



# ***Managing Money***

## ***Investment Options***

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It is important to note that most financial advisors recommend you have a savings cushion of two-six months worth of expenses before putting money into investments. In case of an emergency, a sudden illness or a job loss, you need to be able to access your savings.

An investment is a savings option that you purchase for future income or financial benefit. Many banks now sell investment products such as mutual funds. Although some investment products are sold at banks, they are not the same as deposit accounts and your money is not federally-insured.

When you invest your money, there is a greater risk of losing it than if you put your money in a savings or deposit account. There is a possibility you might lose the entire amount you invest if the investment does not perform well.

Because of the risk you take, there is also the opportunity for your investment to earn more than your regular savings account might. The higher the risk, the higher the expected return on investment.

You can make money on investments by selling them for more than you paid for them or by earning dividends and interest. This is taxable income.

Some of the more popular types of investments are:

- Stocks
- Bonds
- Mutual Funds

### **Stocks**

When you buy stocks or shares, you own part of the company. If the company does well, you might receive periodic dividends. Dividends are part of a company's profits that it gives back to you as a shareholder.

Another way to make money from stocks is to sell them at a profit. If the company does well, others might be willing to buy your stock at a higher price than you paid.

Keep in mind that if a company does poorly, you might lose money. For example, if you buy \$100 worth of stock and the company is not doing well when you want to sell it, you might be able to receive only \$60. In this case, you would have lost \$40.

### **Bonds**

When you purchase a bond, you are loaning money to a corporation or to the government for a certain period of time called a term.

The bond certificate promises the corporation or government will repay you on a specific date, usually with a fixed rate of interest. Bond terms can range from a few months to 30 years. You need to research the company before you invest to make sure it has the ability to repay the loan. Corporate bonds have varying degrees of risk.

U.S. Savings bonds are a long-term investment option backed by the U.S. government. Buying

savings bonds is an easy and safe way to save small amounts of money. They are frequently purchased for a child's education; however, they may be used for any purpose. Savings bonds can be purchased at a financial institution for as little as \$25 or through payroll deduction.

### **Mutual funds**

A mutual fund is a professionally-managed collection of money from a group of investors. A mutual fund manager invests your money in some combination of various stocks, bonds and other products.

The fund manager determines the best time to buy and sell the products in the fund. By combining your resources with other investors in a mutual fund, you can diversify even a small investment, which should reduce risk.

Diversification means "don't put all your eggs in one basket", or spread the risk of loss in a variety of savings and investment options.

Mutual funds generally have a higher return over the long term than a regular savings account. Because you can diversify your investment, there is usually less risk than buying stocks and some bonds.

### **Home ownership**

Owning a home is an investment because the home generally increases or appreciates in value. As your home increases in value and the balance on your mortgage decreases, this builds equity. Equity is the difference between how much the house is worth and how much you owe on a house.

Here's an example:

Value of Home - Debt (how much you owe) =  
Equity

\$100,000 (value of home) - \$70,000.00 (debt) =  
\$30,000.00 (equity)

### **Retirement investments**

Retirement investments generally grow tax free until the money is withdrawn during retirement. Retirement plans allow you to choose from different types of investments depending on how much risk you want to take. Retirement investments include Individual Retirement Accounts or IRAs, 401(k) and 403(b) plans, and Keogh and Simplified Employee Pension plans.

If you are interested in learning more about tax-deferred investment accounts, go to a bank or an investment firm. You can also do your own research. A public library or the Internet are good places to start.

How can you decide which savings account or investment option is right for you? There are three main decision factors for selecting the right savings or investment:

- How much do you want to accumulate over a certain period of time?
- How long can you leave your money invested?
- How do you feel about risking your money?

These factors will help you choose the right savings or investment option.

Some examples:

- If you think you might need access to your money right away, it might be best for you to keep it in a savings account where you have immediate access.
- If you are not comfortable with risk and cannot afford to lose the money, take less risk by depositing money in an insured financial institution. Shop around for the account that best meets your needs.
- If you have some money you won't need for several years, you might consider different investment options such as stocks, bonds or mutual funds.

Use the Shopping for Savings Account/Investment Products Work Sheet to compare savings accounts or investment products. You may need more than one copy.

**Reference:**

Federal Deposit Insurance Corporation. (2002) Pay Yourself First. Money Smart. Washington, D.C. Author.

## Shopping for Savings Account/Investment Products Work Sheet

	Savings product 1	Savings product 2	Savings product 3
	_____ (name)	_____ (name)	_____ (name)
Amount needed to open account or buy product			
Annual percentage yield (APY)			
Time needed to access money			
Fees involved, if any			
Fees for early withdrawals, if any			
Amount of risk involved			
Other fees			
Other things to ask: <ul style="list-style-type: none"> <li>• Is my account insured if it is in a bank or credit union?</li> <li>• Am I comfortable with the amount of risk involved in investing my money?</li> </ul>			

*This resource is one in a series on **Managing Money** which include:*

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**Making your Money Work:**

Determining What Is Important to You  
Where Are You Now? (Net Worth Statement)  
Stop Spending Leaks  
Developing a Spending Plan

**Using Credit:**

What Is Credit and How Much Credit Can I Afford?  
Types of Credit: What Are Your Choices?  
Credit Cards  
Credit Reports

**Building Savings:**

Ways to Save  
How Your Money Can Grow  
Where to Save  
Investment Options

**Selecting Financial Institutions:**

Selecting a Financial Institution  
Checking Accounts  
Savings Accounts

**Creating a Record System:**

Keeping Records in Order  
Where to Keep Records

**Determining Readiness:**

Financial Readiness  
Benefits and Challenges

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