Course Objectives

- Increase your knowledge about financial planning
- Improve your ability to make informed decisions
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Lesson Objectives

- Learn about the difference between saving and investing
- Become aware of terms used to describe investments
- Discover relationships among the characteristics of investments
## Saving vs. Investing

<table>
<thead>
<tr>
<th>Saving</th>
<th>Investing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide money for short-term goals and emergencies</td>
<td>Accumulate wealth to reach long-term goals</td>
</tr>
<tr>
<td>Parking place to accumulate cash</td>
<td>Expect wealth to grow over time</td>
</tr>
<tr>
<td>Principal is safe</td>
<td>Can lose principal</td>
</tr>
<tr>
<td>Not seen as an income source</td>
<td>Income is not guaranteed</td>
</tr>
</tbody>
</table>
• Stability (risk)
  • Does the return vary much over time?
• Accessibility (liquidity)
  • Can you withdraw your money easily?
  • What is the fee or other cost of withdrawing your money?
• Yield (average return)
  • What is the average return over time?
Investment Terms: Return

- The amount the investment earns
- Usually expressed in terms of an annual percentage rate per year
- If the return is not certain, then information is needed about the average returns
Investment Terms: Risk

- The amount the return varies around the average
- The source of risk depends on the type of investment
- Usually measured by standard deviation or the range from highest to lowest
- Large risk usually means a very low return can occur at any time
A trade off exists between risk and returns
A high return comes with high risk
• The speed and cost of selling the investment and getting cash
A trade off exists between liquidity, return and risk
A very liquid investment is likely to be not very risky and yield a low return
The balance between these three depends on your wealth goals
Wealth Goals

- Wealth protection and wealth distribution are linked with a need for more liquidity and less risk.
- Wealth accumulation is linked with more risk and high returns.
Linking to the Financial Pyramid

- Estate Planning
- Wealth Distribution
- Retirement Planning
- Investments
- Home
- Credit Management
- Financial Goals
- Tax Management
- Management Risk
- Emergency Cash Reserve
- Cash Management

More Liquidity
More Risk, Higher Returns
More Liquidity
Short and intermediate-term saving goals should be matched with liquid investments that have low returns with no risk.

Long-term savings goals should be matched with investment that are not liquid and have higher returns with risk.
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    - Department of Family & Consumer Sciences
    - Department of Natural Resources & Environmental Management
  - Information Technology Services-Academic Technologies