Saving and Investing

Print Course

Print Handouts

COURSE DESCRIPTION

Saving and Investing is a 60- to 75-minute course designed to develop the knowledge and skills that will enable learners to achieve their saving and investing goals. This instructor's guide contains more information than can be presented in the session. This additional content and information is included to deepen the facilitator's knowledge of the topic and to prepare them to answer learners' questions.

Facilitator information for an optional, shortened version of this course is provided at the end of the course content. The shortened version can be used when there is less than 60 minutes to facilitate the course or to customize a course to meet command needs.

LEARNING OBJECTIVES

Terminal: Upon completion of this course, learners should be able to understand the purpose and value of saving and investing, and evaluate and choose appropriate tools and techniques to build wealth.

Enabling:

- Learners will illustrate the effect of inflation using the eight examples in the *Has Inflation Affected You*? activity.
- During the *Which Tool Is It*? quiz, learners will demonstrate knowledge by correctly identifying 15 saving and investing tools.
- During the *Post-it Polling* activity, learners will demonstrate their recognition of saving and investing concepts and tools by choosing options in three scenario questions based on time horizon, risk tolerance and financial situation.

REFERENCES

Department of the Navy. (2005). *SECNAV Instruction 1754.1B: Family Support Programs.* Office of the Secretary of the Navy, Washington, D.C.

Department of the Navy. (2010). *OPNAV Instruction 1740.5B Change Transmittal 2, United States Navy Personal Financial Management (PFM) Education, Training, and Counseling Program.* Chief of Naval Operations, Washington, D.C.

Department of the Navy. (2009). *Command Financial Specialist Training Manual*. Commander, Navy Installations Command, Washington, D.C.

Bureau of Labor and Statistics. *U.S. Department of Labor*. Web. Sept. 10, 2015. www.bls.gov.

Downes, John, and Jordan E. Goodman. *Dictionary of Finance and Investment Terms*. 8th ed. Hauppauge, New York: Barron's Education Series Inc., 2010. Print.

Edelman, Ric. *The Truth About Money*. 4th ed. Washington: Georgetown University Press, 2003. Print.

Garman, E. Thomas, and Raymond E. Forgue. (2014). *Personal Finance*. 12th ed. Boston, MA: Cengage Learning. Print.

Goodman, Jordan E. *Everyone's Money Book*. 3rd ed. Fort Lauderdale, Florida: Kaplan Business, 2001. Print.

Keown, Arthur J. *Personal Finance: Turning Money into Wealth*. 7th ed. New York: Prentice-Hall. 2015. Print.

Quinn, Jane Bryant. *Making the Most of Your Money Now*. Revised. New York: Simon and Schuster. 2009. Print.

Shaw, Adam, and Marc Robinson. *Investing Basics.* New York: Dorling Kindersley Publishing. 2000. Print.

Stanley, Thomas J., and William D. Danko. *The Millionaire Next Door*. Reissue. Lanham, Maryland: Taylor Trade Publishing. 2010. Print.

Treasury Direct. Bureau of Fiscal Service, U.S. Department of Treasury. Web. Sept. 10, 2015. www.treasurydirect.gov.

USEFUL WEBSITES:

Bankrate.com (current rate information): www.bankrate.com

Military Compensation: http://militarypay.defense.gov

Military OneSource: www.militaryonesource.mil

Military Saves Campaign, Consumer Federation of America: ww.militarysaves.org

Saveandinvest.org, FINRA Investor Education Foundation: www.saveandinvest.org

COURSE PREPARATION

Handouts:

- *Compound Interest and Time*
- *Has Inflation Affected You?*
- *Investing Resources*
- *The Thrift Savings Plan*
- *Thinking About Investing?*
- *Which Tool Is It?*

Materials (vary depending on activities chosen):

- Whiteboard or chart paper
- Pens, pencils and markers
- Post-it Notes and blank paper
- *Saving and Investing* PowerPoint Slides
- Optional Excel file: Compound Interest and Time

SUMMARY OF LEARNER ACTIVITIES

- *Has Inflation Affected You?:* A short activity to illustrate the effects of inflation.
- *Which Tool Is It?:* A matching quiz used to review all of the savings and investment tools covered during the course.
- *"Post-it" Polling:* A group activity in which learners review content material and then plan options that will help them build a portfolio to increase financial security.

CONTENT OUTLINE

1. Welcome and Introduction (3 minutes)
    a. Agenda
2. Understanding the Basics (5 minutes)
    a. Starting Early
    b. The Effects of Compound Interest and Time
    c. The Financial Planning Pyramid
3. The Tools of Saving (15 minutes)
    a. Safety, Liquidity and Yield
    b. Types of Savings Accounts
    c. Saving Versus Investing
    d. Learner Activity: *Has Inflation Affected You?*
    e. Taxes
    f. Compounding
4. The Tools of Investing (15 minutes)
    a. Asset Classes
    b. Fixed-Income: Bonds
    c. Equity: Stocks
    d. Asset Lessons
    e. Mutual Funds
    f. TSP Funds
    g. Learner Activity: *Which Tool Is It?*
    h. The Stock Market
5. The Techniques of Saving and Investing (20 minutes)
    a. Pay Yourself First
    b. Participate in the Military Saves Campaign
    c. Maximize Any Tax-Deferred Investment Opportunities
    d. Make Regular, Steady Investments
    e. Learner Activity: *"Post-it" Polling*
6. Summary and Conclusion (2 minutes)
    a. Take Action

CONTENT MATERIAL

WELCOME AND INTRODUCTION

AGENDA

SLIDE 1

SLIDE 2

This course will explore how to use saving and investing to achieve financial security. We will start with a discussion of the basics, such as using compound interest and time to your advantage. Then we will discuss the different saving and investing tools and their uses. Finally, we will talk about some basic investing techniques to help you reach your goals and achieve financial security.

UNDERSTANDING THE BASICS

STARTING EARLY

How much wealth is enough? How much should a person save each month or year? What is a good goal? A few years ago, the head of the Social Security Administration suggested that the average middle-aged person today will need at least $500,000 of their own money to retire comfortably (in addition to Social Security benefits and any employer-provided pensions). Are you on track to reaching $500,000 by the time you retire? Did you know that the earlier you start to save and invest, the less you need to put away? Let's get right to work on the importance of starting early by looking at an example.

SLIDE 3

A 25-year-old investor would have to invest $79 per month at a rate of return of 10 percent – a total out-of-pocket expense of $37,920 – to have $500,000 at age 65. If the same investor delayed starting for 10 years, at age 35, he or she would have to invest a monthly amount of $221 – a total out-of-pocket expense of $79,560 – to get the same $500,000 at age 65. What if the investor delayed until age 45? He or she would have to invest $658 each month – a total out-of-pocket expense of $157,920 – to have $500,000 by age 65. (All examples assume a 10 percent long-term rate of return, with taxes deferred.)

What does this example show? The earlier you start to invest, the less you will have to save each month. This is the "magic" of compound interest and time. The sooner you begin to put money aside, the longer your money will be working for you. This is so important that it is almost impossible to overemphasize. Just like the key to building wealth is saving and investing, the keys to successful investing are simple: start early in life, be consistent and disciplined, and let compound interest and time work for you.

THE EFFECTS OF COMPOUND INTEREST AND TIME

SLIDE 4

SLIDE 5

SLIDE 6

SLIDE 7

SLIDE 8

Trainer's note: Distribute the *Compound Interest and Time* handout. If learners question the 10 percent rate of return on the handout, you can explain that it is an average return over time, including the effects of inflation. If you look at historical data from the Standard and Poor's 500 index, the average annual compounded rate of return (including reinvestment of dividends) from January 1980 to December 2014 was 13.3 percent. Even including the Great Depression, the average annual compounded rate of return from 1926 to 2014 was 12.14 percent (source: www.moneychimp.com/features/market_cagr.htm). And for more recent data, the average rate of return from 2004 to 2014 was 9.61 percent.

Note that Scenario D (below) is based on receiving the $30,000 Redux bonus at the 15-year point in an active-duty service member's career and investing all of it under the TSP installment plan. For further examples, you can use the Excel spreadsheet for this handout to show the differences in time and rate of return.

Compound interest, simply defined, is when the money you invest, makes more money. The following slides show four different plans to grow money. In Plan A, $3,000 is put away each year for six years (a total of $18,000 out of pocket) starting at age 21. Without ever saving another cent, if the money were left to grow at 10 percent per year with no withdrawals, the plan would amount to more than $1 million by age 65.

Plan B shows the result of a 10-year delay in the same investment. Rather than investing $3,000 for six years starting at age 21, this scenario starts at age 31. For the same investment, the total will end up being $403,898. That 10-year delay cost about $600,000!

Plan C shows what the investments would add up to if, at the 31-year point, the investor put away $3,000 a year every year up to age 65, a total out-of-pocket expense of $105,000. Will it equal Plan A? No, the return in this scenario would be $894,380.

Plan D shows investment of a $30,000 lump sum over three years ($10,000 per year) starting at age 36. The growth would amount to $477,335.

Some service members object to these projections. Objections include, "But I'll be dead by the time I'm 65!" Actually, financial planners are planning out to 100 years of age these days. Another common objection: "You can't get 10 percent anywhere that I know of!" Again, this is not true. Reasonable investment returns and where to get them will be discussed later in this course.

Earlier, a figure of $500,000 might have seemed impossible. After looking at these scenarios and how invested money, through the "magic" of compound interest and time, can grow into substantial sums, it clearly is possible (and easy if you start early) to reach twice that figure!

THE FINANCIAL PLANNING PYRAMID

SLIDE 9

With the Financial Planning Pyramid, building wealth can be easy if you follow a few simple steps. The Financial Planning Pyramid provides a simple and organized approach to achieving your financial goals. Let us take a look at the Savings and Investment levels of the pyramid.

Once your management "tools" are in place, there is another level to emphasize before you start investing – establishing savings. Although you can certainly save and invest at the same time, you should focus on establishing your savings, especially emergency savings, before you concentrate on the investment levels.

The Financial Planning Pyramid shows that a sound savings plan consists of three components. These do not actually need to be three separate accounts (although some people find it easier to keep the money separate that way), but it should be three separate "accountings."

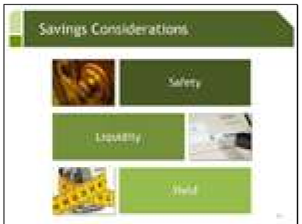
Reserve Fund: Money should be available in savings to cover expenses that are predictable but do not occur on a monthly basis, such as car insurance, regular maintenance, taxes, birthdays, anniversaries and holiday spending. Calculate the annual expense and divide it by 12, and put that amount aside monthly.

Emergency Fund: These are cash reserves set up in a safe, easy-to-access savings account to provide money for unexpected financial situations, such as emergency leave to visit a sick parent, car repairs, etc. You should strive to have one to three months of your monthly expenses and debt payments set aside in your emergency fund.

Goal-Getter Fund: The purpose of this fund is to provide savings for short-term goals (money needed in less than five years) such as buying a car, putting a down payment on a house or financing a special vacation.

THE TOOLS OF SAVING

Trainer's note: Check and regularly update the rates for all tools discussed. These can be found at www.bankrate.com and www.savingsbonds.gov. Current Consumer Price Index/rate of inflation can be found at www.bls.gov. Other current market data, such as the Standard & Poor's 500 index, Nasdaq and Dow Jones indexes, can be found at any financial website.



SLIDE 10

Safety, Liquidity and Yield

Where do you put your money when you are filling up your savings funds? Typically, you will use some type of savings tool. Before discussing the different types available, it is important to understand the three main factors used to evaluate the appropriateness of a saving or investing tool (or "product"). These factors are: safety, liquidity and yield.

Safety: When you save and/or invest $1, you want to be certain you at least will get your $1 back. Is the account insured? How safe is the principal? Some products guarantee you will get your money back, while others do not. You could lose some or all of what you invest.

Liquidity: How quickly and easily can you get to your money? Some money is available immediately, such as money in a savings or checking account. Other money could take a long time to get, such as equity in a real estate investment.

Yield (or rate of return): The yield is how much money your money earns. Some financial tools, such as a savings account, usually have a low rate of return, while others, like a growth stock, have the potential for high returns.

When considering the "S-L-Y" factors, it is important to know that you never can have all three working in your favor – there always will be a trade-off. The trade-off you are willing to accept will depend on your goals and your time frame for the money you have. For example, for your emergency fund, safety and liquidity will be most important, so you will have to sacrifice some yield.

Types of Savings Accounts

Trainer's note: The Federal Deposit Insurance Corporation protects the majority of banks. Credit union accounts have similar protection from the National Credit Union Administration. Both organizations are backed by the U.S. government and insure as much as $250,000 per account, per individual. This means that accounts are insured against a loss up to a balance of $250,000, even if the financial institution were to fail.

SLIDE 11

There are four options for savings: savings accounts, certificates of deposit, money market accounts and U.S. savings bonds. Each should be evaluated in view of safety, liquidity and yield.

Regular Savings Accounts

- **Safety:** Guaranteed up to $250,000 (per Social Security number), if federally insured.

- **Liquidity:** No restrictions on withdrawals.
- **Yield:** Generally carry lowest rates of interest. The current average rate is about 0.17 percent (as of January 2015).
- Go to your local credit union or bank to open a regular savings or share savings account.

Certificates of Deposit

A certificate of deposit is a deposit of a fixed sum of money for a fixed period of time.

- **Safety:** Guaranteed up to $250,000, if federally insured.
- **Liquidity:** Funds are invested for a fixed period, usually six months to five years. CDs may be liquidated at any time, but if it is before the maturity date, some interest may be forfeited.
- **Yield:** Higher than savings deposits; the longer the term, the higher the yield. The average rate of return is for a one-year CD is 0.36 percent (as of August 2015).
- Minimum deposits (usually at least $500) are required. These often are called share certificates at credit unions. Go to your local credit union, bank or brokerage to purchase a CD.

Money Market Accounts

A money market account is an interest-earning savings account offered by FDIC-insured institutions, with limited transaction privileges.

- **Safety:** Safe but may not be federally insured, depending on where the account is maintained. A money market account at a bank or credit union should be insured up to $250,000 per account. A money market account held at a brokerage or through a mutual fund typically will not be insured.
- **Liquidity:** Generally, there are no restrictions on withdrawals. Money market accounts may have a large minimum deposit required, a required minimum balance, fees for withdrawals and/or limited check-writing privileges.
- **Yield:** Generally low but higher than regular savings. The yield varies with changes in interest rates. Money market accounts may be attractive if rates are rising rapidly. The current national average rate is 0.39 percent (as of July 2015).

- Go to your local credit union, bank or a brokerage to open a money market account. Remember that many brokerages may help you open a money market fund account, which will not be insured. For savings purposes, an insured money market account is appropriate.

SLIDE 12

U.S. Savings Bonds

U.S. Savings Bonds are issued by the Department of the Treasury at face value and a fixed rate of return. The once-familiar EE paper bonds are no longer issued, though existing paper bonds may still be redeemed.

- **Safety:** Guaranteed by the U.S. Treasury.
- **Liquidity:** Can be redeemed after 12 months but are subject to a three-month interest penalty if held for less than five years.
- **Yield for Series EE bonds:** A fixed rate of return determined twice a year. The current rate is 0.30 percent (through October 2015).

Individuals can purchase savings bonds by establishing a TreasuryDirect account with the U.S. Department of Treasury and making purchases directly or through allotment. The minimum investment is $25.

Saving Versus Investing

SLIDE 13

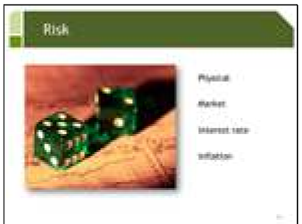
After working on the Management Level of the Financial Planning Pyramid, savings becomes the next critical step toward financial security. Do not start an investment plan until you have a solid emergency fund for a safety net. However, for long-range goals, it is important to get a better rate of return than is available with savings tools, and it is here that we move up the pyramid to look at investment options.

How does investing differ from savings? They differ in the time frame in which the money is needed, in the higher risk associated with investment tools, in the effect of inflation and taxes on investment earnings and in the significant effect of compound interest and time.

Time Frame

As discussed earlier, it is most appropriate to use savings tools for short-term financial goals – money to be used in five years or less. If the money is needed for a goal in five or more years, investment tools that offer the potential for a higher yield are the best option. This is because in the short term, money that is placed in investment tools is subject to market fluctuations and the investor has a higher risk of losing money. The longer your investment horizon (the distance from making the investment to using the investment), the better your ability to lower some of the risk of market fluctuations.

Risk



SLIDE 14

There is risk involved in every type of investment tool. These risks differ, depending on what investment product is used. Many people never invest their money because they are afraid of losing any of it – they do not want to take on any risk whatsoever – so they keep all of their money in a low-earning savings tool. Unfortunately, doing that may mean they never will achieve their financial goals because they never take advantage of the bigger earnings available in the investment market.

Some risk can be minimized through diversification (not putting all of your money in one investment type), which will be addressed later. Some risk also can be minimized by investing for the long term, as discussed above. The riskiest thing you can do with your money is to do nothing at all. Risk is not something to be feared but is something to be managed.

Knowledge of investing will help you manage risk. Among the most common types of risk are:

- **Physical risk:** Theft, loss of principal.
- Market risk: The ups and downs of the stock market. This is what most people consider when they weigh the risks of investing. If an investment loses value, it reduces your potential earnings. However, market risk often is reduced when money is in a sound investment over a long period of time. Savvy investors often will invest more of their money when the market is "down" in value because they see it as a big sale, and what could be a better time to buy than when a sale is in progress?
- **Interest rate risk:** The price of some investments fluctuates with changes in interest rates, particularly fixed-income investments.
- **Inflation risk:** This is probably the greatest risk to your money over the long term. To keep ahead of inflation in your long-term savings/investments, you will need to accept a greater degree of other risks. An annual inflation rate of 3 percent will cut the value of your money in half in 20 years.

SLIDE 15

Inflation

Inflation is an increase in the cost of goods and services. Inflation means that what costs $1 today will cost more than $1 in the future; for example, $100 in 1985 had the same buying power as $221.78 in 2015 (30 years).

The current inflation rate is 0.2 percent (as of November 2015). Historically, the annual rate of inflation, also referred to as the consumer price index (CPI), has averaged about 3 percent over the past 100 years.

LEARNER ACTIVITY: ***Has Inflation Affected You?***

Time: 5 minutes

Materials: *Has Inflation Affected You?* Handouts

Procedure: Distribute the *Has Inflation Affected You?* handout. Ask learners to fill in the blank spaces for the prices of products in 1985. Allow about three minutes for completion and then poll the class for their responses to each item. Provide the correct answers:

- First-class stamp: 20 cents
- One dozen Grade A large eggs: 80 cents
- Extra-dry stick deodorant: $1.77
- Two-liter bottle of soda: 89 cents
- Ford Mustang: $6,885
- Movie ticket: $3.55
- Can of shaving cream: 66 cents
- Gallon of regular unleaded gasoline: $1.24

Discussion: This activity shows the effect of inflation on items we use in everyday life. Why does it matter? It matters because the cost of living rises every year. The purpose of investing is to get your money to increase in value even when the effect of inflation is taken into account. That means that if you do not earn at least the rate of inflation on your investment, then you are losing money every year.

SLIDE 16

TAXES

Along with risk and inflation, taxes become a bigger consideration when working with investment tools; therefore, they provide another difference between saving and investing. Taxes are calculated differently, depending on the type of investment account opened and the length of time the investment is held.

Regular Savings and Investment Accounts

Savings, investments and individual retirement accounts can affect your taxes. Money earned on these accounts is taxed as follows:

Savings: Earnings on your savings are taxed each year. If you earn interest or dividends on your savings and/or checking account, you will receive a statement from the bank or credit union at tax time indicating how much you earned. You must include it as unearned income on your IRS Form 1040, and you will be taxed on it at what is called your marginal income tax bracket (MITB), which usually is 15 percent or 25 percent for most military taxpayers. Typically taxes on savings are minimal, because earnings are minimal.

Investments: Earnings on your investments come in a couple of forms: dividends and capital gains. At the end of each year, tax statements are sent out noting the earnings on investments, and these earnings need to be included on tax returns.

Here is an example of how taxes on investment tools can work:

One share of stock is purchased for $50 and sold for $60. The difference between the purchase price and the selling price is called a "capital gain." In this example, the capital gain of $10 will be taxed based on how long the investment was held and on the investor's income-tax bracket. Taxes are due only if there is a capital gain. If the investment is sold for less than the purchase price, the difference is called a "capital loss." In some circumstances, these types of losses can be used to offset gains when paying income taxes.

Mutual funds, on the other hand, pass capital gains to the investor every year, regardless of whether shares are sold. This will be discussed later in this course. For now, be sure to keep all financial statements in order to calculate taxes due correctly.

Tax-Deferred Accounts

SLIDE 17

Tax-deferred accounts allow the investor to delay paying taxes on any earnings. They typically are used for retirement planning. Tax-deferred accounts include the Thrift Savings Plan; civilian retirement plans, such as a 401(k); and a "deductible" individual retirement account (IRA). An immediate benefit of these accounts is that the contributions made to them are deducted from paychecks before income taxes are calculated, so taxable pay is reduced. Special withdrawal rules apply to these types of accounts, and the money earned on them is taxed when it is withdrawn. Tax rates are at the investor's MITB at the time of withdrawal.

The Roth IRA is a type of after-tax account. The money put into a Roth IRA cannot be deducted from income before taxes, so the contribution is considered an "after-tax" contribution. All withdrawals (contributions and earnings) made after a specified period are not taxed. For more information on retirement plans, attend a *Retirement Planning* course at your local Fleet and Family Support Center (FFSC), or visit your Command Financial Specialist (CFS).

COMPOUNDING

SLIDE 18

The only way to overcome taxes and inflation is to put the power of compound interest and time to work with a long-term, disciplined investment plan. Here is one more example of how money can grow over time. Over 30 years, $100 saved monthly with no interest will equal $36,000. The same amount accumulating earnings at 5 percent will grow to about $84,091. This amount with a 10 percent rate of return grows to about $229,916. This example, along with earlier examples, shows again that the greater the rate of return and that the longer your money works for you, the more you eventually will earn. Compound interest can be a powerful force.

SLIDE 19

There is a difference, however, between what an investment can do on paper and what investors do in real life. Unfortunately, when some people see their money begin to add up, they feel a temptation to spend it. Using the above example, what if, after five years of saving, the investor decided to use the approximately $7,800 that had grown (at 10 percent) to buy a car? Continued investing at the same rate would grow only to $136,649 instead of the $229,916 if all of the money had been left to grow. In other words, you could say that the car did not cost you $7,800 but $93,276 when your account for the lost growth. The message: Save regularly, and leave it alone to grow.

THE TOOLS OF INVESTING

Trainer's note: Distribute the *Thinking About Investing?* and *Investing Resources* handouts to learners.

SLIDE 20

So far, this course has considered the magic of compound interest and time; the Savings level of the Financial Planning Pyramid; the differences between saving and investing; and some characteristics of both saving and investing tools, namely safety, liquidity and yield. Moving up the pyramid to the Investment levels, one can see that several tools are available to help us achieve our investment goals. Let us now explore some of the more popular and useful tools available.

SLIDE 21

Asset Classes

There are three main types of asset classes available to investors. An asset class is a group of securities that have similar characteristics, behave similarly in the marketplace and are subject to similar laws. The three are equities (stocks), fixed-income (bonds) and cash equivalents (money market instruments). Everything else is a combination of these three. When you invest in equity – when you buy a stock – you become an owner. When you invest in fixed-income – buy a bond – you become a lender. Fixed-income securities are also known as debt securities, but this is good debt, the type where people owe you money. A well-planned financial portfolio will have a combination of equities, fixed-income and cash, depending on investment goals, time frame and risk.

The Financial Planning Pyramid lists some of the better-known forms of equity and debt: bonds (fixed-income or debt); stocks (equity); mutual funds (explained below); hard assets (things you can touch), such as real estate, precious metals (gold or silver) and collectible items; and a few others. Several of these are worthy of a more detailed discussion because they are the best investment tools for service members and their families.

SLIDE 22

Fixed-Income: Bonds

Companies and governments issue bonds to fund their day-to-day operations or to finance specific projects. When you buy a bond, you are lending your money for a certain period of time to the issuer, be it General Electric or Uncle Sam. In return, bondholders get back the loan amount plus interest payments, which usually are distributed twice a year.

- Bonds represent money owed to the investor – an IOU.
- Companies and governments (i.e., local, state and federal governments) issue bonds.
- Bonds can be very safe (guaranteed by the U.S. government), have a high risk of default (if a company is heading toward bankruptcy, etc.) or fall somewhere in between. As an investor, you need to research the "rating" of a bond to ensure you buy only ones that match your risk tolerance.
- Bond returns have averaged between 3.5 to 5 percent during the past 86 years.
- Bonds are moderately liquid; however, you will not likely get money out of a bond the same day you need it.
- Bonds have a fixed interest payment, so they usually provide a reliable stream of income.

- Bonds typically are purchased through a brokerage.

Equity: Stocks

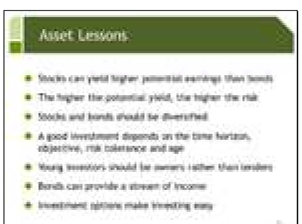
SLIDE 23

SLIDE 24

Common stocks are the classic equity investment. You can buy stocks in U.S. companies, foreign companies, large companies, small companies, companies that analysts believe will grow (growth) and companies that analysts currently believe are selling at a bargain (value).

- Common stocks represent ownership in a company.
- Returns come from dividends and/or an increase in stock prices; dividends represent profits passed to shareholders.
- Stocks have averaged an annual return of 10 to 12 percent for the past 88 years.
- Stocks can be purchased through a brokerage (online or in person), through an employer investment plan or even directly from the company that sells the stock through a dividend reinvestment plan (DRIP).
- Developing an individual stock portfolio takes research and time. Financial experts suggest having a well-diversified portfolio of 10 to 30 different stocks.
- Stocks normally are the best long-term way to beat inflation and represent the best opportunity for long-term growth of your money.

Asset Lessons



SLIDE 25

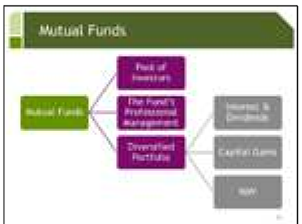
What should you be learning from this discussion of asset classes?

- It should be clear that an investor can have higher potential earnings by putting money in the stock market than by putting it in bonds or in a savings product.
- There always is the S-L-Y trade-off to consider. The higher the potential yield of an investment, the higher the risk (lower the safety). We already said you should be prepared to lose money, but you also should expect a decent rate of return if you have done your homework.
- A well-balanced portfolio will contain a combination of asset classes (stocks, bonds, cash), and the stocks and bonds chosen should be diverse as well.
- Assets are neither good nor bad, but there are good and bad uses. Which investment is best for an investor depends on the time horizon, objective, risk tolerance and age.
- For young people starting to invest, over long periods of time it usually is better to be an owner (stocks) rather than a lender (bonds). Stocks have a higher return

over extended periods than bonds and will provide the greater opportunity for long-term growth.

- Use bonds to receive a stream of income (useful for those in retirement).
- There are several options that make investing easy, almost to the point where it takes care of itself.

Mutual Funds



SLIDE 26

Mutual funds provide an easy alternative to selecting individual stocks or bonds. A mutual fund is a company that pools money from many investors and invests in the different asset classes or some combination of them. The combined holdings are called a mutual fund's portfolio. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate.

Mutual funds make money for shareholders in several ways:

- The investments the fund owns may pay dividends (stocks) or interest (bonds).
- When the manager sells an investment for a profit, there will be a capital gain.
- There will be an increase in share price (net asset value, or NAV) if the fund performs well.
- Dividends and capital gains must be paid regularly to the fund's shareholders. Many people choose to reinvest the dividends or capital gains into their account.

Whether they take the money or reinvest it, income tax still must be paid on the profits at the end of the year (unless the mutual fund is a tax-deferred account, which will be discussed later).

SLIDE 27

Mutual funds offer a number of advantages, including:

Professional management: An individual who invests in a mutual fund is hiring a professional money manager to research, select and monitor the performance of the portfolio.

Diversification: Mutual funds can offer automatic and immediate diversification. When you diversify, you put your money in a mixture of individual securities; if one performs poorly, the others may make up for it. Diversification helps spread the risk and also the opportunity. This can be difficult to do for a new investor developing a portfolio independently. It takes time, education and larger investment amounts. Mutual funds make diversification easy and cost-effective.

Liquidity: Shares can be redeemed at net asset value (minus any fees and charges) at any time.

Affordability: Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases or both.

SLIDE 28

There also are some disadvantages:

Costs despite negative returns: Sales charges, annual fees and other expenses must be paid annually whether or not the fund makes money. Also, there is the possibility of having to pay taxes even when the fund performs poorly, depending on when the shares were purchased.

Lack of control: The portfolio is determined by the manager, not the investor. The investor may not be able to determine the exact makeup of the portfolio at any given time.

Price uncertainty: Net asset value may not be computed until many hours after a redeem order has been placed. Mutual funds generally calculate their net asset value after the major U.S. exchanges close.

Not insured: Mutual funds are not federally insured like deposits in a bank or credit union. You can lose your money.

Complex records: Mutual funds can be complex when it comes to tracking purchases, sales and earnings over long periods of time. Keep all end-of-year statements.

Choosing a Mutual Fund

SLIDE 29

There are thousands of mutual funds available – how do you choose one? You can narrow the field by looking at the following:

Your goals and objectives: The objective of the fund should match your objective. For example, if you just want your money to grow, go with a large "growth" fund.

The fund's performance history: Although past performance is not an indicator of future performance, sometimes that is all the information you have available. Look for a fund with good returns over one, three, five and 10 years. The returns should be at least as good as other funds in its category and its benchmark index.

Management: The manager's performance history and length of time with the fund may help in the decision. The longer the manager has been with the fund, the more you can rely on getting the same returns the fund has earned in the past.

Costs: There are costs associated with buying mutual funds. You can buy "no-load" funds, where no commission is charged, or "load" funds. A load is a sales commission you will pay to the person who sold you the fund. Loads can be as high as 8.5 percent and can be assessed when the fund is purchased (front-load) or redeemed (contingent deferred sales charge or back-load). If you are going to buy a mutual fund with a load, be sure you are satisfied with the services of the person who is selling the fund. Funds also will have annual expenses (you will not see them taken out of your account, but they affect fund performance). All loads, expenses and fees are disclosed in the fund prospectus.

Services: Many mutual funds are part of a larger organization (called a "family" of funds) that will offer many funds with different investment objectives. Investors may be permitted to transfer money to a different fund at little or no charge as their goals or investment outlook changes. Some funds allow withdrawals by check-writing. Other services also may be available.

Buying a mutual fund: Mutual funds can be purchased through a full-service broker, discount broker, financial planner, a bank or credit union investment adviser, or directly and easily from a fund family via the phone and online. A financial service professional can provide a prospectus and an annual report for a mutual fund. When dealing with a fund directly, the prospectus will be sent when you request information on the fund. It also may be helpful to consult additional sources of information on mutual funds before investing. A wide range of information is available, and most of the information you need can be found easily by consulting rating services such as Morningstar or Lipper.

TSP Funds

Trainer's note: Distribute the *Thrift Savings Plan* handout to learners. The information about fund averages is current as of September 2015 and based on averages as of December 2014. Update this information annually for the presentation and on the PowerPoint slides. When the 10-year averages are negative, it is sometimes helpful to provide averages since inception to illustrate the value of the TSP investments.

SLIDE 30

A great way to understand how mutual funds and stock market indexes relate to each other is to consider the Thrift Saving Plan funds. Briefly, the TSP is a retirement savings and investment plan sponsored by the federal government. This plan allows for each member to invest a certain amount of money each month into one of 10 mutual funds. The majority of these funds have a portfolio designed to mimic the performance of some of the indexes just discussed.

G Fund: The Government Securities Investment Fund, which invests in special, non-traded U.S. Treasury securities guaranteed against any loss. The G Fund has a low level of volatility and a 10-year average return of 3.19 percent.

F Fund: The Fixed Income Index Investment Fund invests in government and corporate bonds and is designed to track the Barclays Capital U.S. Aggregate Bond Index. The F Fund has a low to moderate level of volatility and a 10-year average return of 4.89 percent.

C Fund: The Common Stock Index Investment Fund, which invests in stocks in the Standard and Poor's 500 Index. The C Fund has a moderate level of volatility and a 10-year average return of 7.72 percent.

S Fund: The Small Capitalization Stock Index Investment Fund, which invests in small- and medium-size companies in the United States and is designed to track the Dow Jones Wilshire 4500 Completion Index. The S Fund has a moderate to high level of volatility and a 10-year average return of 9.44 percent.

I Fund: The International Stock Index Investment Fund, which invests entirely in non-U.S. companies and is designed to track the MSCI EAFE (Europe, Australasia, Far East) Index. The I Fund has a moderate to high level of volatility and a 10-year average return of 4.58 percent.

Lifecycle Funds: Lifecycle, or L Funds, consist of five prepackaged portfolios with professionally determined asset allocation among the G, F, C, S and I funds. The L funds are professionally managed to meet your retirement needs. Assets are rebalanced daily, maintaining your portfolio mix. Assets are reallocated quarterly (redistributed among the available funds), creating a more conservative (less risk) mix with age. When a fund reaches maturity (reaches the year it is named for), it rolls to the next more conservative fund and a new fund is added.

LEARNER ACTIVITY: *Which Tool Is It?*

Time: 10 minutes

Materials: *Which Tool Is It?* handout.

Procedure: Distribute the quiz to learners. Allow them a few minutes to answer the questions and then go over the answers to review the information on the different tools.

1. ________ An account that pays a low rate of interest at a low level of risk and is covered by federal insurance up to $250,000.

2. _________ An interest-earning savings account that offers higher interest on deposits but may limit check-writing privileges and may not be insured.
3. _________ A deposit of a fixed sum of money for a fixed period of time.
4. _________ A safe way to save and invest, this tool is purchased from the U.S. Treasury at half its face value.
5. _________ An IOU with a fixed interest payment and a promise to repay within a specific period of time.
6. _________ Also known as "equity," this investment represents a share in ownership of a company.
7. _________ An investment that pools the resources of many investors and can invest in a variety of these tools.
8. _________ Investment tools that should be limited to a small percentage of your portfolio due to their risk level.
9. _________ The tool that has average returns of about 10 percent to 12 percent for the past 88 years.
10. _________The tool that has average returns of about 3.5 percent to 5 percent for the past 86 years.
11. _________ The tools that require you to pay a penalty if held for less than the specified term.
12. _________ These investments include precious metals.
13. _________The tool that offers the best way to achieve diversification.
14. _________ By contributing to this, a service member can build up tax-deferred money for retirement.
15. _________ When the money you invest, makes more money.

Answers:

1. Savings
2. Money market account
3. Certificate of deposit
4. U.S. savings bonds
5. Bond
6. Stocks
7. Mutual funds
8. Collectibles, options, etc.
9. Stocks

10. Bonds
11. Certificates of deposit
12. Hard assets
13. Mutual funds
14. Thrift Savings Plan (TSP)
15. Compound interest and time

SLIDE 31

The Stock Market

This would be a good time to discuss a term that is used frequently but may not be understood completely. When you hear "the market" on in the news, usually as in, "Today the market was ...," to what does the term refer?

The Dow: The Dow Jones industrial average tracks the daily gains and losses of 30 leading U.S. stocks from the New York Stock Exchange that are considered to be key players in the market and the economy. In other words, the Dow is an index. An index is a tool for comparing your investment's performance against other similar investments. It is a measurement of the combined average performance of groups of similar securities. For the Dow, they take the value of all 30 stocks, run a formula on it each day (like an average) and then track the changes in that number every day.

The Nasdaq: The Nasdaq is a computerized trading system on which stocks (typically smaller companies or high-tech companies) are bought and sold. The Nasdaq is not a bricks-and-mortar place. Every day, an average of all stocks traded on the Nasdaq is computed, and the change in that index, the Nasdaq composite index, is reported daily.

The S&P 500: The Standard and Poor's 500 is an index that tracks the top companies in leading U.S. industries. S&P is a financial research and publishing company. It is like the Dow, only it includes more companies, and in fact the components of the S&P 500 can comprise 70 to 75 percent of the economic base of this country.

The Wilshire 4500: This is an index of small-company stocks that reflects the rest of the market not included in the S&P 500.

The Wilshire 5000: This is an index of 5,000 companies designed as a measure of the entire U.S. stock market.

The Barclays Capital U.S. Aggregate Index: This is an index designed to measure both government and corporate bonds.

The NYSE: The New York Stock Exchange is an actual building in New York City where stocks are bought and sold. An index for all the stocks traded on the exchange is reported every day.

The AMEX: The American Stock Exchange is another brick-and-mortar building where stocks are bought and sold, and there also is an index computed on it. It is the second-largest options-exchange market.

The Nikkei: Short for the Nikkei 225, the Nikkei is an index of the stock market in Tokyo, Japan.

The Hang Seng: An index of the Hong Kong Stock Exchange, one of three in China.

The Shanghai Composite: An index of the stock market in Shanghai, China, located in a northeastern coastal city on the Chinese mainland.

The Shenzhen Stock Exchange Composite Index: An index of the Shenzhen Stock Exchange, which is physically located on the southeastern coast of the Chinese mainland.

The EAFE: Computed by Morgan Stanley, this index tracks the performance of about 1,200 non-U.S. companies representing 21 countries in Europe, Australia, New Zealand and the Far East.

When you hear the term "the market," it may be in reference to one of these elements or all of them. These indexes can be a valuable way of determining how your investments are performing. For example, if you hold stocks that are included in the S&P 500 and you want to see whether your portfolio returns are keeping up with the market in general, you would compare your portfolio returns with the S&P 500 for the same period. If you held a mutual fund with technology stocks, you would be better to compare the return on your mutual fund to the Nasdaq, as that would be a better comparative index. If most of your stock or mutual fund investments are in foreign companies, you would compare the rate of return on your portfolio with that of the EAFE index.

THE TECHNIQUES OF SAVING AND INVESTING

Pay Yourself First

SLIDE 32

Make sure you have adequate income to pursue a savings and investment plan and that you have adequate insurance. Save from the top of your spending plan versus the bottom (Do not save whatever is left after your expenses are paid; make your savings and investments a regular expense, too.). Set up a savings allotment—you will not miss it if you do not see it—or join the TSP.

Participate in the Military Saves Campaign

This program is sponsored by the Consumer Federation of America through an agreement with DoD. It is designed to encourage you to set your savings goals and to provide suggestions and information on how to make that happen. The goal of the program is to help service members and their families become financially prepared and put them on the path toward financial freedom. Contact your CFS, FFSC or go to www.militarysaves.org to enroll.

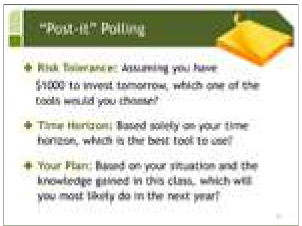
Maximize Any Tax-Deferred Investment Opportunities

When you have all of the necessary savings funds in place, decide how much money you can invest regularly and how much of that amount will go into retirement accounts. Put the maximum amount possible into any tax-deferred opportunities. These include the TSP, a 401(k) and an IRA. However, once money is put into retirement accounts, it cannot be withdrawn without a penalty. Therefore, it is wise to put some of your available dollars into retirement accounts and some into regular, taxable accounts.

Make Regular, Steady Investments

Earlier in this course, an example was used that showed the impact of spending money that had accumulated in an investment account. Even if you continue investing at the same rate, you never will catch up to what you could have had if you had not withdrawn your money early. Keep in mind that investment performance is not the same as investor performance. The stock market could be posting a return of 25 percent, but if you are not investing regularly, you will not see your investments grow.

If you have a lump sum of money to invest, research the options, consult a professional and identify the appropriate investment tool for your goals, time frame and risk tolerance. If you are like most small investors, you do not have a large sum of money and are investing a smaller amount on a monthly basis. Keep at it, and do not stop the flow of money into your investments.



SLIDE 33

LEARNER ACTIVITY: *"Post-it" Polling*

Time: 15 minutes

Materials: Post-it Notes, chart paper or whiteboard, markers, pens or pencils

Preparation: First, prepare three sheets of chart paper or sections of whiteboard by writing one of the following topics on each sheet/section: Risk Tolerance, Time Horizon, Your Plan. Next, divide each piece of chart paper or whiteboard section into four equal areas. Write the following subtopics in the four areas: Savings, Bonds, Mutual Funds, Stocks. See the following example.

Time Horizon	
Savings	Bonds
Mutual Funds	Stocks

Procedure: Distribute three Post-it Notes to each learner. Explain that they are going to use the Post-it Notes to "vote" on their choices for the following three considerations. For clarification, they are listed on the slide. Allow the learners about two minutes to "vote" by placing their Post-it Note in the section which corresponds with their choice for each consideration.

- Risk Tolerance: Assuming you have $1,000 to invest tomorrow, which one of the tools would you choose?
- Time Horizon: Based solely on your time horizon, which is the best tool to use?
- Your Plan: Based on your situation and the knowledge gained in this class, which will you most likely do in the next year?

Summarize the results and discuss various reasons why the results are similar or different. For example, you may note that based on time horizon alone, you might expect to see different or similar results to the risk tolerance scenario. Conclude by asking whether learners would like to share their reasons for their choices under "Your Plan."

SUMMARY AND CONCLUSION

TAKE ACTION

SLIDE 34

The investment markets never have been friendlier to small investors. Employer-provided retirement plans such as the TSP, the Internet and mutual funds make investing easy and effective. Remember: The riskiest thing you can do with your money is to do nothing at all. Inflation will guarantee that you will move away from building wealth as the value of your money erodes. So keep first things first and put your money where it can grow.

Determine financial goals: Set short- and long-term goals and determine which types of investments are appropriate for the time horizons associated with each.

Review your budget: Cut expenses, pay down your debt and determine how much you can put into savings and investments each month. Pay yourself, as you would any other bill – except pay yourself first!

Save money you do not have yet: Commit a portion of every future raise to your investment plan. You do not have it now, so you will not miss it when you invest it.

Establish emergency, reserve and goal-getter savings funds: Goals should include having three months of expenses in emergency savings and putting aside about 10 percent of net income for long-term goals.

Get help if you need it: Talk to trusted family, friends and co-workers and ask how they invest their money. Encourage members to meet with you or the FFSC financial counselor for additional information. Explore the possibility of hiring a financial professional (such as a certified financial planner) to help you with your plan if you need it.

Build an investment portfolio: Maximize tax-deferred opportunities. Choose a mutual fund or the stock of a company you have researched. Interview and hire a financial professional if you prefer to have assistance.

Keep learning: New information is available all the time, and the investment environment changes frequently. Read books and magazines, attend classes, talk to fellow investors, start an investment club. Even if you plan to work with a broker, financial planner or other investment adviser, it still will help if you improve your knowledge about how you plan to invest; no one is as interested in your family's financial future as you are. A course on investing at a local community college or adult education center can be interesting as well as informative. Free seminars, given by individuals and organizations in financial services as a way to attract potential clients, also can be useful as long as you remain on guard for the sales pitch. Scan the Internet or visit the local library and read financial magazines and newspapers.

Keep at it: Finally, once you get started, keep at it! Continue saving for short- and long-term goals. It takes time to produce virtually anything worthwhile. Never take money out of your TSP, IRA or other long-term investments for short-term objectives – that is why you have established a goal-getter or emergency fund.

OPTIONAL SHORT COURSE

Description: A shorter version of *Saving and Investing* covering a few of the topics can be used as a marketing pitch or when presentation time is limited. Start by introducing yourself and the topic. Use Slides 3 through 8 to discuss the effects of compound interest and time, and to motivate learners to save and invest. Use Slide 9 to discuss the Financial Planning Pyramid, how it lays out the steps to take to build wealth, and what needs to be done at the management and savings levels. Do not discuss the tools of savings yet. Go to Slide 13 and discuss the difference between saving and investing. Finally, distribute the *Which Tool Is It?* handout and have the group complete it either individually or in groups. Explain that they may not know the answers, but to answer the ones they think they know. After everyone is finished, go through the answers, explaining each of the tools as time permits. End by inviting learners to the full *Saving and Investing* course, and to visit their CFS for guidance on starting an investment program.

Time: 30 Minutes

Materials and Handouts:

- *Compound Interest and Time*
- *Investing Resources*
- *The Financial Planning Pyramid*
- *Which Tool Is It?*
- PowerPoint slides as indicated in outline

Topics:

- Welcome and Introduction, Slide 1
- Effect of Compound Interest and Time, Slides 3 through 8
- The Financial Planning Pyramid, Slide 9
- Saving Versus Investing, Slide 13
- *Which Tool Is It?* Handout and Activity
- Invitation to other classes and to consult CFS

NOTES:

Compound Interest and Time (Rate of Return=10%)

	PLAN A		PLAN B		PLAN C		PLAN D	
Age	Payment	Total	Payment	Total	Payment	Total	Payment	Total
21	$3,000	$3,300	$0	$0	$0	$0	$0	$0
22	$3,000	$6,930	$0	$0	$0	$0	$0	$0
23	$3,000	$10,923	$0	$0	$0	$0	$0	$0
24	$3,000	$15,315	$0	$0	$0	$0	$0	$0
25	$3,000	$20,147	$0	$0	$0	$0	$0	$0
26	$3,000	$25,462	$0	$0	$0	$0	$0	$0
27	$0	$28,008	$0	$0	$0	$0	$0	$0
28	$0	$30,808	$0	$0	$0	$0	$0	$0
29	$0	$33,889	$0	$0	$0	$0	$0	$0
30	$0	$37,278	$0	$0	$0	$0	$0	$0
31	$0	$41,006	$3,000	$3,300	$3,000	$3,300	$0	$0
32	$0	$45,107	$3,000	$6,930	$3,000	$6,930	$0	$0
33	$0	$49,617	$3,000	$10,923	$3,000	$10,923	$0	$0
34	$0	$54,579	$3,000	$15,315	$3,000	$15,315	$0	$0
35	$0	$60,037	$3,000	$20,147	$3,000	$20,147	$0	$0
36	$0	$66,041	$3,000	$25,462	$3,000	$25,462	$10,000	$11,000
37	$0	$72,645	$0	$28,008	$3,000	$31,308	$10,000	$23,100
38	$0	$79,909	$0	$30,808	$3,000	$37,738	$10,000	$36,410
39	$0	$87,900	$0	$33,889	$3,000	$44,812	$0	$40,051
40	$0	$96,690	$0	$37,278	$3,000	$52,594	$0	$44,056
41	$0	$106,359	$0	$41,006	$3,000	$61,153	$0	$48,462
42	$0	$116,995	$0	$45,107	$3,000	$70,568	$0	$53,308
43	$0	$128,694	$0	$49,617	$3,000	$80,925	$0	$58,639
44	$0	$141,564	$0	$54,579	$3,000	$92,317	$0	$64,503
45	$0	$155,720	$0	$60,037	$3,000	$104,849	$0	$70,953
46	$0	$171,292	$0	$66,041	$3,000	$118,634	$0	$78,048
47	$0	$188,422	$0	$72,645	$3,000	$133,798	$0	$85,853
48	$0	$207,264	$0	$79,909	$3,000	$150,477	$0	$94,438
49	$0	$227,990	$0	$87,900	$3,000	$168,825	$0	$103,882
50	$0	$250,789	$0	$96,690	$3,000	$189,007	$0	$114,270
51	$0	$275,868	$0	$106,359	$3,000	$211,208	$0	$125,697
52	$0	$303,455	$0	$116,995	$3,000	$235,629	$0	$138,267
53	$0	$333,800	$0	$128,694	$3,000	$262,492	$0	$152,094
54	$0	$367,180	$0	$141,564	$3,000	$292,041	$0	$167,303
55	$0	$403,898	$0	$155,720	$3,000	$324,545	$0	$184,033
56	$0	$444,288	$0	$171,292	$3,000	$360,300	$0	$202,437
57	$0	$488,717	$0	$188,422	$3,000	$399,630	$0	$222,680
58	$0	$537,589	$0	$207,264	$3,000	$442,893	$0	$244,948
59	$0	$591,348	$0	$227,990	$3,000	$490,482	$0	$269,443
60	$0	$650,482	$0	$250,789	$3,000	$542,830	$0	$296,387
61	$0	$715,531	$0	$275,868	$3,000	$600,413	$0	$326,026
62	$0	$787,084	$0	$303,455	$3,000	$663,755	$0	$358,629
63	$0	$865,792	$0	$333,800	$3,000	$733,430	$0	$394,492
64	$0	$952,371	$0	$367,180	$3,000	$810,073	$0	$433,941
65	$0	$1,047,608	$0	$403,898	$3,000	$894,380	$0	$477,335
	$18,000		$18,000		$105,000		$30,000	

Has Inflation Affected You?

As of 2015, the U.S. inflation rate is a low 0.2 percent per year. For the last 100 years, however, it has averaged 3.22 percent a year. Even that may not seem like much, but it adds up. Over time, inflation erodes the purchasing power of present-day dollars. Prices have even jumped over the last 30 years. See if you can guess the prices of the following items from 1985 compared with 2015.

	1985	2015
First-Class Stamp		$0.49
One Dozen Grade A Large Eggs		$2.57
Extra-dry Stick Deodorant		$3.79
Two-liter Bottle of Soda		$1.79
Ford Mustang (V6 Coupe)		$24,995
Movie Ticket		$8.50
Can of Shaving Cream		$2.99
Gallon of Regular Unleaded Gasoline		$2.65

Investing Resources

BOOKS

- *Barron's Dictionary of Finance and Investment Terms*
- *Get a Financial Life: Personal Finance in your Twenties and Thirties*, by Beth Kobliner
- *Investing from Scratch: A Handbook for the Young Investor,* by James Lowell
- *Making the Most of Your Money Now*, by Jane Bryant Quinn
- *Master Your Money Type*, by Jordan E. Goodman
- *Personal Finance,* by E. Thomas Garman and Raymond E. Forgue
- *The Millionaire Next Door (Series),* by Thomas J. Stanley and William D. Danko
- *The Total Money Makeover: A Proven Plan for Financial Fitness*, by Dave Ramsey
- *The Truth About Money*, by Ric Edelman
- *Who's Afraid to be a Millionaire? Mastering Financial and Emotional Success*, by Kelvin Boston
- *Women and Money: Owning the Power to Control Your Destiny*, by Suze Orman

NEWSPAPERS AND MAGAZINES

- *Barron's*
- *Forbes*
- *Fortune*
- *Investor's Business Daily*
- *Kiplinger*
- *Money*
- *Wall Street Journal*

INTERNET SITES

Consumer Organizations
Consumer Reports: www.consumerreports.org
Consumer World: www.consumerworld.org

Financial Planning and Education
American Association of Individual Investors: www.aaii.com
Association for Financial Counseling, Planning and Education: www.afcpe.org
Choose to Save: www.choosetosave.org

Edelman Financial Services: www.edelmanfinancial.com
Financial Planning Association: www.fpanet.org
Kiplinger: www.kiplinger.com
Military Saves: www.militarysaves.org
National Endowment for Financial Education: www.nefe.org
Navy Fleet and Family Support Program:
www.cnic.navy.mil/ffr/family_readiness/fleet_and_family_support_program.html
Save and Invest (FINRA Investor Education Foundation): www.saveandinvest.org

Government Agencies
Board of Governors of the Federal Reserve System: www.federalreserve.gov
Consumer.gov (Federal Trade Commission): www.consumer.gov
Federal consumer information: http://publications.usa.gov
Federal Deposit Insurance Corporation: https://www.fdic.gov
Federal Student Aid: www.studentloans.gov
Federal Trade Commission: https://www.ftc.gov
U.S. Bureau of Labor Statistics: www.bls.gov
U.S. Securities and Exchange Commission: www.sec.gov

Investing
Earnings Whispers: https://www.earningswhispers.com
Businessweek: www.bloomberg.com/businessweek
Dailystocks: www.dailystocks.com
Hoovers (business intelligence database): www.hoovers.com
ICLUBcentral (tools for investors and investment clubs): www.iclub.com
MarketWatch: www.marketwatch.com
Morningstar: www.morningstar.com
The Motley Fool: www.fool.com
MSN Money: www.msn.com/en-us/money
Saving for College (guide): www.savingforcollege.com
Treasury Direct: www.savingsbonds.gov
Value Line (research): www.valueline.com
Zacks (research): www.zacks.com

Retirement
Choose to Save/American Savings Education Council: www.choosetosave.org/asec
Military OneSource: www.militaryonesource.mil
Social Security Administration: www.ssa.gov
Thrift Savings Plan: https://www.tsp.gov
U.S. Department of Defense Military Pay: http://militarypay.defense.gov

Taxes
Internal Revenue Service: www.irs.gov

The Thrift Savings Plan (TSP)
Wealth-Building Made Easy

The TSP is a retirement savings and investment plan. It can provide income in addition to your military pension and Social Security, helping to build financial stability and independence at retirement.

DESCRIPTION AND BENEFITS:

- Defined-contribution plan, similar to a 401(k)
- Individual accounts
- Automatic payroll deductions
- All contributions and earnings belong to the owner
- Contributions are made with pre-tax dollars
- Earnings are tax-deferred or tax-free depending on the type of TSP plan (i.e., traditional or Roth)
- Multiple fund investment options
- Minimal administrative and investment costs
- Multiple withdrawal options once you reach retirement age

PARTICIPATION RULES:

- Open to federal employees and uniformed service members
- Can join at any time
- Can contribute up to 100 percent of base pay each year up to a maximum annual contribution ($18,000 in 2015; $53,000 in a tax-free zone)

TREATMENT OF...	TRADITIONAL	ROTH
Contributions	Pre-tax	After-tax
Take-home Pay	Taxes are deferred, so less money is taken out of your paycheck	Taxes are paid up front, so more money comes out of your paycheck
Transfers In	Transfers allowed from eligible employer plans and traditional IRAs	Transfers allowed from Roth 401(k)s, Roth 403(b)s and Roth 457(b)s
Transfers Out	Transfers allowed to eligible employer plans, traditional IRAs and Roth IRAs	Transfers allowed to Roth 401(k)s, Roth 403(b)s and Roth 457(b)s and Roth IRAs
Withdrawals	Taxable when withdrawn	Tax-free earnings if five years have passed since Jan. 1 of the year you made your first Roth contribution, and you are age 59½ or older, or you are permanently disabled or deceased.
Source: Summary of the Thrift Savings Plan, September 2015.		

INVESTMENT OPTIONS:

- Individual Funds
  - G Fund: Government Securities Investment Fund
  - F Fund: Fixed Income Investment Fund
  - C Fund: Common Stock Index Investment Fund
  - S Fund: Small Cap Stock Index Investment Fund
  - I Fund: International Stock Investment Fund
- Lifecycle Funds (a professionally designed mix of stocks, bonds and government securities)
- Loans: Under certain circumstances, you can borrow from your TSP account. Check the TSP website for details.

TSP RESOURCES:

- TSP website: www.tsp.gov
- TSP Thriftline: 1-TSP-YOU-FRST (1-877-968-3778)
- YouTube: TSP4gov
- Twitter: @tsp4gov
- Defense Finance and Accounting Service (DFAS): www.dfas.mil/civilianemployees/employeebenefits/TSP.html
- Military OneSource: www.militaryonesource.mil/pfm/saving-and-investing-basics?content_id=267395

GLOSSARY OF TERMS

After-tax Contributions – Contributions that are made after taxes have been taken from pay (i.e. Roth).

Automatic Contributions – Contributions deducted from pay and added to a TSP account by an employer.

Annuity – Guaranteed monthly income for the life of the TSP participant or survivor after separating from federal service.

Asset Allocation – The process of choosing among different kinds of assets such as stocks and bonds that will be included in an investment portfolio.

Beneficiary – The individual or entity that receives your TSP account balance (or a portion of it) at your death.

Bond – A debt security issued by a government entity or a corporation to an investor from whom it borrows money.

Catch–Up Contributions - Contributions which are made via payroll deductions by a participant age 50 or older and are permitted to exceed the Internal Revenue Code (IRC) elective deferral limit.

Contribution – A deposit made to the TSP by a participant through payroll deduction or on behalf of the participant by his or her employer.

Currency Risk – The risk that the value of a currency will rise or fall relative to the value of other currencies.

Elective Deferral Limit – An annual dollar limit, established under the Internal Revenue Code (IRC), that limits the contributions a participant can elect to make to plans like the TSP.

Eligible Employer Plan – A plan regulated under Internal Revenue Code (IRC), including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan.

Eligible Rollover Distribution – A distribution from the TSP that is eligible to be transferred or rolled over to an IRA or eligible employer plan.

Fixed Income Investments – Generally refers to bonds and similar investments (considered debt instruments) that pay a fixed amount of interest.

Index – A broad collection of stocks or bonds which is designed to match the performance of a particular market.

Inflation Risk – The risk that investments will not grow enough to offset the effects of inflation.

In-service Withdrawal – A disbursement made from a participant's account which is available only to a participant who is still employed by the federal government, including the uniformed services.

Interfund Transfer (IFT) – A redistribution of different TSP funds within an account.

Market Risk – The risk of a decline in the market value of stocks or bonds.

Matching Contributions – Contributions up to a certain limit made by an employer to TSP accounts for participants who have also contributed their own money.

Post-separation Withdrawal – A distribution from a participant's account which is available only to participants who have left federal service or the uniformed services.

Prepayment Risk – The probability that if interest rates fall, bonds that are represented in the index will be paid back early, thus forcing lenders to reinvest at lower rates.

Pre-tax Contributions – Contributions of pay that have not yet been taxed. All employee contributions to a TSP traditional balance are made pre-tax.

Qualified (earnings) – Roth earnings are qualified (i.e., paid tax-free) when two conditions have been met: 1) 5 years have passed since January 1 of the calendar year in which you made your first Roth contribution, and 2) you have reached age 59½, become permanently disabled, or have died.

Required Minimum Distribution (RMD) – The amount of money that the IRS requires be distributed to a participant each year after the participant has reached age 70½.

Risk (Volatility) – The amount of change (both up and down) in an investment's value over time.

Roth Contributions – Contributions from pay that has already been taxed (or from tax-exempt pay) and that has been deposited into a Roth balance.

Roth IRA – An individual retirement account that provides tax-free earnings.

Securities – A general term describing a variety of financial instruments, including stocks and bonds.

Stocks – Equity securities issued as ownership in a publicly held corporation.

Tax-exempt Contributions – Contributions of money to a TSP traditional balance that will never be taxed.

Time Horizon – The future point when withdrawals from an account are expected to begin.

Traditional IRA – A traditional individual retirement account or an individual retirement annuity with contributions from pay that have not yet been taxed. Also referred to as "tax-deferred," "pre-tax," or "non-Roth" contributions.

Vesting – The time in service a TSP participant must have in order to keep automatic contributions and earnings.

Source: Glossary of Terms available at www.tsp.gov.

Thinking About Investing?

TIPS FOR USING THE INTERNET

The Internet has provided widespread access to even the most specialized investment information, giving the small investor research results and information to which they never had access. Online trading provides instant access to accounts and near-instantaneous executions of trades. In this fast-moving environment, users must exercise caution, know the investment risks and guard against loss.

If you are thinking of using the Internet for investment research, the National Association of Securities Dealers Regulation (NASDR) suggests these guidelines:

1. Be your own watchdog. The Internet is vast, and regulatory resources are limited.
2. Question all advice.
3. Always consult other resources in additional to the Internet.
4. Do your own homework. Do not take the word of an unknown source on the Internet.
5. Use good judgment. If it seems too good to be true, it probably is.
6. Ask for professional help if something appears suspect. Notify regulators before you act.

If you are thinking of using the Internet to conduct securities trades, the Securities and Exchange Commission (SEC) offers these tips:

1. Before you trade, know why you are buying or selling and the risk of your investment.
2. Know how trading changes during fast markets and take additional steps to guard against the typical problems investors face in these markets.
3. Know your options for placing a trade if you are unable to access your account online.
4. If you place an order, do not assume it did not go through (and place subsequent orders). Talk to your firm if you are unsure.
5. If you cancel an order, make sure the cancellation worked before placing another trade.
6. No regulations require a trade to be executed within a certain time. However, firms should not exaggerate or fail to tell investors about the possibility of delays.

TIPS FOR HIRING A FINANCIAL PROFESSIONAL

1. Be sure to comparison-shop for a financial professional, as you would for any other service. Financial professionals include:
   a. Financial planners and advisers (CFP, CFA, PFS)
   b. Insurance agents and brokers (CLU, ChFC)
   c. Tax preparers and enrolled agents
   d. Certified Public Accountants (CPA)
   e. Attorneys (e.g., tax, estate)
   f. Bankers
   g. Real estate agents and brokers

Financial professionals get paid for their services in a variety of ways: commissions, fees or a combination of commission and fees.

The Securities Exchange Commission recommends the following questions to ask before hiring a financial professional:

1. Are you licensed with the states or the SEC?
2. Do you have disciplinary problems on file with the NASD or states?
3. How are you compensated?
4. What is your relevant experience as a financial professional?
5. What kind of special education or training have you received?
6. How would you describe your investment philosophy?
7. Do you understand my financial goals and risk tolerance?
8. What other clients do you have to whom I could speak?
9. What kind of periodic reports on my money should I expect from you?

Interview at least three financial professionals and choose the one that you feel most comfortable with, that you like and that has satisfactorily answered the above questions.

Which Tool is It?

___________ 1 An account that pays a low rate of interest at a low level of risk and is covered by federal insurance up to $250,000.

___________ 2 An interest-earning savings account that offers higher interest on deposits but may limit check-writing privileges and may not be insured.

___________ 3 A deposit of a fixed sum of money for a fixed period of time.

___________ 4 A safe way to save and invest, this tool is purchased from the U.S. Treasury at its face value.

___________ 5 An IOU with a fixed interest payment and a promise to repay within a specific period of time.

___________ 6 Also known as "equity," this investment represents a share in ownership of a company.

___________ 7 An investment that pools the resources of many investors and can invest in a variety of these tools.

___________ 8 Investment tools that should be limited to a small percentage of your portfolio due to their risk level.

___________ 9 The tool that has average returns of about 10 percent to 12 percent for the past 88 years.

___________ 10 The tool that has average returns of about 3.5 percent to 5 percent for the past 86 years.

___________ 11 The tools that require you to pay a penalty if held for less than the specified term.

___________ 12 These investments include precious metals.

___________ 13 The tool that offers the best way to achieve diversification.

___________ 14 By contributing to this, a service member can build up tax-deferred money for retirement.

___________ 15 When the money that your money makes, makes more money.

LIST OF TERMS

Bond
Certificate of Deposit
Collectibles, Options, etc.
Compound Interest and Time
Hard Assets
Money Market Account
Mutual Funds
Savings Account
Stocks
Thrift Savings Plan (TSP)
U.S. Savings Bonds