SAVING AND INVESTING <main head>

When comparing savings options, ask: Does it earn simple or compound interest? How often does the interest compound? What is the rate of return? What is the risk? Start saving and investing early and regularly to reach major financial goals. The key is to establish and continue a disciplined savings and investment plan. Although the terms are used interchangeably, saving and investing represent different methods of using money to prepare for the future.

Saving
Saving is accumulating money safely — in a bank savings account, certificate of deposit (CD) or a money market deposit account — generally for short-term needs such as upcoming expenses or emergencies. Typically, money placed in such accounts earns a lower, fixed rate of return. Your money is generally protected by the Federal Deposit Insurance Corporation (FDIC) up to certain limits and can be withdrawn or accessed with relative ease. Although for CDs, penalties may apply for early withdrawal.

Investing
Investing requires that you take a risk with your money by buying securities, such as stocks, bonds or mutual funds, with the hope of earning higher, long-term returns. Investments generally do not offer the safety that a savings account does so your capital is at risk. In return for taking that risk, you have the potential for a more rewarding gain.

Pay Yourself First <subhead>
Think of saving as paying yourself a salary. The money you set aside will earn more money if kept in an interest-bearing account. The sooner you begin saving, the more you may accumulate over time.

CONSIDER THE FOLLOWING:
Automatically transfer a portion of your pay to a savings account as soon as it is deposited. That way, you may have less temptation to spend the money.

• Create an emergency fund of at least 3 to 6 months of basic living expenses — enough to manage a crisis without borrowing money. The fund should be low risk and liquid, so the money is available whenever you need it.

• If you begin saving in your 20s, save at least 10 percent to 15 percent of your monthly net income. If you cannot afford this amount, save as much as you can. The key is to begin saving now. If you wait until later in life, you need to save more.

• Increase savings contributions when you can. For example, when you receive pay and longevity increases, federal income tax refunds, gift money and rebates, consider putting some or all of this additional money toward your savings goals.

Earn Interest By Saving <subhead>
Simple Interest

• Calculated only on the principal balance.

• Calculated generally for a single period of less than a year, such as 30 or 60 days.

Compound interest

• Calculated on the principal, plus all interest previously earned.

• Interest can be compounded daily, weekly, monthly, quarterly or annually.

• The more often interest compounds, the greater your earnings.

When comparing savings options, ask:
Does it earn simple or compound interest? How often does the interest compound? What is the rate of return? What is the risk?
Save Early

The earlier you begin to save and invest, the more you can accumulate with time. The Rule of 72 shows how time and compound interest can multiply investments. Divide 72 by the anticipated rate of return you can earn. The result will be the number of years it takes to double your money if you did not add any money to it.

For example, if you earn 10 percent interest, your money doubles in approximately 7.2 years. However, if you earn 2 percent more, your money will double in 6 years.

Between the ages of 22 and 67, or over 45 years, your money will double 6.25 times at a 10 percent rate of return or 7.5 times at a 12 percent rate of return. A small increase in the rate of investment return can mean a significant increase in your money over time.

\[
\frac{72}{\text{RATE}} = \text{Years until your money doubles}
\]

**Example:**

Rule of 72

\[
\frac{72}{10\%} = 7.2 \text{ Years}
\]

Age 22 to 67 = 45 Years

\[
\frac{45}{7.2} = \text{Doubles 6.25 times}
\]

Lower-Risk Savings For Short-Term Financial Goals

**SAVINGS ACCOUNTS**
- Let you save money while earning interest.
- Highly liquid — you can withdraw funds whenever needed.
- Your money is generally insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000* for each account.
- Rates of return are low.

**CERTIFICATES OF DEPOSIT (CDs)**
- Let you save money while generally earning a higher rate of return than regular savings accounts and money market accounts.
- Money has to remain invested for a specified period — from 30 days to 10 years. Substantial penalties may be charged for early withdrawals.
- Considered a low-risk investment, but not all CDs are insured by the FDIC.
MONEY MARKET ACCOUNTS
• Let you save money while generally earning a higher rate of return than regular savings accounts.
• Highly liquid — you can withdraw funds whenever needed and may be able to write checks against the balance.
• May require a minimum balance to earn interest.
• May charge service or transaction fees.

U.S. SAVINGS BONDS
• One of the safest investments you can make.
• Pay a fixed amount of interest.
• Interest can be paid from 1 to 30 years. It is generally best to hold savings bonds until they mature. Selling them earlier generally results in a reduced return or penalty.
• Earnings are exempt from state and local income taxes, but not federal income taxes.

U.S. TREASURY BILLS (T-BILLS)
• One of the safest investments you can make.
• Earnings are exempt from state and local income taxes, but not federal income taxes.
• Loans to the federal government.
• Maturity dates vary and are 1 year or less. Generally, the longer the maturity, the higher the rate of return.

SAVINGS DEPOSIT PROGRAM (SDP)
• Servicemembers deployed in designated combat zones, qualified hazardous duty areas or certain contingency operations can earn 10 percent interest annually (compounded quarterly) on money deposited into the SDP.
• You may deposit up to $10,000 of your unallotted pay and allowances.
• Deposits may begin on your 31st consecutive day in your deployment region and must end on your date of departure from your deployment region.
• More than one deposit may be made in each month, but the total cannot exceed your monthly unallotted pay and allowances.
• The account stops accruing interest 90 days after returning from your deployment region.
• Emergency withdrawals may be made when authorized by the member’s commanding officer.
• Interest accrued on earnings deposited into the SDP is taxable for federal income tax purposes.
• Contact your installation’s finance office or visit the Defense Finance and Accounting Service (DFAS) website at dfas.mil for more information.

*The standard FDIC insurance amount is $250,000 per depositor, per insured institution, for each account ownership category.

Managing Your Finances During Deployment
Deployment can be a challenge for military families. Spouses remaining at home must care for children, handle finances, manage the household and make many important decisions on their own. It is important that you plan ahead. Begin thinking about family, financial and household matters now while you have time to make thoughtful, informed decisions. Review your situation regularly to ensure you are meeting your changing needs and circumstances.
Select an individual you trust to manage your finances while you are deployed. This individual could be your spouse, a parent, a friend or a financial planning professional.

- Choose an individual capable of managing your family finances accurately and responsibly.
- Familiarize this individual with all aspects of your financial situation.

When you return from deployment, discuss the details of your financial situation with your spouse or the individual who managed your affairs during deployment. Determine what to do with money you may have saved during deployment. Avoid large impulse purchases; make sound, long-term choices. Consider consulting a financial planning professional for help with important investment decisions.

**Begin To Invest**

Investing is generally riskier than saving. Take time to understand various investment options and how they work. Do not invest more than you can afford to lose. Remember, no investment is guaranteed.

**Ask these questions before you invest:**

- What is my primary investment goal? To keep my money safe or grow my investment?
- What is my risk tolerance? How much money can I risk losing? Risk tolerance level depends on several factors:
  - Age.
  - Current and anticipated income.
  - Financial responsibilities. How would the possible loss of the value of my investment affect my situation?
  - Am I willing to watch my investment decrease in value?
- Is my goal intermediate-term or long-term?
- Will I need access to my money or can it remain untouched and potentially yield a higher return?
- What federal or state income tax issues should I consider when investing?

**Focusing Your Investment Strategy**

To make the most of your investment activities, many financial planning professionals recommend you consider implementing these time-trusted strategies.

**INVEST REGULARLY**

Invest a set amount of money on a regular basis whether investment markets are moving up or down — a strategy known as dollar cost averaging. When prices are high, your regular contributions buy fewer shares (units of ownership in a company or mutual fund); when they are low, your contributions buy more. This approach tends to spread investment risk over time. Keep in mind that dollar cost averaging does not ensure a profit or protect against loss in a declining market. You should also consider your ability to invest continuously through periods when the market is down.

**INVEST FOR THE LONG TERM**

The more time you give your investment to grow and compound, the more likely you are to reach your financial goals. History shows that patient investors who focus on long-term goals can generally withstand fluctuations of the stock market.
USE TIME, NOT TIMING
If you start early and invest regularly, you will likely be able to use time to your advantage. Do not try “timing” decisions to buy and sell based on the market fluctuations. It is extremely difficult to accurately predict the market fluctuations over the long term.

KEEP EMOTIONS OUT OF YOUR ACTIONS
Investors’ decisions tend to be influenced by short-term variables and the latest news. Think and act intellectually, not emotionally. Investing success requires patience, determination and an unemotional approach. Do your homework — then stay on course.

INCREASE YOUR KNOWLEDGE
Learn all you can about investing and specific investments by regularly reading business periodicals, investment books and annual reports of companies whose securities you might want to purchase.

AVOID HIGH-RISK INVESTMENTS
Avoid futures, commodities and other risky forms of investing — at least until you have an established, diversified portfolio, you know all about them and you are willing and able to accept their increased risks.

AVOID THE CROWD
If you choose your investments by leaping into whatever is currently doing very well, you may be setting yourself up for recurring losses over time. You could find that the best performing stock in one year becomes one of the worst in subsequent years.

DIVERSIFY
Select a wide variety of securities for your portfolio to minimize investment risks. Some experts suggest that diversification can reduce the total risk of investing by more than half. Investing in several unrelated assets will produce a return based on the average of your various investment returns, rather than relying completely upon the return of one investment.

EVALUATE YOUR INVESTMENT PLAN
You should evaluate your investment plan at least annually or at times of significant life events. If necessary, rebalance your portfolio to ensure your mix of investments aligns with your goals, risk tolerance and the time horizon.

Higher-Risk Investing
When you are ready for higher-risk, long-term investing, consider stocks, bonds, real estate and mutual funds. They provide potentially higher rates of return, typically with a corresponding amount of risk. Many mutual funds combine investments in stocks, bonds and other securities, providing built-in diversification.

Stocks
Companies sell stock to raise capital. When you buy stock, you become a shareholder and own part of the company. As a shareholder you can share in the company’s profits if it chooses to distribute periodic payments called dividends.

• Your goal may be to buy stock, hold it for a time, then sell it for more than you paid for it.

• Stocks can receive capital gains treatment for federal income tax purposes, which may be beneficial.

• A registered broker can help you buy and sell individual stocks. Choose a broker having a securities license, who works as a registered representative of a brokerage or mutual fund company.
• Brokers generally charge a commission or sales fee for each transaction, reducing your returns.

• Low-commission or discount brokers are less expensive, and are typically used by individuals who are able to make their own purchase and sales decisions.

• Stocks can also be bought and sold through an established online investment account.

**Bonds**
Large organizations — companies, the federal government and state and local governments — need to borrow money occasionally. They often do so by selling bonds.

• By purchasing a bond, you lend money to its issuer. In return, the issuer agrees to pay you a certain interest rate over a period of 1 to 30 years or longer.

• The value of a bond will fluctuate throughout the life of the bond. The issuer promises to pay the face amount on the bond’s maturity date while making the stated interest payments regularly.

• Corporate bonds are only as reliable as the company issuing them. Before you invest, consider what might happen to the company over the life of the bond.

• Federal bonds are issued by the U.S. government — through the U.S. Treasury. Bonds are also issued or guaranteed through federal agencies or government-sponsored enterprises. These bonds are called agency bonds. Federal bonds tend to be safer than other investments if held to maturity.

• Municipal bonds are issued by state and local governments to help pay for schools, streets, airports and other public works. Risk and liquidity vary greatly among these bonds, so do your homework when considering them.

**Real estate**
Real estate properties should be considered long-term investments. Consider the following:

• Real estate may be used as a hedge against inflation. Real estate values generally rise with inflation, but this does not always occur.

• Real estate investments are generally not readily convertible into cash.

• You are liable for property taxes when you own real estate.

• Federal income tax deductions may be available for property tax payments, as well as for interest charges and maintenance expenses.

• Real estate investments can suffer loss if a geographic area experiences a local recession.

**Mutual funds**
A mutual fund pools the money of many investors for the purchase of stocks or bonds and other securities. Each fund — which typically may hold 50 to 200 or more stocks, bonds, cash or other investments — is professionally managed to achieve specific objectives at a chosen level of risk.

**Diversification**
**Advantages**
You can invest in a variety of industries and categories of stocks, bonds, cash and other securities reducing investment
risk. With a broad investment base, total returns are not as threatened by a few unsatisfactory performers.

**Disadvantages**
Because mutual funds have holdings in many companies, high returns from several investments may not make much difference in your overall return. It is possible to overdiversify your investments.

**Liquidity**
**Advantages**
You can generally redeem or sell your shares at any time at their current net asset value.

**Disadvantages**
When you sell your shares, you may have a gain that is taxable for federal or state income tax purposes or a loss of principal. Losses may be deductible for federal or state income tax purposes.

**Flexibility**
**Advantages**
Mutual fund companies offer a variety of mutual funds with different financial objectives managed by one company. You can reallocate investments among those funds as your goals and objectives change.

**Disadvantages**
Movement of your monies between mutual funds may result in a taxable gain for federal or state income tax purposes or a loss of principal. Losses may be deductible for federal or state income tax purposes.

**Professional Management**
**Advantages**
Mutual funds are managed by professionals who research and evaluate the investment potential of hundreds of different companies and agencies. Individual investors usually cannot get the same level of investment advice without a large portfolio.

**Disadvantages**
The investor cannot directly select the underlying fund investments and generally cannot control the amount of capital gains triggered by the fund. Mutual funds are not always tax efficient.

**Regulation**
**Advantages**
The industry is regulated by the Securities and Exchange Commission (SEC) and Financial Industry Regulatory Authority (FINRA). Both impose requirements designed to protect investors from abuse.

**Convenience**
**Advantages**
Most funds allow you to invest automatically with an allotment or automatic withdrawal from your bank account (also known as dollar cost averaging). By making fixed, regular investments into a mutual fund, regardless of share price, you may lessen your risk of putting a large amount of money in a single investment at the wrong time. Generally, you can buy or sell shares by phone, mail or online.

**Disadvantages**
Such automatic allotment or withdrawal plans do not assure a profit and do not protect against losses in declining markets.
Selecting A Mutual Fund

Carefully read each fund’s prospectus — a legally required description of the fund’s activities, objectives, holdings, managers, performance and fees. Make sure you understand the following:

**Fund objectives**
Determine which fund’s investment objectives (such as income, growth or balanced) match your long-term goals and risk tolerance.

**Fund performance**
Consider a fund’s performance (historic rate of return) over 3, 5 and 10 years. A consistent long-term performance may be a better choice than today’s front-runner.

**Fund reputation**
Research how long the mutual fund company has been in business and how it ranks against other fund companies. Many mutual fund companies have their own websites and it is possible to invest through online brokerage companies. Do not invest based on information learned online without carefully verifying the source.

**Fund expenses**
Check the fund’s fees and expense ratio, which is the sum of the fund’s total annual operating expenses, expressed as a percentage of average net assets.

**Mutual Fund Expenses**

**Types of funds:**

**LOAD MUTUAL FUNDS**
Carry a sales charge — a commission — that is paid to the investment firm selling the fund. Only a portion of the investor’s principal contribution is invested.

**NO-LOAD MUTUAL FUNDS**
Do not carry a sales charge and are normally sold directly from the investment company managing the fund. All of the investor’s principal contribution is invested.

**Operating Expenses:**
Operating expenses reduce the fund’s overall return. They are not taken from the principal investment but are deducted from mutual fund assets before earnings are distributed to shareholders.

**MANAGEMENT FEES**
Paid to the fund’s adviser for managing the fund.

**12B-1 FEES**
Pay marketing and distribution expenses.

**OTHER EXPENSES**
Paid to transfer agents, custodians, accountants, attorneys and others who provide services to the fund.

**Dow Jones Industrial Average (DJIA)**
Since 1896, the Dow Jones Industrial Average (DJIA) has served as a trend indicator for certain large capitalization U.S. stock prices. The DJIA is a price-weighted average of the stocks of the 30 largest U.S. industrial corporations and is the oldest and one of the most widely quoted indicators of American stock market activity.
This chart shows the movement of the DJIA using the daily closes over the last 20 years. When you are investing in the stock market, there are no guarantees of specific returns, only potential for growth or loss of your investment.

**Dow Jones Industrial Average (DJIA) 1993-2012**

The rise and fall of stock prices in the short term (1 year or less) are part of the risk of investing in stocks. Investing in stock should be done with a long term perspective of 5 years or greater in mind. That way, you have time to potentially recover losses in value if you hold on to the stock investment. Even though there have been many ups and downs, the forward movement of the market has generally been in an upward direction. This chart shows market activity during the last 8 years. If you invested during this time using the dollar cost averaging strategy, you may have purchased shares at many prices. When prices were high, you would have bought fewer shares. When prices were low, you would have purchased more. Had you abandoned your dollar cost averaging strategy during the times the market was falling, you could have lost the opportunity to buy securities when they “went on sale.” Today, those shares could have been worth more than you would have originally paid for them.

**Dow Jones Industrial Average (DJIA) 2005-2012**

Systematic investment plans do not ensure a profit or protect against loss in declining markets. Dollar cost averaging involves continually investing in securities regardless of fluctuating price levels. Investors should consider their financial ability to continue purchases through periods of low price levels.

**Saving And Investing For Education**

A college education is expensive. You will need to plan strategically to fund a college education for yourself, your spouse
or your child.

**START SAVING EARLY**

Then stay on course. The more you can save and invest before paying the first college expense, the less you will need to supplement with other funding options such as scholarships, grants and loans.

**DETERMINE EDUCATION GOALS**

Will you pay for a public or private college education? Will you rely on other funding options? How many years do you have to save?

**CONSIDER FINANCIAL AID**

It comes in the form of grants, scholarships, low-interest loans and work-study programs. Even if you do not think you will qualify, complete and submit the appropriate forms. Some colleges grant available aid on a first-come, first-served basis.

**COMPARE COLLEGE SAVINGS OPTIONS**

Several popular college savings options have been created to help you save for education.

- Uniform Transfers to Minors Act or Uniform Gifts to Minors Act accounts (UTMA/UGMA accounts). Custodial accounts that allow individuals to contribute an irrevocable gift to minor child. Accounts are established in the child’s name and earnings are taxed based on the child’s age.

- 529 college savings plans. Earnings can be exempt from federal income taxes for qualified distributions.

- Prepaid tuition plans. Allows you to lock in current tuition rates. Participants purchase units of tuition (years, semesters or credits) at current costs for state college and use them to pay for future college costs.

- Coverdell education savings accounts (ESA). Formerly known as Education IRAs, these accounts allow anyone to make annual contributions up to $2,000 per beneficiary. Earnings can be federal income tax-free when used for qualified education expenses.

Ask your tax professional about federal income tax incentives designed to help you offset higher education expenses. For more information on education savings, see IRS Publication 970, Tax Benefits for Education, available at irs.gov