THE CHALLENGE

Elena received $2,000 as a graduation gift. She's trying to decide what to do with it: keep it in her checking account, put it in a savings account earning 0.5% interest, or invest it in a mutual fund that has historically returned 7% but could lose value. She needs to buy a car in about 5 years and also wants to start thinking about retirement.

How should Elena approach this decision, and why might different strategies be appropriate for different goals?

Learning Objectives

- Differentiate between saving and investing strategies.
- Apply the SMART framework to set effective financial goals.
- Evaluate risk and reward in financial decisions.

CORE CONCEPTS

Term	Definition
Saving	Setting aside money in safe, accessible accounts for short-term goals and emergencies.
Investing	Placing money in assets expected to grow in value over time, accepting some risk for potential higher returns.
Liquidity	How quickly and easily an asset can be converted to cash without losing value.
Risk Tolerance	Your comfort level with the possibility of losing money in exchange for potentially higher returns.
Opportunity Cost	What you give up when choosing one financial option over another.

Background: Understanding the difference between saving and investing is fundamental to building wealth. Saving focuses on security and accessibility for short-term needs, while investing aims for growth over longer periods but involves more risk. The right approach depends on your goals, timeline, and comfort with risk. Most people need both strategies working together.

APPLY IT

PART A: SAVING VS. INVESTING DECISION

For each goal, determine whether saving or investing is more appropriate and explain why.

Goal 1: Emergency Fund

Building a 3-month emergency fund ($6,000) to cover unexpected expenses like car repairs or medical bills.

Best approach: _____ (Saving / Investing)

Because: _____

Goal 2: Retirement (40 Years Away)

Starting to build wealth for retirement that won't be needed for 40 years.

Best approach: _____ (Saving / Investing)

Because: _____

Goal 3: Vacation Next Summer

Accumulating $1,500 for a vacation in 8 months.

Best approach: _____ (Saving / Investing)

Because: _____

> **Hint:** *Consider two key factors: (1) How soon will you need the money? (2) Can you afford to lose value temporarily?*

PART B: GROWTH COMPARISON

Compare how $1,000 grows over time with different approaches. Complete the table.

Time Period	Checking (0%)	Savings (1%)	Investment (7%)
Starting Amount	$1,000	$1,000	$1,000
After 1 Year	$1,000	$1,010	$1,070
After 10 Years			
After 30 Years			

Use these values: 10 years: Savings=$1,105, Investment=$1,967. 30 years: Savings=$1,348, Investment=$7,612

4. How much MORE money would you have after 30 years by investing versus keeping money in savings?

Show your work:

Answer: $_____ more

5. What is the opportunity cost of keeping $1,000 in checking for 30 years instead of investing it?

_____

PART C: SMART GOAL SETTING

6. Create a SMART financial goal for yourself. Fill in each component:

Specific (What): _____

Measurable (How much): _____

Achievable (Realistic?): _____

Relevant (Why important): _____

Time-bound (When): _____

7. Based on your SMART goal, should you save or invest for this goal? Why?

_____

_____

CHECK YOUR UNDERSTANDING

1. Which factor is MOST important when deciding between saving and investing?

- [ ] A. Current interest rates
- [ ] B. Time horizon until you need the money
- [ ] C. The stock market's current performance
- [ ] D. Your bank's branch locations

2. Explain why someone with 40 years until retirement should prioritize investing over saving.

_____

_____

3. Calculation: If Elena invests $2,000 and it grows at 7% annually, approximately how much will she have in 10 years? (Use 10-year value from table: multiply by 1.967)

Show your work:

Answer: $_____

4. Elena wants to buy a car in 5 years. Why might she choose to SAVE part of her $2,000 even though investing offers higher returns?

5. Reflection: Think about a financial goal you have. What factors would influence whether you save or invest for that goal? How does your risk tolerance affect your decision?