What does investing mean to you?

Is investing the same as saving?

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The terms are sometimes used interchangeable, by there is a difference.

Savings is setting aside money to spend later. Investing is buying assets with the expectation that your investment will make money for you.

With savings you put money aside, with investments you put money into something to make money.

Making the choice between saving and investing depends on:

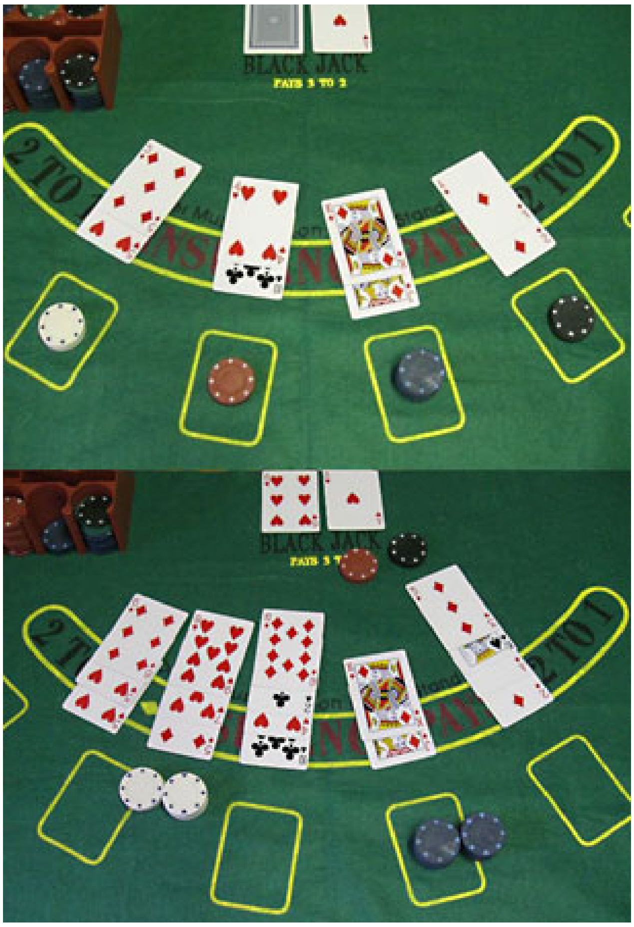
1. Our financial goals
2. The return we're hoping for
3. Our risk tolerance

Risk vs. Reward

What does this mean?

When might you have to weigh risk vs. reward to make a decision?

There are many games that involve risk and reward. One example is blackjack!



Risk vs. Reward

Regardless of the type of investment, there is always some risk involved. Therefore, we need to weigh the risk with the potential reward to decide if it's worth putting our money in to.

return: the money made or lost on an investment.

-also called a financial return

ROI (return on investment)
RoR (rate of return)

both refer to the net gain or loss expressed as a percentage

$$\text{Rate of Return} = \frac{\text{Ending value of investment} - \text{Beginning value of investment}}{\text{Beginning value of investment}} \times 100$$

Risk Capacity: The amount of risk necessary to reach financial goals

Risk Tolerance: The amount of risk an investor is comfortable taking.

Risk Averse: low risk investor

Risk Neutral: doesn't worry about the risk in the moment, focuses on the gain.

Risk Seeking: accepts high risk to achieve higher returns -this may also describe someone who is willing to give up salaried employment to start their own company.

One's risk tolerance varies with age, income, and financial goals. For example, when playing Monopoly, we often all buy the property we land on because there's little risk and more return. This is because it is not our money, it is not even real money, and we know it is just a game.

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1. paying out income through interest or dividends
2. increasing in value to other investors through capital gains.

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Interest payments are paid on low-risk investments (examples: savings account or bond)

-reliable and steady

Dividends are a sum of money that is paid out to its shareholders out of its profits. This will be dependent on profits so they are less steady and less reliable.

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A **capital asset** is an asset that is considered a significant piece of property.

-homes, cars, stocks, bonds, art, etc.

When sold, it may have a capital gain or capital loss.

Capital gain: the rise in value of capital asset, giving it a higher worth than purchase price. (sold for more)

Capital loss: the loss incurred when a capital asset decreases in value. (sold for a price lower than original price)

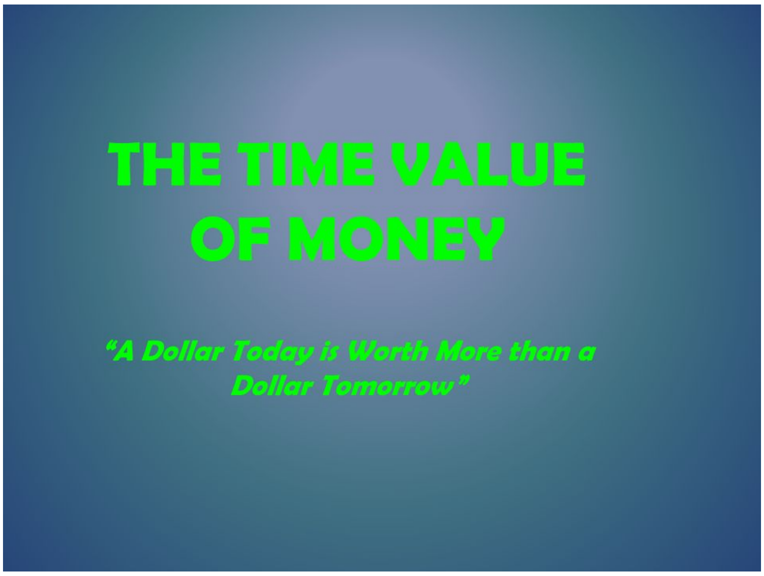
It is important to know that any investment capable of earning income is also capable of a loss. This is because the market can move in either direction. The timing of selling an investment is important to determine whether the sale will result in a gain or a loss.

As we saw when learning about compound interest, saving early is important.

What do you think the following saying means?

"A dollar today is worth more than a dollar tomorrow."

As we saw when learning about compound interest, saving early is important.



This is due to money's potential earning capacity. Any amount of money is worth more the sooner it is received.
(Also, due to inflation, a dollar to purchase something right now will go further than that dollar in the future)

Other reasons to invest early:

-more time to make up for market downturns (if you invest early, and the market drops, you have time to wait for it to recover before you need to sell)

Future Value: the value of a current sum of money at a future date based on assumed rate of growth.

We can calculate future value using simple interest or compound interest.

We can calculate the **present value** to work backwards from our goal and determine how much money we need to invest today to reach that amount.

FutureAndPresentValueCalculator .xlsx

Earlier, I mentioned **inflation**.

What does this mean?

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What does this mean?

The rise in prices of goods and services over time means a unit of currency buys less than it did in previous periods.

For example, let's say an apple costs 1$ today, but in 2022 that same apple costs 2$. This means the same amount of money can purchase less apples in the future than it can today.

If wages stay the same, but prices increase, you will have less disposable income.

In order to mitigate this decrease in the purchasing power of our money, we can invest the money we have today at a rate equal to or higher than the rate of inflation.

Attachments

FutureAndPresentValueCalculator .xlsx