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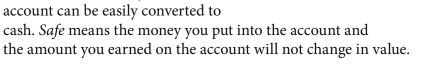


Saving and investing are critical steps to achieving your financial goals.

Although these terms are often used interchangeably, they are quite different. Understanding the differences between saving and investing is the first step toward reaching your financial goals.

When you save, you put money aside so it doesn't get spent. You may put your savings in a piggy bank at home, in a jar you bury in the backyard, or in a savings account. Deposit your savings into accounts at federally insured financial institutions. You can use a traditional savings account, money market account, or certificate of deposit (CD). Savings accounts are a good option to help you set aside money for short-term goals (within a year or two) or emergencies. Investing helps you to achieve long-term financial goals.

Savings accounts are highly liquid and relatively safe. *Liquid* means that the money in the account can be easily converted to the same of the same



Investments are not easily converted to cash, and the value can go up or down. Both savings accounts and selected investment accounts are *insured* against the financial institution going bankrupt (not the underlying assets having no value i.e. a stock market crash), but by different entities. The Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) insure savings accounts in banks and credit unions, respectively. The Security Investors Protection Corporation (SIPC) provides insurance to brokerage firms that sell certain types of investments.

Both savings and investments provide earnings in the form of interest and dividends, but only investments can provide capital gains or losses. A *capital gain* is the result of selling an investment for more than you paid for it. A *capital loss* occurs when you sell an investment for less than you paid for it. Investment earnings and capital gains are not guaranteed, but investments have higher growth potential than savings accounts because of the higher risks associated with investing. Therefore, the average rate of return over a period of time tends to be lower for savings than investment accounts. Different types of investments usually have sales charges and fees. With most savings accounts there are no sales charges or no or low fees. On the other hand, with some types of savings accounts under certain circumstances, there are penalties.



Set Financial Goals

If you were taking a vacation, would you get into your car and start driving or go to the airport to catch a plane without making reservations? Most of us would not do that. The same is true with investing. The best way to invest is to plan exactly where you want to go, how much it will cost, and how long it will take you to get there. Your investment goals should match your ability to attain those goals. When you have a specific reason to invest, such as for your child's education or retirement, you are more likely to place a high priority on investing when developing your spending plan.

Manage Your Cash Flow

Cash flow management deals with how you spend and save the money that you earn now and in the future. How well you manage your cash flow determines whether or not you will reach your financial goals and achieve financial success. Adequately managing cash flow requires you to examine your past, present, and future. Tracking your spending allows you to see where you have been (the past), examining your current financial situation allows you to see where you are now (the present), and implementing a spending plan allows you to look ahead (the future).

Examine Your Current Financial Situation

Why is it important to examine your current financial situation? Knowing your current financial situation, helps you determine how close or far you are from attaining your financial goals and achieving financial success. Examining your current situation involves looking at what you own (assets) and what you owe (liabilities or debt). An examination of assets and liabilities provides you with a snapshot of your wealth (net worth) accumulated to date. Calculating your net worth once or twice a year is a good way to monitor your overall financial health.



THE IMPORTANCE OF BEING PREPARED

To start off on the right foot,
you need to prepare before
you invest. If not, you may get
frustrated when you try or worse,
must sell investments to cover
routine expenses. Follow these
steps before you begin your
investment program to get more
from your investment dollars.

Prepare for Emergencies

What would happen if you lost your job, became disabled, had unexpected car or home repairs, medical bills, or some other emergency? Do you have money set aside to cover emergencies or would you have to liquidate some of your investments or use credit? Before investing, you should have money in an account that is fairly liquid. Emergency savings should be a category in your spending plan. Foregoing some spending today will allow you to save and build up an emergency fund.

Eliminate Debt

Eliminating all debt before you invest may not be realistic. For example, most people who invest have home mortgages and/or car loans. However, there are certain types of debt that should be eliminated before you invest. It is essential that you get rid of high interest debt. If the interest you are paying on debt is higher than what you could earn on investments you are considering, then it doesn't make sense to invest at that time. Even if you could earn a 9 percent rate of return on a stock mutual fund, it wouldn't benefit you if you are paying 14 percent interest on a credit card or some other short-term loan. In some respects, getting rid of debt is a savings goal since the sooner you pay off the outstanding balance, the more you will save in interest and the earlier you can begin your investment program.

Manage Risk

Risk is a part of life, and we all have to deal with it on a regular basis. There are various ways of managing risk and some risk management techniques can help us deal with emergency situations. Avoiding, retaining, controlling or reducing, and transferring risks are all risk management techniques. You avoid risk when you choose not to own items or expose yourself to activities that will cause a financial loss. You *retain risk* by accepting that if the financial loss occurs, you will have to cover the cost yourself. When you *control* loss or reduce risk, you take steps to reduce the frequency or size of a financial loss to affordable levels. Transferring risk means you pay someone else to cover your financial loss if you encounter the risk. The risk management technique you use will depend on your particular circumstances. Protecting against risk using the appropriate risk management strategy helps to keep you on track with your financial goals.



It is probably no surprise that having sufficient financial resources to achieve your future financial goals cannot be surprising is successful investing cannot be achieved before taking some preliminary steps to insure that your investment begin the process of investing, it is essential that you invest regularly without having to withdraw the money and the Since time and compounding is the key to growth, once the money is invested, it should be left to grow over the period of time before it is needed. Being prepared is the key to allowing time and compounding to

Buy Adequate Insurance

Insuring against the risk of large financial losses is a must before beginning any successful investment program. Having adequate insurance to cover losses sustained by you or your family members will prevent having to use credit, depleting your emergency savings, or liquidating your investments once you have begun investing regularly. To cover catastrophic financial losses, it is important to have the appropriate types and amounts of insurance. Although there are some types of insurance that everyone should have, what is appropriate for other types will depend on you and your family's lifestyle and circumstances.

Learn the Lingo

As a beginning investor, you may feel like you will never know all you need to know about investing or understand all the investment terminology. Begin with basic concepts and terminology. Understanding concepts such as diversification, dollar-cost averaging, leverage, yield or rate of return, investment income and capital gains is important. It is also important to understand how risk tolerance level, time horizon, risk/return tradeoff, and costs associated with investing will affect the type of investment portfolio that is right for you and what the potential earnings will be on that portfolio. There is no single investment that is right for everyone. A financial planner or financial service professional can help you with portfolio construction and asset allocation. A general understanding of investing will help you evaluate the financial planner or financial service professional, as well as, involved in the investment process. After all, it is your money, and you should play an active role in how it's being invested.

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