



Unit Two
Investment Options



S.A.I.L.
Saving and Investing for Life

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This publication is made possible by a grant from FINRA Investor Education Foundation.



Financial Tasks Over the Lifespan

Specific financial tasks need to be addressed at different stages of life. Financial management is an ongoing process that spans the entire life cycle. Use the list below to evaluate your status, and plan future actions to ensure your financial well-being.

Early Years (Birth to age 18)

- Learn to save for something you want.
- Distinguish between wants and needs.
- Develop a good work ethic.
- Begin exploring career options.
- Develop appropriate financial values.
- Develop personal discipline and responsibility.
- Work part time to earn spending money.
- Begin filing income tax returns.
- Learn how to use banking services.
- Open a savings account.
- Make a spending plan.

Life Preparation Years (Age 18 to 24)

- Obtain training or education for your first career.
- Develop disciplined spending and money management habits independent of family.
- Open and responsibly maintain a checking account.
- Explore options for entering an occupation or career.
- Save money for deposits on your first apartment.
- Evaluate and purchase personal communications products such as phone plans and a computer system.

Career Entry and Establishment of Financial Independence (Age 18 to 30)

- Evaluate initial job offers and benefits.
- Purchase your first car.
- Purchase auto insurance.
- Obtain individual health insurance.
- Obtain disability insurance.
- Purchase furnishings for your first apartment or home.
- Set up a home record-keeping system.
- Set up a system for paying bills.
- Complete a net worth statement.
- Obtain a credit card.
- Establish a good credit history.
- Set long-term savings goals and develop a lifelong savings plan.
- Make an investment plan and begin investing for lifelong housing and education needs and retirement.
- Invest in higher return/higher risk investments.
- Begin saving money for down payment and closing costs on a first home.
- Finance a wedding and honeymoon.
- Evaluate career progress to see if you need to make changes.

SMART Financial Goals

S – Specific, M – Measurable, A – Attainable, R – Realistic, T – Time-line

As you develop your financial goals, be certain that they are SMART goals. SMART financial goals have the following criteria:

- S** – Must be **SPECIFIC** with dollar amounts, dates and resources identified to be used in accomplishing the goals.
- M** – Must be **MEASURABLE**; determine regular amounts weekly, bimonthly or monthly to set aside to accomplish goals. Another good “M” word to consider is **MUTUAL**. Goals that are mutual or shared with other family members will be easier to achieve. It is also important to think about how you will keep yourself and other family members **MOTIVATED** to achieve goals, especially long-term goals.
- A** – Your goals need to be **ATTAINABLE** given your financial situation.
- R** – It is important that your goals are **RELEVANT** and **REALISTIC**. What **RESOURCES** are available for you to use in achieving your goals? It is also important to **REVIEW** and **REVISE** your goals periodically as necessary.
- T** – You need a specific **TIME-LINE** for accomplishing your goals. To achieve those goals, you must also be willing to make **TRADE-OFFS** in your financial life. Know the difference between needs and wants. Because there is never enough money to fund all of your financial goals at one time, you will also need to prioritize your goals.

SMART Financial Goals Worksheet

Use this form to write down your most important short- and long-term financial goals, so you can begin saving and investing to reach these goals. Be certain that your goals are **S**pecific, **M**easurable, **A**ttainable, **R**ealistic and **T**imebound.

Pre-Retirement Goals

Goal	Target Date	Amount Needed

After-Retirement Goals

Goal	Target Date	Amount Needed

Adapted by: Jeanette Tucker, Ph.D., LSU AgCenter

Originally developed by : Dena Wise, Ph.D., University of Tennessee Extension



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Pub. Misc 50 11/09
Issued in furtherance of Cooperative Extension work, Acts of Congress of May 8 & June 30, 1914, in
cooperation with the United States Department of Agriculture. The Louisiana Cooperative Extension
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Setting Up a Household and Launching a Family (Age 20 to 35)

- Obtain a loan to purchase a first home.
- Shop for and purchase a first home.
- Maintain a home and keep it in good repair.
- Purchase a family auto.
- Prepare for the additional cost of children in the household.

Mid-life (Age 35 to 45)

- Increase income to provide for family needs.
- Purchase a larger family home.
- Supervise children's spending, financial choice-making and career exploration.
- Teach children financial skills and responsible money management.
- Obtain long-term health insurance.
- Adjust personal insurance to accommodate changing family needs.
- Purchase additional family auto and insurance for use of teenage children.
- Estimate how much income you'll need for retirement, and adjust savings.
- Complete plans for financing children's education.
- Finance family vacations or travel.

Late Career (Age 45 to 60)

- Finance children's education.
- Assist with launching children into financial independence.
- Finance children's weddings as appropriate.
- Make final career moves to maximize earning potential and available retirement income.
- Re-evaluate projected retirement needs and make final plans for retirement.
- Evaluate empty-nest housing needs.
- Divert empty-nest savings to investments for retirement goals.

Early Retirement (Age 55 to 80)

- Re-train for a retirement career.
- Obtain a retirement job.
- Downsize from a family home to a retirement home or apartment.
- Make plans for transferring assets and family heirlooms to heirs.
- Focus investments on safer financial products with lower returns.
- Look for ways to lower tax penalties on income and investments.
- Assume responsibility for parents' care and/or finances.

Late Retirement (Age 75 to end of life)

- Simplify personal and family financial and home maintenance responsibilities to accommodate decreasing physical stamina.
- Move to an assisted-living or nursing-care facility as appropriate.
- Finance intensive nursing or health care.
- Implement plans for transfer of assets to heirs.
- Make final decisions regarding life-support.
- Delegate management of personal finances to children or caregivers as needed.

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Saving Options for Emergency Funds

Emergency funds should have liquidity, be safe and easily accessible. Evaluate the advantages and disadvantages of the financial products listed below to determine the best option for your emergency fund.

1 – 2 month’s savings	Advantages	Disadvantages
Savings account <ul style="list-style-type: none"> • Completely liquid and stable • Conveniently accessed through a financial institution 	<ul style="list-style-type: none"> • FDIC insured up to \$250,000 • May withdraw funds at any time without penalty • Minimum required balances are usually very low • Can often be used to “back up” checking account in case of overdraft 	<ul style="list-style-type: none"> • Interest rates on savings are very low -usually below inflation
Money market deposit account <ul style="list-style-type: none"> • Conveniently accessed through a financial institution • May have rules regarding transactions and minimums 	<ul style="list-style-type: none"> • FDIC insured up to \$250,000 • Pays a little more interest than savings accounts • Can often be used to “back up” checking account in case of overdraft 	<ul style="list-style-type: none"> • Interest rates are low • May pay a penalty for more than a certain number of withdrawals per year • May require a higher minimum balance than savings account
3 – 6 months’ saving’s	Advantages	Disadvantages
Certificate of Deposit <ul style="list-style-type: none"> • Purchase through a financial institution or broker • Maturities usually range from 3 months to 5 years or more 	<ul style="list-style-type: none"> • Higher return than savings or money market deposit accounts • FDIC insured if purchased through a financial institution 	<ul style="list-style-type: none"> • Penalty for withdrawal before the CD matures
Treasury bills <ul style="list-style-type: none"> • May purchase online or from a financial institution or broker • May also purchase through auction • Purchased at discount from face value and attain face value at maturity 	<ul style="list-style-type: none"> • Maturities offered at 4, 13 & 26 weeks • High yield relative to money market and savings accounts • May be sold before maturity without additional penalty 	<ul style="list-style-type: none"> • When purchasing or selling through broker or financial advisor, may incur fees
Money market mutual fund <ul style="list-style-type: none"> • Purchase from broker or financial organization 	<ul style="list-style-type: none"> • Access to funds without early-withdrawal penalties • Considered a very safe investment • Usually yields higher return than savings or money market deposit accounts • Can usually access funds quickly 	<ul style="list-style-type: none"> • When purchasing or selling through broker or financial adviser, may incur fees

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College Savings Plans Comparison

	529 College Savings Plan	529 Prepaid Tuition Plan	Coverdell ESA	START Savings Plan
Ownership/control	Contributor	Contributor	Contributor	Contributor
Investment choices	Typically, several options	None	No restrictions	7 options
Age limits	None	Varies by plan	Varies by plan	Owner = 18+
Expenses covered in addition to tuition & fees	Qualified expenses for post-secondary education	Usually, only tuition & mandatory fees for post-secondary	Qualified elementary, secondary & higher education expenses	Qualified expenses for college (includes room/board/books/fees/supplies)
Contribution limit	Varies by plan	Fixed by contract terms	\$2,000/student/year	May not exceed max. allowable account balance (determined annually)
Federal tax advantages	Tax-deferred; tax-free for qualified expenses	Tax-deferred; tax-free for qualified expenses	Tax-deferred; tax-free for qualified expenses	Tax-exempt; earnings tax-free for qualified expenses
State tax advantages	Varies by state	Varies by state	None	Earnings tax-free for qualified expenses
Income phase-out	None	None	Single: \$95,000-\$110,000 Joint filers: \$190,000-\$220,000	None
Penalties for non-qualified withdrawals	Earnings taxed as ordinary income; may be subject to 10% penalty	Earnings taxed as ordinary income; may be subject to 10% penalty	None	Subject to 10% penalty

Made available by: Jeanette Tucker, Ph.D., LSU AgCenter

Reference: NASD (2007) *Smart Savings for College*.

Louisiana Tuition Trust Authority (2007), *The START Saving Program Disclosure Booklet and Participation Agreement*



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Investments – How to Read the Financial Page

Learning how to read the financial page in a newspaper is easy if you know the purpose of each column. Once you know how to read the financial page, doing research and following the value of stocks, bonds and mutual funds is easier and much more informative.

The tables for stocks, bonds and mutual funds are very different. Each type of table has specific information related to that investment vehicle.

Stock Market Tables

Stock market tables are arranged alphabetically by the name or symbol of the company issuing stock. Most stocks are traded on either the New York Stock Exchange or Nasdaq. If you don't find the company you are looking for on one exchange table, look for it on the other. Remember that not all companies are publicly traded. Some companies have privately held stock. Only publicly traded stock appears on the stock exchange tables.

The far left-hand column of a stock market table usually has the heading "52 Weeks." Underneath it are two columns of numbers with the headings "Hi" and "Lo." These two columns refer to the highest and lowest price that this stock traded for in the past year (52 weeks) plus the current week. For example, here is a partial item from a stock table:

52 Weeks			
Hi	Lo	Stock	Sym
74.63	44.13	GenElec	GE

The 74.63 indicates that for the previous 52 weeks, the highest price paid for a share was \$74.63. The lowest price paid for a share in the previous 52 weeks was \$44.13.

The next column gives the name of the company. The heading for this column is labeled "Stock." In the above example, the name of the company is "General Electric." The "Stock" column is followed by a column labeled "Sym." This column contains the symbol that is used to trade this stock on the stock exchange. In the above example, the symbol is "GE."

Occasionally, the shortened title for a company and its symbol are difficult to locate. In that case, you may have to consult another resource to find out a company's name and symbol for the stock exchange. Often, a company stock is traded under a parent company and not under the name by which you know it.

All of the previously mentioned information is followed by several columns of numbers. The column following the company symbol provides information on the annual dividend (in dollars) for a share of stock for this company. The column is headed by "Div." The amount is based on the latest company statement. Companies pay dividends at different times. They may be paid monthly, quarterly, semiannually or annually. Other disbursements are usually marked by a footnote.

The column following the dividend information is marked "Yld%." The number in this column represents the total annual dividends paid by the company expressed as a percentage of the price of the stock. Here is an example, again using General Electric:

Stock	Sym	Div	Yld %	P/E
GenElec	GE	1.04	1.6	29

In the past year, General Electric has disbursed dividends of \$1.04 per share. This represents a yield of 1.6% of the price of the stock. The current price of this stock was \$66.88. The yield was obtained by dividing the dividends (\$1.04) by the current price (\$66.88).

The next column is another important column in evaluating a stock. It represents the "P/E," or price-to-earnings ratio, of the stock. The number in this column is obtained by dividing the last closing price per share by the company's per-share earnings for the previous four quarters. The earnings numbers are obtained from company quarterly financial statements.

The P/E provides a measure of how much you would have to pay for a \$1 share of the company's profit. The P/E number is one that is useful when comparing one stock to another and when comparing the value of one stock over time.

The last four columns of numbers refer to the previous daily activity of each stock. At times, the stock table in your newspaper may pertain to another day. If so, it will state the date of the information. These columns give (in order) the number of shares traded, the highest price per share, the lowest price per share, the last price per share (closing), and the net change from the previous day. Here is the rest of our example for General Electric:

Vol				Net Change
100s	Hi	Lo	Close	
43450	69	66.75	66.88	-1.75

The volume is expressed in 100s, so the number of shares of General Electric stock traded on the

day in this example was 4,345,000 shares. The highest price paid per share was \$69.00 and the lowest price paid was \$66.75. The last, or closing, price paid per share was \$66.88. The closing price was lower than the previous day's closing price by \$1.75.

Sometimes, symbols are found to the left of a company's entry on the stock market table. An explanation of these symbols is usually included with the stock market table. In the General Electric example is this entry:

52 weeks			
	Hi	Lo	Stock
s	74.63	44.13	GenElec

The "s" indicates there was a stock split or cash equivalent in the previous 52 weeks. There may be other small letters or symbols listed by a company. A table of footnotes explains what each of these symbols represents.

Bonds

Tables for corporate bonds have the following columns: company name or symbol, the current yield as percent interest paid on the bond, volume of bonds traded, the closing price and the net change.

Mutual Fund Tables

As with the stock market tables, the mutual fund tables are arranged alphabetically by the name of the company selling the mutual fund. Each company has several mutual funds. Following the company name will be another alphabetical list of the mutual funds for that company. Some companies are listed more than once. To find your mutual fund, you will need to know the company and the name of the fund for that company.

For example, Aetna has two listings – Aetna Advisor Funds and Aetna Select Funds. Here is how they appear on a list of mutual funds:

Aetna Advisor:		Aetna Select:
Aetna		Aetna
Bond		Ascent
Grow		Bond
GrInc		Crossrds
IntlGr		Crossrds
SmCo		Grwth
		GrwIncm
		IntlGr
		Legacy
		SmCoGr

Some companies have as many as eight to 10 groups of mutual funds. Within one group, some companies have more than 50 different mutual funds listed.

Mutual fund tables usually have four columns. The fund's name is in the first column. This is followed by three columns labeled "NAV," "Net Chg" and "YTD/%ret." Here is an example of one of the Aetna Mutual Funds as it appears on the list:

		Net Chg	YTD %ret
Name	NAV		
Aetna Advisor			
GrInc	17.79	+0.07	+26.0

The NAV column stands for Net Asset Value. This number represents the value of one share of this fund. The number is calculated by taking the total value of the fund's assets and dividing it by the number of shares in the fund. In this example, one share of the Aetna Advisor Growth and Income Mutual Fund was worth \$17.79 on that day. The value is calculated by the fund.

The third column shows the net change in the value of one share from the previous day. In the previous example, the value of one share increased 7 cents from the previous day.

The fourth column, YTD, is an abbreviation for year to date. The percentage shown here is the percent return on the investment for each share. The figure shows the change in value of one share over the year to date. This number assumes reinvestment of any dividends.

In the above example, the value of one share of this fund has increased in value 26.0% during the current year. This figure is also calculated by the fund.

Occasionally, the financial table for mutual funds will include additional columns. The additional columns provide percent return information for other time periods, such as the previous four weeks, the last 12 months, the last three years, and the last five years. These figures help the reader understand more about how the value of this fund changes.

Mutual funds have expenses associated with them. Some days this information is printed in the financial table along with the sales commission costs for each fund. Both of these figures are presented as percentages.

This is what the additional columns look like for the Aetna Advisor Growth and Income Mutual Fund:

YTD	4Wk	Total Returns			Max Init Chrg	Exp Ratio
%ret	%ret	1 yr	3yr-R	5yr-R		
+26.0	-6.6	NA.	+27.8A	NS.	0.00	1.83

From the information on this expanded table, we learn that the value of this fund declined by 6.6% in the past four weeks. The return for one year is not available. This is represented by the letters “NA” in the table.

The fund has a 27.8% return for the previous three-year period. The “R” after “3yr” is an indication that this percentage is annualized. The percentage is followed by the letter A. Five letters – A, B, C, D and E – are used to compare the performance with other mutual funds with the same investment objectives. This fund ranks in the top fifth of growth and income mutual funds. The letter B is used for the second 20%, C indicates the middle 20%, D is for the next 20% and an E indicates the bottom 20%.

The “NS” in the “5yr” column tells us that this fund was not in existence five years ago.

From the last two columns, we learn that there is no initial sales commission for this fund. Funds with no initial sales commission are referred to as “no-load” funds. The annual expenses for this fund are 1.83% of the average net assets.

Another column that appears with mutual fund listings when there is an expanded listing is the investment objective, abbreviated “Inv Obj.” For example, using our Aetna example, here are the investment objectives for the Aetna mutual funds:

Aetna Advisor:	Inv Obj		Aetna Select:	Inv Obj
Aetna	MP		Aetna	MP
Bond	IB		Ascent	MP
Grow	GR		Bond	IB
GrInc	GI		Crossrds	MP
IntlGr	IL		Grwth	GR
SmCo	SC		GrwIncm	GI
			IntlGr	IL
			Legacy	MP
			SmCoGr	SC

Mutual funds that are a mix of stocks and bonds have two objectives: balanced (BL) and multipurpose (MP).

Mutual funds that are stock only funds have the following objectives: Capital Appreciation (CP), Growth (GR), Growth & Income (GI), Equity Income (EI), Small Cap (SC), MidCap (MC), Sector (SE), Global Stock (GL), International Stock (IL), European Region (EU), Latin America (LT), Pacific Region (PR), Emerging Markets (EM), Science & Technology (TK), Health & Biotechnology (HB), Natural Resource (NR), Gold (AU) and utility (UT).

Mutual funds that are only bond funds have these objectives: Short-term (SM), Intermediate Muni (IM), General Muni (GM), Single-State Municipal (SS), High Yield Municipal (HM), and Insured (NM).

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References: Wall Street Journal



This material was made possible by a grant from the FINRA Investor Education Foundation

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