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Money on the Mind

Goals and Savings

Investing Basics

Goals and Savings

Learning Objectives

What you will learn about:

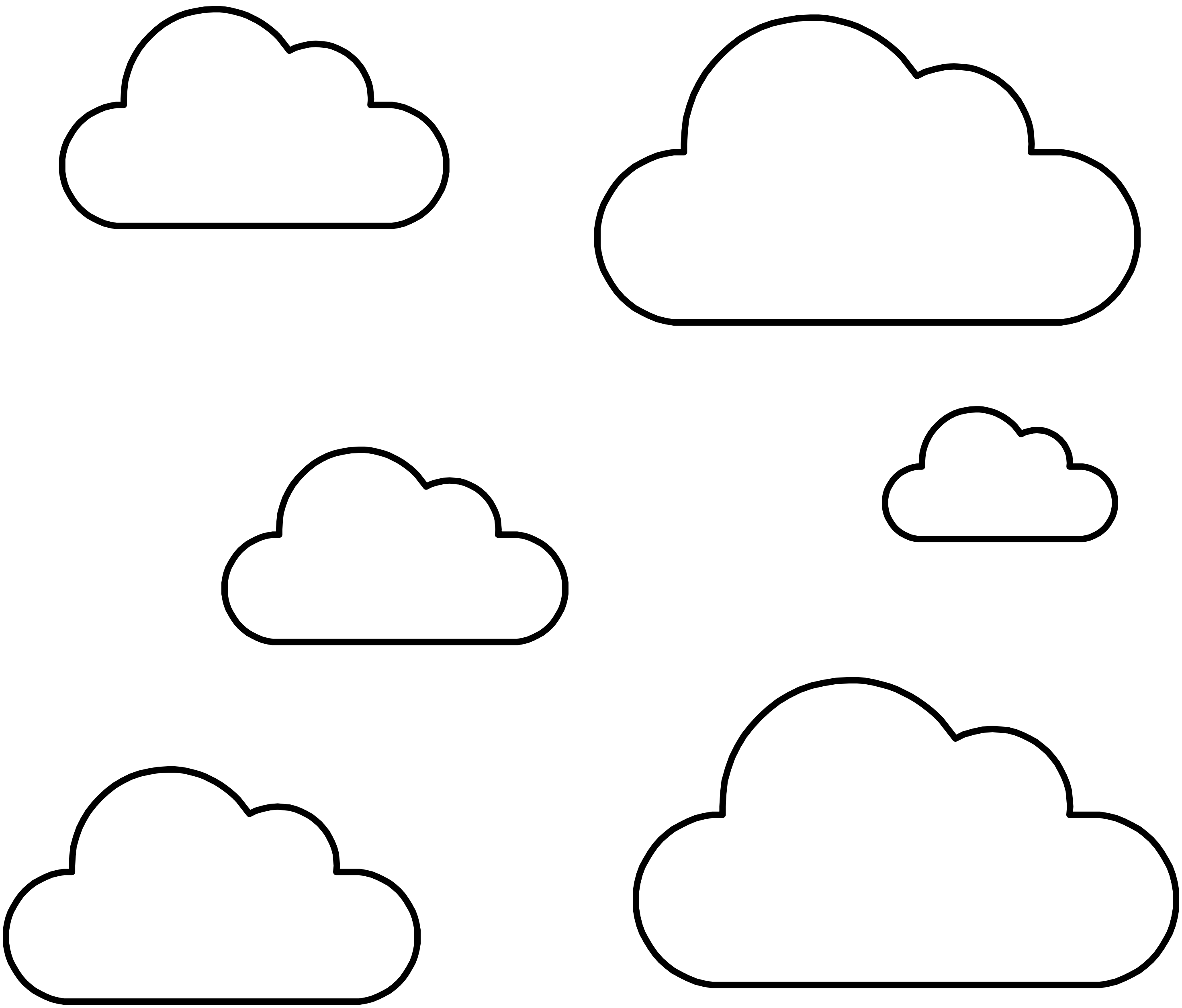
- Personal visioning and goal setting
- The elements that make up a S.M.A.R.T. goal
- How to develop strategies to reach your goals
- The elements of an action plan
- Common savings products

What you will be able to do:

- Develop a vision for the future based on core values and aspirations
- Set realistic goals that reflect your personal values
- Identify concrete strategies for achieving goals
- Identify which savings products to use for your savings needs

Visioning

Imagine that you are sitting on your bed at 90 years old, looking back at your life. What do you want to have accomplished? What kind of person do you want to have been? Fill in the clouds with words, pictures, or doodle about how you want to be, and what you want to have accomplished. If you need more space, feel free to fill up the blank space outside of the clouds. Get creative with it!



Setting "S.M.A.R.T." Goals

Reflection Exercise

Think about your life over the next three months to five years. What do you hope to become, accomplish or achieve? Using the "S.M.A.R.T." goal rubric (**Specific; Measurable; Action-Oriented; Realistic; Time-limited**) put each of your goals into a sentence – be sure to address each of the elements that make a goal smart!

1. Short-term goal/s:

What are your hopes and dreams, for you or your family, for three months from now?

2. Medium-term goal/s:

What are your hopes and dreams, for you or your family, for a year from now?

3. SMART Long-term goals:

What are your hopes and dreams, for you or your family, for five years from now?

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Create Your Action Plan

Brainstorm all the actions it will take to reach your selected goal. Look at the list and consider:

- What strengths can you use to save for your goal?
- What challenges can you predict?
- What can you put in place to eliminate or minimize those challenges?

Actions

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Strengths

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Challenges

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Ways to Reduce or Eliminate Challenges

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Savings vs. Investing

Savings
Short term
Accessible
Low or no risk
Low return
Money put aside for emergencies or other goals

Investing
Longer term
Higher amount
Higher risk
Increase in value
Potential income

Common Types of Savings

Checking account - a bank account that allows easy access to the funds in your bank account. Typically offers low to no interest on deposits.

Savings account – an interest bearing bank account that limits the amount of withdrawals per month

Money market account – an interest bearing account that usually pays a higher interest rate than a savings account, and often provides checkwriting privileges and debit cards. Has limits to withdrawals and a minimum balance requirement

Certificate of Depost (CD) – financial product that offers a higher interest rate than savings account or money market and requires that you keep money "on deposit" for a specified period of time or pay a penalty to access the funds before maturity

Matched Savings Account – an account offered by state and non-profit institutions that will match the money that you save into this account. For example, this could be a dollar to dollar match, or a 3-1 match

Where would you save?

Scenario 1

Blaine wants to continue his savings efforts. While the money he has saved is earning some interest, he wants to earn more. This money is intended for emergencies, but he is keeping $1,000 in a low interest savings account for quick access. The rest he wouldn't expect to use unless he was laid off or experience some other costly emergency. Where should Blaine save his money?

Scenario 2

Candice has a few hundred dollars saved up for an emergency. She wants the highest interest rate possible on her cash without risking the principal amount she has saved. Her savings balance would be used to cover unexpected expenses or any large emergencies that may arise.

Scenario 3

Whitney has been saving any extra cash she has each month into an envelope she keeps in her dresser. It has grown to over $1,000 and she wants to find a more secure place for it than her dresser. She is not saving for anything specific, but would like to earn some interest on it in the meantime. She doesn't imagine using it month to month, but would like to make a big purchase with this money someday, and wants access to that money when she makes that decision.

Financial Foundation Goal

Save and maintain $1,000 for short-term emergencies

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Financial Foundation Goal

Save and maintain 3-6 months of necessary income for long-term emergencies

Goals and Savings
Resources

Nudge: Improving Decisions About Health, Wealth, and Happiness, Richard Thaler and Cass Sunstein, Penguin Books, 2009.

Your Money or Your Life: 9 Steps to Transforming Your Relationship with Money and Achieving Financial Independence, Vicky Robin, Joe Dominguez with Monique Tilford, Penguin Books, 2008.

The Power of Habit: Why We Do What We Do in Life and Business, Charles Duhigg, Random House, 2012.

Switch: How to Change Things When Change is Hard, Chip Heath and Dan Heath, Crown Business, 2010.

Goal Setting: Learn the Powerful Process for Motivating Yourself to Turn Your Vision of Your Future into Reality, John Richlove, Amazon Digital Services, 2015.

Start Small, Save Up, CFPB website, https://www.consumerfinance.gov/start-small-save-up/

Investing Basics

Learning Objectives

What you will learn about:

- What makes up your net worth
- The investment planning process
- The importance of risk tolerance and time horizon
- How asset allocation plays a role in portfolio construction
- Common types of investments and the importance of diversification
- Institutions that offer investment services

What you will be able to do:

- Calculate your net worth
- Develop a basic investing plan
- Assess readiness for investing
- Create a portfolio outline based on goals, time horizon, and risk tolerance
- Shop effectively for investment services

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Net Worth

Assets – Liabilities = Net Worth

Assets (What you own)	Liabilities (What you owe)
Balance of checking/savings account	Credit card balances
Retirement savings	Personal Loans
Investments	Student Loans
Home	Home Loan
Automobiles	Other debt

Financial Foundation Goal

Begin investing for retirement

What is Investing?

Investing is to commit money in order to earn a financial return. When you invest money, you intend for that money to grow larger over time. Investing is how your money makes money.

Investing is different than savings. Savings will help you achieve short term goals, while investing allows you to prepare for longer term ones. Savings are typically guaranteed, while the value of your investments are not. However, investments offer a greater return potential than savings over the long term.

Goal Setting

Investing without a goal is like taking a roadtrip without a destination. If you do not have a goal, how will you measure your progress?

Common goals for investing include:

- Retirement
- College Education
- Buy a Home
- Start a business

Define Your Risk Tolerance and Time Horizon

All investing involves risk. You can expect the value of your investments to fluctuate over time, and there is no guarantee that you will receive your initial investment when you sell. The reason that you invest is to make money over time, so some degree of risk is necessary with every investment.

You get to decide how much risk that you are comfortable taking. Typically the more risk you take, the greater potential of achieving a higher return.

Your time horizon, or time until you will need your investment, is an important factor to help you determine how you will invest your money. You may choose to not invest money you need in the next year so that you know it will be there for you. Alternatively, if you won't need the money in the next 10 years, you may invest more aggressively to grow your money over time.

Time Horizon
The length of time before the investment is needed.

Risk Tolerance
Your ability and willingness to stomach large swings in the value of your investments. An investor with a high risk tolerance would expect large swings in value with more growth potential, while a low risk tolerance would expect less fluctuations with less growth potential over time.

Types of Investments

Stocks, Bonds, and Mutual Funds

Stocks are ownership in companies. You make money from stocks when the share price increases, or the company pays out its profits to you, the stockholder. When the company makes money, you make money.

Bonds are debt from companies, governments, and municipalities. You lend the bond issuer your money, and they make interest payments to you for a specified period of time. At the end of that period, you receive your initial investment back.

Mutual Funds are a collection of stocks and/or bonds. Instead of owning one single stock, with a mutual fund, you may own a piece of hundreds or thousands of stocks and/or bonds. This allows the investor to be diversified from the beginning.

Choose Your Asset Allocation

Asset Allocation refers to the percentage of your money that is invested in stocks vs. bonds. While stocks have outperformed bonds overtime, they tend to be more volatile year to year. Having your dollars invested in both allows you to grow your investments, while limiting the fluctuations your investments experience over time.

Consider an investment portfolio that holds 80% stock investments, and 20% bond investments. How might that be different from a portfolio that holds 35% stock investments and 65% bond investments?

Diversify Your Investments

Diversification is the process of investing in many stocks, bonds, and mutual funds to limit the risk that you are taking by investing in any one company. If you invest in a mix of different stocks, bonds, or mutual funds, your total investment will not be wiped out if one investment fails.

Ready to Invest?

Before investing, consider paying down high interest debt, as well as maintaining an emergency fund. After that, consider using the following services to meet your investment needs.

Online Broker

Offers the ability for you to buy and sell investments at your discretion.
Investor responsibility: High
Fees: Very low

Robo-advisor

Invests your money for you with the information that you provide about your goals, time horizon, and risk tolerance.
Investor responsibility: Moderate
Fees: Low

Banks and Credit Unions

Many offer investment options, and some give you access to work with a licensed financial advisor.
Investor responsibility: Low
Fees: Generally 1-2% of account value per year

Full Service Financial Advisor

Works with you to understand your goals and put a strategy together to acheive them.
Investor responsibility: Low
Fees: Generally 1-2% of account value per year

All investments services vary by provider. Talk with your HomeSource counselor or a financial professional to determine which option is best for you.

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Investment Planning Committee

Scenario 1

Chuck is 24 years old and would like to start investing for retirement. He just started his first career focused job and they even offer a 401(k) and a match to their employees! Chuck expects to work a full career, and can't imagine retiring before he turns 65. He wants to get started by investing a little money from his paycheck each month, and wouldn't dream of touching this money before retirement. Chuck likes the idea of investing for the future, and has seen the power of the market in the past. His grandma made some smart investment moves, and she has taken great care of herself and her family because of her investments. His goal is to grow this money as fast and as much as he possibly can over his career.

Scenario 2

Clair is 47 years old and has been investing for retirement since her first job in her 20s. She has a healthy amount saved in her employer's 401(k) plan, but is worried about what the market holds for the next 12 months. She would like to invest in a way that grows her retirement investments over time, but also protects what she has worked so hard to save up to this point. She hopes that she can retire by the time she is 60 years old, and spend that decade traveling with her husband to see their kids and grandkids.

Scenario 3

Flannery and Norman are both in their mid 60s. They plan to retire by the time that they turn 70 years old, but also enjoy their work and are in no rush to quit working. They have been self-employed most of their lives, and have invested in their Traditional and Roth IRAs over the course of their career. Flannery is incredibly nervous about the market, and doesn't want to risk what they have saved. Norman on the other hand is optimistic about the stock market, and figures that they have saved enough to allow for them to take a modest amount of risk with their investments.

Scenario 4

Winona just turned 80 years old last month. She is in great health, and travels frequently to see her family, which is spread around the country. She receives social security income, as well as a healthy pension from her late husband's career as a railroad technician. She relies very little on her investments month to month, as her fixed income covers most of her monthly living expenses. She only draws from her investments when she decides to travel or indulge in something for herself, which she only does occasionally. She doesn't plan to use most of her investments for her own spending, and looks forward to giving a healthy portion to her favorite charity, as well as use the remainder to send her 4 grandchildren to college with whatever is left over. She doesn't watch the market much, but would like her accounts to grow modestly over time.

Financial Abundance Goal

Plan for a comfortable retirement

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Investing Basics
Resources

Planning for retirement, CFPB website, https://www.consumerfinance.gov/consumer-tools/retirement/

Beginners Guide to Investing, SEC website, https://www.sec.gov/reportspubs/investor-publications/investorpubsbegininvesthtm.html

LearnVest.com is a financial site for underserved Americans. In addition to a mobile budgeting tool, it offers an affordable way to call or e-mail a staff or certified financial planner for guidance. Charges a flat fee for financial plans, and a small monthly maintenance fee.

BrightScope.com is a financial information and technology company whose goal is "to bring transparency to opaque markets" and to help individual investors with decision-making. Through their site you can research 401-k plans, ask financial questions, search for an advisor, and read financial articles. Provides information about many advisers, including experience, certifications and conduct.

To check the background of broker-dealers visit:
http://brokercheck.finra.org/or http://www.sec.gov/investor/brokers.htm

To check the background of an Investment Adviser visit:
http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx

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