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SAVING AND INVESTING BASICS - PART ONE -

MONEY

What is money? Money is anything generally accepted as payment for stuff – goods, services, etc. We currently think of money as pieces of paper issued by the US Government (for example a $1 bill or $10 bill). More and more we store and spend our money electronically – more cards and fewer pieces of paper.

How do we get money? By working – parents have jobs and children have allowances and chores. Sometimes you may receive money as a birthday or holiday gift. Some older children may have part time jobs (mowing a neighbor's lawn or watching a younger child).

What can you do with money? Spend it – use it now to buy stuff (current consumption). Save it – use it later to buy stuff (future consumption).

SAVING

First, why save? Whether young or old, it's important that we not spend all the money we receive; we need to save for the future. We save for many reasons – future purchases, unforeseen needs and because we may not currently want to buy anything.

Second, where can you save money? Most everyone's first savings account is a piggy bank in their room. We eventually empty the piggy bank and open a bank account to hold the money we have saved. While banks are great for safety (they have big locks and security guards) and convenience (ATM machines and debit cards), there are other options.

INVESTING

What is investing? If I said you should receive something for allowing a bank to hold your money, you might care. You might even ask – what do you get from the bank? Remember, the bank provides a safe place to store and convenient access to your money. These services are what you receive from a bank.

Another example might help to understand this concept. It's popcorn day at school and you remember to bring a quarter for popcorn. Your friend, however, forgot so asks for your quarter to buy popcorn, saying: "I will pay you back tomorrow." You are not too hungry and decide you are OK with skipping popcorn. Because you had to give up popcorn today, you might decide that you would like your friend to pay you back two quarters instead of just one. This is the benefit you receive for loaning your friend money. This is a very simple example of an investment.

What benefit does an investment provide? Instead of keeping all your money in a bank, you might decide to "invest" some of your money. While investments are not as convenient as banks and generally should only be used for money that you do not need for many years, there is the possibility that your investment will be more valuable in the future. An investment's primary benefit is that it provides an opportunity for your money to increase in value over time.

Similar to the popcorn example, you may be willing to invest $10 now if you thought your investment could be worth $20 in the future. That is you might decide to not spend your money now, if you thought that by investing you could have more money to spend in the future (you could buy more in the future).

Some additional tips on investing. All investments have some level of risk. The main risk is the value of our investment may actually decrease – our $10 may be worth $5. We can reduce this possibility by making good investments and having a long time horizon for our investment (5 to 10 years, or even longer).

While there are lots of different investments, the easiest and best option for younger investors is to invest in a bunch of companies that you already know (Apple, Exxon Mobil, Microsoft, General Electric, Walt Disney, etc.). In fact, there are many options that allow individuals to invest in a group of these companies.

SAVING AND INVESTING BASICS
- PART TWO -

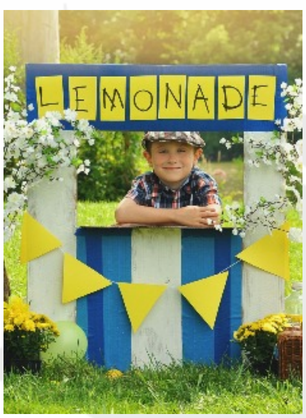
INVESTING IN A BUSINESS

We now know there are different options for storing our money – piggy banks, bank accounts and investments – each with different benefits. We discussed that some investments have the potential to increase in value (our money can grow over time). An example might help to explain how this works. Most investments are associated with a business, so our example will start with a small business familiar to everyone, the Lemonade Stand.

LEMONADE STAND INVESTMENT

While most of us were probably not too concerned with the cost of the lemonade we sold, it is important to consider the costs of starting and running our Lemonade Stand. Think of your parents as investors in your Lemonade Stand; they provide you with money so you can start your Lemonade Stand. Their money buys lemonade and cups and materials to make signs. Just like you, your parents have many needs for their money – to pay bills, buy groceries and save for their future. By investing in your Lemonade Stand they are giving up the ability to do something else with their money. It is reasonable that they would expect to receive a benefit from their Lemonade Stand investment. The benefit depends on the discussion between your parents (the Lemonade Stand Investors) and you (the Lemonade Stand Owner). Let's say you need $5 from your investors to start your Lemonade Stand. You propose two options.

Option One



If they give you $5 today to start your Lemonade Stand, you will give them $6 after your Lemonade Stand has been open for a few weeks. Their investment is over once you pay them the $6. Their investment increased in value from $5 to $6.

Option Two

If they give you $5 today to start your Lemonade Stand, you will give them a portion of your Lemonade Stand, say 10%. Instead of owning 100% of the Lemonade Stand, you will own 90% and your investors will own 10%. Their investment continues for as long as the Lemonade Stand exists. The value of their investment depends on the success of the Lemonade Stand.

COFFEE SHOP INVESTMENT

While the Lemonade Stand is a very simple example of an investment, there are real life examples that are fairly similar. Take Starbucks for example and switch from selling lemonade to coffee. Starbucks has been very successful and investors have seen the value of their investment increase over time. For example, if you had invested $100 in Starbucks 10-years ago, your investment would now be worth $400. The value of your $100 investment reflects the growth and success of Starbucks over the past 10-years.