

Making Personal Investments



Objective

In this lesson, you will

Stocks, Bonds, Mutual Funds, and Annuities

stock = an ownership interest in a _____; shares are traded on an exchange

mutual fund = a group of _____ that many individual investors hold in common

bond = a certificate of _____ issued by corporations and _____

annuity = a contract purchased from an _____ company



Diversification of funds (investing in more than one type of investment) can help reduce risk.

	Stock	Bond	Mutual Fund	Annuity
Returns	<ul style="list-style-type: none"> → → can buy or sell depending on performance 	<ul style="list-style-type: none"> → can buy or sell depending on performance → can buy at less than face value to get full value at maturity 	<ul style="list-style-type: none"> → diversified; earnings are divided among investors 	<ul style="list-style-type: none"> → → variable; depending on performance of insurance co. investments →
Risks	<ul style="list-style-type: none"> → prices increase and decrease daily 	<ul style="list-style-type: none"> → different bonds have varying amounts of risk → 	<ul style="list-style-type: none"> → extremely diversified; generally lower-risk than individual stocks 	<ul style="list-style-type: none"> → variable; equity-indexed annuities are more volatile than fixed annuities
Duration	<ul style="list-style-type: none"> → can buy or sell depending on performance 	<ul style="list-style-type: none"> → fixed maturity date 	<ul style="list-style-type: none"> → 	<ul style="list-style-type: none"> →

401(k)s and IRAs

The two main ways of investing for retirement are 401(k)s and IRAs.

Many _____ offer a 401(k) as their _____ plan.

Important features of 401(k) plans:

- You can contribute to a retirement fund that the company invests on your behalf.
 - ❖ In some cases, your employer also contributes to this fund.
- You contribute to the plan on a pretax basis.
 - ❖ Increases Reduces the amount of your income that is subject to tax.
- Many plans are _____.
 - ❖ They move with you if you change jobs.
- Most plans have penalties for early withdrawal (before _____ years old).

An IRA or _____ account, has the following features:

- Personal plan (not set up by the _____)
- Contributions are limited unlimited.

Types of IRAs	
Traditional IRA	Roth IRA
<i>Contributions might be tax deductible.</i>	
	<i>No age limit for contributions.</i>
<i>Earnings are taxed at withdrawal.</i>	
You must make withdrawals:	You can withdraw earnings if:



Personal Investments and Budgets

A monthly budget worksheet will help you:

- understand what you must spend on your _____,
- calculate the amount you can set aside every month for _____.

You need to figure out what expenses are really _____ and how much of your total income you can _____. Once you prune your expenses, you can include investments in your budget.

Summary

What are some questions that people should ask themselves when choosing the how much to invest, and in which type(s) of investment?