FINANCIAL LITERACY - SAVINGS & INVESTMENT HANDOUT

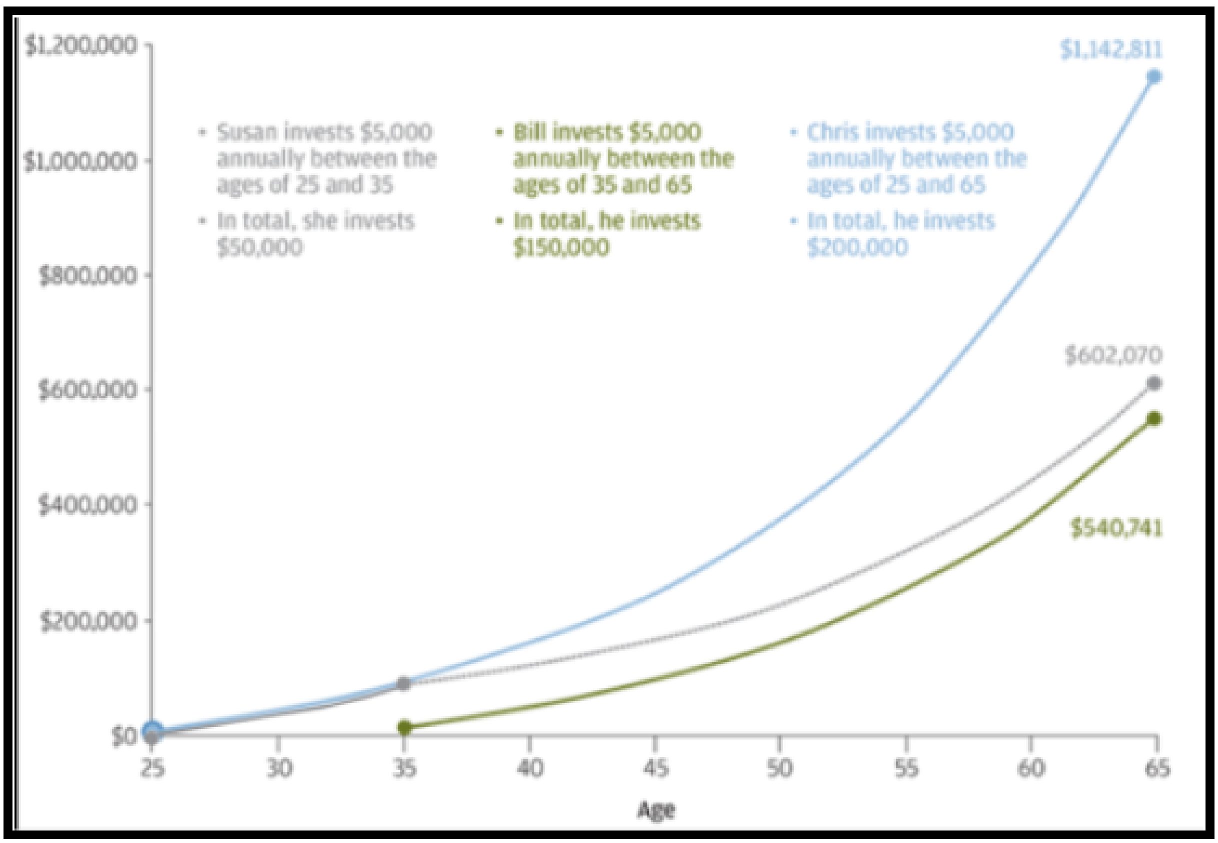
NAME _______________ DATE __________

The historic rate of saving in Canada is 7.61%. The average Canadian makes around $50,000/year, that would be savings of $3,805. The historical rate of **7.61%** is still well below the recommended rate of 10%. Unfortunately, however, Canadian households aren't even coming close to attaining the historical rate in 2019.

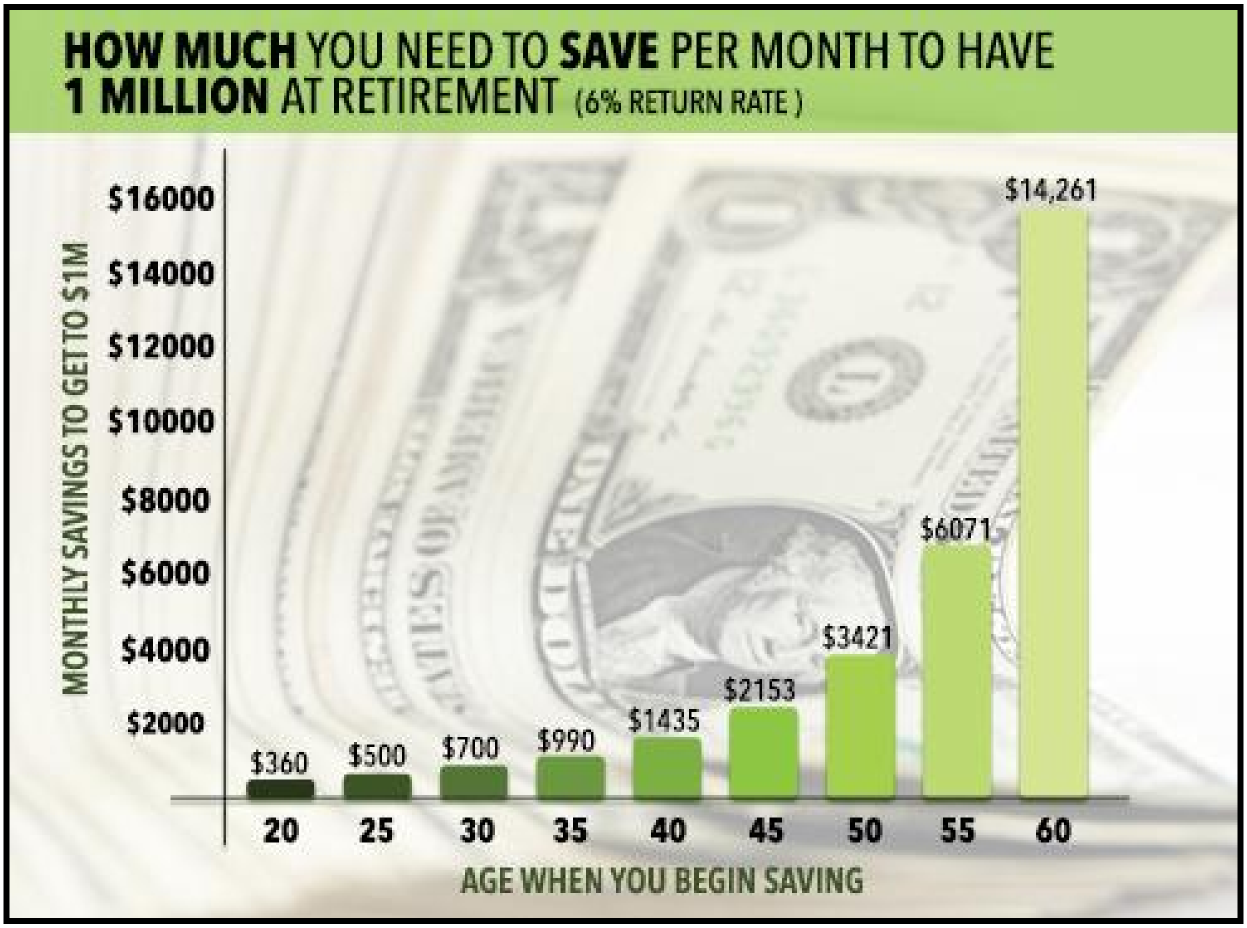
How much do Canadians save?

According to TradingEconomics.com (2019) the current savings rate for Canadians is 1.7% of household income in the second quarter of 2019. Assuming the same income of $50,000, that is only $850 saved every year.
Why are Canadians so bad at saving?

Graph I - Growth of Retirement Accounts



WHAT IS COMPOUND INTEREST https://youtu.be/wf91rEGw88Q



Why might some 20-year-olds have difficulty investing $360 per month for retirement?

How does the Stock Exchange Work? https://youtu.be/JrGp4ofULzQ (What are stocks?)
https://youtu.be/p7HKvqRI_Bo (How the stock market work?)

1. **If the price of the share grows as the company grows, how does buying shares in a company benefit an investor?**
   a. An investor will be able to sell these shares for a lower price and make a profit.
   b. An investor will be able to sell these shares for a higher price and make a profit.
   c. An investor will be able to enjoy free services from the company they bought shares from.
   d. An investor will be able to put the company on their resume.

2. **How does selling shares on the stock exchange benefit companies?**
   a. They rely on a low return when selling shares.
   b. They are immune to any volatility in the stock exchange when they sell their shares.
   c. They receive funds to further expand their company.
   d. They get more customers than when they did not sell shares.

3. **As an investor, what is the risk involved when investing in companies on the stock exchange?**
    a. Investors can lose their existing shares if the value of the stock does not increase within 90 days of purchase
    b. Once they purchase a share, investors cannot sell them at a higher price
    c. The price of stocks can decrease; for example, when the company receives bad press
    d. Investors are only at risk if the purchase a share when the stock price has fallen

When investing, some say it's a good idea to have a mix of stocks and *bonds* in your portfolio. Watch this video to learn more about what bonds are and answer the questions. https://youtu.be/IuyejHOGCro

1. **What is a bond?** How you would make money from it. - an investment where a company or government "sells" an investment plus interest, due sometime in the future 1-10 years. Earn interest

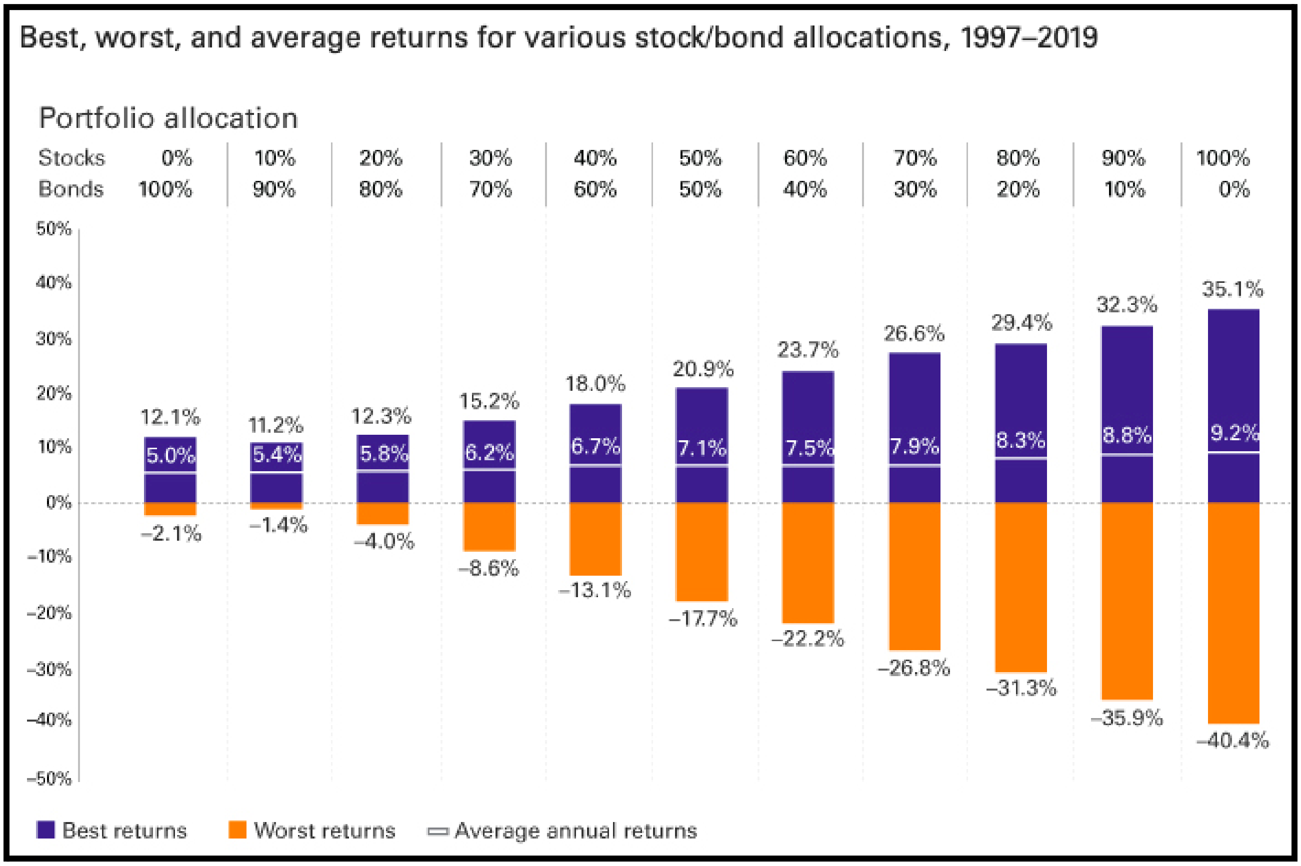
2. Why is it a good idea to invest in **both bonds and stocks?** Spreads out risk

3. What is the risk you are taking when investing in bonds? How can you minimize this risk? RISK is that the issuer of the bond doesn't pay you back…

4. Why does the value of your **bond decrease when interest rates increase?**

I buy a bond that pays 3% (locked in)… what if interest rates increase and the new bonds are paying 5%? The bond you own that pays 3% is worth LESS than the new bond paying 5%. Bond "values" go down when interest rates go up… right now bonds are down… https://www.rbcgam.com/en/ca/products/mutual-funds/RBF601/detail/

DIVERSIFICATION



1. **What is the average annual return if someone invested 100% in bonds?**

Average of 5%

DOK 1

2. **What is the average annual return if someone invested 100% in stocks?**

Average of 9.2%

DOK 1

3. **Calculate the range of potential annual returns if you invested 10% in bonds and 90% in stocks. How does this compare with the range of potential annual returns if you invested 10% in stocks and 90% bonds?**

10% Bonds and 90% stocks: range 32.3% to -35.9%
10% stocks and 90% bonds: range 11.2% to -1.4%

DOK 2

4. **Your friend tells you he is going to start investing and would like to earn a 10% return. He says stocks make him nervous, so he will only be investing 10% in stocks and the remaining 90% will be invested in bonds. What would you say to him?** He can only expect 5% and likely wont' meet his goals if he wants 10%

DOK 3

5. **Use evIdence from this graph to explain the value of investing in *both* stocks and bonds - not just one or the other.** A blend of stocks and bonds allows for less fluctuation and potentially more return

DOK 3