SAVING & INVESTING WORKSHEET

1) Use the "Rule of 72" to approximate the following:

• $1,000 initial investment, at a 6% average annual return. What is the value after 36 years?

    A. $4,000   B. $6,000
    B. $13,000   D. $8,000

• $1,000 initial investment, at a 12% average annual return. What is the value after 36 years?

    A. $13,000   B. $64,000
    B. $128,000   D. $48,000

2) What is inflation? Describe how it affects purchasing power.

_____

_____

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_____

3) Explain why <u>hyper-inflation</u> and <u>deflation</u> both have negative effects on economies.

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4) What are the differences between "wants" and "needs"? Provide examples of each.

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5) Using the risk spectrum below, place these investment options in order of <u>least</u> risky to <u>most</u> risky.

    Corporate Bonds   Stocks/Equities   Collectibles/Antiques   CD/Savings Account

←——————————————————————————→

Less risk   More risk

6) <u>True or False</u>: Past investment returns provide an accurate indication of future performance of an investment?

                    True   False

7) Circle whether the identified investment is an appropriate investment for a long or short term investment horizon.

- Cash   Long term / Short term
- Certificate of Deposit/Savings Account   Long term / Short term
- Antiques/Collectibles   Long term / Short term
- Real Estate   Long term / Short term
- U.S. Government Treasury Bills   Long term / Short term
- Foreign Equities   Long term / Short term
- Investment Grade Corporate Debentures   Long term / Short term

8) True or False: Actively managed funds are more likely to beat their benchmark than passive funds?

           True   False

9) Circle the correct answer: Diversifying investments increases or decreases risk compared to a single investment?

           Increase   Decrease

10) The average investor's return is far lower than the market average return because of which of the following? Circle all that apply.

A. People invest irrationally based on emotion.   B. Investors try to time the market.
C. Frequent trading results in more commissions.   D. Investors chase returns.
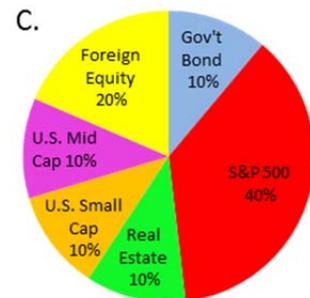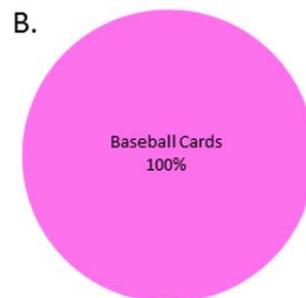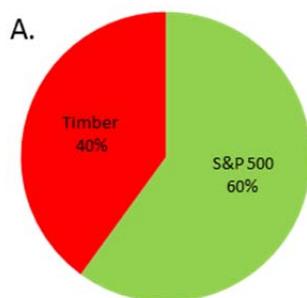
11) True or False: Lower costs/expenses are the best indicator of the future performance of a fund?

           True   False

12) True or False: Passively managed funds or ETFs generally have higher costs/expenses than their actively managed counterparts?

           True   False

13) Which of the following is the most diversified portfolio?

14) You should aim to save at least what percent of your income?

A. 78%   B. 6%
B. 3%   D. 15%

15) Research project: On a separate sheet of paper, explain how either of the following concepts can negatively affect investing behavior: "myopic loss aversion" or "social validation."

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SAVING & INVESTING CROSSWORD
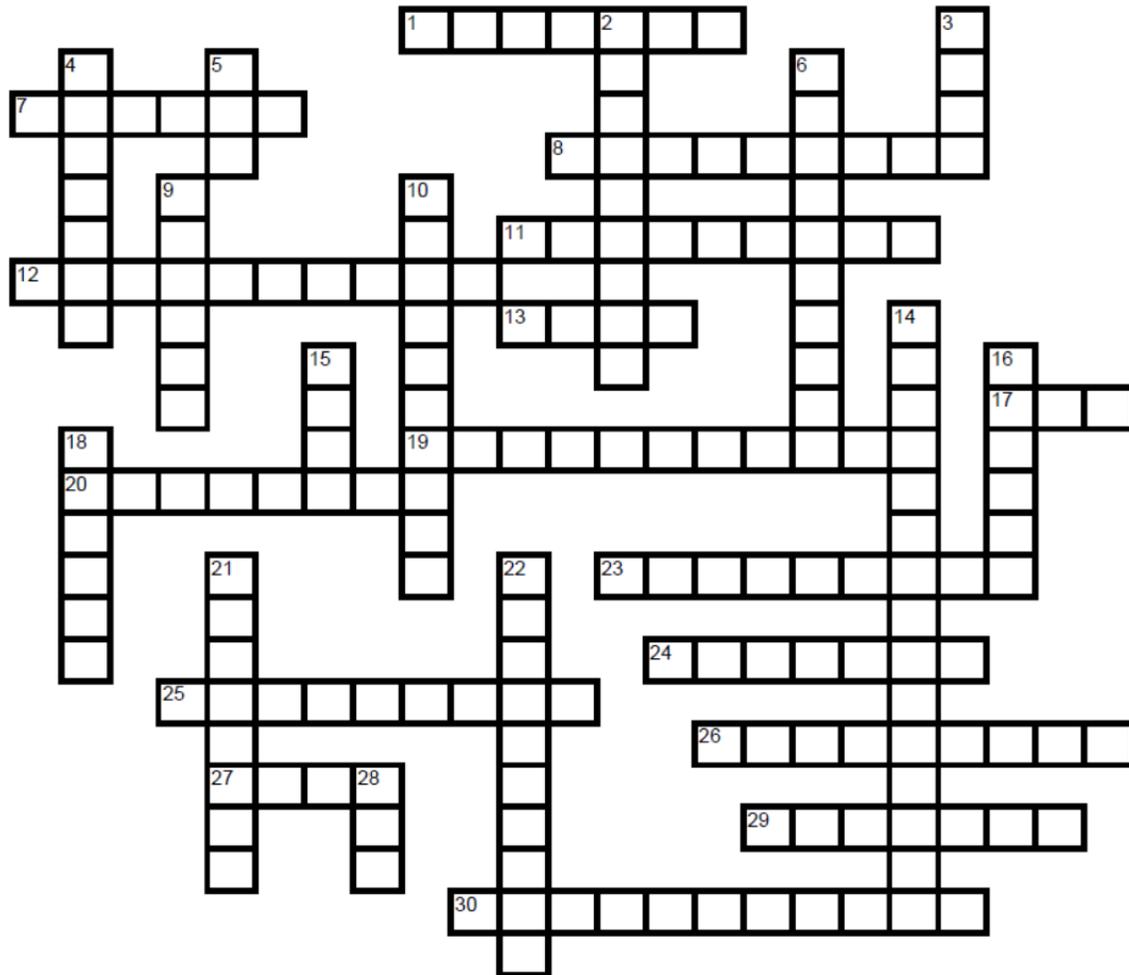
ACROSS

1. Investment style that mimics an index or matches a benchmark
7. Document setting forth income and spending used for planning
8. Standard used to measure performance of an investment
11. General decrease in the prices of goods
12. Investment vehicle comprised of securities using funds pooled from many investors
13. Debt investment wherein one party lends money to another
17. An index fund that trades like a security (abbreviation)
19. Past _____ does not guarantee future results
20. Money paid for the use of money or delaying debt repayment
23. General increase in the prices of goods
24. Amount that expenses exceed revenues; loss
25. _____ to mean. Markets always generate their historical average returns.
26. Dollar cost _____: making constant scheduled purchases of the same amount in a security
27. Government entity that insures bank deposits (abbreviation)
29. Investment _____: anticipated length of hold time of an investment
30. Adding earnings to an initial investment that also earns money

DOWN

2. Type of mutual fund that tracks a benchmark or index
3. The possibility of losses compared with the probability of expected return on an investment
4. Amount that revenues exceed expenses; profit.
5. Government watchdog entity for investments and securities (abbreviation)
6. A fee charged to an investor by a broker to trade a security
9. Ownership in an asset
10. Legal procedure involving an entity unable to pay debts
14. Spreading investments in different securities/asset classes
15. Payment to an employee based on hours or days worked
16. Amount earned on an investment, expressed as a %
18. Able to be easily and quickly converted into cash
21. Quick method used to determine when money doubles, based on the annual return
22. Asset _____: how one divides investments among different asset classes
28. Government index that measures inflation (abbreviation)

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SAVING GOALS WORKSHEET

As you read this you know that you may have to wait before you can buy something you want because you don't have the money. There is a difference between things you want and things you need.

And we all have to make choices about how to spend our money. This is called budgeting. A budget sets forth your anticipated income and spending over a period of time. It allows you to see what you can afford, how much you can spend and if you need to cut back on buying things because you don't (or won't) have enough money.

There is simply not enough money to buy everything you might want. You must prioritize . . . you may have to wait to buy something you want because you can't afford it or because you need something else. Before you buy something, research it, shop around, compare prices and ask questions. Do you really need the item or can you live without it? Are you replacing something broken? Do you have something else that will work just as well? What advantages does the new one offer?

Once you have made decisions about what you are going to purchase you can then set savings goals for those items. In fact, studies have shown that people who actually write down their goals on a piece of paper are 33% more likely to reach them. Use this worksheet to help you reach your savings goals.

Goal	Cost	Number of Months Until Purchase	Monthly Savings Needed	Weekly Savings Needed

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SAVING & INVESTING WORKSHEET
ANSWER KEY

1)   D ; B
2)   Inflation is the general increase in the price of goods and services. Inflation has the effect of lowering the purchasing power of money that does not increase in value at the same rate of inflation.
3)   Hyper-inflation causes goods and services to increase at a much higher rate than wages, eroding the purchasing power of money. This effectively causes people to feel poorer and they stop buying goods and services. Deflation results in goods that people might purchase being worth less the next day, and even less the day after, etc. This makes consumers less willing to spend money, the negative effect of which is noticed on the economy as a whole.
4)   Needs are items that are necessary in order to live one's life – like food, clothes, shelter, etc. Wants are those items that make people happier, but are not necessary to healthy and safe living. Examples of wants include cell phones, expensive name brand clothes, fancy shoes, video games, entertainment, etc.
5)   CD/SAVINGS …CORPORATE BOND…STOCKS/EQUITIES…COLLECTIBLES/ANTIQUES
6)   FALSE
7)

Cash	Short term
Certificate of Deposit/Savings Account	Short term
Antiques/Collectibles	Long term
Real Estate	Long term
U.S. Government Treasury Bills	Short term
Foreign Equities	Long term
Investment Grade Corporate Debentures	Short term

8)   FALSE
9)   DECREASE
10)   ALL ANSWERS ARE ACCURATE
11)   TRUE
12)   FALSE
13)   C
14)   D
15)   "Myopic loss aversion" occurs when investors temporarily lose sight of their long term goals and focus on potential immediate losses. The body/mind experience the same physiological response as "fight or flight" syndrome. This results in panicked irrational selling based on emotion. "Social validation" is our innate desire to be a part of the crowd. It causes a perceived validation of investment decisions by following the herd and doing what others are doing, without any sound investment rationale.

SAVING & INVESTING CROSSWORD
ANSWER KEY

ACROSS

1. PASSIVE
7. BUDGET
8. BENCHMARK
11. DEFLATION
12. MUTUAL FUND
13. BOND
17. ETF
19. PERFORMANCE
20. INTEREST
23. INFLATION
24. DEFICIT
25. REVERSION
26. AVERAGING
27. FDIC
29. HORIZON
30. COMPOUNDING

DOWN

2. INDEX FUND
3. RISK
4. SURPLUS
5. SEC
6. COMMISSION
9. EQUITY
10. BANKRUPTCY
14. DIVERSIFICATION
15. WAGE
16. RETURN
18. LIQUIDITY
21. RULE OF 72
22. ALLOCATION
28. CPI