



Invest in your future

Become financially fit by learning how to save and spend money wisely.



Behind the term 'Invest in your future' Program matches savings

By BETH SILVAGGI
beth.silvaggi@timesnews.com

You already learned that it's important to have a savings account that covers at least six months of living expenses in case you cannot work. But once you have your emergency fund in place, you have a few choices as to what you can do with your extra money: You can spend it, you can put it in a shoebox and store it away, or you can invest it to have an even larger nest egg down the road.

Investing is the act of purchasing a financial product like a stock, bond or certificate of deposit (more on these in later weeks!) in order to gain profitable returns. Many people choose to invest their money so it can grow and eventually be used to meet long-term goals. This is an excellent idea, since investments usually earn a lot more than money that's left in savings accounts. Be warned, however, that investments can rise and fall in value over time or may not even grow at all. This is especially true for money in higher risk investments. The trick is to invest your money for five years or more and to never put money you will need in a few years into a more risk-prone investment vehicle.

It's an excellent idea to start investing as soon as you can. It doesn't matter if you can only invest a small amount of money because small amounts of money can grow into small fortunes over many years. For instance, let's say between the ages of 18 and 27 you put \$2,000 per year (which is about \$38 per week) into an investment that grows 7 percent each year. Would you believe that when you reached age 65, your initial investment of \$20,000 would be worth \$361,418?

Now pretend you didn't start investing until you were age 31. If you put \$2,000 per year into



©ISTOCKPHOTO.COM

KEY POINTS

- After you set up a six-month savings fund to cover emergencies, it is a good idea to consider investing your money to save for long-term goals.
- Investments usually make money in the long-term, though their values may rise and fall over time. This is especially true with money invested in the stock market.
- Even if you only have a small amount of money to invest, it is important to start investing early. Small amounts of money invested over several years can grow into small fortunes over time.
- Compounding, or compound interest, is when you earn interest on your interest.
- The Rule of 72 will help you determine how long it will take to double your money. The formula is: $72 \div \text{your investment's interest rate} = \text{years to double your money}$.
- An opportunity cost is the value of what is given up when you choose one option over another.

the same fund for 35 years (an additional 25 years from the first example), you would have to invest \$69,160 to end up with only \$276,474 when you turned 65. This is a difference of \$84,944. As you can see, it pays to start investing as early as you can!

The main reason why money

can grow at such a fast rate is because of compounding. Compounding, or compound interest, is when you earn interest on your interest. Let's say you put \$100 into an investment that earned 10 percent a year. At the end of the year, you would have \$110 in your account. Af-

ter a second year in the fund, you'd have \$121. That extra \$1 came from earning interest on the \$10 in interest you earned during the first year. After five years, you'd have \$161.05 from your initial investment of \$100. Compounding interest is such an incredible phenomenon that Albert Einstein once said that it was "the most powerful force in the universe."

An easy way to determine how you can double your money is to use the Rule of 72, whose formula is: $72 \div \text{your investment's interest rate} = \text{years to double your money}$.

Pretend you are earning the overall stock market's average rate of return of 10 percent on your money. In this scenario, it would take you a little over seven years to double your investment. This amount of time applies to any amount of money you invest.

It can't be said enough that you should start investing as early as you can. You may not know it, but by procrastinating, you pay an opportunity cost. An opportunity cost is the value of what is given up when you choose one option over another. Going back to the first example, by not putting \$2,000 per year into an investment earning 7 percent for 10 years, you would pay an opportunity cost of \$341,418 over 47 years time (\$361,418 minus the \$20,000 initial investment).

Having a large amount of money to invest and securing a high rate of return will help your money grow fast. But even without those two elements, you still have time on your side if you start investing early. And time, as these examples show, is a valuable asset if you're looking to grow your money.

BETH A. SILVAGGI,
Newspaper in Education
coordinator, can be reached at
870-1611 or by e-mail.

Data from the U.S. Census Bureau show that nearly one in four Erie residents and almost one in five Erie families live below the poverty line.

To help combat these alarming statistics, United Way of Erie County and GECAC created MoneyWorks For You, a financial literacy and asset-building program. The program provides a Financial Fitness Training program, which is a nationally accredited training program by NeighborWorks, free of charge to local nonprofit staff.

The program recruits clients who are willing to save up to \$500 in a savings account over a year and attend four financial literacy training classes. The money the clients save is matched dollar for dollar towards an asset goal that is agreed upon by the client and



the caseworker. To earn the match, clients must complete a designated number of financial literacy courses and save on a regular basis for at least six months. Match money is not given directly to the client; rather, it is paid to the vendor providing the "goal item." Goal items include appliances, computers or even a purchasing a car. Participation is limited and enrollment will start January 2011.

To donate to United Way of Erie County, contact R.J. Zonna at 456-2937 ext. 247 or rj@unitedwayerie.org. To learn more about Money Works For You, contact Stephanie Long at GECAC at slong@gecac.org.

Career Corner



Julia Donahue

Name: Julia Donahue

Occupation: I work for the County of Erie, Planning Department as a Planner II/Coastal Zone Management Planner. I administer the Coastal Zone Management Program for Erie County. Funding is received from NOAA and PA DEP to provide grants to local organizations to undertake projects in the Lake Erie Watershed. All of the projects that I manage protect and enhance the natural resources in our area.

Typical day: Each day brings something different. Some days I am in the office writing contracts or processing invoices. Other days I am outside checking on projects, measuring bluff recession, going on boat rides looking for problems with bluff recession or illegal development. I even had the chance to ride in a helicopter!

Favorite part of job: I enjoy the people that I have met and get to work with on a regular basis. There are so many environmentally minded people out there that do amazing work in our area and I feel fortunate to be able to work with them. I also love being outside doing fieldwork and not being in the office all of the time!

Education: I went to Gannon University for my undergraduate degree and also received my Master's in Public Administration from there as well.

Explain how simple interest differs from compound interest. Do any ads in the newspaper include references to these two types of interest? Look through today's newspaper ads. Count how many times the word: "save" appears in them. Discuss whether the product or service represents a savings on a need or an enticement to buy the item. Choose any stock listed under the 40 biggest funds in the Money & Market section above. Write down the 5-year rate of return on that stock. Using the number and the Rule of 72, calculate when an investment of \$1,800 would double.



Check out these Web sites to learn more:

www.teachmeaboutmoney.org
www.eriefcu.org/savings/financial-literacy

www.unitedwayerie.org/financial-stability
www.goerie.com/nie

www.erie.ja.org
www.eriebc.edu

This page brought
to you by:

