

MONEYWISE

VALUING PEOPLE. VALUING MONEY.

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THIS MONTH'S TOPIC: INVESTING FOR EVERYONE

Benjamin Franklin is credited with saying, "A penny saved is a penny earned." But is this principle true? In today's economy, not necessarily. If we put a penny (or dollar) under a mattress, it may be worth less than a penny (or dollar) tomorrow or next year. Because of inflation, goods and services usually cost more in the future than they do today. This is why even people who are good at "saving" can fall behind financially. Investing your money is one way to battle inflation.



GROW YOUR MONEY

Saving is not investing. Investing is a way to make your money grow. Once you have an emergency fund in place for unexpected expenses, you should consider investing any extra money. Invest as much as your "risk tolerance" will allow. The U.S. Securities and Exchange Commission (SEC) defines risk tolerance as *"an investor's ability and willingness to lose some or all of an investment in exchange for greater potential returns."* There is risk involved when investing, but with research and careful choices, your money should grow steadily over time.

COMPOUNDING INTEREST

Anyone who has had a revolving balance on a credit card knows that for an item that originally cost \$100, you could pay back more than \$100 with interest. Credit card companies take advantage of compounding interest by charging extra for every purchase not paid off in full each statement. Then, they charge you interest on top of that interest, sometimes daily! This illustrates the principle of **compounding interest**, which is why getting out of debt can be hard. However, when investing, compound interest is a great thing! It helps your money grow faster. Learn more at ukfcs.net/MoneyWise2-23

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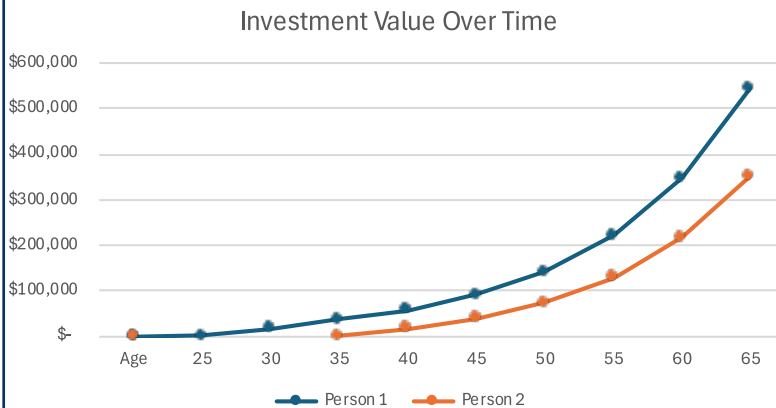
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MANY PEOPLE THINK THAT TO INVEST YOU NEED THOUSANDS OF DOLLARS, WHICH IS A MYTH



NOTE: Both investors contribute \$2,000 per year once they start investing. The example assumes a 9% fixed rate of return, compounded monthly. Reference: Investor Protection Trust. *The Basics of Saving and Investing: Investor Education 2020.* <https://www.tn.gov/content/dam/tn/commerce/documents/securities/posts/The-Basics-of-Savings-and-Investing.pdf>

CAN I AFFORD TO INVEST?

Many people think that to invest you need thousands of dollars, which is a myth. You can invest as little as a dollar a month. Almost anyone can open a brokerage account. This account is like a savings account but with a brokerage company allowed to sell “holdings” like stocks, bonds, mutual funds, and Exchange Traded Funds (ETFs). The U.S. Securities and Exchange Commission offers a beginner’s guide to investing at <https://www.investor.gov/introduction-investing>.

Check with your employer to see if they offer a retirement plan such as a 401(k). If they do, start contributing as much as you can each pay period. Your employer can take this amount from your pay and put it into a brokerage account for you. Many companies also “match” contributions up to a certain amount. This means that for every dollar you put in, the company also adds a dollar. This is free money! Try to maximize this amount each year. There also can be tax benefits depending on the type of account you have.

Once the money is in your brokerage account, you can decide what to buy (e.g., stocks, bonds, annuities). Try to learn as

much as you can about the products you are buying, but don’t wait to start investing. There are investment professionals who can help you figure out which purchases are less risky. Make sure your investment portfolio is diversified. That means you should invest in a variety of different things so you have more “eggs” in your “basket.” On average, inflation has been 3.51% each year since 1950, so you should aim to earn at least 3.51% or more on your investments (<https://www.officialdata.org/us/inflation/>).

SLOW AND STEADY

Once you start investing, use the “buy and hold” strategy to sit back and watch your money grow over time. If you earn 9% interest (assuming a strong market), your money will double in 8 years! Then it will double again in the next 8 years, and so on. The sooner you invest, the sooner that can happen. So, whether you can invest \$5 a month or \$5,000, just get started. Your future self will thank you.

REFERENCE:

Office of Financial Readiness. *Investing Basics: Bonds, Stocks, Mutual Funds and ETFs.* <https://finred.usalearning.gov/Saving/StocksBondsMutualFunds>

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