

What Do You Think?

Answer true or false to the following statements:

Adam started saving \$50 per month when he turned 18, while Beth started saving \$100 per month when she turned 24. They both earn 6% on their money. Beth will have more money by the time they both turn 30.

A dollar today is worth less than a dollar in the future.

The higher the interest rate, the less time it takes to reach a savings goal.

The smaller the down payment someone makes on a car, the less interest the owner pays for a car loan.

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Saving ≠ Investing

In Unit 2, you learned how important it is to pay yourself first. But what should you do with that money? You could put it in your dresser or under your mattress. While you may always know where it is, it won't be doing anything except gathering dust. Instead, you should consider saving or even investing it.

Saving is what people usually do to meet short-term goals. Your money is very safe in a savings account, and it is usually earning a small amount of interest. It's also easy for you to get to your money when you need it—just go to your bank and make a withdrawal.

Investing means you're setting your money aside for longer-term goals. There's no guarantee that the money you invest will grow. In fact, it's normal for investments to rise and fall in value over time. But in the long run, investments can earn a lot more than you can usually make in a savings account.

Why are saving and investing so important to your financial plan? For one, saving or investing money for your financial goals makes you less tempted to spend it. It's in a totally different account from the one you pay your everyday expenses. And it's not just sitting there burning a hole in your pocket.

But the best reason for investing is that your money is actually making money for you. Any interest or investment gains you earn get you that much closer to your financial goals. And you didn't have to do anything for it! But you'll learn more about this amazing money principle in the next section.



Exercise 3A: Ways to Save and Invest

Brainstorm at least three ways that you know people

save money (set aside money to use later) and at least three ways people invest money for future income or profit.

Save

Stash money in your dresser

Invest

Buy shares of a stock