I. Investing your money

A. General Rules of investing: Risk vs. Return

1. The higher the potential return is, the more risky the investment typically is.

B. Places where you can invest your money at a bank

1. Savings Account: Deposit money and can withdrawl later
   a) Almost Ø risk = Not a high return either
   b) Account gives you *interest earned • a % of your deposit is given to you b/c the bank is loaning out your money. (less than 1%)
   c) Insured by the FDIC up to 250,000
   CT: Disable ATM access
   CT: 3 months worth of living expenses
2. Certificate of Deposit (CD)
   a) Like a savings account with a time lock (1 month → 10 yr)
   b) Higher returns than a savings account
   c) Longer you lock it up the higher the interest rate is.
   d) Have to pay a penalty to withdrawl early
   CT: Useful if you can plan ahead

C. Credit Unions

1. Offer same investments as a bank however...
   a) They are non-profit = work to help their members
   b) can limit membership
   c) B/c non-profit members get higher interest earned on deposits

d) and members get lower interest charged on loans

D. A Financial Planner (TD Ameritrade, Meryl Lynch, Edward Jones)

* Investing in the stock market
* No longer protected by FDIC
* Possible to lose money

1 Buying Stock
a) Very Risky = Potentially high returns
b) Buying ownership of corporations
c) Blue Chip Stock: stable companies = lower returns
d) New companies: unstable = more risk
CT: To me this isn't a long term investment, its more for fun.
CT: Have to be ok with losing everything

2. Mutual Funds
a) Investors pool money together to buy lots of different stocks
b) Can choose level of risk, for the most part
c) Long term yields much higher rates of return
d) Less Risky than buying individual stocks
CT: Great balance between high/low risk

3. Bonds
a) Loaning US government money
b) Gov. pays you a guaranteed rate of return
c) Low Risk = Low Return
CT: Most Bonds earn less than 2%
CT: Have to worry about inflation

★ 4. Individual Retirement Accounts (IRA) ★

a) Most important investment you can make

b) Its up to you to determine how long you will need to work and what your lifestyle will be after you stop working

★★★ c) Roth IRA: pay taxes now so you won't pay taxes when you withdraw

d) Traditional IRA: pay no tax now, pay when you withdraw

e) 401(k): Essentially a IRA through your company, with the bonus that the company can put money in as well.

CT: Start one as soon as possible

CT: Invest at least 8% of your paychecks

CT: Sooner you start more $ you will have