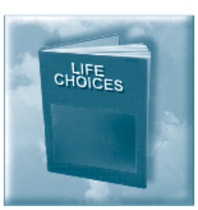
Lesson 4: Your Money Working for You

Are you a spender or a saver? Some people live from payday to payday; each month they spend their entire allowance or paycheque. Others are savers and put money aside to cover major purchases, unexpected bills, investments, and emergencies.

In this lesson you will compare ways to make your money work for you. You will discover that some methods are riskier than others. You will investigate saving and investment options, and you will examine gambling.

The Basics of Saving and Investing

Some people save money in a jar or an old sock, but most people agree it is better to keep their savings in a financial institution.



Read "The Basics of Banking" on page 27 of *Venturing Out*. This article provides reasons for choosing a financial institution.

1. "The Basics of Banking" mentions the Canada Deposit Insurance Corporation (CDIC). Why is the CDIC important to depositors?

Compare your answer with the Suggested Responses at the end of the lesson.

Saving

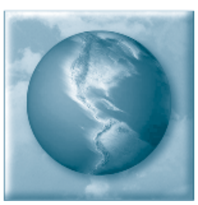
Suppose—like Judy in Lesson 1—you want save money for post-secondary education. You have several options, including the following:

- ***Savings Account.*** You can put your money into a savings account at a bank, credit union, trust company, or similar financial institution. If you choose a passbook account, you will receive a booklet in which deposits, withdrawals, and interest are recorded. If you choose a statement account, you will receive monthly statements in which transactions are recorded. If you choose an interest-earning chequing account, you will be able to write cheques, and you will receive interest on any unused money in the account. The website of any bank, credit union, or trust company will tell you more.

- ***Guaranteed Investment Certificate (GIC).*** You can buy a GIC from your financial institution, which guarantees that you will earn interest. Some GICs have **variable interest rates**; others have **fixed interest rates**. GICs require you to leave money in for a certain amount of time. Generally the term is one year to five years. The rates go up for every year you leave your money in. You can go to the website of any bank, credit union, or trust company to learn more.

variable interest rate: *an interest rate that varies over time*

fixed interest rate: *an interest rate that remains the same over time*



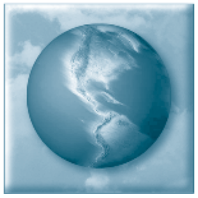
- ***Canada Savings Bond (CSB).*** You buy CSBs from the government of Canada, which ensures that you will receive a minimum guaranteed interest rate that will increase should market conditions warrant but will never fall below the posted rates during the purchase period. CSBs are cashable at any time, but you must wait three months before you can make any income from them. You can go to the following website for more information on CSBs:

  http://www.csb.gc.ca/

- ***Canada Premium Bond (CPB).*** You buy CPBs from the government of Canada; they are similar to Canada Savings Bonds, but they require you to leave money in for a certain length of time. After a year, you have 30 days to cash the bond. Otherwise, it's reinvested for you for another year. The rates for CPBs are higher than the rates for CSBs, and the rates go up for every year you leave your money in. You can go to the following website for more information on CPBs:

  http://www.csb.gc.ca/

- ***Registered Education Savings Plan (RESP).*** You or your parents can deposit money into an RESP and earn money from the interest until you go to school and cash it out. One of the advantages is that the government of Canada offers a grant that adds money to the plan. The government will add 20 percent to the first $2000 you put into an RESP.



2. Use the Internet to research and compare interest rates for savings accounts, GICs, CSBs, and CPBs. If you had $1000 to save and could leave it for two years, determine which of these options you would choose for your money.

Compare your answer with the Suggested Responses at the end of the lesson.

Investing

bond: *an investment that pays the buyer interest in installments until a future date when the buyer may redeem the bond for full face value*

stock: *a share of an incorporated company; also known as* equity *or* equity capital

mutual fund: *a way of investing in which investor money is pooled and used to purchase a range of different stocks and bonds*

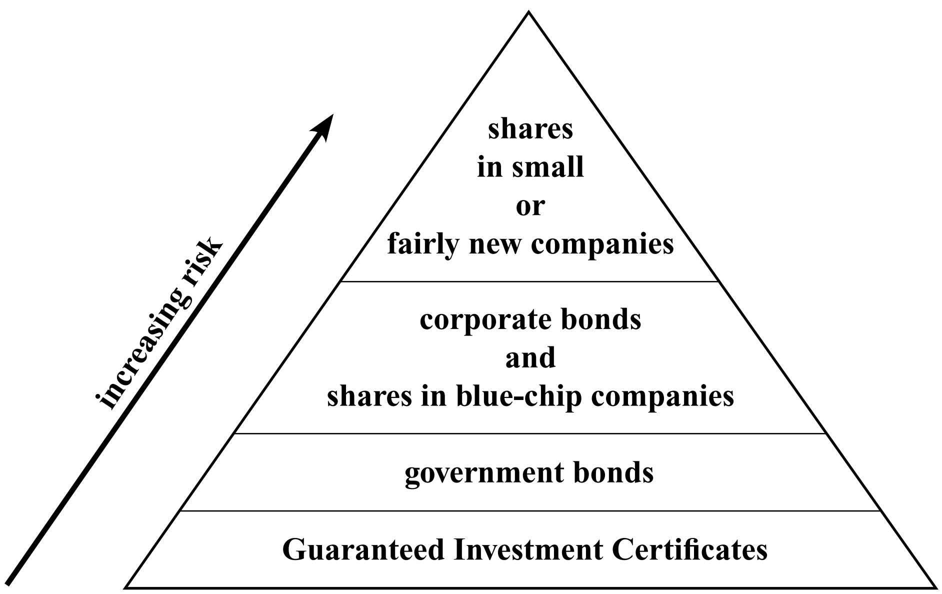
risk pyramid: *a diagram that identifies a scale of risk and rate of return with the lowest at the bottom and the highest at the top*

Saving is a secure way to make your money grow. But some people prefer to put their money in investments such as real estate, art, collectibles, government or corporate **bonds**, **stocks**, and **mutual funds**.

An investment—unlike savings—does not have a fixed worth. At any moment, an investment is only as valuable as people perceive it to be. That is why the prices of real estate, art, collectibles, stocks, and mutual funds go up and down. Because investments are more volatile than savings, they are riskier. However, they also have the potential to make more money than savings do.

When making investment decisions, you need to consider the risks and decide how much risk you can carry. The amount of risk varies for different types of investments.

The following diagram shows an example of a **risk pyramid**; the higher you go up the pyramid, the greater the risk and the higher the potential return.



Risk Pyramid

Notice the following points about the risk pyramid:

- At the base (the widest part of the pyramid) are the safest investments, such as cash and Guaranteed Investment Certificates (GICs).
- In the second level are low-risk investments, such as government bonds.
- In the third level are more risky investments, such as corporate bonds and shares in **blue-chip companies**.
- At the top are the riskiest investments, such as shares in small, new companies.

blue-chip company: *a credit-worthy company known for the quality and wide acceptance of its products or services and its ability to make money*

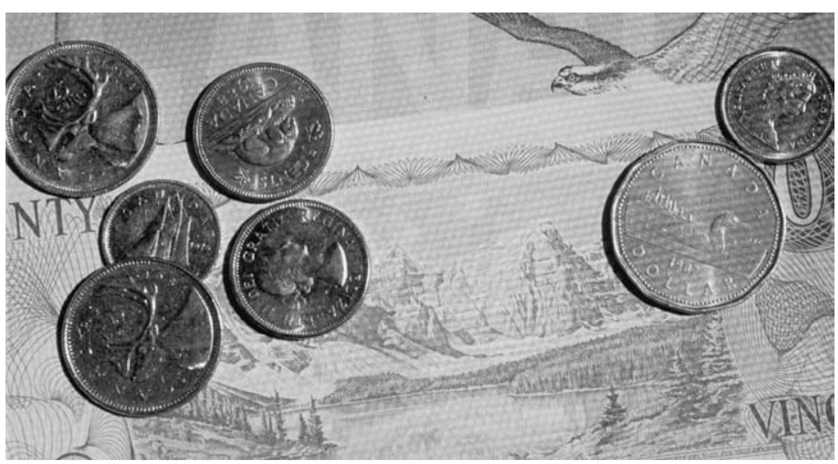
Before making an investment, it's important to accurately evaluate the risk and the potential for gains and losses.

The potential payoffs and the possibilities for financial disaster increase as you take on more risk, so your risks should be age-appropriate. Young people have time on their side, so they can absorb more potential losses. In case of failure, they have time to start again. On the other hand, people over 40 should be involved in less-risky ventures because their ability to absorb losses diminishes as they near retirement.

3. Complete "What's Your Comfort Zone?" on page 92 of *Venturing Out*. This quiz will assess your willingness to take risks.

Compare your answers with the Suggested Responses at the end of the lesson.

For more information about making your money work for you, view Segment 12: Investment Options on your Student Support CD.



Learn more about saving and investing from the following articles in *Venturing Out*:

- "Tips on Saving Money" on page 10 provides some ideas for saving money by reducing spending in various situations.
- "The Basics of Investing" on pages 52 and 53 reviews some investment concepts (reasons for saving, GICs, Canada Savings Bonds, risk pyramid) and introduces others: deposit accounts, face value, term deposits, redeemable, sleeping point, liquid assets, and tax-sheltered.

4. Think about your own options for making your money grow. Answer the following questions in your notebook.

a. How much money do you think is a reasonable amount for you to save in one year? If you are having difficulty thinking of an amount, try to identify a purchase you want to make for which you have a year to save.

b. Using this number, how much money would you need to save each month to meet your savings goal? (Divide your yearly number by 12.)

c. How much money would you need to save each week? (Divide your yearly number by 52.)

d. Are you surprised by the amount of money you would have to save each month and each week? Do you need to make any adjustments to your savings goal after calculating the monthly and weekly savings requirements?

Compare your answers with the Suggested Responses at the end of the lesson.

Personal Values and Investing

ethical investing: *investing to reflect one's concerns or beliefs*

In Lesson 3 you thought about how values affect your consumer decisions. Personal values also affect people's investment choices. Some people choose investments that reflect their concerns or beliefs. This is referred to as **ethical investing**.

Ethical investing may reflect concerns about a variety of sensitive issues—the environment and ecological issues; labour relations and the treatment of workers; a commitment to equal opportunity for all people regardless of gender, ethnicity, or ability; the production of military arms; the production of tobacco; nuclear development; quality and safety of products; and types of business practices.

Ethical investing might mean that you avoid companies with harmful practices or policies and seek out companies with more positive records. The ethics of an issue, however, are not always clear. Investors may differ in opinion on what is acceptable and what is not.

For example, people might see a forestry company as an unethical investment because it clearcuts forests or as an ethical one because it practises reforestation and employs local workers. Individual investors must decide for themselves. Activist organizations often assess companies and publish their reports so investors can consult the ratings to make investment choices.

5. What corporate practices would you find acceptable to support through your investments? What corporate practices would you refuse to support by withholding your investments?

Compare your answers with the Suggested Responses at the end of the lesson.

Gambling

gambling: *taking a risk, usually involving the possible loss of money, based on chance*

You might know of people in your community who participate in **gambling** activities such as bingo, 50/50 tickets, or a Grey Cup pool. You may be able to think of others who risk their money at the racetrack, at the casino, or buying lottery tickets.

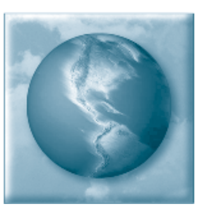
Gambling is very prevalent in Canada today. Television shows featuring poker are common, and online gambling has increased dramatically.

The number of people—including teens—with problems controlling gambling has also increased. Uncontrolled gambling can lead to serious financial trouble.

To become aware of the issue of gambling and the risks that come with it, read the following articles in *Venturing Out*:

- “Teen Gambling—Can You Bet On It?” on pages 23 and 24 focuses on teen gambling and provides guidelines for teens to make choices about gambling. The article also gives questions to help identify a problem gambler and suggestions on how to support a friend who has a problem.

- “FAQ: Problem Gamblers” on page 24 answers frequently asked questions about characteristics of problem gamblers.



You can find more information about gambling and teens by clicking on the Gambling link at the following website:

http://www.zoot2.com/Default.asp

If you live in Alberta and are concerned that you or someone you know may have a gambling problem, help is available by calling your local Alberta Alcohol and Drug Abuse Commission (AADAC) office or the AADAC Help Line at 1-866-33AADAC (1-866-332-2322).

Go to page 13 of Assignment Booklet 2A and respond to question 9 of Section 1.

Looking Back; Looking Ahead

In this lesson you compared ways to make your money grow. You discovered that some methods are riskier than others. You investigated saving and investment options, and you examined gambling. In the next lesson you will explore credit and debt.

Glossary

blue-chip company: a credit-worthy company known for the quality and wide acceptance of its products or services and its ability to make money

bond: an investment that pays the buyer interest in installments until a future date when the buyer may redeem the bond for full face value

ethical investing: investing to reflect one's concerns or beliefs

fixed interest rate: an interest rate that remains the same over time

gambling: taking a risk, usually involving the possible loss of money, based on chance

mutual fund: a way of investing in which investor money is pooled and used to purchase a range of different stocks and bonds

risk pyramid: a diagram that identifies a scale of risk and rate of return with the lowest at the bottom and the highest at the top

stock: a share of an incorporated company; also known as *equity* or *equity capital*

variable interest rate: an interest rate that varies over time

Suggested Responses

1. The CDIC is important to depositors because it protects their savings up to a certain dollar value. The article on page 27 indicates that this is $60 000 per institution, but recent changes have increased this amount to $100 000. Because of this protection, depositors do not need to worry about the institution burning down, being robbed, or going bankrupt; in any case, depositors will receive their money.

2. When you researched interest rates for savings accounts, GICs, CSBs, and CPBs, did you find that they were different or quite similar? You probably noticed that rates varied among savings options and banking institutions but that most awarded higher rates for larger deposits and longer terms. Did you find the rate tables challenging? Based on your findings, where did you determine was the best place for you to save your money?

3. A scale to rate your responses is provided in the article. Go back to "What's Your Comfort Zone?" on page 92 of *Venturing Out* to check this scale and see how you rated. Do you think your choices about saving money reflect what the quiz tells you?

4. **a.** to **d.** Your answers will vary, depending on the amount you identify as your savings goal. Consider the following factors in setting your goal:

- the items or goals you wish to save for
- the amount of income you earn
- your spending priorities
- your spending habits
- your ability to save

5. Issues you may avoid or support through your investment choices may include the following:

- a company's track record regarding labour practices and treatment of workers
- a company's track record regarding issues of ethnicity, gender, or ability
- environmental concerns including, but not limited to, forestry and fishing
- production or support of military weapons, for example, land mines
- production or promotion of substances such as tobacco or alcohol
- products or services related to gambling or pornography
- quality and safety of products or services
- nuclear development and power
- support for local community
- pollution concerns

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