We welcome your comments and suggestions for future versions of the Hands on Banking curriculum and the Instructor Guides. And, we would very much like to hear your success stories. Please contact us via email at HOBinfo@wellsfargo.com.

The Hands on Banking program is sponsored and developed by Wells Fargo to serve our communities. The products and services mentioned are those typically offered by financial institutions and do not represent the specific terms and conditions of Wells Fargo’s products and services. The site contains no advertising and does not require or collect any personal information.
Topic 4 — Save, Invest, and Build Wealth

Topic Overview

The Save, Invest & Build Wealth topic teaches participants how saving provides great benefits.

This topic has five lessons:

1. Getting ahead
2. Reward yourself by saving
3. Investing basics
4. Get started with investing
5. How to build wealth

These lessons include a number of hands-on participant activities. Use these activities to help simulate real-world scenarios and activities with your participants.

This instructor guide is based on and follows the structure of the online Hands on Banking® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants’ experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit www.handsonbanking.org to access the program. Should you require a CD ROM to access the program you may request a free copy at HOBCD@wellsfargo.com.
# Topic 4 — Save, Invest, and Build Wealth

## Instructor’s Guide—Young Adults

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# Topic 4 — Save, Invest, and Build Wealth

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Glossary

Instructor note:
The Glossary contains definitions and descriptions of valuable terms and phrases related to this topic. Encourage your participants to use the Glossary during and after the class to become more familiar and comfortable with the terminology.

Photocopy the glossary on the next page and hand it out to your participants.
## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Percentage Yield (APY)</strong></td>
<td>The rate of return on an investment, such as a deposit in an interest-bearing savings account, for a one year period.</td>
</tr>
<tr>
<td><strong>Asset</strong></td>
<td>Anything of value owned by a person or company. For example, a person’s assets might include cash, a house, a car, and stocks. A business’s assets might include cash, equipment, and inventory.</td>
</tr>
<tr>
<td><strong>Bond</strong></td>
<td>An investment offered to the public by a corporation, the U.S. Government, or a city. A bond pays interest annually and is payable in full at a specified date. Bonds are rated, and the rating indicates their probability of default.</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>The assets a borrower owns, for example a car, or cash in a savings account minus your liabilities. If a borrower is unable to make his or her loan payments, a lender might use these assets to pay the debt. Capital is also known as collateral or assets.</td>
</tr>
<tr>
<td><strong>Capital gain</strong></td>
<td>The dollar amount by which an asset’s selling price exceeds its initial purchase price. For example, if you buy a stock for $4 per share and sell it for $7 per share, your capital gain is $3 per share.</td>
</tr>
<tr>
<td><strong>Capital loss</strong></td>
<td>The decrease in value of an investment or asset. The opposite of capital gain.</td>
</tr>
<tr>
<td><strong>Cash flow</strong></td>
<td>A measure of the changes in a company’s cash during a specific period of time (usually a month, quarter, or year). Specifically, a company’s cash income minus the cash payments it makes.</td>
</tr>
<tr>
<td><strong>Certificates of Deposit (CDs)</strong></td>
<td>A bank account in which you agree to keep the money for a specified period of time, usually anywhere from three months to several years. As a result, this account usually offers higher rates of return than a savings account. Money removed before the agreed upon date is subject to an early withdrawal penalty. The account pays interest on the deposit and is FDIC-insured. Banks issue an actual certificate for a CD account. If no certificate is issued, the account is known instead as a “time deposit.”</td>
</tr>
<tr>
<td><strong>Compound interest</strong></td>
<td>When a financial institution pays you interest not only on your initial principal (the amount you originally deposited) but also on the interest your deposit has earned over time.</td>
</tr>
<tr>
<td><strong>Credit rating</strong></td>
<td>An evaluation of an individual’s or business’s financial history and the ability to pay debts. Lenders use this information to decide whether to approve a loan. The credit rating is usually in the form of a number or letter.</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td>If a company does well financially, its board of directors may decide to pay a small amount of its profits, called a dividend, directly back to its shareholders. Dividends are usually cash, but may also take the form of stock or other property.</td>
</tr>
<tr>
<td><strong>Dollar cost averaging</strong></td>
<td>A method of accumulating assets by purchasing securities at regular intervals with a fixed dollar amount.</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>The value of your investment above the total of your lien (debt).</td>
</tr>
</tbody>
</table>
# Topic 4 — Save, Invest, and Build Wealth

## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed rate</strong></td>
<td>An interest rate that remains the same during the entire term of the loan.</td>
</tr>
<tr>
<td><strong>Foreclose, repossess</strong></td>
<td>The legal process by which an owner’s right to a property is terminated, usually because of failure to make loan payments as agreed. Foreclosure typically involves a forced sale of the property at public auction, with the money applied to the remaining debt.</td>
</tr>
<tr>
<td><strong>Home equity</strong></td>
<td>The financial difference between what your home or other real estate is worth and the amount you still owe as debt on the home or other real estate. For example, your home is worth $100,000 and you owe $75,000 on your mortgage, then you have $25,000 of equity in your home.</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>The amount of money paid by a borrower to a lender in exchange for the use of the lender's money for certain period of time. For example, you earn interest from a bank if you have a savings account and you pay interest to a lender if you have a loan.</td>
</tr>
<tr>
<td><strong>Interest rate</strong></td>
<td>The amount of interest paid per year divided by the principal amount (that is, the amount loaned, deposited, or invested). For example, if you paid $500 in interest per year for a loan of $10,000, the interest rate is 500 divided by 10,000, or five percent (5%).</td>
</tr>
<tr>
<td><strong>Investing</strong></td>
<td>Purchasing something of value (for example, stocks or real estate) with the goal of earning money over time if the value increases.</td>
</tr>
<tr>
<td><strong>Liability</strong></td>
<td>The amount of money an individual or business owes to someone else: a debt.</td>
</tr>
<tr>
<td><strong>Liquidity</strong></td>
<td>The ability of an asset to be converted into cash quickly.</td>
</tr>
<tr>
<td><strong>Money Market Deposit Account (MMDA)</strong></td>
<td>A form of savings account that requires a larger balance than CDs or regular savings accounts, usually $10,000 or more.</td>
</tr>
<tr>
<td><strong>Mortgage</strong></td>
<td>A loan to finance the purchase of a home, usually with defined payments and interest rates. The homeowner gives the bank a lien, called the “mortgage,” on the home, which serves as collateral for the loan.</td>
</tr>
<tr>
<td><strong>Mutual fund</strong></td>
<td>A type of investment where an investment company sells shares to the public and then invests the money in a group of investments such as stocks and bonds.</td>
</tr>
<tr>
<td><strong>Net worth</strong></td>
<td>The value of a company or individual’s assets. Including cash, less total liabilities.</td>
</tr>
<tr>
<td><strong>Portfolio</strong></td>
<td>A collection of investments all owned by the same person or organization. For example, a portfolio might include a variety of stocks, bonds, and mutual funds.</td>
</tr>
<tr>
<td><strong>Principal</strong></td>
<td>The total amount of money borrowed, loaned, invested, etc., not including interest or service charges.</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>The positive gain from an investment or a business operation after subtracting all expenses.</td>
</tr>
<tr>
<td><strong>Rate of return</strong></td>
<td>The annual rate of return is the percentage change in the value of an investment. For example: If you assume you earn a 10% annual rate of return, then you are assuming that the value of your investment has grown by that percentage.</td>
</tr>
</tbody>
</table>
## Glossary

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Real property assets</td>
<td>Land and anything permanently affixed, including building, fences, trees, and minerals that has monetary value that is owned by a person or a company.</td>
</tr>
<tr>
<td>Return on investment (ROI)</td>
<td>The income that an investment produces for the investor.</td>
</tr>
<tr>
<td>Rule of 72</td>
<td>A way to estimate the time or interest rate you would need to double your money on an investment. For example, if you have an investment that's earning 8% per year, 72 divided by 8 equals 9. This means it would take about nine years for your original investment to double.</td>
</tr>
<tr>
<td>Simple interest</td>
<td>Interest that is calculated only on the principal sum, that is, the amount of money that was originally deposited. (By contrast, compound interest is when a financial institution pays you interest not only on your initial principal but also on the interest your deposit has earned over time.)</td>
</tr>
<tr>
<td>Stock</td>
<td>Certificate of ownership in a company.</td>
</tr>
<tr>
<td>Stock exchange</td>
<td>An organized market place in which stocks are traded by members of the exchange, such as brokers and principals.</td>
</tr>
<tr>
<td>Term</td>
<td>A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.</td>
</tr>
</tbody>
</table>
Lesson 1: Getting Ahead

In this lesson, participants look at where they’re headed financially. They test what they already know about saving, investing, and building wealth.

**Learning Objectives**
After completing this lesson, participants will be able to:

- See how they now plan their financial future.
- See what they already know about saving, investing and building wealth.

**Start the Discussion**
To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- If you’re earning money, what are you doing to reward yourself?
- What do you think “wealth” is?
- Have you taken any steps to start building wealth? If so, what are they?

**The Basics**

- There is a big difference between “having money” and building wealth.
- Money comes in and goes out, but wealth encompasses things like savings, investments, property, or your own business.
- Wealth is a set of resources that give you options and let you take advantage of opportunities in life.
Your Target Timeline (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page and distribute to your participants. Instruct them to read each step and put a checkmark next to the ones they have already completed. Then, next to the ones they haven’t yet completed, ask them to write down their intended timeline (e.g. by next month, or “in one to two years” or “long term”).

Begin a discussion by asking your participants to share what they’ve done already and what they need to do.

**Instructions:**
Have participants read the checklist below. If they’ve already completed a step, have them put a checkmark in the appropriate column. If they haven’t completed a step, instruct them to write in a target timeline for completion (e.g. next year, long term, etc.)

<table>
<thead>
<tr>
<th>Steps to Build Wealth</th>
<th>Completed? (checkmark)</th>
<th>If not completed, suggested timeline?</th>
</tr>
</thead>
<tbody>
<tr>
<td>I opened my own savings account.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I’m committed to a monthly saving goal.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I’ve set-up automatic transfers to my savings account.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>As I earn more, I increase the amount I save.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I contribute to my own/my company’s retirement savings plan.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have enough savings to cover 2-6 months of expenses.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>My debts are low enough that I can comfortably pay them.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have started to invest in stocks, bonds, or mutual funds.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I own my own home.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have started my own business.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Instructor note:**
Advise participants to continue to bring their goals and timeline into sharper focus over time. There are no right or wrong answers. It’s all up to them.
Your Target Timeline

Instructions:
Read the checklist below. If you’ve already completed a step, put a checkmark in the appropriate column. If you haven’t completed a step, write in a target timeline for completion (e.g. next year, long term, etc.)

<table>
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<td></td>
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<td>I have started my own business.</td>
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<td></td>
</tr>
</tbody>
</table>
Lesson Summary

Instructor note:  
Summarize this lesson by reviewing these key points with your participants.

Key points from the Getting Ahead lesson:

- There is a big difference between “having money” and building wealth.
- Money comes in and goes out, but wealth encompasses things like savings, investments, property, or your own business.
- Wealth is a set of resources that give you options and let you take advantage of opportunities in life.

Additional Activities

These activities are designed to extend the new concepts presented in the Getting Ahead lesson. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.

- Using the checklist from the previous activity, create an action plan for completing the steps you need to start building wealth in the next one to three years and beyond. Create a visual timeline on a calendar.
Lesson 2: Reward Yourself By Saving

In this lesson, participants learn how savings can benefit them. It provides tips for saving more and earning more on the money they save. The concept of compound interest is introduced and participants can see how it can make their savings grow.

Learning Objectives
After completing this lesson, participants will be able to:

- State why saving money is critical to their financial future.
- Use money-saving tips.
- Explain the power of compound interest.

Start the Discussion
To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- Who here saves money on a regular basis (other than saving up for a special item/occasion)? How do you do it?
- Are there some short-term or long term items you are saving for or want to save for?
- Why is interest an important consideration when talking about savings?
- What is compound interest?

The Basics

- Saving is a key to financial independence and building wealth.
- Think of saving as giving a gift, or paying a reward, to you!
- The money you save gives you so many benefits, like cash in an emergency, and the ability to buy big things, like a car.
- Building up huge amounts won’t happen overnight. But it will happen if you make it a habit, make it automatic, and stick with it over time.
- A great place to save is in a bank savings account. It helps your money grow with interest.
- Compounding is a powerful way to make your money grow faster.
- The higher the APY, the more interest you receive.
- Savings is an investment in yourself and your future.
Scenario Activity: Building a Future (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below. Then have them share similar experiences they may have had.

Instructions:
Have participants read Randie’s story. Based on her situation, have them choose the best possible option. Then, for each option, have them write a few sentences about why the option was right or wrong for Randie’s situation.

Randie’s Story
Randie is trying to decide how to increase her savings. Randie’s making money, paying bills, and buying stuff, but sometimes runs short between paychecks. She doesn’t like feeling broke. She wants to get into the habit of saving so that she has money to fall back on if she loses her job or has an emergency. She also wants to save up for big purchases, like a vacation trip. In the long-run she wants something to show for her hard work and to be able to retire some day. What should Randie do?

1. Make saving her #1 priority. Set a goal and calculate an amount to save every month no matter what.
   Consequences: This didn’t work out for Randie. She needed to get real about how much she could save based on her earnings and monthly expenses. She has to pay her bills no matter what, but she should save too. There may be some expenses she can cut back on, and if she gets a raise or a bonus or a tax refund, she can save that, too.
   Feedback: This advice wasn’t realistic. She’s better off setting an amount to save from every paycheck, taking into account her monthly income and expenses. Her ideas to cut expenses and save extra money are both great.

2. Put any extra money she receives (such as tax refunds, bonuses, raises, gifts) into her savings.
   Consequences: Setting aside extra money definitely helps, but my savings aren’t building up as much or as fast as she wants. It might be easier to have a percentage of every paycheck automatically go into my savings account. If she doesn’t see that money, she won’t be tempted to spend it, and her savings will build up a lot faster.
   Feedback: Good advice but it’s only part of the solution. A great way to save more is to make it automatic. She can do better by having a percentage of every paycheck deposited directly into her savings account, or sets up an automatic monthly transfer from her checking account.

3. Automatically deposit a percentage of her income (e.g. 5–10%) into her savings account.
   Consequences: This is great for Randie. Money goes right into her savings so she’s never tempted to spend it. The percentage works for her, so she still has enough money to pay bills. Now she’s looking at other ways to keep her savings growing—like earning a higher interest rate and saving extra money, like my tax refund.
   Feedback: Awesome advice! Making savings automatic and saving as much as you can at the best interest rate you can find are all great strategies for building wealth and a strong financial future. As she earns more over time, she should increase the amount she saves as much as she can.

Instructor note:
Tell your participants to see the Spending Smart topic to learn more about creating their own spending plan, including deciding how much to save.
Scenario Activity: Building a Future

Instructions:
Read Randie’s story. Based on her situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Randie’s situation.

Randie’s Story
Randie is trying to decide how to increase her savings. Randie’s making money, paying bills, and buying stuff, but sometimes runs short between paychecks. She doesn’t like feeling broke. She wants to get into the habit of saving so that she has money to fall back on if she loses her job or has an emergency. She also wants to save up for big purchases, like a vacation trip. In the long-run she wants something to show for her hard work and to be able to retire some day. What should Randie do?

1. Make saving her #1 priority. Set a goal and calculate an amount to save every month no matter what.
   Should Randie choose this option? Why or why not?

2. Put any extra money she receives (such as tax refunds, bonuses, raises, gifts) into her savings.
   Should Randie choose this option? Why or why not?

3. Automatically deposit a percentage of her income (e.g. 5–10%) into her savings account.
   Should Randie choose this option? Why or why not?

Tip!
To earn more interest on your savings, shop for a savings account with the highest Annual Percentage Yield (APY) you can find.
All About Saving (Instructor Copy)

**Instructor note:**
Consider inviting a banker or financial professional to come in and speak with the class about saving.

Photocopy the activity handout on the following page Begin a discussion with your participants by asking questions such as:
- Who has a savings account? Are you using it to save money for something special?
- When did you start saving money? How has it benefited you?
- What is one way to make saving money easier for you?

Then distribute the activity handout and focus on these key points.

After this activity, transition to the next topic which shows the power of compound interest.

**Key points:**
- Saving is a key to financial independence and building wealth.
- Think of saving as giving a gift, or paying a reward, to you!
- The money you save gives you so many benefits, like cash in an emergency, and the ability to buy big things, like a car.
- Building up huge amounts won’t happen overnight. But it will happen if you make it a habit, make it automatic, and stick with it over time.
- A great place to save is in a bank savings account. It helps your money grow with interest.

| Ways a savings account can benefit you | • Keeps your money safe.  
| • Your money grows with interest.  
| • You’re prepared for unexpected expenses.  
| • You’re ready to make large purchases.  
| • Helps you achieve major life goals. |

| How much interest can I earn? | • If you put savings in an interest earning account, such as a bank savings account, the amount of interest you’ll earn depends on three factors: the interest rate; how long you keep the money in your account; and, how the bank pays the interest.  
| • Almost all banks compound interest. It’s a powerful way to make your savings grow faster. |

| What is compound interest? | • Compounding means a financial institution pays you interest on the amount you originally deposited, and on the interest your deposit earns over time.  
| • With compound interest, your money grows more and a lot faster. (If an account pays what’s called simple interest, you only earn interest on the principal—the amount of money you originally deposited.) |
### All About Saving (Instructor Copy) (continued)

<table>
<thead>
<tr>
<th><strong>How often is interest compounded?</strong></th>
<th>Depending on the account, interest may be compounded daily, monthly, or quarterly.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Each time, you’re paid interest on the new, total amount in your account.</td>
</tr>
<tr>
<td></td>
<td>The more frequently money is compounded, the more interest you’ll earn.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>How do I pick a high-interest account?</strong></th>
<th>Compare the annual percentage yield, or APY, of the accounts.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The APY is the rate of return for a one year period. The higher the APY percentage, the more interest you’ll receive.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Is the interest I earn taxable?</strong></th>
<th>Yes. The interest you earn in your bank accounts is considered income, so it is taxable.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The bank will send you a form at the end of the year that shows the total amount of interest you earned.</td>
</tr>
</tbody>
</table>

### Tip!

The higher the interest rate, the more your money grows. Also, time is one of your most important tools for saving and investing. The more time your money has to grow, the better.
## All About Saving

### Ways a savings account can benefit you
- Keeps your money safe.
- Your money grows with interest.
- You’re prepared for unexpected expenses.
- You’re ready to make large purchases.
- Helps you achieve major life goals.

### How much interest can I earn?
- If you put savings in an interest earning account, such as a bank savings account, the amount of interest you’ll earn depends on three factors: the interest rate; how long you keep the money in your account; and, how the bank pays the interest.
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### How often is interest compounded?
- Depending on the account, interest may be compounded daily, monthly, or quarterly.
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### How do I pick a high-interest account?
- Compare the annual percentage yield, or APY, of the accounts.
- The APY is the rate of return for a one year period. The higher the APY percentage, the more interest you’ll receive.

### Is the interest I earn taxable?
- Yes. The interest you earn in your bank accounts is considered income, so it is taxable.
- The bank will send you a form at the end of the year that shows the total amount of interest you earned.

### Tip!
The higher the interest rate, the more your money grows. Also, time is one of your most important tools for saving and investing. The more time your money has to grow, the better.
Compare the Results Activity (Instructor Copy)

Instructor note:
It’s easy to see the benefits of compound interest when the results are compared side-by-side. Use this comparison to reinforce the benefits of compound interest.

Photocopy the activity handout on the following page. First, introduce the story of the Shoebox Saver (puts money in a shoebox, under a mattress, etc.) and the Super Saver (puts money in interest-earning accounts).

Then, tell participants that both people put away five dollars per day per year. The Super Saver earned 5% interest, compounded daily.

Ask participants how much more money they think the Super Saver has made after 30 years as compared to the Shoebox Saver.

After you receive guesses from the participants, pass out the handout with the savings chart.

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHOEBOX SAVER</td>
<td>SUPER SAVER</td>
</tr>
<tr>
<td>$1,825</td>
<td>$1,871</td>
</tr>
<tr>
<td>$9,125</td>
<td>$10,366</td>
</tr>
<tr>
<td>$18,250</td>
<td>$23,677</td>
</tr>
<tr>
<td>$54,750</td>
<td>$127,077</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year 5</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHOEBOX SAVER</td>
<td>SUPER SAVER</td>
</tr>
<tr>
<td>$46 more</td>
<td>$1,241 more</td>
</tr>
<tr>
<td>$1,241 more</td>
<td>$5,427 more</td>
</tr>
</tbody>
</table>

There’s not much difference at the end of one year—but at the end of 30 years, the “Super Saver” has more than $72,000 extra!
## Topic 4 — Save, Invest, and Build Wealth

### Compare the Results Activity

<table>
<thead>
<tr>
<th>Year</th>
<th>SHOEBOX SAVER</th>
<th>Year</th>
<th>SUPER SAVER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1,825</td>
<td>Year 1</td>
<td>$1,871</td>
</tr>
<tr>
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<td>$9,125</td>
<td>Year 5</td>
<td>$10,366</td>
</tr>
<tr>
<td>Year 10</td>
<td>$18,250</td>
<td>Year 10</td>
<td>$23,677</td>
</tr>
<tr>
<td>Year 30</td>
<td>$54,750</td>
<td>Year 30</td>
<td>$127,077</td>
</tr>
</tbody>
</table>

There’s not much difference at the end of one year—but at the end of 30 years, the “Super Saver” has more than $72,000 extra!
Try an Interest Formula Activity (Instructor Copy)

**Instructor note:** Photocopy the activity handout on the following page. Divide the class into small groups. Introduce the formula for calculating compound interest. Explain each variable in the equation. Explain to them when they use this formula, they should take the amount in the parentheses and take it to the “nth” power and then multiply by P. Instruct your participants to use the formula to complete the example.

The formula for calculating compound interest is:

\[ M = P(1 + i)^n \]

- Where \( M \) is the final amount including the principal.
- \( P \) is the principal amount.
- \( i \) is the rate of interest per year.
- \( n \) is the number of years invested.

**Instructions:** Have your participants use this formula to determine the final amount of money they’ll have if they invest:

- $1000.00
- For three years
- With a 5% compound interest rate

\[ M = 1000 (1 + 5\%)^3 \]

**Answer Key:**

Step 1: Change 5% to .05.
Equation now reads: \( M = 1000 (1 + .05)^3 \)

Step 2: Add 1 and .05.
Equation now reads: \( M = 1000 (1.05)^3 \)

Step 3: Cube 1.05 (1.05 x 1.05 x 1.05).
Equation now reads: \( M = 1000 (1.15762) \)

Step 4: Multiply 1000 by 1.15762.
Final Answer: $1157.62

Next, if your participants want to save more money, introduce some savings tips that will really help.
Try an Interest Formula Activity

The formula for calculating compound interest is:

\[ M = P(1 + i)^n \]

- Where \( M \) is the final amount including the principal.
- \( P \) is the principal amount.
- \( i \) is the rate of interest per year.
- \( n \) is the number of years invested.

Instructions:
Have your participants use this formula to determine the final amount of money they’ll have if they invest:

- $1000.00
- For three years
- With a 5% compound interest rate

Final Answer:
Instructor note:
Photocopy the activity handout on the following page. Divide the class into small groups. Instruct each group to create a list of ideas that will help them save more money. Then, have each group share their list. Write the best of each groups’ ideas on a whiteboard/chalkboard or large piece of paper. Then, distribute this handout and focus on the key points.

Do you have enough cash to fall back on or to make big-ticket buys? Hope to retire someday? Learn to be a better saver by following these tips.

| Do you want it or need it? | • Are you buying products or services you don’t really need?  
• Save money by cutting back on eating out or buying the latest fads and fashions. Also give some thought to items on which you could spend less. |
<table>
<thead>
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<tr>
<td>Make savings an automatic habit</td>
<td>• Put a portion of every paycheck into your savings account by using direct deposit or automatic transfer. You’ll be much less likely to spend the money that way.</td>
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| Pay yourself first! | • Set aside money for savings at the beginning of each month, rather than waiting to see what’s left at the end.  
• Decide on a percentage of your monthly income (e.g. 5–10%) to direct deposit or transfer into your savings account. |
| Set aside “extra” money into savings | • If you receive a tax refund, deposit it directly into your savings account.  
• If you get a raise or bonus put the extra amount into your savings.  
• If you receive cash as a gift, save at least part of it.  
• If you have paid off a loan, keep making the monthly payments— to yourself, in your own savings account! |
| Pay your bills on time | • When you pay bills on time, you avoid late fees; extra finance charges; disconnection of (and re-connection fees for) phone, electricity, or other services; the cost of eviction; repossession of cars or other items; bill collectors. |
| Avoid check-cashing stores | • At $10 or more for each check you cash, this can add up to several hundred dollars per year.  
• Consider opening a checking account at a bank instead. |
| Save for retirement | • If you work for a company that has a retirement savings plan, don’t pass up the opportunity to participate.  
• If you’re self-employed, set up a retirement savings account of your own. |
**Topic 4 — Save, Invest, and Build Wealth**

**Tips for Saving More $**

Do you have enough cash to fall back on or to make big-ticket buys? Hope to retire someday? Learn to be a better saver by following these tips.

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<td>• If you have paid off a loan, keep making the monthly payments—to yourself, in your own savings account!</td>
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</thead>
<tbody>
<tr>
<td>• If you work for a company that has a retirement savings plan, don’t pass up the opportunity to participate.</td>
</tr>
<tr>
<td>• If you’re self-employed, set up a retirement savings account of your own.</td>
</tr>
</tbody>
</table>
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Personal Goal Setting

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Reward Yourself By Saving lesson:

- Saving is a key to financial independence and building wealth.
- Think of saving as giving a gift, or paying a reward, to you!
- The money you save gives you so many benefits, like cash in an emergency, and the ability to buy big things, like a car.
- Building up huge amounts won’t happen overnight. But it will happen if you make it a habit, make it automatic, and stick with it over time.
- A great place to save is in a bank savings account. It helps your money grow with interest.
- Compounding is a powerful way to make your money grow faster.
- The higher the APY, the more interest you receive.
- Savings is an investment in yourself and your future.

Additional Activities

These activities are designed to extend the new concepts presented in the Reward Yourself by Saving lesson. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.

- If you don’t already, set up an automatic savings plan. Have money automatically deposited into a savings account from every paycheck.
- Create a list of things you’d like to buy/achieve (a special item, a trip, etc.) in the next three months, the next six months and a year from now. What can you to do accomplish these goals? What are the costs of each goal?
- Research online savings accounts or see what special deals your bank offers for saving.
Lesson 3: Investing Basics

In this lesson, participants learn that investing involves taking risks for potential rewards. This lesson introduces what they should know before they start investing, such as basic investing terminology, types of investments, how inflation erodes money and how compounding can make it grow. The lesson also covers the Rule of 72.

Learning Objectives
After completing this lesson, participants will be able to:

- Explain the concept of risk vs. reward.
- Explain investing basics, such as terminology, investment types and inflation.
- Explain the Rule of 72.

Start the Discussion
To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- Do you or your family have any investments? Are they stocks, bonds, real estate?
- Do you think you’re in a position to begin investing? Why or why not?
- What happens during inflation to value of money? Are we having inflation or deflation right now?
- Has anyone heard of compound interest? How does it work?
- Is there a difference between saving and investing? What is it? Is one better than the other?

The Basics

- Investing is putting money you’ve saved into things you think will increase in value over time.
- There are lots of possible investments. Examples include stocks, bonds and real estate.
- Buy investments when the price is low, then try to sell when the price is high. That’s how you make a profit.
- One big difference between saving and investing is that investing always involves risk.
- If the value of your investment goes up, you could earn more than you would in a savings account. But if the value goes down, you could lose some or even all of your money.
- Never invest money that you can’t afford to lose.
- Any time you sell an investment for a profit, your earnings are called capital gains. If you lose money when you sell your investment, you’ll have what’s called a capital loss.
- With investing, there’s always a risk of losing some or even all of your money if the investment doesn’t perform well.
- The greater the risk of a loss on an investment, the greater the potential return. The lower the risk of loss, the lower the potential return.
- Return on investment (ROI) is the money income that an investment produces for the investor.
- Any time you sell an investment for a profit, your earnings are called capital gains. If you lose money when you sell your investment, you’ll have what’s called a capital loss.
Saving vs. Investing Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Divide the class into small groups. Instruct them to brainstorm the differences between savings and investing. Ask each group to share their list as you write them on a whiteboard/chalkboard or large piece of paper. Then, use the key points below to lead the discussion.

Instructions:
Have your participants list differences and similarities between investing and saving.

Compare some of the differences between saving and investing.

<table>
<thead>
<tr>
<th>Saving</th>
<th>Investing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short-term: Ready to go</strong></td>
<td><strong>Long-term: Achieve major goals</strong></td>
</tr>
<tr>
<td>• Saving is typically for smaller, shorter-term goals in the near future (usually three years or less) like going on vacation or having money for an emergency.</td>
<td>• Investing can help you reach bigger long-term goals (at least four to five years away), like buying a house or retiring.</td>
</tr>
<tr>
<td><strong>Ready access to cash</strong></td>
<td><strong>Harder to access cash</strong></td>
</tr>
<tr>
<td>• A savings account gives you access to ready cash when you need it.</td>
<td>• When you invest your money, it's typically not as easy to get your hands on it quickly as compared to a savings account.</td>
</tr>
<tr>
<td>• But many savings accounts do limit how often you can take your money out. Ask at your bank.</td>
<td></td>
</tr>
<tr>
<td><strong>Minimal risk</strong></td>
<td><strong>Always involves risk</strong></td>
</tr>
<tr>
<td>• If your money is in a savings account, it's at minimal or no risk.</td>
<td>• You may lose some or all of the money you invest.</td>
</tr>
<tr>
<td><strong>Earn interest</strong></td>
<td><strong>Potential for profit</strong></td>
</tr>
<tr>
<td>• You can earn interest by putting money in a savings account, but savings accounts generally earn a lower return than do investments.</td>
<td>• Investments have the potential for higher return than a regular savings account.</td>
</tr>
<tr>
<td></td>
<td>• Your investments may appreciate (go up in value) over time. This increases your net worth, which is the value of your assets (what you own) minus your liabilities (what you owe).</td>
</tr>
<tr>
<td></td>
<td>• If you sell for higher price than you invested initially, you make a profit.</td>
</tr>
</tbody>
</table>

Tip! Remember: the greater the risk of an investment, the higher potential return or loss of your money.

Next, introduce participants to different types of investments.
## Saving vs. Investing Activity

**Instructions:**
List differences and similarities between investing and saving.

<table>
<thead>
<tr>
<th>Saving</th>
<th>Investing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example: Provides ready cash for emergencies.</td>
<td>Example: Can help you achieve long-term goals.</td>
</tr>
</tbody>
</table>

Remember: the greater the risk of an investment, the higher potential return or loss of your money.
Types of Investments (Instructor Copy)

Instructor note:
Consider inviting a banker or financial professional to class to discuss investment options.

Photocopy the activity handouts on the following two pages. Begin a discussion with your participants by asking questions such as:

- Do any of you have any investments?
- Have your parents or other family members invested money for you?
- What investing terms or types of investments have you heard about?

Before you invest, it’s important to understand the basics about different types of investments.

| Low-risk investments       | Low-risk investments enable you to earn interest on your money while maintaining some liquidity—flexible access to your cash.  
|                           | The odds of losing your money through these investments are extremely low, but they have lower potential return compared to higher-risk investments like stocks.  
|                           | Examples: Certificates of Deposit (CDs) and Money Market Deposit Accounts (MMDA).  
| Certificates of Deposit (CDs) | CDs = a low-risk investment you can open with an initial deposit of as little as $1,000.  
|                           | With CDs, you agree that you won’t touch the money you deposit for a specific period of time (from a few days to a few years).  
|                           | Generally, the longer you keep your money in the account, the greater the return rate  
| Money Market Deposit Account (MMDA) | A (MMDA) is a low-risk investment. It’s a form of savings account that requires a larger balance than CDs or regular savings accounts, usually $10,000 or more.  
|                           | Compared to regular savings accounts, MMDAs offer a better interest rate and allow you more flexible access to the funds in your account.  
| Stocks | Investing in stocks is risky because their value can change daily.  
|       | But stocks can also have great potential for growth and total return.  
|       | When you invest in stocks, you’re investing in businesses. These could be small, medium, or large companies in the U.S. or around the world.  
|       | Buying stock gives you part ownership in a company. That’s why you should only buy stocks in companies you believe in, and believe you can do well.  
| What are “shares” and “dividends?” | Stocks are usually bought and sold in units called shares. A share’s value, or share price, rises and falls based on how much people will pay for a share.  
|       | People will pay money for the stock if they think the company will be successful. If it is, its stock will increase in value.  
|       | Sometimes the company will also pay its investors a dividend. That’s when the company pays the shareholders a part of its profits.  

### Types of Investments (Instructor Copy) (continued)

| Mutual funds | • A mutual fund is a professionally managed collection of money from a group of investors.  
|              | • A mutual fund manager decides which stocks or bonds to buy and sell and when for everyone in the group.  
|              | • Some mutual funds will be higher risk than others, and no mutual fund is a sure thing.  
| Risk vs. reward with mutual funds | • Because a mutual fund invests in a variety of stocks, bonds, and other products, there is usually greater potential reward than many low-risk investments, and less risk than buying individual stocks and some bonds.  
| Bonds | • Corporations, governments and municipalities issue bonds to raise funds.  
|       | • In return they typically repay the bond owners with interest. In this way, a bond is like a loan.  
|       | • When you purchase a bond, you are lending money to a corporation or to the government for a certain period of time called a term.  
|       | • The bond certificate is a promise from the corporation or government that they will repay you on a specific date, usually with a fixed rate of interest.  
| Why do people invest in bonds? | • The main objectives of investing in bonds are current income and the potential for stability and future income.  
|       | • Bond terms can range from a few months to 30 years.  
|       | • The longer you hold your investment in bonds, the better the return—so consider bonds a long-term investment.  
| Is there risk in buying bonds? | • Yes, like all investments, bonds involve risk. Government bonds are low-risk because they are backed by the U.S. government.  
|       | • Corporate bonds have a higher potential risk. You should research the company before you invest to make sure it has the ability to repay the loan.  
| Real Estate | • Many people invest in real estate, such as a home or property.  
|       | • One positive aspect to investing in real estate is that it usually increases in value over time without the daily ups and downs that happen in the stock market.  
|       | • Like stocks, you earn money when you sell real estate for more than what you paid for it.  
|       | • Keep in mind that it can take time to sell a home or property, and that there are costs involved in buying, selling, and owning real estate.  

**Tip!**  
The collection of investments you own is called your portfolio.
## Types of Investments

Before you invest, it's important to understand the basics about different types of investments.

| Low-risk investments | • Low-risk investments enable you to earn interest on your money while maintaining some liquidity—flexible access to your cash.  
  • The odds of losing your money through these investments are extremely low, but they have lower potential return compared to higher-risk investments like stocks.  
  • Examples: Certificates of Deposit (CDs) and Money Market Deposit Accounts (MMDA). |
|---|---|
| Certificates of Deposit (CDs) | • CDs = a low-risk investment you can open with an initial deposit of as little as $1,000.  
  • With CDs, you agree that you won't touch the money you deposit for a specific period of time (from a few days to a few years).  
  • Generally, the longer you keep your money in the account, the greater the return rate |
| Money Market Deposit Account (MMDA) | • A (MMDA) is a low-risk investment. It's a form of savings account that requires a larger balance than CDs or regular savings accounts, usually $10,000 or more.  
  • Compared to regular savings accounts, MMDAs offer a better interest rate and allow you more flexible access to the funds in your account. |
| Stocks | • Investing in stocks is risky because their value can change daily.  
  • But stocks can also have great potential for growth and total return.  
  • When you invest in stocks, you're investing in businesses. These could be small, medium, or large companies in the U.S. or around the world.  
  • Buying stock gives you part ownership in a company. That's why you should only buy stocks in companies you believe in, and believe you can do well. |
| What are “shares” and “dividends?” | • Stocks are usually bought and sold in units called shares. A share's value, or share price, rises and falls based on how much people will pay for a share.  
  • People will pay money for the stock if they think the company will be successful. If it is, its stock will increase in value.  
  • Sometimes the company will also pay its investors a dividend. That's when the company pays the shareholders a part of its profits. |
| Mutual funds | • A mutual fund is a professionally managed collection of money from a group of investors.  
  • A mutual fund manager decides which stocks or bonds to buy and sell and when for everyone in the group.  
  • Some mutual funds will be higher risk than others, and no mutual fund is a sure thing. |
### Types of Investments (continued)

<table>
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<tr>
<th>Risk vs. reward with mutual funds</th>
<th>Because a mutual fund invests in a variety of stocks, bonds, and other products, there is usually greater potential reward than many low-risk investments, and less risk than buying individual stocks and some bonds.</th>
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</tbody>
</table>

### Tip!

The collection of investments you own is called your portfolio.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Articles: About Bonds, About Stocks and About Mutual Funds

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Inflation Erodes Purchasing Power (Instructor Copy)

Instructor note:
Consider inviting an economics professional or an economics professor or teacher from a nearby college, community college or high school to talk to your class about inflation.

Discuss the concept of inflation using these key points. You can use the graph and example to enhance inflation information.

Key points:
- This graph shows how inflation affects your money over time.
- You’ve probably noticed that the prices for lots of things have gone up over the years.
- When the general price level of goods and services goes up, that means the purchasing power of your dollar goes down.
- It’s called inflation, and it can really eat away at your future purchasing power.
- It’s important to understand that if your money isn’t growing at a rate at least equal to the rate of inflation, you’re losing money.
- Try to make sure that your money is always growing at a higher rate than the rate of inflation. Saving and investing money can help you do that.

Example:
Let’s say you stash $1,000 in a safety deposit box and leave it there for 25 years. Assuming an inflation rate of 4%, when you take the money out, your original $1,000 would only be able to purchase $368 worth of goods!
Inflation Erodes Purchasing Power (Instructor Copy)

**Instructor note:**
Consider inviting a banker or financial professional to talk to your class about compound interest.

Begin a discussion with your participants by asking questions such as:
- What is compound interest?
- How do you think compound interest can benefit you?

Then focus on these key points:

Use the chart to show the most important point of compound interest:

**Compounding occurs when your earnings on an investment are added to the amount you originally invested.**

<table>
<thead>
<tr>
<th>Principal in Dollars</th>
<th>$1000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Contributions</td>
<td>4</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>4%</td>
</tr>
<tr>
<td>Length in Years</td>
<td>20</td>
</tr>
<tr>
<td>Compounded Yearly</td>
<td>2315.00</td>
</tr>
<tr>
<td>Compounded Quarterly</td>
<td>2339.60</td>
</tr>
<tr>
<td>Compounded Monthly</td>
<td>2345.25</td>
</tr>
<tr>
<td>Compounded Daily</td>
<td>2348.00</td>
</tr>
</tbody>
</table>

**Key points:**
- To take advantage of the power of compounding, it pays to start investing as soon as you can.
- The earlier you start, the easier it will be to achieve your financial goals.
- Compounding occurs when your earnings on an investment are added to the amount you originally invested.
- As your total investment grows larger, your earnings have the potential to grow larger, too.
- How fast an investment grows over time depends on the rate of return you earn each year.

**Tip!**
Get started investing as early as you can! Many investors lose out because they wait too long to get started or invest too little. If you don't start investing early, it can be difficult to catch up.
The Rule of 72 Activity (Instructor Copy)

_Instructor note:_
Photocopy the activity handout on the following page. Divide the class into pairs and distribute the activity handout.

Say to participants as you write the formula on a whiteboard/chalkboard or large piece of paper:

“Let’s say you have an investment that’s earning 8% per year. Start with the number 72 and divide it by the interest rate, eight. 72 divided by 8 equals 9. This means it would take about nine years for your original investment to double.”

Then, explain that you will be read three questions based on this formula. The first group to buzz in with the correct answer earns one point. If a team states a wrong answer, another team can steal.

**Instructions:**
Have your participants complete the math problems on the page using this formula:

\[
72 \div \text{interest rate} = \text{years it will take to double your investment}
\]

1. Take the interest rate of your investment.
2. Divide 72 by the interest rate.
3. The number you come up with is how many years it will take your original investment to double.

**Scenario 1:**
You have an investment that’s earning 4% per year. How many years will it take to double your investment?

Answer: ________ **18 years**

**Scenario 2:**
You have 10 years to invest your money. What interest rate will you need to have to double your money in that time?

Answer: ________ **7.2%**

**Scenario 3:**
Your investment earns 6%. How many years will it take to double that investment?

Answer: ________ **12 years**
The Rule of 72 Activity

72 ÷ interest rate = years it will take to double your investment

1. Take the interest rate of your investment.
2. Divide 72 by the interest rate.
3. The number you come up with is how many years it will take your original investment to double.

Instructions:
Listen to each scenario your instructor reads. Use the formula to come up with the correct answer.

Scenario 1:

Scenario 2:

Scenario 3:
Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Investing Basics lesson:
- Investing is putting money you’ve saved into things you think will increase in value over time.
- There are lots of possible investments. Examples include stocks, bonds and real estate.
- Buy investments when the price is low, then try to sell when the price is high. That’s how you make a profit.
- One big difference between saving and investing is that investing always involves risk.
- If the value of your investment goes up, you could earn more than you would in a savings account. But if the value goes down, you could lose some or even all of your money.
- Never invest money that you can’t afford to lose.
- Any time you sell an investment for a profit, your earnings are called capital gains. If you lose money when you sell your investment, you’ll have what’s called a capital loss.
- With investing, there’s always a risk of losing some or even all of your money if the investment doesn’t perform well.
- The greater the risk of a loss on an investment, the greater the potential return. The lower the risk of loss, the lower the potential return.
- Return on investment (ROI) is the money income that an investment produces for the investor.
- Any time you sell an investment for a profit, your earnings are called capital gains. If you lose money when you sell your investment, you’ll have what’s called a capital loss.

Additional Activities
These activities are designed to extend the new concepts presented in the Save, Invest and Build Wealth topic. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.
- Go online and find different investing and compound interest calculators. Experiment with different amounts of money that you think you could comfortably save. Then use these figures to see how fast your money will grow over time.
- Research stock prices of some of your favorite companies. Find out what the stock prices were for these same companies a year ago, five years ago or ten years ago.
- Make a list of companies that you think you could invest in and will do well over the long term.
Lesson 4: Getting Started With Investing

This lesson shows participants if they’re ready to invest. Participants learn how to get started with investing. The lesson introduces valuable guidelines for smart investing: deciding when to buy and sell, diversifying to reduce risk, and more.

Learning Objectives
After completing this lesson, participants will be able to:

• Determine whether or not they’re ready to invest.
• Identify the steps they should take to get started with investing.
• Follow guidelines for smart investing.

Start the Discussion
To start a discussion with your participants, ask some open-ended. Here are some examples you could use:

• When do you think you can start investing?
• How much money do you think you’ll need before you can start?
• Where did you come up with that figure?
• If you are ready to invest, what is your first step?

The Basics

• Before you start to invest, be sure you’re prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job.
• There are specific steps you should take before investing.
• There are specific guidelines you can follow to invest wisely.
Scenario Activity: Jack Considers an Investment (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below. Then have them share similar experiences they may have had.

Instructions:
Have participants read Jack’s story. Based on his situation, have them choose the best possible option. Then, for each option, have them write a few sentences about why the option was right or wrong for Jack’s situation.

Jack’s Story
Jack’s trying to decide whether to invest in his friends’ new start-up company. He is off to a good start financially. He has minimized his expenses, built up his savings, and started to invest. Some friends have a fantastic new business idea and have asked him to invest, but they don’t have a business plan. He’d have to quickly sell the investments he’s made so far to give them the money. His investments are low-risk but haven’t earned much. Is this his chance for a huge profit? What should he do?

1. Yes! The whole idea of investing is to make a profit. He shouldn’t pass up this opportunity.
   Consequences: Jack believes in his friends. He invested everything with them, even paying fees and taking a loss on investments he sold. He’s not sleeping well, though. This investment is too high-risk for him. His friends have already spent most of his money, so it’s not like he can get it back right now.
   Feedback: Not good advice. It’s important to decide how much risk you’re comfortable with. Overreacting to “hot” investment opportunities can put you in danger of losing your money. Dividing your money between different types of investments, called diversifying, is a good way to reduce your risk.

2. No, it’s too risky. He should get a cash advance on a credit card and give them 50% of the amount.
   Consequences: It was a good idea to keep his other investments, even paying fees and taking a loss on investments he sold. He’s not sleeping well, though. This investment is too high-risk for him. His friends have already spent most of his money, so it’s not like he can get it back right now.
   Feedback: Keeping his investments was a good idea, but the cash advance was definitely not! This advice put both Jack’s money and his credit at high risk with no guarantee of reward.

3. No! It’s too risky without a business plan. He needs to “wait and see.” This business may fail.
   Consequences: This seemed like a ‘once-in-a-lifetime’ opportunity. But if something sounds too good to be true, it probably is. His friends are psyched, but they don’t even have a business plan yet. Jack should divide his money between different types of investments, companies, and industries.
   Feedback: Good advice! It may have been hard for him to take a pass, but Jack made the smart choice. He’s controlling the amount of risk he wants to take. Dividing his money between different types of investments, called diversifying his portfolio, is a good way for him to cut his risk.
Scenario Activity: Jack Considers an Investment

Instructions:
Read Jack’s story. Based on his situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Jack’s situation.

Jack’s Story
Jack’s trying to decide whether to invest in his friends’ new start-up company. He is off to a good start financially. He has minimized his expenses, built up his savings, and started to invest. Some friends have a fantastic new business idea and have asked him to invest, but they don’t have a business plan. He’d have to quickly sell the investments he’s made so far to give them the money. His investments are low-risk but haven’t earned much. Is this his chance for a huge profit? What should he do?

1. Yes! The whole idea of investing is to make a profit. He shouldn’t pass up this opportunity.
   Should Jack choose this option? Why or why not?

2. No, it’s too risky. He should get a cash advance on a credit card and give them 50% of the amount.
   Should Jack choose this option? Why or why not?

3. No! It’s too risky without a business plan. He needs to “wait and see.” This business may fail.
   Should Jack choose this option? Why or why not?
Ready To Invest? Activity (Instructor Copy)

Instructor note:
Begin a discussion by asking questions such as:

- Who believes they are ready to invest? Why?
- Is there such a thing as a “good time” to invest? When would that be?

Then, pose the following question to your participants. Ask them to write down the letters of the correct answer(s). Identify the correct answers and continue the discussion using the key points.

Which two of the following should be in place before you start investing?

A. Enough savings to cover two to six months of expenses
B. Debts low enough that you can comfortably pay them
C. Own a home with a 30-year mortgage loan
D. You’ve repaid all of your loans on time and in full
E. No more than $1,000 in credit card debt
F. Enough savings to cover 9 to 12 months of expenses

Key points:

- Before you start to invest:
  - Be sure you’re prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job.
  - Consider working with professionals. Ask at your financial institution—many offer investment products and guidance.
How to Get Started (Instructor Copy)

Instructor note:

Begin a discussion with your participants by asking questions such as:
- What are some things you should do before you begin investing?
- If you're not ready to invest right now, what do you think is holding you back?
- How much risk can you handle?

Then, continue the discussion by focusing on these five steps.

Want to start investing? Here are the first five steps to take.

<table>
<thead>
<tr>
<th>Cover your expenses</th>
<th>Make sure your expenses and debts are low enough that you can comfortably pay them. Set aside enough money in your savings account to cover two to six months of expenses.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set goals</td>
<td>Make an investing plan. List your financial goals and how much time you have to reach them. (For more about setting financial and life goals, see the topic Getting Started.)</td>
</tr>
<tr>
<td>Weigh risk</td>
<td>Determine how much risk you are comfortable taking.</td>
</tr>
<tr>
<td>Determine mix</td>
<td>Decide on the mix of investments you want to maintain in order to reach your goals.</td>
</tr>
<tr>
<td>Decide how much $</td>
<td>Determine how much money you will invest every month and make a commitment to follow-through.</td>
</tr>
</tbody>
</table>

Tip! Always research before you invest. Base your decisions on facts, not emotions. Visit Web sites that offer investment information and news. Consider seeking guidance from investing professionals.

Next, help participants realize they should always research investments before they buy.
### Guidelines for Smart Investing (Instructor Copy)

**Instructor note:**
Consider inviting a financial professional/advisor in to talk to the class.

Photocopy the activity handout on the following page. Begin a discussion with your participants by asking questions such as:
- What do you think are good guidelines for investing?
- What does buy low and sell high mean?

Then, distribute the activity handout and continue the discussion by focusing on these key points.

<table>
<thead>
<tr>
<th>Guidelines</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Buy low and sell high</strong></td>
<td>Selling an investment for more than you paid is how you make a profit. The idea is simple, but it’s a challenge to do it consistently. The historical trend of a stock’s price may help indicate what might happen in the future, but there are no guarantees. Try to avoid buying a stock at its high point. Look for opportunities to buy stocks with good potential at low prices after a major market down turn.</td>
</tr>
<tr>
<td><strong>Diversify</strong></td>
<td>Divide your money among different types of investments to reduce your risk. Have a balance of different investment types in many companies and industries.</td>
</tr>
<tr>
<td><strong>Buy and hold</strong></td>
<td>Some investors overreact to news items or “hot stock tips.” They start trading all the time, buying and selling investments quickly in an attempt to make fast gains. These strategies rarely work and can jeopardize your money. Stay objective and focus on the long term. Be an investor, not a gambler. Avoid the impulse to react to sudden changes in the market or to buy the latest hot stock.</td>
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<td><strong>Decide when to sell</strong></td>
<td>A key to successful investing is deciding when to sell investments that are doing poorly as well as those that have increased in value. To cut your potential losses and maximize your gains, consider setting strict guidelines for yourself regarding the specific price, either high or low, at which you will sell. Review your portfolio on a regular basis to see which investments have significantly increased in value, which have dropped, and whether the time to sell is now.</td>
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<td><strong>Pay attention to costs</strong></td>
<td>Taxes, fees, inflation, and other costs can all affect your return on an investment. It’s wise to consult with an investment professional and your tax adviser regarding the best way to minimize these costs.</td>
</tr>
<tr>
<td><strong>Keep track</strong></td>
<td>Whether you invest online or through a professional, it’s important to keep track of your investments. A fast and convenient way is through online account access offered by many investment brokerage companies. This service allows you to view balance and transaction information, transfer money, contact customer service, and more. It’s usually provided for free.</td>
</tr>
<tr>
<td><strong>Finally, stick with your plan</strong></td>
<td>Periodically review your investing plan so that you don’t lose sight of your goals. Adjust your portfolio as needed to maintain the mix of investments you want at your target level of risk.</td>
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</tbody>
</table>
## Guidelines for Smart Investing

<table>
<thead>
<tr>
<th>Guidelines</th>
<th>Details</th>
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</table>
Lesson Summary

_Instructor note:_
_Summarize this lesson by reviewing these key points with your participants._

Key points from the Getting Started with Investing lesson:
- Before you start to invest, be sure you’re prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job.
- There are specific steps you should take before investing.
- There are specific guidelines you can follow to invest wisely.
- Be alert to “get rich” investment scams you receive online or in the mail.

Additional Activities
These activities are designed to extend the new concepts presented in the Getting Started with Investing lesson. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.

- Try to accomplish the two things you should have covered before starting to invest (have enough savings to cover two to six months of expenses and repay all your loans on time and in full), then make an appointment to talk with a financial professional about getting started with investing.
Lesson 5: How to Build Wealth

In this lesson, participants learn that wealth is a set of resources they can use to create and take advantage of life's opportunities.

Learning Objectives
After completing this lesson, participants will be able to:

• Define the wealth-building pyramid to help build wealth.
• Use the three pillars of wealth building to determine their wealth disbursement.

Start the Discussion
To start a discussion with your participants, ask some open-ended questions.

• In your opinion, what's the difference between wealth and having a lot of money?
• What are some things you can do to begin to start building wealth?
• Give an example of a person who has built wealth (not through inheritance, etc.)? What traits does this person have?

The Basics

• “Having money” and “building wealth” are really two different things.
• Having income is great, but that money goes into your pocket and right back out.
• Wealth is a set of resources—savings, property, investments—you can use to create and take advantage of life's opportunities.
• Building wealth usually doesn't happen overnight, or in a year, or even three years. It's a series of steps that you take over time.
• The steps are simple to explain, but a lot harder to do. You have to discipline yourself to make wealth-building a lifelong pattern. If you do, you'll keep getting better at it as time goes on.
Instructor note:
Photocopy the activity handout on the following page. Instruct your participants to label the diagram as you walk through each stage of wealth building and take notes in the space provided.

<table>
<thead>
<tr>
<th>Cash Flow (Foundation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>You must consistently generate enough income to handle month-to-month expenses and have enough savings set aside to cover at least two months, and if possible three to six months of living expenses, in case of a financial emergency.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Next, begin to invest in assets—investments, such as real estate or stocks. These investments will hopefully appreciate in value over time and allow you to retire at some point in the future with a comfortable lifestyle.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your estate is the wealth you’ll pass on to your family. If you’re a business owner, this could include your business.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Legacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>These are your legacy goals, or your philanthropic goals—the many positive ways you might share your wealth by giving back to your community.</td>
</tr>
</tbody>
</table>

Remember that your wealth-building pyramid needs a solid foundation—a foundation you provide by being a good money manager, establishing credit, and managing your credit wisely.
Topic 4 — Save, Invest, and Build Wealth

The Wealth-Building Pyramid Activity

Instructions:
Label the diagram and take notes in the space provided as you listen to the discussion.

Cash Flow (Foundation)

Assets

Estate

Legacy

Remember that your wealth-building pyramid needs a solid foundation—a foundation you provide by being a good money manager, establishing credit, and managing your credit wisely.
The Three Pillars of Wealth-Building (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct your participants to label the diagram and take notes as you lead the discussion.

The Three Pillars of Wealth-Building

<table>
<thead>
<tr>
<th>First Pillar</th>
<th>Second Pillar</th>
<th>Third Pillar</th>
</tr>
</thead>
<tbody>
<tr>
<td>The first pillar of wealth building is “Real Property Assets” (your personal residence and investment real estate) because in general, real estate appreciates in value. And once you own a home, you gain the potential to tap into your home equity, which means you may be able to borrow money using your home as security. Home equity gives people financial flexibility and options.</td>
<td>The second pillar is investments—for example, a retirement account where you have stocks and bonds.</td>
<td>And the third pillar, for many people, is entrepreneurship—owning a business of your own.</td>
</tr>
</tbody>
</table>

Tip!
For most people, 2/3 of family wealth is in the family home. Home equity can be a source of capital for all your wealth-building goals, and a home can be a significant legacy for the next generation.
The Three Pillars of Wealth-Building

Instructions:
Label the diagram and take notes as you listen to the discussion.

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Tip!
For most people, 2/3 of family wealth is in the family home. Home equity can be a source of capital for all your wealth-building goals, and a home can be a significant legacy for the next generation.
Homeownership: Benefits & Realities (Instructor Copy)

**Instructor note:**
Photocopy the activity handouts on the following two pages. Divide the class into two groups and have them create lists of the benefits and realities of owning a home. Have participants share their lists and write their findings on the whiteboard/chalkboard or large piece of paper. Then, distribute the completed handout and lead a discussion based on these key points.

**Instructions:**
Have your participants write a list of benefits of owning a home and a list of the realities of owning a home.

<table>
<thead>
<tr>
<th>Benefits of Owning a Home</th>
<th>Realities of Owning a Home</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A place of your own</strong></td>
<td><strong>Ongoing costs</strong></td>
</tr>
<tr>
<td>• Owning a home is an opportunity to settle down and gain a sense of belonging in a community.</td>
<td>• Homeownership is a large, long-term financial responsibility.</td>
</tr>
<tr>
<td>• It can give you a sense of personal satisfaction to have a home of your own to share and enjoy with family and friends.</td>
<td>• If you don't want to commit to a mortgage, taxes, insurance, utilities, and maintenance—or if your future income is uncertain—owning a home may not be practical at this time.</td>
</tr>
<tr>
<td><strong>An investment in your future</strong></td>
<td><strong>Less easy to move</strong></td>
</tr>
<tr>
<td>• The value of your home can increase over time, making your investment grow.</td>
<td>• If you think you may need to move in the near future, buying a home may not be practical because selling it could take time.</td>
</tr>
<tr>
<td>• As you pay down your mortgage loan over the years, you can build ownership interest, called equity, which can offer financial flexibility under the right circumstances.</td>
<td>• If you buy a home and then have to move, you could end up paying for the home you already own, plus the added expense of a new home.</td>
</tr>
<tr>
<td>• Your home is also a legacy, financial or otherwise, for the next generation.</td>
<td><strong>Manage your housing payments</strong></td>
</tr>
<tr>
<td></td>
<td>• In some cases, monthly mortgage payments may be lower than rental payments.</td>
</tr>
<tr>
<td></td>
<td>• Many home loans, or mortgages, are fixed-rate. This means the amount you pay stays the same month after month, which can help you plan your spending.</td>
</tr>
<tr>
<td><strong>Tax benefits</strong></td>
<td><strong>Upkeep of the home</strong></td>
</tr>
<tr>
<td>• Most homeowners receive tax breaks, because interest paid on a home mortgage and real estate taxes are almost always tax deductible.</td>
<td>• You'll be responsible for all utility bills, home repairs, and maintenance, some of which can be costly.</td>
</tr>
<tr>
<td>• Consult your tax advisor regarding the deductibility of interest.</td>
<td>• You'll also be responsible for property taxes and homeowners insurance, costs that often increase over time.</td>
</tr>
<tr>
<td><strong>A financial stepping stone</strong></td>
<td><strong>Increased value not guaranteed</strong></td>
</tr>
<tr>
<td>• Paying your mortgage and other expenses on time and in full will strengthen your credit rating.</td>
<td>• While most homes increase in value over time, it is possible that your home could lose some of its value.</td>
</tr>
<tr>
<td>• Managing your finances responsibly helps to increase your financial strength and options.</td>
<td>• You could lose money if you sell it for less than what you paid for it.</td>
</tr>
<tr>
<td></td>
<td>• Even if values in your area remain steady or increase, if you don't keep your property well-maintained, it could decrease in value.</td>
</tr>
<tr>
<td><strong>Possibility of foreclosure</strong></td>
<td><strong>A financial stepping stone</strong></td>
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<tr>
<td>• In an extreme situation, if you couldn't make your mortgage payments, the lender could foreclose. This means you would lose ownership of the property.</td>
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<td>• Managing your finances responsibly helps to increase your financial strength and options.</td>
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### Homeownership: Benefits & Realities

**Instructions:**
In the spaces provided, write a list of the benefits of owning a home and a list of the realities of owning a home.

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</thead>
<tbody>
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<td><em>Example: A place of your own.</em></td>
<td><em>Example: Repairs and maintenance.</em></td>
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</tbody>
</table>


## Topic 4 — Save, Invest, and Build Wealth

### Homeownership: Benefits & Realities

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### Are You Ready? (Instructor Copy)

**Instructor note:** Photocopy the activity handout on the following page. Distribute to participants and instruct them to complete the checklist. After they’re done, begin a discussion by asking questions such as:

- Is owning a home important to you? Why or why not?
- What are some things you need to accomplish before you buy a home?
- Describe your dream home? When do you think you’ll be in a position to own a home?
- How many of you think you’re ready to buy a house right now?

**Instructions:**
Have your participants read each item in the checklist. If they can check “yes” to at least six of the items on this worksheet, they are probably in a good situation to consider buying their first home. If they are not ready yet, they should take the necessary steps to strengthen their financial picture.

<table>
<thead>
<tr>
<th>Yes √</th>
<th>No √</th>
<th>Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>I have a steady, reliable source of money coming in.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I’ve been employed on a steady basis for at least the last two years.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I pay my regular monthly bills, such as rent and utilities, on time.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I make regular payments on my debts (credit cards, car loans, etc.).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I can afford to continue to pay these debts plus pay a mortgage. (In general, mortgage costs should not exceed 28% of your gross income.).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I’ve researched how much my other expenses are likely to be—such as homeowners insurance, taxes, association dues, utilities, repairs, and maintenance—and feel confident that I can pay them.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I have some money saved for the purpose of buying a home.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I understand that buying a home is a major, long-term responsibility. I’m committed to fulfilling that responsibility.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I have time to take care of a house—including responsibilities like home repairs and yard work.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I’ve recently reviewed my credit report; I know my current credit score.</td>
</tr>
</tbody>
</table>

**Tip!**
As a homeowner, your monthly house expenses may be higher than what you paid in rent, but you’re investing in an asset that can help you build wealth and roots in a community.

**Instructor Note:**
Advise your participants to see Buying a Home in the Hands on Banking Adults course for much more about home buying.
Are You Ready?

Instructions:
Read each item in the checklist. If you can check “yes” to at least six of the items on this worksheet, you are probably in a good situation to consider buying your first home. If you are not ready yet, take the necessary steps to strengthen your financial picture.

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Tip!

As a homeowner, your monthly house expenses may be higher than what you paid in rent, but you’re investing in an asset that can help you build wealth and roots in a community.
Retirement Planning: Start Early! (Instructor Copy)

Instructor note:
Consider inviting a financial professional or a retirement specialist to come in and talk to the class.

Photocopy the activity handout on the following page. Begin a discussion with your participants by asking questions such as:

- When people retire, where do they get money to live on?
- Have you ever talked to your parents/grandparents about retirement planning or saving?
- What things do you think you can do now to start saving for retirement?
- When do you think you’ll be ready to retire (what age/year, etc.)?
- Then, distribute the activity handout and continue the discussion using these key points.

There are lots of options and it’s never too early to start planning ahead. Here are steps to create the kind of retirement you want.

<table>
<thead>
<tr>
<th>Create a strategy</th>
<th>Think about where and how you’d like to live in retirement. Get financial advice from your Human Resources (H.R.) Dept., financial planner, banker, tax advisor, insurance agent, and others.</th>
</tr>
</thead>
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<tr>
<td>Set a $ goal</td>
<td>Many experts recommend that you aim for 75–85% of your pre-retirement income after you’re retired. How much money you’ll want to have for retirement depends on the lifestyle you’d like to enjoy.</td>
</tr>
<tr>
<td>Consider 3 key factors</td>
<td>As you set your savings goal, remember that you don’t want to outlive your savings. Consider your cost of living, how many years you’ll be retired, and what your health care expenses are likely to be.</td>
</tr>
<tr>
<td>Be realistic</td>
<td>Don’t bet on the federal government’s Social Security program to fund your “dream” retirement. In December 2006, the average monthly benefit was $1,044. That’s just over $12,500 a year.</td>
</tr>
<tr>
<td>Use the 4% rule</td>
<td>Many studies indicate that for every dollar you want to withdraw annually during retirement, you should have at least $25 in assets set aside.</td>
</tr>
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Tip!
The length of your retirement may equal the number of years you were in the workforce. You may need to support yourself financially for a retirement that lasts decades!

Instructor Note:
Advise your participants to see Planning Your Future in the Hands on Banking Adults course for much more about retirement.

Next, your participants learn about the 4% Rule.
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Tip!

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### The 4% Rule (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. As you begin the discussion mention the bullet points below first. At this point, hand out the worksheet you’ve photocopied. Then, walk the participants through the example.

**Key Points:**
- Many studies indicate that if you want your retirement savings to last, you should withdraw no more than 4% to 6% of your savings each year.
- The exact percentage depends on many factors; including how long you live and how much income you receive from part-time work, social security, etc.

Here’s a formula to help insure that your retirement savings last as long as you do!

In this example:
- Jose wants $80,000 in annual income during retirement.
- Each year, he’s going to receive $30,000 from Social Security and a pension.
- To earn the remaining $50,000 a year on his investments (the difference between the 80,000 he wants and the 30,000 he will get), he needs to have a portfolio of at least $1.25 million dollars set aside by the time he retires.
- $50,000 is 4% of $1.25 million—hence the 4% rule.

#### The 4% Rule

<table>
<thead>
<tr>
<th>Desired retirement income:</th>
<th>$80,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security:</td>
<td>$20,000</td>
</tr>
<tr>
<td>Pension:</td>
<td>+ $10,000</td>
</tr>
<tr>
<td>Investment income needed:</td>
<td>$50,000</td>
</tr>
<tr>
<td>4% withdrawal rate</td>
<td>x 25</td>
</tr>
<tr>
<td>Total investment assets needed:</td>
<td>$1,250,000</td>
</tr>
</tbody>
</table>

If someone has $100,000 in savings and withdraws 4% a year, that’s just $4,000 a year. With $1,000,000 dollars in savings (at the same 4% withdrawal rate) the amount grows to $40,000 a year…which sounds like a much nicer retirement!

Here’s another way to look at it: Assuming a withdrawal rate of 4%, for every dollar you want to withdraw annually during retirement, you need to have $25 in assets set aside at the time you retire.
Topic 4 — Save, Invest, and Build Wealth

The 4% Rule

Key Points:
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Protect Yourself With Insurance (Instructor Copy)

**Instructor note:**
Consider inviting an insurance professional to talk to the class about this topic.

Photocopy the activity handout on the following page. Begin a discussion with your participants by asking questions such as:

- Who has their own car insurance? What type of coverage do you have? Do you understand all the components of it? Can you explain to the rest of the class in layman’s terms?
- Why is insurance so important to your financial future?
- Have any of you thought about your medical insurance for now or in the future?
- Then, distribute the activity handout and continue the discussion based on these key points.

Insurance can preserve wealth by protecting you from major expenses that you otherwise couldn’t afford.

<table>
<thead>
<tr>
<th>Basic insurance terminology</th>
<th>When you buy insurance, you receive an insurance policy, a document that spells out exactly what is and isn’t covered.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The covered items are called your benefits.</td>
</tr>
<tr>
<td></td>
<td>The amount you pay for insurance is called the premium.</td>
</tr>
<tr>
<td></td>
<td>When you file a claim, you submit bills of your costs to your insurance company.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Who pays what</th>
<th>If you file a claim, typically your insurance company will pay a portion of the costs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The amount of a claim that you must pay before the insurance company will cover the rest is called the deductible; the amount you pay toward each medical bill is called the co-pay.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>How deductible impacts premium</th>
<th>Typically, the higher the deductible, the less expensive the insurance premium.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>So it’s a good strategy to get a policy with the highest deductible that you can comfortably afford if you had to. This will minimize the cost of your policy.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>“Save” on health insurance?</th>
<th>If you’re young and healthy, you may try to save money by not buying health insurance.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>But with today’s high costs of medical care, taking your chances that you’ll stay healthy is a strategy that may have serious financial consequences.</td>
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<td>One serious illness has the potential to financially wipe out you—and your family.</td>
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<td>The younger and healthier you are when buying health insurance, the less expensive it’s likely to be.</td>
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### Protect Yourself With Insurance (Instructor Copy) (continued)

| Benefits of life insurance | • Consider life insurance regardless of your family circumstances or your age.  
|                           | • While its primary purpose is to ease the financial burden of an untimely death, it can be an effective tool for both asset protection and wealth accumulation.  
|                           | • Some types of life insurance can be used as a source of retirement income or to fund a child’s education  
| Before you buy            | • Check the “financial strength rating” of an insurance company.  
|                           | • This measures their financial soundness and how capable they are of handling the claims of their customers.  
|                           | • The highest rating is AAA, followed by AA.  
|                           | • Avoid companies without at least an A rating. You can research these ratings on the Web with companies including AM Best, Moody’s, and Standard & Poors.  
|                           | • The most reputable insurers receive consistently high ratings.  
| How much coverage?        | • Ask insurance professionals to suggest types and how much coverage you need.  
|                           | • A general rule: never insure something you can afford to pay for yourself.  

This is provided for informational purposes only and should not be construed as legal or financial advice. Please consult your legal or financial advisor for more information.

*Tip!*

Your credit score could impact how much insurance companies charge you in premiums. To learn more, see the topic *All About Credit.*
Protect Yourself With Insurance

Insurance can preserve wealth by protecting you from major expenses that you otherwise couldn’t afford.

| Basic insurance terminology | • When you buy insurance, you receive an insurance policy, a document that spells out exactly what is and isn’t covered.  
• The covered items are called your benefits.  
• The amount you pay for insurance is called the premium.  
• When you file a claim, you submit bills of your costs to your insurance company. |
|----------------------------|--------------------------------------------------------------------------------------------------|
| Who pays what              | • If you file a claim, typically your insurance company will pay a portion of the costs.  
• The amount of a claim that you must pay before the insurance company will cover the rest is called the deductible; the amount you pay toward each medical bill is called the co-pay. |
| How deductible impacts premium | • Typically, the higher the deductible, the less expensive the insurance premium.  
• So it’s a good strategy to get a policy with the highest deductible that you can comfortably afford if you had to. This will minimize the cost of your policy. |
| "Save" on health insurance? | • If you’re young and healthy, you may try to save money by not buying health insurance.  
• But with today’s high costs of medical care, taking your chances that you’ll stay healthy is a strategy that may have serious financial consequences.  
• One serious illness has the potential to financially wipe out you—and your family.  
• The younger and healthier you are when buying health insurance, the less expensive it’s likely to be. |
| Benefits of life insurance  | • Consider life insurance regardless of your family circumstances or your age.  
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• Some types of life insurance can be used as a source of retirement income or to fund a child’s education |
| Before you buy              | • Check the “financial strength rating” of an insurance company.  
• This measures their financial soundness and how capable they are of handling the claims of their customers.  
• The highest rating is AAA, followed by AA.  
• Avoid companies without at least an A rating. You can research these ratings on the Web with companies including AM Best, Moody’s, and Standard & Poors.  
• The most reputable insurers receive consistently high ratings. |
Protect Yourself With Insurance (continued)

| How much coverage? | • Ask insurance professionals to suggest types and how much coverage you need.  
|                    | • A general rule: never insure something you can afford to pay for yourself. |

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Tip!

Your credit score could impact how much insurance companies charge you in premiums. To learn more, see the topic All About Credit.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Articles: Life Insurance and Personal Insurance

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
The Big Picture: Your Financial Plan (Instructor Copy)

Instructor note:
Consider inviting a financial planner/advisor in to talk to your class.

Begin a discussion with your participants by asking questions such as:
• What is a financial plan?
• Do you think it's worth investing in a profession financial planner to help you create a financial plan?
• What types of things do you think are included in a financial plan?

Then, continue the discussion using these key points.

Key points:
• Seeing the big picture can help you reach your financial goals.
• Professionals can help you create your plan.
• Financial planning means creating a long-term vision and clear goals for the future you want.
• Creating a financial plan helps you see what you’re trying to achieve and how all of the major pieces of your financial world add up into one complete picture relative to your goals.
• Major pieces of your financial plan include your job or business; your spending plan; major assets you own; debts you owe; real estate; insurance; investments; estate planning for the next generation.
• Take advantage of professional advice. Some financial services companies will answer basic financial questions for free, or create a basic financial plan for as little as a few hundred dollars.
• You may have to pay for some planning services, but financial advice doesn’t have to be expensive.

Tip!
Paying for financial planning advice now can be a bargain if it helps you make smart financial choices that pay off in the long run.
Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the How to Build Wealth lesson:

- “Having money” and “building wealth” are really two different things.
- Having income is great, but that money goes into your pocket and right back out.
- Wealth is a set of resources—savings, property, investments—you can use to create and take advantage of life’s opportunities.
- Building wealth usually doesn’t happen overnight, or in a year, or even three years. It’s a series of steps that you take over time.
- The steps are simple to explain, but a lot harder to do. You have to discipline yourself to make wealth-building a lifelong pattern. If you do, you’ll keep getting better at it as time goes on.

Additional Activities
These activities are designed to extend the new concepts presented in the How to Build Wealth lesson. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.

- Use some example numbers and the 4% rule formula to calculate how much money you’ll need during retirement.
Instructor note:
*Summarize this topic by reviewing these key points with your participants.*

Key points from the Save, Invest and Build Wealth topic.
- Every time you get paid, make it a habit to set some money aside in savings. If you do, you’ll be less likely to spend it and your money will grow with interest. Plus you’ll be ready for emergencies and to make major purchases.
- Try to earn the most interest you can on the money you save. Remember that the amount of interest you earn will depend on which account you choose and the amount you keep in the account over time.
- When you’re financially ready, get started with investing. Consider using the guidelines you’ve learned to help manage your risk.
- Building wealth is all about investing in things that will hopefully go up in value over time. Whether it’s real estate or stocks, try to “buy low and sell high.” That’s how you make a profit.
- Consider creating your own financial plan. Looking at the big picture of your financial situation can help you get clear about your goals and how you’re going to reach them…including retiring some day.
Test Yourself (Instructor Copy)

Instructor note:
This short quiz can be used as a pre or post test with your participants to gauge their current knowledge on spending.

Photocopy the quiz on the next page. Distribute it to participants to test what they’ve learned about Spending Smart.

Instructions:
Have your participants answer these questions to test their knowledge.

1. The amount of interest you earn on money in your savings account will depend a lot on which three factors?
   a. The wind chill factor, the alignment of the stars and planets, and whether Mercury is in retrograde.
   b. The interest rate, how often you make deposits, and how the financial institution invests your money.
   c. The interest rate, how long you keep the money in your account, and how the financial institution pays the interest.
   d. The prime rate, your credit rating, and how you make the deposits (cash, check, or direct deposit).

2. The collection of investments you own is called your ____________________________.
   a. portfolio
   b. dividend
   c. profit margin
   d. liabilities

3. Many studies indicate that if you want your retirement savings to last, you should withdraw no more of your savings each year than ____________________________.
   a. 1–2%
   b. 4–6%
   c. 8–10%
   d. 10% of your age

4. To build wealth, try to focus on buying assets you think are likely to ____________________________ over time.
   a. depreciate
   b. negotiate
   c. appreciate
   d. initiate
Topic 4 — Save, Invest, and Build Wealth

Test Yourself

Instructions:
Answer these questions to test your knowledge.

1. The amount of interest you earn on money in your savings account will depend a lot on which three factors?
   a. The wind chill factor, the alignment of the stars and planets, and whether Mercury is in retrograde.
   b. The interest rate, how often you make deposits, and how the financial institution invests your money.
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   c. appreciate
   d. initiate
Topic 4 — Save, Invest, and Build Wealth

Appendix

Library Articles & Additional Topic Resources
Use these library articles as a discussion resource or a takeaway for your participants. Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Personal Goal Setting

Chances are, you’re working hard to “get ahead”…but where are you headed? What kinds of things would you like to do, have, and accomplish over the next few months or years?

You probably have goals in various areas of your life, such as career, finance, education, or fitness. Some of these may be short-term goals such as getting a promotion at work, buying new clothes, or going on a vacation trip. Others may be long-term goals—whether it’s buying a home, starting a business, or paying for college education.

Goals can guide you financially
Setting financial goals can help guide your approach to saving, investing, and managing your money in general. To determine your financial goals, Imagine your future:

- Where do you want to live? In what kind of home? In what sort of neighborhood?
- Will you have children (or more children)? How many?
- What career will you have?
- What will your lifestyle be like—both while you’re employed and in retirement?
- In what manner would you like to provide a legacy for the next generation and give back to your community?

Write down your goals
To reach your goals, it can be very helpful to write them down on paper as opposed to just thinking about them. Writing your goals can help you determine exactly what you want to accomplish, and by when. It’ll help you see what’s really important to you and where to focus your time and effort. That’s why writing down your goals is a great first step for moving your ideas from dreams to reality.

Use the worksheet below to describe your long-term, short-term, and immediate goals in different categories. Over time, as your personal circumstances change, your goals may change as well. Update your goals on a regular basis and during times of major change.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.
**Personal Goal Setting Worksheet**

As you determine your goals, consider what action steps you’ll need to take; what obstacles you may face and how you’ll address them; what resources you’ll need; and who can help you. Update your goals on a regular basis and during times of major change.

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**Immediate**

(next 6 months–1 year)

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**Short-Term**

(next 1–5 years)

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**Long-Term**

(next 6–10 years+)

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About Bonds

Corporations, governments and municipalities issue bonds to raise funds. In return they typically pay the bond owners a fixed interest rate. In this way, a bond is like a loan. As part of a diversified portfolio, bonds can help you manage market fluctuations and generate income.

What makes a bond price go up and down?

- Interest rates may be the most significant factor affecting a bond’s value. When interest rates fall, the market price of existing bonds rise because their fixed-interest rates may be more attractive in the market than the rates for new issues. Similarly, when interest rates rise, the market price of existing bonds with lower, fixed-interest rates tend to fall.
- Inflation may erode the purchasing power of interest income. Generally, bonds with longer maturities are more sensitive to inflation than bonds with shorter maturities.
- Economic conditions may cause bond values—particularly corporate bonds—to fluctuate. An economic change that adversely affects a company’s business may reduce the perceived ability of a company to make interest or principal payments.

How to invest in bonds

Bonds may be traded in the market just like stocks, and you will typically pay a broker a fee if you buy or sell a bond. There is, however, one exception; you may purchase U.S. Treasury securities directly through the Treasury Direct program of the Federal Reserve System, in which case you do not need a broker’s services and incur no fee beyond the bond’s purchase price.

Two other ways to purchase bonds that offer diversification are bond mutual funds and unit investment trusts (UIT).

Bond mutual funds sold through a brokerage firm may charge a sales fee, or “load.” No-load funds may be purchased directly from the fund company. You may also purchase a variety of load or no-load funds through most online brokerage firms. Some funds are sold on discount brokerage sites without a transaction fee, while others are subject to trading fees.

The information contained herein is being provided as-is and without representation or warranty. The enclosed information is not intended as legal, tax or financial planning advice. Any discussion of tax or accounting matters herein (including any attachments) should not and may not be relied on by any recipient or reader. The recipient/reader should consult his/her tax adviser, legal consultant and/or accountant for a statement of tax and accounting rules applicable to his/her particular situation and for all other tax and accounting advice.

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About Stocks

Buying stock means taking an ownership or equity stake in a corporation. If you are a shareholder, you own an undivided interest in the assets of the corporation and may be paid a proportionate share of the company’s earnings in the form of dividends.

Stocks are usually bought and sold in units called shares. A share’s value, or share price, rises and falls based on how much people will pay for a share. People will pay money for the stock if they think the company will be successful. If it is, its stock will increase in value.

The amount you pay per share is, at first, set by investment banks during a company’s initial public offering (IPO), and is determined by the company’s value. For example, if a $100 million company offers 10 million shares, its shares go for $10 each. But that’s just the starting point. The price of a share can go up and down over time.

Stocks are generally considered to be a riskier investment than bonds or cash. Stock prices tend to fluctuate more sharply—both up and down—than other types of asset classes. However, stocks can help you build long-term growth into your overall financial plan. History has repeatedly demonstrated that stocks, as an asset class, have outperformed every other type of investment over long periods of time.

Be sure to research a company before investing in its stock. You should understand its products or services, its market, as well as whether it has a sound balance sheet, cash-flow management, and competent directors and managers. You should also consider analysts’ projected earnings estimates.

What makes a stock price go up and down?
There are many factors, including:

- How the company offering the stock is doing: Good news from a company, such as a new product launch or exceeding quarterly financial projections, tends to make a stock’s price go up. Bad news, such as a product recall or lawsuits against the company, generally can cause the price to drop.
- World events: Major political shifts, natural disasters, wars and social unrest can all affect a stock’s price. When people are uncertain about what’s happening in the world, they’re less likely to take on the high risk associated with stocks, so less money is put into the stock market.
- The U.S. economy: When the government enacts policies that seem to help the economy, such as tax breaks to spur consumer spending, stock prices are apt to rise. Policies that may hurt the economy, such as the Federal Reserve raising interest rates, can cause stock prices to decline.
- Market conditions: When people are optimistic about the economy and investing more money, a bull market can occur. During this time, stock prices rise faster than usual and people experience positive returns on their investments. But when people are pessimistic about the economy, a bear market can ensue, which brings falling stock prices.
About Stocks (continued)

What makes a stock price go up and down? (continued)

- Supply and demand: A company offers a limited number of shares—that’s the supply. People who want to buy the stock create the demand. When demand is high and supply is low (because shareholders are not selling), the stock’s price goes up. When there is low demand and high supply, a stock’s price goes down.

If you want to be a savvy investor, you can’t just watch the ups and downs of your individual stocks (collectively known as your portfolio). You should also monitor the market’s overall performance.

Stock exchanges
Places where stocks are bought and sold are called stock exchanges. The Dow, S&P 500, and NASDAQ Composite Index are stock indexes that are used to measure the upward or downward trends of stock values. The Dow consists of about 30 very large U.S. companies. The S&P 500 is 500 of the largest publicly traded U.S. corporations. In order to be traded, a stock has to be listed on an exchange. Different stocks list on different exchanges. The stocks of approximately 3,200 companies are traded on the NASDAQ exchange.

There are a number of Web sites where you can check stock prices for free. Keep in mind that information from the stock markets is not posted in real-time. There may be a short time delay, often as much as 20 minutes. These sites usually feature other information that can help you make investment decisions, such as interactive charts and recent company news. Many daily newspapers also list the closing stock prices from the previous day.

Getting started
In order to buy or sell stocks, known as making trades, you must go through a licensed broker. As a first step, you need to set up a brokerage account by contacting a brokerage firm and filling out an application. Every time you buy or sell a stock, your brokerage firm will typically charge you a service fee.

You can invest independently using an online discount brokerage firm. These firms will give you access to research tools to help you decide what stocks to buy, but will not provide advice or recommendations. This helps to keep the service fees low. Alternatively, you can invest with the guidance of a professional broker who will monitor your portfolio and give advice on what stocks you should invest in—but this help typically comes with higher fees.

But before you invest in stocks, consider visiting one of the many Web sites offering tools to research, select, and track stocks.

How do you make money in the stock market?
There is no guaranteed method for making money with stocks. Making your investments pay off takes a lot of work. You need to follow the financial news, use the Dow and S&P 500 to watch market trends, and thoroughly research companies you want to invest in.
About Stocks (continued)

How do you make money in the stock market? (continued)
One way to earn money is to look for companies that pay dividends, which is a payment given to shareholders based on the company’s profit. The amount of your individual dividend payment is based on the number of shares you own. So if the dividend pays $5 a share and you own 250 shares, you’ll receive a dividend payment of $1,250. You can choose to keep the money or reinvest it to buy more shares of the company.

The basic goal is to buy low and sell high. The difference between your purchase price and your sale price is your capital gain—and that’s your profit.

While it may be tempting, don’t jump into buying a stock just because it looks cheap. Find stocks that are of good value, or even slightly undervalued (as recommended by your research), and buy as many shares as you can. Hold onto those stocks, watching their performance over time, and sell when the price is higher than what you paid for it. Sounds easy—but it takes strategy, diligence and time to master the technique.

Some investors use a strategy called dollar cost averaging, which can be implemented as a “constant dollar plan.” With this practice, dollar cost averaging means adding the same amount of money to an investment account on a regular basis. By doing this, you purchase fewer shares when the share price is high, and more when the price is low. This generally results in a lower average cost per share than purchasing a constant number of shares at the same periodic intervals. However, dollar cost averaging does not ensure a profit or protect against loss.

Keep in mind that you will pay taxes on all the money you make in the stock market, whether you earn it from dividends or from capital gains.

The information contained herein is being provided as-is and without representation or warranty. The enclosed information is not intended as legal, tax or financial planning advice. Any discussion of tax or accounting matters herein (including any attachments) should not and may not be relied on by any recipient or reader. The recipient/reader should consult his/her tax adviser, legal consultant and/or accountant for a statement of tax and accounting rules applicable to his/her particular situation and for all other tax and accounting advice.

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About Mutual Funds

A mutual fund is an investment that pools the money of many individual investors. This money is then managed by experienced professionals who can buy or sell a diversified or well-mixed number of stocks, bonds, or money market securities for the fund. As a mutual fund investor, you own shares in a portfolio made up of as many as several hundred different securities.

Mutual funds are designed to offer the individual investor diversification and professional money management, even with low investment amounts. Mutual funds may be an appropriate investment option to consider if you're a beginning investor, if you don't have a lot to invest, or if you want diversification in your portfolio.

How do mutual funds work?

- **A mutual fund pools money from its many investors to purchase securities for the fund’s portfolio.** As a result, investors typically own a portion of a portfolio that includes many more investments than they could afford to purchase individually. The value of the investor’s share of that portfolio increases or decreases based on the value of the investments in the portfolio.

- **Every mutual fund has a specific investment objective.** Most mutual funds invest in stocks, bonds, cash equivalents, or a combination of these. Within those categories, a stock fund may emphasize domestic or foreign stocks or stocks from a particular industry sector. A bond fund may concentrate on investments with either long- or short-term maturities, or on government or corporate securities.

- **A mutual fund distributes its income and capital gains.** As the fund buys and sells investments within its portfolio, it distributes any income received from stock dividends or bond interest to the shareholders along with any capital gains from the sale of securities.

How risky are mutual fund investments?

ALL investments involve risk. However, as with any investment, risk and rate of return are related. Generally, as the risk of an investment increases, the potential return increases as well. In order to become a successful investor, you must match the mutual fund’s risk level to your own risk tolerance and match your objectives with that of the fund (for example, selecting a fund with an objective of long-term growth if your target retirement date is 15 or more years away).

Be sure to read the prospectus before investing.

The prospectus tells you how the fund will invest, how you may purchase shares, how the fund will be administered, and what it will cost you in fees and other expenses.

The information contained herein is being provided as-is and without representation or warranty. The enclosed information is not intended as legal, tax or financial planning advice. Any discussion of tax or accounting matters herein (including any attachments) should not and may not be relied on by any recipient or reader. The recipient/reader should consult his/her tax adviser, legal consultant and/or accountant for a statement of tax and accounting rules applicable to his/her particular situation and for all other tax and accounting advice.

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Avoid Common Investing Mistakes

Here are some common sense guidelines to help you invest successfully and avoid common mistakes.

**Decide if you’re ready**
Most financial advisors recommend that you have enough savings on-hand to cover two to six months of expenses before starting to invest. That way, you’ll be prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job. Once you’ve built up enough savings—and your debts are low enough that you can comfortably pay them—you’re ready to consider investing.

**Start investing as soon as you can**
The earlier you start, the easier it will be to achieve your financial goals. Many investors lose out because they wait too long to get started or invest too little. If you don’t start early, it can be difficult to catch up.

**Understand the basics**
Before you actually invest any money, it’s important to understand the basics about different types of investments, such as stocks, bonds, and time accounts. One of the keys to success will be dividing your money among these types.

**Consider your risk-tolerance**
Investing involves taking some level of risk in exchange for potential reward. Consider your current financial situation and goals. Determine how much risk are you comfortable taking.

**Diversify**
Divide your money among different types of investments to reduce your risk. Have a balance of different types of investments in a variety of companies and industries.

**Have a plan**
Before you invest, create an overall plan of what you are trying to accomplish. Set financial goals and determine how much time you have to reach them. Taking your tolerance for risk into account, decide how much money you need to invest every month and the mix of investments you want to maintain.

**Research before you invest**
Research is critical to investing success. Always do research before investing. Most online brokerages offer research and financial news in addition to stock and mutual fund quotes. Base your decisions to invest on facts, not emotions. Be as objective as you can about the risks and potential rewards. View “hot tips” about investments with skepticism. Always do your research.
Avoid common investing mistakes (continued)

Buy low and sell high
Selling an investment for more than you paid is how you make a profit. The idea is simple, but it’s a challenge to do it consistently. The historical trend of a stock’s price may help indicate what might happen in the future, but there are no guarantees. When you research possible investments, experts recommend that you focus on the investment’s objective (in other words, whether the goal is to give investors income, growth, safety, or some combination of the three), risk profile, and how well it fits into your overall portfolio. Try to avoid buying a stock at its high point. Look for opportunities to buy stocks with good potential at low prices after a major market downturn.

Buy and hold
Some investors overreact to news items they read or “hot stock tips.” They start trading all the time, buying and selling investments very quickly in an attempt to make quick gains. These strategies rarely work and can put you in serious danger of losing your money. Stay objective and focus on the long term. Be an investor, not a gambler. Avoid the impulse to react to sudden changes in the market or to buy the latest hot stock.

Decide when to sell
One of the keys to successful investing is deciding when to sell investments that are doing poorly as well as those that have increased in value. Most professional investors set strict guidelines for themselves regarding the specific price, either high or low, at which they will sell. To cut your potential losses and maximize your gains, consider adopting the same approach. Review your portfolio on a regular basis to see which investments have significantly increased in value, which have dropped, and whether the time to sell is now. You may also want to consider the tax consequences of selling a particular asset at a particular time.

Pay attention to costs
Taxes, fees, inflation, and other costs can all affect your return on an investment. It’s wise to consult with an investment professional and your tax adviser regarding the best way to minimize these costs.

Keep track
Whether you trade online or invest though a professional, it’s important to keep track of your investments. A fast and convenient way is through online account access offered by many investment brokerage companies. This service allows you to view balance and transaction information, transfer money, contact customer service, and more. It’s usually provided for free.

Understand market and limit orders
Unlike most things you buy, the prices of most stocks change very frequently. This means you need to tell the broker, that is the person or company handling your transaction, the price you agree to pay. Market orders are filled at the price a stock is trading when the order is received. If the stock price is volatile that day, you might pay more than you planned to. With limit orders, you set the buy or sell price, but you run the risk of not getting your order executed. Review your broker’s trading guide before getting started to be sure you pick the order type that’s right for you.
Avoid common investing mistakes (continued)

Be accurate
If you trade online, make sure you type accurately. Check and double-check the order you type in. Have you entered the right stock symbol and number of shares? If you’re rushed or distracted, you could make a serious mistake.

Stick with your plan
Periodically review your investing plan so that you don’t lose sight of your goals. Adjust your portfolio as needed to maintain the mix of investments you want at your target level of risk.

The material provided above is for information only and is not intended to provide specific investment advice to any individual for any particular purpose. For advice related to your personal situation, you should consult an investment and tax professional.

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Life Insurance

Life insurance terminology

**Beneficiary:** The person or organization designated by a policy holder to receive the proceeds from an insurance policy.

**Policy proceeds:** The money that is paid to a beneficiary as a result of an insurance policy.

**Term:** The period of time for which insurance coverage is provided under a policy, usually 5 to 30 years.

**Life Insurance: Peace of Mind is Priceless**

There is nothing more reassuring than knowing your loved ones will be taken care of after you are gone. Often people are uncomfortable acknowledging that they need life insurance simply because they are uneasy thinking about the concept of death—especially in relation to their own. But while discussing death can be difficult, planning ahead and purchasing life insurance is one of the most loving ways you can provide for your family, friends and others you care about.

If you have significant financial obligations, a spouse or dependents, you should seriously consider life insurance. Without adequate life insurance coverage for yourself, your loved ones could be left swimming in a sea of debt after you are gone. The next time you sit down to pay bills with your partner, consider: Who would pay for your portion of the mortgage in the event of your death? What about your child’s activities, clothes, health care and possible college tuition? Life insurance provides a means to cover these expenses, in addition to medical bills, funeral costs, taxes and more. This type of coverage also allows you to leave a legacy in the form of an inheritance to your children or other beneficiary, such as a charitable organization, after your death.

There are two basic types of life insurance—temporary and permanent. Term life is considered temporary life insurance as it provides flexible, lower-cost coverage for people who need coverage for a period of time—generally from 5 to 30 years. Whole life insurance, on the other hand, is referred to as permanent insurance because it builds up a cash value and affords continuous protection for as long as the premiums are paid.

When compared to whole life insurance, term life insurance offers the most amount of protection for the least amount of money. Term life insurance can also be a less expensive option for families with limited budgets. The basic idea behind term life insurance is pretty simple: If you die during the time frame specified in your policy, your beneficiaries will receive your policy’s proceeds.
Life Insurance (continued)

Review Your Policy
Over the course of your lifetime, you may want to combine shorter- and longer-term policies to accommodate your family’s changing needs. To ensure you have enough coverage, review your life insurance policy with an insurance agent each time you make a significant change in your lifestyle—not just when your term expires or your policy is up for renewal. Here are some specific life events that may require an increase or decrease in your life insurance coverage:

- The birth or adoption of a child
- Marriage or divorce
- Buying a home or downsizing to a smaller residence
- Changing jobs

With Internet scams and mail fraud on the rise, it’s becoming increasingly important that you do your homework when dealing with unfamiliar insurance companies. If you receive a life insurance offer that sounds too good to be true, chances are, it is. Most insurance companies have financial strength ratings from independent organizations such as A. M. Best Company, Standard & Poor’s and Moody’s Investor Services. To verify insurers’ authenticity, look for companies with “A” ratings or better. Or, check prospective insurance companies’ complaint records with your state department of insurance.

It’s never easy to talk about dying—particularly your own death. But you may find that the subject of mortality is much easier to face when you know that your affairs are in order. In fact, many find great comfort in planning the legacy they will leave for loved ones.
Personal Insurance

Personal Insurance Terminology
Here are some commonly used terms you may encounter when exploring personal insurance.

**Agent:** A professional licensed by the state who represents one insurance company or several (commonly referred to as an independent agent), and sells insurance; commissions are paid by the insurance companies, whereas a broker's fees are paid by his or her customers.

**Assets:** Property owned by a policy holder including but not limited to money in savings or checking accounts, stocks, bonds and real estate.

**Broker:** A licensed insurance professional who works on behalf of buyers to find suitable insurance; fees are paid by the customers, whereas an agent receives commissions paid by the insurance companies it represents.

**Limit:** The maximum amount of money an insurance company will pay out for a covered loss, such as medical care or auto repair costs due to a covered car accident.

**Policy holder:** The individual who owns and controls an insurance contract.

**Premium:** The cost of insurance coverage for a specific risk provided by an insurer for a set length of time.

**Provider:** A company that supplies insurance; sometimes referred to as an insurance carrier.

**Rate:** The per-unit price of insurance; this amount is used when calculating premiums and is generally based on state regulations and historical losses for comparable risks.

**Risk:** A peril or event that could potentially cause loss to a policy holder.

Insurance: Protect All You Value
Designed to reduce financial losses, policy holders pay insurance companies premiums to cover personal property in exchange for financial protection against specific events, including fire, flood or theft. Insurance is essential because it protects you from loss. Without the protection that insurance provides, you may be vulnerable to risks that could destroy your financial stability, such as:

- The cost to repair or replace damaged or stolen items.
- Temporary relocation expenses if you should become displaced as a result of a storm or fire.
- Income lost when you can’t go to work because of an accident.
- Lawsuits and legal fees.

Make More Informed Decisions About Insurance
Before you ask yourself “Is insurance worth it?” consider how much it would cost to replace your personal property, home and other assets if you were to suffer a devastating loss, such as a fire, flood, car accident or home invasion. While insurance premiums may stretch your budget from time to time, their costs are relatively low when compared against the actual expenses involved with replacing everything you’ve worked hard to buy or build.
Personal Insurance (continued)

Make More Informed Decisions About Insurance (continued)
Choosing whether or not to have insurance isn’t always optional. Some types of protection, like auto insurance, are required by law. Insurance requirements vary from state to state, however, generally motorists who own, lease or drive a vehicle must be insured. Homeowners insurance is another example where coverage is mandatory; if you finance your home, your mortgage lender will require you to have homeowners insurance.

Get Expert Advice
Your protection needs are as unique as your fingerprints. Take your home, for example: While the design or structure of your house may look similar to your next-door neighbor’s, its contents are entirely distinct.

Since insurance plans vary from company to company, finding the precise amount of protection you need at a price you can afford can be challenging. However, if you work with an insurance agent, you could save time and money—especially if you bring your existing insurance policies and a list of questions to discuss, such as:

- Does the insurance company offer a multi-policy discount for bundling several different insurance policies (such as auto and homeowners) into one contract?
- What are my deductible options?
- What are my state’s specific insurance coverage limits?
- Am I eligible for discounts?
- Do I need to take out a special insurance rider to cover valuables such as art, jewelry or antiques?
- Can you compare several insurance companies for me?

Review Your Policies
Whether you are moving into your first new home or planning for retirement, review your policies frequently and fine-tune your coverages as needed through every stage of your life—not just at renewal. To ensure that you are getting the best rates and that your coverage is keeping pace with your needs, re-examine your policies when you:

- Get married or divorced
- Welcome a new baby to your family
- Send a child off to college
- Buy a vacation home or cabin
- Begin a home remodeling project
- Plan on retiring in the near future
- Make another significant change to your lifestyle

Knowing your home and belongings are properly protected against loss provides peace of mind.

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