

Financially Fit Thursdays

Savings & Investing

Estelle Gibson, CPA
TED Speaker, Author, Coach



Today's Agenda

- 5 Steps to Financial Wellness
- Savings and Investing
- Q&A

If you are 40 years old or younger you have the biggest advantage when it comes to planning your financial future



The Magic of Compound Interest

*"My wealth has come from a combination of living in America, some lucky genes, **and compound interest.**"* **Warren Buffet** – 4th wealthiest person in the world



The Magic of Compound Interest

When interest is earned on the principle AND the interest in your account

Yr 1 - \$1,000 x 7% interest = \$70

Yr 2 - **\$1,070** x 7% interest = \$74.90

The Magic of Compound Interest

Deanna

- Invests \$3,000 per year/\$250 month/\$60 week
- Between **25 and 35** years old
- She earns 10% interest annually
- **Over 10 years she only contributes \$30,000**
- When She's 65 she has **\$917,725**

Gloria

- Invests \$3,000 per year/\$250 month/\$60 week
- Between **35 and 65** years old
- She earns 10% interest annually
- **Over 30 years she contributes \$90,000**
- When She's 65 she has **\$542,830**

The Magic of Compound Interest

| Denna | | | | Gloria | | | | 31 | | | | | | | |
|-------|------|--------------|---------------|--------|--------------|---------------|--|--------------|------|-----|--|--|--------------|--------------|---------------|
| | 3000 | 10% | | | 10% | | | | 3000 | 10% | | | 3000 | 10% | |
| 1 | 3000 | \$ 300.00 | \$ 3,300.00 | | \$ - | \$ - | | | | | | | 3000 | \$ 19,200.75 | \$ 211,208.25 |
| 2 | 3000 | \$ 630.00 | \$ 6,930.00 | | \$ - | \$ - | | | | | | | 3000 | \$ 21,420.82 | \$ 235,629.07 |
| 3 | 3000 | \$ 993.00 | \$ 10,923.00 | | \$ - | \$ - | | | | | | | 3000 | \$ 23,862.91 | \$ 262,491.98 |
| 4 | 3000 | \$ 1,392.30 | \$ 15,315.30 | | \$ - | \$ - | | | | | | | 3000 | \$ 26,549.20 | \$ 292,041.18 |
| 5 | 3000 | \$ 1,831.53 | \$ 20,146.83 | | \$ - | \$ - | | | | | | | 3000 | \$ 29,504.12 | \$ 324,545.30 |
| 6 | 3000 | \$ 2,314.68 | \$ 25,461.51 | | \$ - | \$ - | | | | | | | 3000 | \$ 32,754.53 | \$ 360,299.83 |
| 7 | 3000 | \$ 2,846.15 | \$ 31,307.66 | | \$ - | \$ - | | | | | | | 3000 | \$ 36,329.98 | \$ 399,629.81 |
| 8 | 3000 | \$ 3,430.77 | \$ 37,738.43 | | \$ - | \$ - | | | | | | | 3000 | \$ 40,262.98 | \$ 442,892.79 |
| 9 | 3000 | \$ 4,073.84 | \$ 44,812.27 | | \$ - | \$ - | | | | | | | 3000 | \$ 44,589.28 | \$ 490,482.07 |
| 10 | 3000 | \$ 4,781.23 | \$ 52,593.50 | | \$ - | \$ - | | | | | | | 3000 | \$ 49,348.21 | \$ 542,830.27 |
| 11 | | \$ 5,259.35 | \$ 57,852.85 | 3000 | \$ 300.00 | \$ 3,300.00 | | | | | | | | | |
| 12 | | \$ 5,785.29 | \$ 63,638.14 | 3000 | \$ 630.00 | \$ 6,930.00 | | | | | | | | | |
| 13 | | \$ 6,363.81 | \$ 70,001.95 | 3000 | \$ 993.00 | \$ 10,923.00 | | | | | | | | | |
| 14 | | \$ 7,000.20 | \$ 77,002.15 | 3000 | \$ 1,392.30 | \$ 15,315.30 | | | | | | | | | |
| 15 | | \$ 7,700.21 | \$ 84,702.36 | 3000 | \$ 1,831.53 | \$ 20,146.83 | | | | | | | | | |
| 16 | | \$ 8,470.24 | \$ 93,172.60 | 3000 | \$ 2,314.68 | \$ 25,461.51 | | | | | | | | | |
| 17 | | \$ 9,317.26 | \$ 102,489.86 | 3000 | \$ 2,846.15 | \$ 31,307.66 | | | | | | | | | |
| 18 | | \$ 10,248.99 | \$ 112,738.84 | 3000 | \$ 3,430.77 | \$ 37,738.43 | | | | | | | | | |
| 19 | | \$ 11,273.88 | \$ 124,012.72 | 3000 | \$ 4,073.84 | \$ 44,812.27 | | | | | | | | | |
| 20 | | \$ 12,401.27 | \$ 136,414.00 | 3000 | \$ 4,781.23 | \$ 52,593.50 | | | | | | | | | |
| 21 | | \$ 13,641.40 | \$ 150,055.40 | 3000 | \$ 5,559.35 | \$ 61,152.85 | | | | | | | | | |
| 22 | | \$ 15,005.54 | \$ 165,060.94 | 3000 | \$ 6,415.29 | \$ 70,568.14 | | | | | | | | | |
| 23 | | \$ 16,506.09 | \$ 181,567.03 | 3000 | \$ 7,356.81 | \$ 80,924.95 | | | | | | | | | |
| 24 | | \$ 18,156.70 | \$ 199,723.73 | 3000 | \$ 8,392.50 | \$ 92,317.45 | | | | | | | | | |
| 25 | | \$ 19,972.37 | \$ 219,696.11 | 3000 | \$ 9,531.74 | \$ 104,849.19 | | | | | | | | | |
| 26 | | \$ 21,969.61 | \$ 241,665.72 | 3000 | \$ 10,784.92 | \$ 118,634.11 | | | | | | | | | |
| 27 | | \$ 24,166.57 | \$ 265,832.29 | 3000 | \$ 12,163.41 | \$ 133,797.52 | | | | | | | | | |
| 28 | | \$ 26,583.23 | \$ 292,415.52 | 3000 | \$ 13,679.75 | \$ 150,477.27 | | | | | | | | | |
| 29 | | \$ 29,241.55 | \$ 321,657.07 | 3000 | \$ 15,347.73 | \$ 168,825.00 | | | | | | | | | |
| 30 | | \$ 32,165.71 | \$ 353,822.78 | 3000 | \$ 17,182.50 | \$ 189,007.50 | | | | | | | | | |
| | | | | | | | | \$ 30,000.00 | | | | | \$ 90,000.00 | | |

Rule of 72

$$\frac{72}{\text{Interest Rate}} = \text{\# of years to double your investment}$$

$$72/10 = 7.2 \text{ years}$$

$$72/5 = 14.4 \text{ years}$$

$$72/2 = 36 \text{ years}$$

The Downside of Compound Interest



Compound Interest is used to calculate interest on debt

- Most Credit Cards
Companies Compound Interest Daily
- You are accumulating interest on interest daily

How to Maximize Compound Interest

Saving and Investing

- Look for more frequent compounding
- Find the highest interest rates
- Start saving as soon as possible

Credit Cards and Debt

- Look for less frequent compounding
- Find the lowest interest rates
- Make multiple payments throughout the month
- Pay off Credit Cards Monthly

Saving vs Investing

- **Saving** - setting money aside for spending later
- **Investing** - using money to buy assets (stocks, bonds, mutual funds, real estate) that will earn money over time



Saving vs Investing

Saving -less risk

- You **know** approx. how much interest earned upfront
- Money **guaranteed** by your bank or credit union
- **Access** to your money right away for most products
- **Minimal fees**
- **Simple** to manage on your own

Investing - more risk

- Interest/money earned is **not known** upfront
- Money **not guaranteed**- you could lose money
- **Don't have access** to your money right away without a penalty
- Usually have **fees** if you use a broker or trade yourself
- Because it's **complex** you can't always easily do it on your own

RISK

The chance that an investment you make may not go as planned

- Inflation
- Interest Rates
- Business
- Credit
- Political
- Market Fluctuations



RISK TOLERANCE

Level of risk you are comfortable with



WAYS TO REDUCE RISK

- Finances in Order- savings and budgeting in place
- Gain Knowledge - understanding of what you're investing in and what the risks are
- Risk Capital
- Have a plan
- Exit Plan
- Trusted Team
- Consistency



3 Types of Savings

Emergency Fund



Job Loss



Car Repairs



Medical
Emergencies



Home Fixes



Short-Term



Long-Term



How Much should you Save?



Where should it come from?

- Reducing your spending
- Increasing Your Income
- Windfalls - tax returns, stimulus, bonuses, birthday, Christmas



Investing

- Stocks
- Bonds
- Mutual Funds
- Annuities
- Real Estate
- Cryptocurrency



Retirement Funds

- **Personal** - IRA, 401K, 403, 457, SEP
- **Employer Based** - Pension Plans
- **Government** - Social Security



Which Should I Choose?

- Need access to your money within a year
- Don't need access to the money for 3-5 years



Start Saving and Investing

- **Automate** Your Savings and Investments
 - Direct Deposit your paycheck into a savings or investment account
 - Set-up funds to transfer automatically
- Take Advantage of **Employer Based –Tax Advantaged Retirement Plans**
 - 401K, 403B, 457
 - Deducted from your paycheck- you aren't taxed on the amounts
 - May be matched by your employer
 - Employer determines the types of funds and Investments you can choose from

Start Saving and Investing

➤ Employer Based Tax Advantaged Retirement Plans

Traditional 401K:

- Contributions are tax deductible –with restrictions based on your gross income and if you're in a qualified retirement plan
- Contributions and earnings grow tax-deferred until you withdraw the money
- Penalties for early withdrawal

Roth 401K:

- Contributions are not tax deductible
- Withdrawal of **contributions** are not taxed or penalized
- Withdrawal of **earnings** on contributions are subject to tax and penalties

Start Saving and Investing

➤ Individual Retirement Accounts (IRA)

- Available at banks, credit unions, online brokers, employers and other investment companies

Traditional IRA:

- Contributions are tax deductible –with restrictions based on your gross income and if you're in a qualified retirement plan
- Contributions and earnings grow tax-deferred until you withdraw the money
- Penalties for early withdrawal

Roth:

- Contributions are not tax deductible
- Withdrawal of **contributions** are not taxed or penalized
- Withdrawal of **earnings** on contributions are subject to tax and penalties

Next Steps

- What are your savings Goals?
- What are your investing Goals?
- Where are you now- where are you starting from?
- What's one thing you learned today that you can implement or take action on?

WHERE YOU CAN FIND ME

Resource Page : <https://bit.ly/FIT-Resources>

Website: www.estellegibson.com



bit.ly/Youtube-J2Freedom



facebook.com/Journey2Freedom/



linkedin.com/in/journey2freedom/