Module 3 Article

Start Saving & Investing

<u>Key Terms</u>

- **Mortgage**: A mortgage is a loan taken out to purchase a property which is then paid off overtime in monthly installments that also include interest.
- **Collateral**: If an investor borrows capital from a broker, the balance in the investors brokerage account is known as collateral.

Smart Spending

The spending decisions you make at a young age will determine your financial fitness for years to come. If you're not smart about spending you could fall into a pit of debt. Developing funds for scenarios you may encounter in life is a great way to ensure that you can provide for yourself in a crisis and make money through smart investing.

Savings Account (6 Month Reserve)

You should create a fund which contains six months worth of savings for any emergency or uncalled for expenses. These funds should be stored in a safe, high yield savings account with higher interest rates, and they should only be accessed when absolutely necessary. In order to assure that you build this fund, set up automatic transfers into the account.

Stock Investing

Once you establish a chunk of savings; invest in the stock market. Diversifying your stock portfolio may seem risky since the market is volatile, but if you invest in blue chip stocks, you will most likely see stable returns. Investing in growth stocks at a young age is also a great way to make money, since you will have time to weather the volatility of growth stocks. When deciding how to allocate your assets you should have 75% percent in stocks by the age of 25. As you get older your portfolio should move into safer assets since you can’t ride out market waves as easily.

Lose Your Leverage

Consumer leverage is the amount of personal debt American’s accumulate from participating in the economy. In America, Debt Levels have decreased based on the Consumer Leverage Ratio which is total household debt relative to disposable income (DPI). The Consumer Leverage Ratio measures the amount of time that would be necessary for the average American to pay off their personal debt using their annual salary.

Having debt is not always a bad thing, as long as you are responsible and able to pay it off. Taking out a mortgage for your home, getting an auto loan for a new car, or getting a loan for school can help sustain or improve your lifestyle, but large unnecessary purchases are not worth accumulating debt.

The Bottom Line

Work towards putting aside enough money to cover 6 months or more of necessary expenses. Start saving for retirement EARLY by investing in stocks. Investing at a young age allows you to capitalize on the annual 10% return. Avoid unnecessary personal debt for anything that does not contribute to future prospects and success.