Chapter 10-Section 3

Strategies for Saving and Investing

Systematic Savings

- A strategy that involves regularly setting aside cash that can be used to achieve goals.
- The amount you set aside should be something you can afford comfortably
- Ways to save systematically:
  - Have automatic deduction taken from your paycheck and put into a savings account every time you are paid
- Once you have set aside enough for your short-term goals or emergencies you can begin to invest

Systematic investing

- A strategy that involves a planned approach to making investments on a regular basis.
- Helps to build long term financial security

Investment Tracking

- A technique for making investment choices by following the prices of stocks and other investments over time
  - Stock prices may be tracked on Internet Sites
  - Stock prices may be tracked for several weeks to see how much the price changes
  - Data usually keep in form of charts or graphs
  - Allows visual view of investment over time
  - Tracking tool will reveal **trends** in stock (general ups and downs)
  - Can be used to compare with the performance of other investments under the same conditions

Market Timing

- Buying and selling stocks based on what the market is expected to do
- Buying and selling decisions are made based on experience, trend lines and analyses of the market

Dollar-Cost Averaging

- A person invests the same amount of money on a regular basis, such as monthly, regardless of market conditions
- Money is invested regardless of market conditions
- Investors do not have to study the market to determine the best time to buy stocks

Diversification

- Spreading out money across a variety of investments for the purpose of reducing overall risk
  - Diversification helps offset losses in one type of investment by gains in another investment
  - Investors select more than one type of investment to avoid losing everything.

Build a Portfolio

- Investment portfolio-a collection of assets that provides diversification for an investor
- Investments may include:
  - Certificates of deposits
  - Stocks
  - Bonds
  - Real estate
  - Mutual funds
- The more diversified the portfolio the lower the risk is over time
- A portfolio should have a strong foundation of safe investments

Sample Investment Portfolio

- Foundation Investments-low risk investments, usually FDIC insured:
  - Certificates of Deposit, treasury bills, savings accounts
- Conservative Investments-not FDIC insured, greater risk of loss:
  - Mutual fund (a professionally managed collection of stocks, bonds and other investments), U.S. Government Bonds
    - Provides diversified holdings within one investment
- Growth Investments-higher risk of loss, higher rate of return:
  - Growth Stocks and Mutual Funds, Real estate
- Speculative investments (High earning potential with a high risk of loss)
    - Commodities, venture capital

Maximize Investment Return

- Financial Market-refers to any place where investments are bought and sold
- Bull Market-The period in the stock market when prices are steadily increasing
  - Profit-taking occurs during this market (people sell stock and gain profit)
- Bear Market-The period in the stock market when prices are steadily decreasing
  - Usually a good time to buy stocks

Economic Conditions

- Economic growth- the period of time when people are working, profits are good, wages are rising, and people are optimistic
  - Typically stock prices rise during this time period because a company's profits are rising.
  - People are buying and selling stocks to make a profit

- Economic decline-the period of time when prices are falling, the economy is in a slowdown
  - Can be a good time to purchase investments that are sound investments at a low price