Part 5

SAVING AND INVESTING MONEY

Module 13

PUTTING YOUR MONEY TO WORK – SAVING AND INVESTING

Let's Discuss...

- $ Basic Banking
- $ Saving Money
- $ Investing Money

When it comes to saving and investing, there is no "chicken and egg" dilemma. You don't have to wonder which comes first. You can't invest if you don't have savings. Once you have savings, you can make decisions about how to invest them.

With any money you get, you will have some basic choices in how it is used. You can spend it, save it, pay taxes, or give some away.

How About You?

Do you keep your money in a bank? If so, how did you come to pick that bank? What kind of account(s) do you have?

Basic Banking

Most people will use a bank to help manage their money. Banks provide chequing accounts, savings accounts, chequing-savings accounts and so on.

Money is deposited into these accounts and the bank will usually pay some interest on that money. Why? Because the bank will lend out a good portion of the money deposited to others as loans. The banks hold on to enough money to do their day to day business – but will lend out money to businesses and to borrowers as car loans, mortgages, etc.

The banks will make money on "the spread" – the difference between the interest rate paid to savers and the interest rate charged to borrowers. The banks also make money from fees, investments, etc. Overall, Canada's banks do pretty well and are some of the safest in the world.

$ Tip

If you have one or more bank accounts, check and see if there are monthly fees on the account. If so, see what the fees cover. See if you can make changes to lower your monthly fee.

If you deposit money in a bank, you can usually get your money, as you need it, by withdrawing it at a branch or using an ATM. You can usually make payments by using cash, writing a cheque (less common these days), using a debit card, making an online transfer, etc. So there are different ways to get and use your money.

You can use banks to hold your money that you will spend as you need. And, you can use banks to hold on to money you aren't using today for spending – and that you will save for the future.

In the end you will make decisions, probably every day, about how you will use your money – spend it, save it, give some away, etc.

$ Tip

Be careful and use only ATMs that you can trust – preferably those of your bank. You may pay a fee if you use an ATM from another bank or a generic ATM that is not associated with any of the major banks. ATMs can also be "compromised" by people who are trying to steal your PIN and account number. Again, try and use only ATMs you trust and that are in a well secured and protected area.

How About You?

How do you use your money? Do you know where it's going? How much are you spending? Paying in tax? Saving? Giving to help others?

$ Tip

Save some money if at all possible – even a little each month. It can help you get into the habit of saving – and small amounts can add up.

Saving Money

You won't have much choice in how you use some of your money. There will be monthly expenses and taxes that you will have to pay. But what about the money left over – if there is any?

You may be spending all your money – and paying some taxes as you do your spending (remember GST, HST, gas taxes, etc.) That may be your choice. But saving is important and can help you in a number of ways, such as helping you:

- Save up over time to help you achieve your goals and to afford some of the more expensive things you might hope for – car, home, etc.
- Be prepared if unexpected things come up – both good and bad.
- Choose things you could do when opportunities come up – travel, help others, buy something you want or need without using debt, etc.
- Feel better knowing you have money available – so you may worry less about money matters. You can have more "peace of mind."

The "Magic of Compounding"

You may hear someone talk about "the magic of compounding." This refers to how savings and investments can grow in value more quickly because of "compound interest." Here's a brief example of how it works.

Suppose you were able to save $1,000 for a year and was paid 5% interest. That means you would make $50 in interest to add to your savings. If you leave the money that you earned in interest with your $1,000, you now have $1,050. Over the next year, your $1,050 will earn 5% – or another $52.50. If you leave that money in, you now have $1,102.50. Your $1,000 has grown – and is now growing faster because you are earning "interest on your interest."

If you continued to leave the money to grow for another year, you would earn 5% on $1,102.50 = $55.12. Your money grew $50 the first year, $52.50 the second, and $55.12 the third – and this has happened without you having to add any new money. That's the magic of compounding. And that's the magic of saving and investing.

If you start saving at a young age, you can have many years for your money to grow through compound interest. And if you can add more to it each year, your savings will grow that much faster. Use the "magic of compounding" to help your savings grow wherever you can.

Although saving pays off, a recent survey found that almost 50% of Canadians are living paycheque to paycheque. This means half of Canadians have expenses and debts that are taking up most of their income. They aren't saving anything.

That's not the best way to handle your financial affairs. In some ways, though, it's not surprising. Until recently, little effort was made to help teach Canadians about how to handle money. People weren't taught about budgeting, managing debt and credit cards, setting their own debt limits, saving for education and retirement, and so on. Therefore, many Canadians were not well prepared for their money decisions and challenges. We're trying to change that for young people today.

How About You?

Did any of your family members get a financial education of any kind? Are any of them able to help you? Are you able to help any of them with what you are learning?

The following are some things to do to start – and continue to save.

1. Make saving a priority. Save some money – even a little – before you do anything else with your money. As we have shown, compound interest can help your money grow.
2. Set a savings goal. Have a target. Give yourself something to work towards and reach for. Try and set a time period to get there.
3. Reward yourself if you succeed in reaching a savings goal. You'll deserve it.
4. Track your spending. Know where your money is going. This will help you look for ways to save more if you need to.
5. Try and use a budget and stick to it. This will help you better control how you use your money.

Think About It

Saving is not easy for many people. But it's important to save if you can. If you currently aren't saving – or aren't saving as much as you would like – what can you do to try and save more?

$ Tip

Try and save a "toonie a day." If you can, that adds up to $730 a year. You might find that you don't have to give up much to save $2 a day. And, if you did, and saved from age 15 to 30, and earned 3% interest, that would end up at about $15,000.

The following are a dozen "Saving Tips" and suggestions. There are many others you might want to consider. For other ideas, and a savings calculator to see how little amounts saved can add up, visit the Canadian Foundation for Economic Education's Building Futures Network web site at http://www.buildingfuturesnetwork.com.

Saving Tips

1. We've already mentioned this before – save before you spend. It's the best way to save.
2. Shop for the best prices. If you pay less, you can save more.
3. Use a money jar of some kind. Now that we use loonies and toonies, if you put your change in a jar at the end of the day, it can really add up.
4. Don't carry much cash. It is too easy to spend.
5. Look for ways to spend less on transportation, use cheaper(maybe healthier) ways of getting around.
6. Eat out less – and/or eat at less expensive places. For many people, eating out eats up a good portion of their money.
7. Set an "i-tunes limit." It's easy to make online purchases today – so much so that, at the end of the month, the bill can be a shocker. Set a limit and stick to it.
8. Use your phone wisely. Don't waste money on extra charges, bad plans, roaming fees, etc. Once again, if you spend less, you can save more.
9. Cut back on vices. If you spend a lot on cigarettes, gaming, apps, etc. cut back – or cut them out entirely if it's something like smoking. You can save a lot. Same if you are drinking expensive coffees or power drinks, etc. They can eat up money quickly too.
10. Avoid impulse buying – that is, making fast spending decisions on the spot without much thought. They are often some of the poorest decisions people make and can use up money that could be saved.
11. Take advantage of sales and deals. You can save a lot of money this way. Buying "off season" or on the "shoulder season" for clothes can save a lot. End of year sales, end of line sales, going out of business sales, … they can all help you save.
12. It may be hard, but avoid fads. Keeping up in terms of style and fashion is a real challenge for many young people and can use up money quickly. Avoid them as you can – be your own person – set your own style. You'll probably find that's a lot less expensive – and can help you save.

$ Tip

Use the calculator on the Building Futures Network web site at: www.buildingfuturesnetwork.com to see how making small changes in spending can add up to big changes in saving.

Think About It

How much money are you spending each month "eating out" (include lunches at school, etc.)?

Just before we turn our attention to what you can do with savings – that is, investing – there is one other thing we noted you can do with your money. You can give some away. Canadians are a very generous people. Many Canadians give some of their money, their time, etc. to help others. And there are certainly those who need help.

Young Canadians are often particularly generous. They may not have a lot of money to give but they often contribute to various causes – some give money – and often give of their time, their ideas, etc. There are people who are homeless, hungry, suffering from an illness or disability, living in poor conditions, living in potentially violent circumstances, and so on.

In making your decisions about how you use your money – or your time – you may want to think about ways to help others in need. On your own, or with a group of friends, or as a class or as a school, you can probably make a difference in the lives of others.

Compassion – and considering the needs of others – is a powerful force. With all the pressures and challenges in the world today – to get by – to take care of one's self and one's family – to make ends meet – it can be hard to find the time and resources to help others. But, just like saving, if you decide it is important for you, you will probably find ways to help.

If you can – and if you want – consider building compassion and a concern for those in need into your money decisions. You may find you can't help. You may find you can. Or you may look for ways to be able to help. It is something to think about as you deal with money matters – and money decisions – in your life.

That said, let's turn our attention to what you can do with your savings – investing.

Think About It

What other ways are there to save money? What savings tips can you learn from others? What savings tips could you give to others? Have you talked with your family members about ways to save?

Think About It

Which groups in your community need help – such as food, clothing, shelter, etc.? What kinds of things are being done to help them?
What could be done to help them?

How About You?

Are you currently doing anything that helps others in need? Do you know of others who are doing things to help out? How important do you think it is to try and help others in need?

Investing Money

Saving is holding on to some of your money to use it in the future. Investing is what you do with your savings to try and:

- protect the value of your savings – the purchasing power – over time against the effects of inflation.
- increase value of your savings – and acquire greater purchasing power – by earning a return greater than inflation.
- save enough, and earn enough from investments, to be able to achieve your goals.

Investing, therefore, is not only for those with lots of money. Anyone who has savings can make decisions about how to invest those savings – and put them to work.

Take Action. Take Control!

Investing doesn't just have to be money. For example, you can read, study, research, and learn and, as a result, invest in you. You can improve your abilities. You can become more valuable to others. And this can increase the income you might be able to earn from employment. Or it may prepare you to be able to start a business.

Protecting the value of your savings is "job one." You don't want money you hold for the future to buy less later than you could buy today. Lately, the rate of inflation (the increase in the average level of prices in the economy) has been about 2% a year. The Bank of Canada has done a pretty good job keeping inflation in that range.

That means to protect your savings from losing value to inflation, you want to make at least 2% on your savings if you can. That may sound easy but, if interest rates are very low, as they have been, regular savings accounts may not pay 2% interest.

A regular savings account is one of the safest places to put your savings. Canada's banks are very sound and you don't take on a lot of risk by putting your money in a savings account. So a savings account is very low risk – but also gives you a very low return. That is one of the most important lessons to learn about investing – low risk will mean a low return. Let's look more closely at this key point about investing.

Learn About

Do you have savings in the bank? If so, do you know the interest rate you are earning? If you don't have savings, check out the interest rate banks are paying for money in savings accounts. Do the rates surprise you?

Suppose you decide that you would like to buy and sell stocks as one of your investments. Let's suppose that you haven't had a lot of experience with investing in the stock market. Therefore, you decide to work with a "broker."

Suppose you tell your broker that you have some savings and you would like to achieve the following:

- You want your investments to hopefully make you a 20% return each year, and
- You don't want to run the risk of losing any more than 5% of the value of your savings.

How About You?

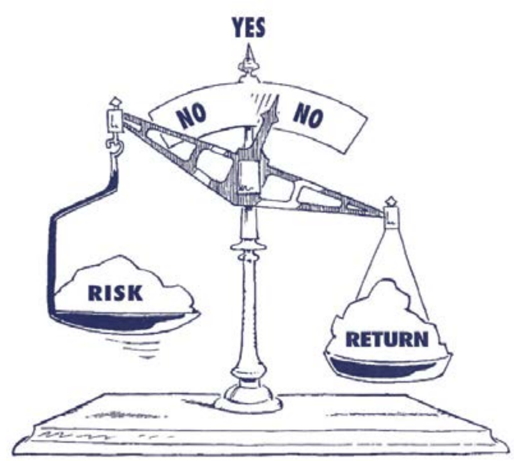
If you were making an investment, what rate of return would you look for – considering how comfortable you are with risk? What might lead you to take on more risk? Less risk?

Learn About

A broker is someone who is trained, and has a license, to buy and sell stocks. Be aware that all stocks must be bought and sold through a licensed "broker." This may be a broker to whom you pay a fee to get help and advice. Or it may be an "online brokerage" company that lets you make your own buying and selling decisions. You will pay a lower fee if you make your own decisions – but you won't get any advice.

Is this a reasonable thing to ask on your part? The answer, unfortunately, is no. Your broker would likely tell you "No can do." Why not, you might ask? The reason is that your potential return on an investment, and your potential risk, have to be in balance. If you want your investment to provide a possible 20% return, you have to accept the risk that your investment may fall 20% in value. The higher your target return, the more risk you have to take.

If possibly losing 20% of your savings is more than you are comfortable with, then you will have to lower the target for your potential return. You will have to find your "risk/return" balance point.



There are many reasons why one person's comfort with risk may be different than another's. But it will be important for you to have a sense of your attitude to risk when it comes to investing. What level of risk are you comfortable with? What level of risk will let you sleep at night without worrying? And what level of risk do you need to take, or are you willing to take, to reach your goals?

Your risk/return balance point will be affected by many factors, such as:

- Your age. For example, younger people tend to be better able to accept higher risk than older people since they have a longer time to recoup losses if the value of an investment falls or if they lose on an investment.
- How much you have to invest. Those with more money to invest are usually in a position to accept more risk since it is easier for them to afford a loss.
- Your goals and how much you are hoping to earn from your investments in order to realize your goals. If you set a certain goal and find that you will need an average return of 10% on your investments to reach your goal, are you comfortable with that level of risk? If not, you might have to change the goal – or set a longer date to give yourself more time.
- Your time horizon, that is, how long before you need to use the money from your investments. If you need the money from your investments in two years for education, you won't want to take on much risk. Someone who doesn't need their money until their retirement in 35 years will likely be willing to take more risk.

Learn About

If you want a guide and an easy tour of how an economy works – and how all the parts fit together – get a copy of "The Big Picture" from the web site of the Canadian Foundation for Economic Education (CFEE) at: www.cfee.org

Think About It

Are you aware of any investments that have been made in your community to make things better? For example, a new business, a new school, a renovated business, etc. If so, who made those investments – and why do you think they made them?

The role of investing is to put the money that you don't need today to work for you to help you achieve your goals in the future.

Before we explore investing in more detail, let's just take a moment to look at the role of investment in the economy. It can help you better understand why investing is important.

Our economy has a number of jobs. A key one, though, is to produce goods and services to satisfy people's needs and wants. Entrepreneurs and businesses combine resources such as labour, capital equipment, natural resources, and technology to produce goods and services that Canadians need and want. They also produce some goods and services to sell in other countries – exports.

We distribute goods and services in our economy through a price system. That is, every good or service has a price. If you are willing and able to pay that price, then you can acquire it. People work to get income to be able to pay the prices and get the things they want.

Discuss

What factors affect the "distribution of income" in Canada? Why do some people earn more than others? What is done to try and make the distribution of income fairer?

Overall, the well-being of people living in our society will depend on the wealth that we create in our economy – and the degree to which people are able to acquire the wealth that is produced.

As more products and services are produced by our economy, more wealth is generated. This growth in output usually means with it more jobs, higher incomes, and an improved standard of living.

One of our economic goals, then, is to create more goods and services to create more jobs and incomes for Canadians. At the same time, over the years, we have become much more conscious of the environment – and to look for ways to achieve growth in our economy without harming the environment. We even look for ways that economic activity can help the environment. This has also become one of our priority economic goals.

But how do we get funds working to improve our economy – achieve growth – create new jobs and incomes – improve the well-being of all Canadians – and improve the environment? That takes money. That takes investment. And the funds for investment to fuel growth and improvement in our economy come from people's savings. How does that happen?

It starts with people putting some of their savings in banks. Banks then lend money to companies that are looking to invest – improve – and grow.

People may also use some of their savings to buy "bonds." In this way, with "corporate bonds," they are lending money to companies that are looking to invest – improve – and grow.

And some people use some of their savings to buy shares in companies. This also provides money to companies to invest – improve – and grow.

People's savings, then, are put to work – through savings, buying bonds, buying shares, etc. Savings find their way through loans and investments to businesses.

By using savings for investment, new resources are discovered, businesses are expanded, new techniques are devised, new technology is developed, new training programs are provided, and so on. In essence, the money saved by savers in our economy is placed into investments that allow the productive capacity of the economy to grow. In this way, our economy is able to develop and grow over time, create jobs, create incomes, and increase the overall level of well-being in our society.

Learn About

Research ways in which efforts are being made to produce goods and services in a way that can help sustain or improve the environment. Do you see business activity in your community that may be doing harm to the environment? Do you see businesses that are working to help the environment – or taking steps to make sure their activities do not do any environmental damage?

Think About It

What are some of the major businesses in your community? Have you noticed any changes lately – any improvements? Have any been doing better and helping to create jobs for others?

If you understand how investments lead to growth and improvements in our economy, you will then understand why investing your funds can lead to an increase in the value of your savings. If your savings are put to use in investment – and that investment helps to make things better – and helps increase the level of wealth that is produced – then those funds have helped to create value and become more valuable. That is why an investment may bring you a return of 10%. If it was a good investment and helped a company to become better and earn a 10% higher return, then your savings may earn a 10% return through that investment.

On the other hand, if you invested in a company that didn't make good decisions and ended up worse off, your investment may lose money. It is also why you have to make good investment decisions. Make sure you have good information before making an investment decision. Make sure you understand any investment you are considering. And get help and advice if needed.

Let's take a minute to look at some of the criteria you may want to consider when making investments.

Investment Criteria

The following are important things to think about when investing. They are:

- **S**afety/risk
- **L**iquidity
- **R**eturn on the investment
- **T**ime management involved
- **G**rowth potential
- **K**nowledge of the investment

Let's take a quick look at each.

As we noted, the safety, or the level of risk, involved in an investment is a key factor to consider. Don't get involved in risky investments if they make you anxious – or if you can't accept the loss if the investment should lose value. You will have to know your risk tolerance – your level of comfort with risk – and know if an investment you are considering "fits" with you and your comfort level.

Time horizon refers to when you will need the money from an investment. Do you need it in six months, one year, three years, five years, ten years, twenty years, twenty-five years, or more? The time horizon – and when you need the money – will depend on your goals and how you plan to use the money. For example, will you need the money for education, training, a house, children, travel, retirement, or .....?

Your "time horizon" is important since it may affect the kind of investments you can consider. Investments can differ in their "variability" – that is, how much they can change in value. Some invest-

Discuss

Are there companies in your community that have not made good investments – or not invested enough – and are struggling – or have closed? If so, has this led to any people losing their jobs?

ments are more "volatile" than others. They may rise 35% in value and then, over time, fall 40% in value – and then rise again, and so on. Other investments may be much more stable and vary a lot less in value.

If your time horizon is quite soon, even 2, 3, or 4 years, you probably won't want an investment that swings a lot in value. Why? Because if it happens to be down when you need your money, you might not be able to wait for it to bounce back up. You may have to take a loss. Better to avoid those kinds of investments if you need your money soon.

The "growth potential" of an investment is another thing to consider. Will the return you get from the investment possibly change and improve over time? An investment that pays a "fixed rate of return" obviously has little growth potential in its value. For example, if you invest in a Canada Savings Bond that pays a 4% return, that is what your return will be – 4%. However, an investment in a stock or a house may be another matter. The value of this type of investment may rise, or fall, over time. These investments would have greater "growth potential" than "fixed income" investments like a Canada Savings Bond. Of course, it also has a greater risk of a loss in value. There's the old "risk/return balance" again.

The "liquidity" of an investment should also be considered. Liquidity refers to how easily and quickly an investment or asset can be turned back into cash – and how certain you can be of its value. A savings account is an example of a "highly liquid asset" – it can be turned into cash quickly, easily, and you know what its value is.

A five-year term deposit – where you lock your savings away for five years at a certain rate of return – is not a very liquid asset. Your investment is locked up for five years. Your money isn't easy to get if you need it. A house is also not a liquid asset. You can't turn a house into cash quickly. Its value may also be quite uncertain. Until you sell it, you may not know what it is worth.

The "time management" involved in looking after an investment is also something to consider. If you invest in a savings account or a term deposit, little of your time is needed to watch over the investment. An investment in stocks, or a business, or in a house, for example, may require a good deal of your time. You need to decide how much time you have available and are willing to spend looking after your investments. You may decide to use the services of an advisor who can invest the time and expertise to manage your investments for you (for a fee).

Lastly, your "knowledge of the investment" is also important. It is never a good idea to invest in any investment that you don't understand. As a rule of thumb, understand what you are investing in, and don't invest in something simply because others have. Be a knowledgeable investor – or work with someone who has the knowledge you need.

How About You?

Do you have any investments? Has anyone made any investments for you? If you don't have investments yet, and find you are able to save, what kinds of investments would be of interest to you?

Learn About

If you are interested, go online and search for information on different kinds of investments. The web site of the Investor Education Fund can be very helpful.

These, then, are things to think about when you are investing – and deciding among different investment options. But what kinds of investments are there that you can consider. There are three general types of investments:

- Cash (and "cash equivalent")
- Fixed income
- Equity

Cash, or close-to-cash, or "cash equivalent" investments are those that are very "liquid," are low risk, and provide a relatively low return. Examples of cash, or close-to-cash, investments, are those such as cash, bank deposits, term deposits, and Guaranteed Investment Certificates (GICs). "Money market funds" are another example. More on "funds" shortly.

Fixed income investments are those like bonds. Bonds are basically a loan that you make to a government or company. For example, you might buy a $5,000 10-year corporate bond at 6%. In doing so, you are lending the company $5,000 for 10 years. In return, you will be paid 6% per year for as long as you own the bond. You may choose to hold and own the bond for 10 years – or you may choose to sell it.

You can buy and sell bonds in the "bond market" the same way that you can buy and sell stocks in the "stock market." The price of a bond will change in the bond market over time. For example, if you hold a 6% bond, and the interest rate generally offered on new bonds is 4%, then your bond becomes more valuable. Someone looking to buy a bond will be able to get a higher return from your bond than a new one. You may choose to sell your bond in the bond market for more than the $5,000 that you paid – if someone is willing to pay more to get the higher interest rate.

In this way, even though bonds provide "fixed income" – a fixed rate of return – they can be bought and sold in the bond market at different prices. Based on what happens to interest rates, its "market value" may rise or fall. In the end, though, after 10 years, whoever owns the bond will be paid back the $5,000 by the company that issued the bond and borrowed the money.

So "fixed income investments" provide a fixed rate of return for a particular period of time. The most common types are bonds – corporate and government – and "bond funds" – once again, more on "funds" in a moment.

Another kind of investment is equity – that is, buying a share of ownership in a company. Companies may sell stock to raise money for expansion and improvement. Money raised by selling stock is raised through "stock brokers." That is, a company will provide shares to one or more brokers who sell the stock to clients. The stock brokerage company will earn a fee for selling the stock. The company receives the money from the stock sale to invest in the company.

Discuss

Pick a stock of a popular company. Learn how to follow the stock price on the internet. Discuss what kinds of things could make the price of your chosen stock rise – and what might make it fall. Follow the stock for a while and, if the stock price changes, try and learn why.

If the investments are good and pay off, and the company does well, the value of the shares of stock should rise. The higher stock price indicates that the value of the company is higher.

If you buy stocks on the stock exchange, you are not buying new stock. You are buying stock from someone else that owned it. That is why it is called a "stock exchange" – it is where shares of stocks in companies are bought and sold – exchanged. The company doesn't receive the money when you buy stocks on the stock exchange. The company get its money when the stock was originally sold.

In the "old days" all stock exchanges had a "trading floor" where brokers met to do deals and buy and sell stocks for their clients. Today, some exchanges do not have trading floors. For example, at the Toronto Stock Exchange all trades are done electronically. Some exchanges, however, still have trading floors.

Equity investments, like stocks, are riskier than fixed income investments. Their value is more volatile and less predictable. A stock's value may rise – or fall – sometimes by a great deal. The possible return on an "equity" investment is higher – but so is the risk of loss. You want to know what you are doing if you buy and sell stocks – or get some help and advice.

There are also "equity funds" – in the same way we noted that there are "money market funds" and "bond funds," etc. We will discuss such "funds" in just a minute.

Learn About

If you have a chance, visit a stock exchange. Take a tour. Learn a little about how they work – how trades take place – the different fees that are paid, and so on.

Learn About

Most investment companies will have information on their web sites about "investor profiles" – what they are, how they differ, and how to learn more about your profile. Check them out if you want to learn more.

So those are the three general types of investments. You can also invest in other things such as real estate, collectibles (art, cars, etc.), directly in a business as an owner/partner, etc.

Having looked at the three general types of investments, this is a good point at which to talk about an investor's "portfolio." When a person invests, he/she will build up a "portfolio of investments" – a term used to refer to the collection of investments a person has. When you start investing, you will start to build a portfolio of investments. When you do, you will need to think about your "investor profile." If you choose to work with an advisor, your advisor will ask you questions to learn about your investor profile.

Your investor profile basically looks at the kind of investor you are – and what you want to achieve. For example, your investor profile would include things such as:

- What are your goals? What are you hoping to achieve from your investments?
- What is your target rate of return – that is, what are you hoping to earn from your investments?
- What is your level of investor knowledge and experience with investing?
- What is your "risk tolerance?" What level of risk are your comfortable with?
- How much do you have to invest?
- What is your "time horizon" – at what points will you need money – and how much will you need?

These are the kinds of questions that you will be asked – or that you should ask yourself – to get an idea of your "investor profile." Once this is known, you can start building your "portfolio" – putting together a collection of different kinds of investments that fit with your needs and goals.

The mix of investments that is best for you will often be different than for others. Why? Because your profiles will be different. There is a certain mix of investments that may be best for you – but which will be different for someone else.

Regardless of your "investor profile" you will want to "diversify" your investments. In a nutshell, this means not "putting all your eggs in one basket." You will want to have a good mix of different kinds of investments. Why? Because that provides you with some protection. If some of your investments fall in value, others may rise. If some are quite volatile, others may be pretty stable. By diversifying your portfolio you lower your risk. One of the primary rules of investing is to diversify! In real estate, it's location, location, location! In investing, its diversify, diversify, diversify!

Take Action.
Take Control!

Whenever you invest, today or in the future, you can diversify in terms of the type of investments you make (stocks, bonds, GICs, etc.). You can diversify in terms of the location of your investments, for example, in Canada, the U.S., Asia, etc. You can diversify in terms of the level of risk of your investments. And so on. However you may choose to do so, make sure to diversify your investments.

Think About It

Are there any risks in life that you have faced – or face today? Not just money – but any kind of risk? If so, have you done anything to reduce the amount of risk? Is there anything you could do?

Before wrapping up this section on investing, there are a couple more things to cover. First, we have mentioned "funds" on a number of occasions. This refers to "mutual funds." Let's see what these are.

A mutual fund is when investors pool their money in a fund and the fund is then invested, and managed, by a professional. You don't have to get together with others to pool your funds. There are "fund companies" that will do this for you. You will have to decide which fund companies, and which funds, to invest in.

Investors will buy "units" of a fund they want to invest in. The value of the units can change according to how well the investments in the fund perform. If the unit value rises, the value of your investment in the fund rises. If it falls, then the value of your investment falls. You will also pay a fee to the professional, and the professional's company, for managing the fund.

Another thing to think about – probably when you have some savings built up and you are looking to build an investment portfolio – is the possibility of working with an advisor.

It is possible to do your own investing with help from banks and online brokerages. However, although you will pay a fee to work with an advisor, it may be worth it. This is especially true if you don't know a lot about investing. They may be able to help you get the return you are looking for – even taking into account the fee you pay for the help and advice. An advisor can help you set your goals, work through your profile and your comfort with risk, help you pick investments, diversify, and put together a financial plan.

$ Tip

A good investment for many young people are Tax Free Savings Accounts – or TFSAs. You can deposit up to a maximum amount each year (for example, $6,000) and you can invest the money that you put in a TFSA. Any money you make on your TFSA investments is tax free. There is quite a bit to know about TFSAs – but they are generally a good investment for young people to have. Look into TFSAs, ask about them, and see if they would work for you.

Learn About

There are many different kinds of funds offered by many different companies. A fund might invest only in equities – or only in Canadian equities – or only in U.S. equities. Another fund may only invest in bonds – or only in government bonds – or only in corporate bonds. Another fund may invest only in precious metals like gold, silver, etc. The list goes on, and on and on. There are thousands of different kinds of funds. The funds can have different kinds of fees. Make sure when you invest in a mutual fund you know the fees you pay – or may need to pay.

$ Tip

If you look for financial help, make sure the individual is licensed and qualified to give you the help and services you need. Also, look to work with someone with whom you are comfortable. Look for someone who looks like they want to work with you for the “long haul” and that they aren’t just looking for a quick sale. The relationship you build will be a key one. Make a careful choice if you decide to get financial help.

As with all kinds of services, there are those that are good and those that aren't so good. If you are looking for financial help (advisor, broker, insurance agent, etc.), talk with others who use their services. Find out who is happy with the service they are getting and set up a meeting to see if the same person would work well for you. If you don't know anyone getting financial help, check out respected companies that provide financial services and help. Meet with one – or a few – people to see if there is a good fit and one you would like to work with.

A few final quick tips and reminders on investing:

- Tip number one is to be very cautious about investing on the basis of a "tip" from someone. Tips are highly unreliable and probably lead to losses more often than gains.
- Check out every investment carefully and fully understand it before investing in it.
- Don't panic if things don't go well; keep calm and avoid irrational decisions. When the market fell sharply in 2008-2009 it recovered most of its losses in the year or two after. Those who sold their investments when things went bad, lost money. Those who held on, and didn't panic, in many cases, got their money back. So avoid panic. Be careful about making quick decisions if things start to go a little crazy. That is also when an advisor can help.
- Keep inflation in mind when making your investment decisions. You'll want to earn a rate of return that is at least equal to the rate of inflation.
- Invest even small amounts; you will be surprised how they can add up over time.
- Diversify your investments.
- Never make investments that you don't understand.
- Keep in mind what J.P. Morgan said: "Sell down to your sleeping point," which basically means, avoid investments that cause you too much anxiety; invest so you can sleep at night. Find your risk/return balance point.

Take Action. Take Control!

Look into "investment simulations" that exist and see if you can learn by participating in a simulation activity. Consider setting up an "investment club" in your school.

In summary, investing is something that should be considered by everyone, not only those with lots of money or great wealth. Investing is not only good for the individual investor; it also provides the fuel for the growth and development of our whole economy. So, be prepared to be an investor at whatever level is possible for you – and at whatever age you are.

As an example, suppose you had saved $100 at age 15. Suppose further that you were able to save an additional $100 each year. And suppose you were able to earn an average return of 5% a year for 40 years. After 40 years, your $100 a year in savings, well invested, would be worth almost $13,000. Investing can work to your advantage, bring benefits, and help you to achieve your goals. Invest when you can, and what you can – but do so wisely and make investments that are comfortable for you.

Module Summary

Say What? Possible New Terms!

1. **Advisor:** a professional who assists clients with planning and arranging their financial affairs.
2. **Broker (or stock broker):** a person trained and licensed to buy and sell stocks.
3. **Stocks or shares:** represent part ownership in a company. "Shareholders" will receive a share of company profits based on the number of shares they own – if the company makes a profit and profits are distributed.
4. **Economic growth:** an increase in the quantity of goods and services produced by an economy.
5. **Distribution of income:** the portion of total income produced in an economy received by the various members of the population – or groupings of the population.
6. **Liquidity:** the ease with which an investment or asset can be converted into cash – and the certainty of its value.
7. **Time horizon:** the period of time when you will need to turn investments into cash to use the money.
8. **Bond:** a way in which governments and companies can borrow money. A bond can be sold for a period of time and bondholders will be paid a set amount of interest. On the maturity date, the money will be repaid to the bondholder.
9. **Equity:** an asset that has value. The value of the asset may change over time.
10. **Bond market:** where bonds are bought and sold at a market price.
11. **Stock market:** where stocks (shares of companies) are bought and sold at a market price.
12. **Fixed income investment:** an investment with a fixed interest rate that does not change.
13. **Investor profile:** a description of the type of investor a person is in terms of goals, comfort with risk, knowledge of investing, etc.
14. **Portfolio:** a collection of investments held by an investor.
15. **Mutual fund:** funds pooled by investors and managed/invested on their behalf by a professional "fund manager" for a fee. Funds differ in terms of the kinds of investments held by the fund.

Did It Stick? Can You Recall?

1. What are the different things people can do with their money?
2. Why is saving important?
3. What are some ways to try and save money?
4. What is the purpose of investing?
5. Why might you choose to work with an advisor?
6. What factors can affect a person's comfort level with risk?
7. Why is investing important to the economy?
8. What are some key criteria to consider when making decisions about money?

Thinkabout... or Discuss:

- What kinds of investments are the best ones for young people and new investors?
- What might young people do to be able to save more?
- What possible "frauds" and "scams" do young people have to be wary of?
- What factors can affect how well an economy, such as Canada's, performs when compared with the economies of other countries?

Tips & Suggestions

- Diversify your investments.
- Don't make investments you don't understand.
- Understand your target level of return will always equal your possible loss for an investment.
- Consider getting advice and help if you need it.
- Avoid "tips" and "hot opportunities." They usually don't work out.
- Only get financial help from those who are trained and licensed to provide the help you need.
- Consider "TFSAs" as a way to save and invest your money.
- Start early. Save what you can. Invest when you can. And give your savings a chance to grow.

Tech Talk

You will find good information, handy calculators, etc. at the web sites of:

- GetSmarterAboutMoney.ca
- The B.C. Securities Commission
- Fiscal Agents
- Financial Consumer Agency of Canada (FCAC)
- Canadian Foundation for Economic Education (CFEE)
- Check out CFEE's Building Futures Network web site for a lot of tips on saving