




## Becoming a Millionaire:

Saving and Investing



## Starting a Savings Plan

“Getting rich is not a function of investing a lot of money; it is a result of investing regularly for long periods of time.”



Source: Gamble & Ferguson (2003), Personal Finance Seventh Edition, Houghton Mifflin, pg. 18

## Start As Soon As Possible ...

Annual Interest Rate	Age Investment Started			
	20	30	40	50
3%	\$185,440	\$129,924	\$72,919	\$37,198
6%	\$425,487	\$222,870	\$109,729	\$46,552
10%	\$1,437,810	\$542,049	\$196,694	\$63,545

## ... And Become A Millionaire!

Assuming: \$2000 annual contribution accumulated to age 65; used Future Value of Annuity Formula to compute

## Time IS On Your Side!

The miracle of compound interest:  
Interest *earning* interest

Example: \$100 @ 5% = \$105  
Earnings: \$5

With compound interest, in “time” 2:  
\$105 @ 5% = \$110.25  
Earnings: \$5.25

## Find Money to Save

**WATCH THE DAILY LEAKS!!**

Save \$5 a day (lunch, soda, snacks, etc)  
5 X 7 = \$35 a week  
35 X 4 = \$140 a month  
140 X 12 = \$1680 a year!!!  
**A LITTLE ADDS UP!!!**

## Save Regularly!

- Do it now
- Pay yourself first
- Use simple and creative ways to save
- Make saving a part of every spending decision
- Use a goal statement to plan

## Your Major Savings Goals

- Down payment on a house
- Down payment on a car
- Education
- Travel

## Types of Investments

- Savings/Share Accounts
  - Low interest earning account
  - Low risk
  - Easily accessible
  - First step in investing
  - Helps develop pattern of investing
- Online Savings/Share Accounts

## Types of Investments

- Money Market Deposit Accounts
  - Higher interest rate than savings
  - Easily accessible, but limited transactions
  - Low risk
  - Generally require a minimum balance
  - Banks and credit unions offer
  - Interest is taxable
- Money Market Funds
  - Offered by brokerages & mutual fund families
  - Not FDIC insured
  - Easily accessible

## Types of Investments

- Certificates of Deposit
  - Higher interest than savings accounts
  - Must leave money in for fixed time
  - The longer you leave it in the higher the interest rate
  - Available at banks and credit unions and insured
  - Interest is taxable

## Types of Investments

- Bonds
  - Loan to a corporation or government
  - Earns higher interest than CDs but return may be lower than for stocks
  - Government bonds less risky than corporate bonds
  - Can buy from employers, banks, and brokerages
  - The minimum may be more than you have
  - Returns are taxable
  - Can buy U.S. savings bonds online – [www.treasurydirect.gov](http://www.treasurydirect.gov)

## Types of Investments

- Corporate bonds
  - Investment grade bonds vs. “junk” bonds
  - Range in maturity dates
- Government bonds
  - Treasury bills (t-bills): 4, 13, and 26 week maturity
  - Treasury notes: 2 to 10 years maturity
  - Treasury bonds: 30 year maturity
  - Municipal bonds and other bonds

### Types of Investments

- **Stocks**
  - Buying a part of a publicly traded company
  - As profits increase value of stock increases
  - Highest potential rate of return
  - Highest risk
  - No limit on how long you have to invest or how much you could lose
  - Pay taxes on dividends and gains from appreciation
  - Available from stock brokers and online brokerages

### Types of Investments

- **Mutual Funds**
  - Investment companies pool money from lots of individuals to invest in stocks and bonds
  - Easy way to invest in a variety of stocks and bonds -- diversify
  - Depending on the type of fund, risk and rate of return varies
  - Can begin investing with relatively small amounts
  - Can purchase from mutual fund companies, brokerages, and online

### Criteria for Selecting Savings/Investment Products

- Yield
- Safety
- Liquidity
- Risk Tolerance
- Time Horizon

### Average Annual Investment Return

1926-2005\*

• Savings Accounts	2%
• Certificates of Deposit (1 yr)	4.5%
• Long - Term Bonds	5.92%
• Large Cap Stocks	10.36%
• Mutual Funds	9.14%
• Small Cap Stocks	12.64%
• Inflation	2.69%

### Time It Takes to Double Money

The "Rule of 72"

<b>Formula</b>	<b>Example</b>
$\frac{72}{\text{rate}} = \text{time}$	$\frac{72}{10\%} = 7.2 \text{ years}$
$\frac{72}{\text{years}} = \text{yield}$	$\frac{72}{10} = 7.2\%$

### Time It Takes to Double Money

- **Savings Account earning 2%**
  - $72/2\% = 36 \text{ years}$
- **Certificate of Deposit earning 4%**
  - $72/4\% = 18 \text{ years}$
- **Government Bonds earning 5.3%**
  - $72/5.3\% = 13.38 \text{ years}$

## Time It Takes to Double Money

- Common Stock earning 11.2%
  - $72/11.2\% = 6.43$  years
- Mutual Funds earning 9.14%
  - $72/9.14\% = 7.88$  years

## Personal Retirement Plans

- Individual Retirement Account (IRA)
  - An IRA is not a type of investment. It's a part of the tax code to encourage saving.
  - You make annual contributions that are tax *deductible*.
  - You set up the account and decide where to invest the money.
  - The maximum contribution if you're younger than 50 is \$6,000 (or your earnings – whichever is *less*) in 2019.
  - You have until April 15, 2020 to make your contributions for the 2019 tax year.

## Roth IRA

- You set up the account and decide where to invest the money.
- The maximum contribution for anyone younger than 50 is \$5,000 (or your earnings – whichever is *less*) in 2010.
- You have until April 15, 2011 to make your contributions for the 2010 tax year.

## Roth IRA

- A non-deductible IRA *but* the funds in the account grow tax-free.
- *Plus* you can withdraw funds (after five years) tax-free and penalty-free for other reasons – first-time homebuyer expenses or educational expenses



## Diversify

- Have a variety of investments, not just one type
  - Stock
  - Bond
  - Mutual fund
  - CD


## Getting Started

- Go to a financial institution
- Go online
- Use a financial planner, a full service broker or a discount broker
- Join an investment club




**For individual help contact:**


**The Peer Financial Counseling Program**  
(insert web address, phone number, and e-mail)




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