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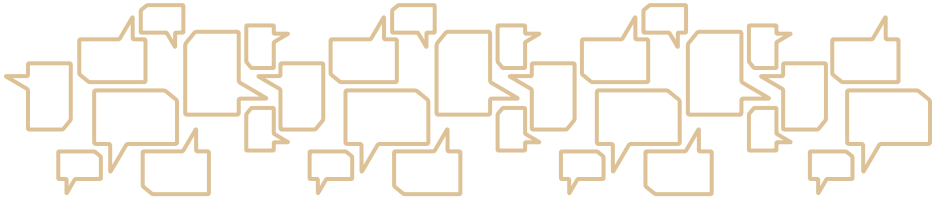
Schwab MoneyWise™ Workshop for Teens and Young Adults

Leader's Guide

Includes leader's notes and background information
for this 60- to 90-minute presentation



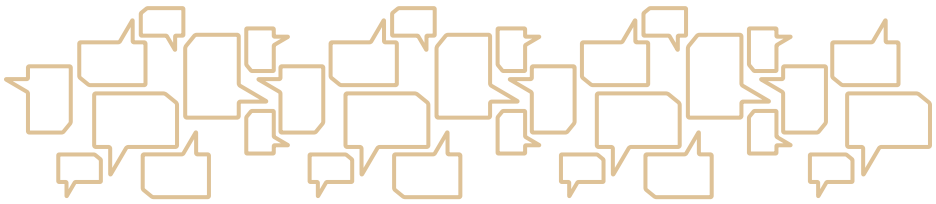
Schwab MoneyWise™ Workshop for Teens and Young Adults is the result of a collaboration between Charles Schwab Foundation and Boys & Girls Clubs of America. In 2003, Charles Schwab Foundation partnered with Boys & Girls Clubs of America to create Money Matters: Make It Count℠, a program for teaching Club teens about the basics of money management.

Due to the success of that program, we created Schwab MoneyWise Workshop for Teens and Young Adults to make some of those important lessons and financial strategies available to you.

Charles Schwab Foundation is proud to support Boys & Girls Clubs of America. For more information about Boys & Girls Clubs of America or to find a Club near you, please visit www.bgca.org.

BOYS & GIRLS CLUBS OF AMERICA

MONEY MATTERS MAKE IT COUNT



Overview

What Is This Workshop About?

Schwab MoneyWise™ Workshop for Teens and Young Adults is a 60- to 90-minute workshop. It is a condensed version of the Money Matters: Make It Count℠ program, which was collaboratively developed for teens ages 13–18 by Boys & Girls Clubs of America and Charles Schwab Foundation.

This 60- to 90-minute version focuses on three basic areas of money management:

- Understanding Your Money
- Spending Wisely and Using Credit
- Saving and Investing

Like the original program, this session is designed to be engaging and interactive, with hands-on activities.

Attendee Benefits

By attending this workshop, participants will be able to:

- Identify some of their own personal financial goals
- Distinguish needs from wants to begin budgeting their expenses
- Describe what credit is and how to use it responsibly
- Explain how compounding helps savings and investments grow
- Recognize at least two basic investing concepts
- Name at least three types of investments

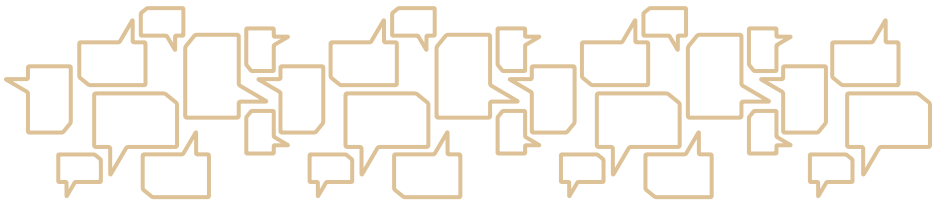
Who Should Attend

Program is geared to appeal to teens, ages 13–18.

(Note: You may adapt this presentation for college students, young adults or grade school audiences by adjusting the examples to fit your audience's interests, needs and experience.)

Audience Size

Best suited for groups of 15–30 attendees to allow full participation within allotted time.



Audience Materials

Handouts:

Handouts are included in this Leader's Guide. They are also available in a separate PDF file on SchwabMoneyWise.com and, for Schwab employee volunteers, on the Community Investor Services intranet site. (Make enough copies for your audience.)

1. Identifying Your Personal Goals

2. The True Cost of Buying on Credit

3. Two Magic Pennies (The Power of Compounding)

4-A. Calculating Compound Interest

4-B. Answers for Calculating Compound Interest

5. The Impact of Time on the Value of Money

6-A. Investment Word Match Game

6-B. Answers to Investment Word Match Game

7. Recap of Schwab MoneyWise™ Workshop

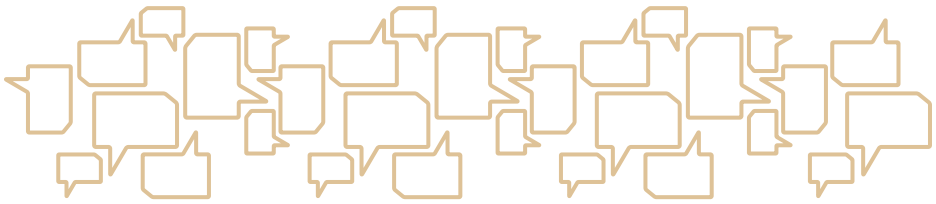
8. My Next Steps

You will also need:

- Pencils
- Post-it® Note Pads for the "Needs vs. Wants" activity

Optional:

- Bring today's newspaper's business section to show how to look up a company's stock information.
- Internet access. Bring a laptop computer (if you have one) to demonstrate how you can look up information about a company. Start by looking up stock symbols of companies that young people are interested in.



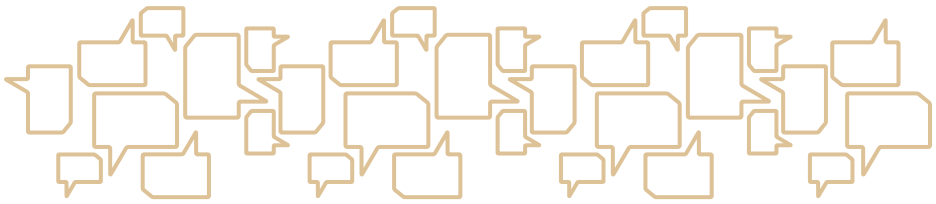
Workshop Outline

Throughout this Leader's Guide you'll find script ideas (actual language you might want to use during your presentation).

Here are some guidelines for how to allocate your time across the various content areas in a 90-minute presentation. If you need to shorten the presentation, you may reduce the amount of time spent on some of the activities. We recommend you provide all of the handout materials, so attendees can take away the information even if you don't have time to fully discuss each handout.

Note: This estimated timeline is intended only as a guideline to help you present the information in the allotted time. You may adapt this material to suit your audience and time frame.

1. Welcome and Introduction Set expectations; introduce yourself and your credentials; cover basic logistics	(3 minutes)
2. Understanding Your Money Handout 1: Identifying Your Personal Goals	(17 minutes)
3. Spending Wisely and Using Credit Activity: Determining Needs vs. Wants Handout 2: The True Cost of Buying on Credit	(25 minutes)
4. Saving and Investing Handout 3: Two Magic Pennies (The Power of Compounding) Handouts 4-A and 4-B: Calculating Compound Interest Handout 5: The Impact of Time on the Value of Money Handouts 6-A and 6-B: Investment Word Match Game	(30 minutes)
5. Conclusion/Recap Key Points Handout 7: Recap of Schwab MoneyWise™ Workshop (Fill in the blanks as a group.)	(10 minutes)
6. Next Steps—Call to Action Handout 8: My Next Steps—A sentence starter that begins, "As a result of this session, I…"	(5 minutes)
	(Total: 90 minutes)



Welcome

Greet your participants and thank them for coming.

"Welcome to Schwab MoneyWise™ Workshop for Teens and Young Adults!"

You may want to take a moment to introduce yourself, describe your professional role or establish your credentials as the facilitator.

Assess your audience's expectations.

Engage the audience early and encourage participation by asking several of the questions below. Start with some easy "show of hands" or "polling" questions to establish participation and engagement. As your audience grows more comfortable, ask for more detailed responses.

Ask all age groups:

- How many of you enjoy spending money?
- How many of you have some of your own money to spend?
- And how many of you want to know how to make your money go further?
- How many of you enjoy saving money?
- How many of you have a savings account?

Ask older audiences (late teens and young adults):

- How many of you already have a checking account?
- How many of you have used a credit card?
- How many of you earn your own money through a job or providing services (babysitting, mowing lawns, etc.)?
- How many of you expect to leave today with at least one idea you can use right away?
- What does it mean to you to be "financially independent"?

Possible answers:

- Comfort in knowing you have enough money to take care of your needs today and in the future
- Not owing more than you can pay (being free from debt)
- Positive sense of self-worth, pride, self-esteem, etc.
- Not having to rely on others to meet your basic expenses

What We'll Discuss Today

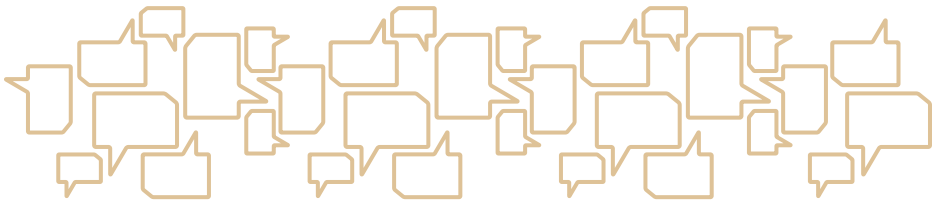
Setting audience expectations is crucial. Help participants understand what they'll walk away with today and what value they can expect to receive from this workshop.

Explain why you are presenting this information:

- While adults can always learn more about managing money, people who develop these skills early in life tend to become the best money managers.
- When young people learn the skills that help them work toward financial independence, they are better prepared to reach their potential and be successful in life.
- The sooner young people understand how money works, the easier it will be for them to make smart choices about how to spend and save money. It's not always about how much you have, but what you choose to do with it.
- Money matters—to all of us, in one way or another. We can't avoid it, so let's learn to make it count.

Make a personal connection with your audience:

- Tell them why you personally want to present this information or why you enjoy doing this presentation. Share a personal story about how money mattered to you when you were their age.



Understanding Your Money

To save time, write the SMART acronym and its meaning on an oversized piece of white paper or on a chalkboard before your session, or make sure students have Handout 1 in front of them when the session begins. The SMART acronym is at the top of the page.

To become financially independent, you must first set personal goals. Goal setting can make the difference between talking about what you want to do and actually doing it.

Set **SMART** goals that are:

Specific—the more detailed your goal, the better.

Measurable—how will you measure your progress?

Achievable—pick a goal that is possible to accomplish, not one that is too far-fetched.

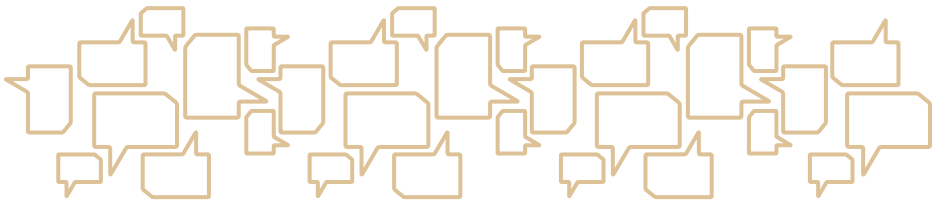
Relevant—it has to be important and make sense to you; it can't be unrelated to your hopes and dreams.

Trackable—once you know how you will measure progress, track your progress over time until you reach your goal.

Short-, medium- and long-term goals are very different. And if you link them together and write them down, you have a better chance of achieving them.

Note: The following goal-setting activity may be too advanced for younger audiences (under age 13). In that case:

- Introduce the concept of breaking down larger, long-term goals into smaller goals. Give them the two examples provided here, but don't ask them to do the activity on paper.
- Younger audiences may find it helpful to think in terms of a goal they are saving money toward now. To make this more relevant to your audience, ask them for examples of things they are saving for.



Goal Setting: The First Step

Goal setting is an important building block for lifelong success. Setting goals helps you decide what you want in life, and helps you create a timeline and a road map for achieving the results you desire.

Activity: Identifying Your Personal Goals

If you have time, quickly divide into small groups and make sure everyone has the handout.

"I'd like you to take a few minutes to think about your goals for the future in terms of four categories: personal, educational, financial and career.

"Let's do one example together. One way to think about this is to work backward, beginning with your end goal in mind.

"Short-, medium- and long-term goals are very different. And if you link them together, you have a better chance of achieving them.

"For example, if your long-term career goal is to be a veterinarian, but you do not have any experience working with animals:

- A long-term goal would be to go to veterinary school.
- A medium-term goal might be to volunteer at an animal hospital.
- A short-term goal might be to get a pet, or offer to walk your neighbor's dog or pet-sit while they are on vacation."

Ask: How does money figure into these three goals?
You'll need to pay for veterinary school. If you get a pet, you will have expenses for food and care; or, if you pet-sit, you may be able to earn money and gain experience. The point is, you'll need to think about how much money you'll need for each step along the way and start saving for your long-term goals at the same time you are working on your short- and medium-term goals.

Here's another example:
Your personal goal is to own your own vehicle:

- A long-term goal would be to buy your own car.
- A medium-term goal might be to save enough money to pay for insurance if you use a parent's car.
- A short-term goal might be to take driver education classes and pass the test.

Ask: How does money figure into the goal of owning your own vehicle?
Consider the cost of driver education classes and your permit. Also consider the cost of buying the vehicle and paying for insurance—and don't forget gasoline, oil and repairs.

Ask them to use Handout 1: Identifying Your Personal Goals.
Now it's your turn. Pick a long-term goal in **ONE** category—either personal, educational, financial or professional—and think about how you can break it into long-term, medium-term and short-term actions.

These are your own individual goals, so there's no wrong answer. Be as specific and realistic as you can. You can always complete the other categories later if you choose.

Allow about 5–7 minutes for people to write down their three goals in one category.

Then ask participants to take turns and share their goals with their small group or the person sitting next to them.
Allow about 5 minutes for discussion.

Short-term goals (1 week–3 months)

Medium-term goals (3 months–3 years)

Long-term goals (3–5 years)

Handout 1: Identifying Your Personal Goals

SMART goals are **S**pecific, **M**easurable, **A**chievable, **R**elevant and **T**rackable.

Name one of your personal, educational, financial or career goals. Then break it into long-term, medium-term and short-term actions you can take to reach that bigger goal. Write your linked goals in the spaces below.

Short-, medium- and long-term goals are very different. If you link them together, you have a better chance of achieving them. For example, if your long-term career goal is to be a veterinarian, but you do not have any experience working with animals:

- A long-term goal would be to go to veterinary school.
- A medium-term goal might be to volunteer at an animal hospital.
- A short-term goal might be to get a pet, or offer to walk your neighbor's dog or pet-sit while they are on vacation.

Long-term goal (3–5 years):

Medium-term goal (3 months–3 years):

Short-term goal (1 week–3 months):

Spending Wisely

Once you've got a clear picture of your personal goals, the next step is to create a realistic budget to help you reach them. To do that, you need to be able to distinguish items you really need from those you want. It's important to determine which items are true necessities so you can spend your money wisely.

Activity: Distinguishing Needs from Wants
(Allow about 15 minutes for this activity.)

Help the participants brainstorm a list of things they are likely to buy over the course of the next month.

Pass Post-it® Note Pads around and ask each person to take one Post-it slip and write down one purchase he or she would like to make within the next month. As soon as they are done writing, ask them to place the Post-it notes in the area you've designated for this activity.

Once all of the items have been posted, read them out loud one at a time to the group, pausing to ask if they think the item is a need or a want. Sort them into two lists. If there is a disagreement about where to place an item, allow the opportunity for debate. The person who originally wrote it down can choose whether or not to defend his or her reasoning. Emphasize that different needs make sense for different people.

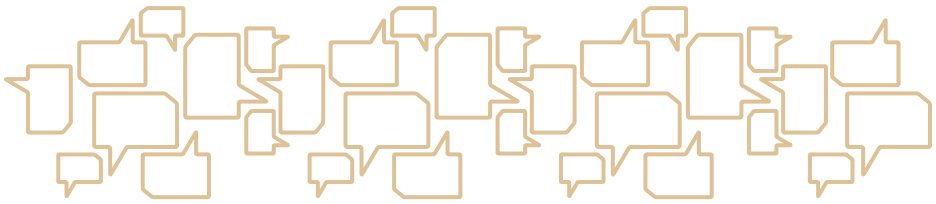
To help get the participants thinking, share some of these ideas and ask them which are needs and which are wants, from their perspectives:

- Cell phones
- Going out with friends (movies, etc.)
- DVDs or video games
- Lunch
- Going out to eat
- Brand-name clothing

Ask: How will you balance paying for wants and needs each month?

By creating a monthly budget, which is basically a list showing how much you have to spend and where you plan to spend it. When budgeting, it's always important to budget for savings (10% is a good guideline) with needs first, and then wants.

Ask: How do you plan to purchase these items? Savings? Credit card? Allowance? Money from a job? Money from a parent or guardian?



Using Credit

Note to leader: This page is optional—meaning it can be eliminated if you are short on time, or if you are presenting to a grade-school audience.

If you decide to eliminate this section from your presentation:

- Be sure to tell them that if they are even thinking about using a credit card, they should understand the risks of using credit.
- Refer to Handout 2: The True Cost of Buying on Credit.

The only right way to use credit is to pay off your entire balance each month before being charged interest or a fee. Otherwise, you cannot really afford credit.

Now let's take a minute to talk about credit. What is credit and how does it work?

Possible Answer: Credit is money made available to you for a given period of time, to pay for an item or service later instead of paying the whole amount when you actually make the purchase.

Ask:

- Have you ever borrowed money from a friend or family member and he or she allowed you to pay it back later?
- Did you have a hard time repaying the loan?

Answering these questions for yourself may help you decide whether you will be able to use credit wisely.

Almost all credit opportunities are associated with an interest rate. Interest, in this case, is a charge you pay for using the service, and is a percentage of the total amount you owe that will be added on to your total bill each month until you pay off your balance.

The flip side of this is that when you put your money in a savings account, the bank or financial institution pays you interest. You will earn a percentage rate as payment for the use of your money while you keep it there.

Depending on the interest rate and the time it takes you to pay back the loan, a purchase can wind up costing you double, triple or even quadruple the original price by the time you finish paying it off. So that hot sale item may end up costing you plenty in the end! Let's look at some examples using real numbers. These can be real eye-openers.

Pass out Handout 2: The True Cost of Buying on Credit. (Allow about 5 minutes for this activity.)

Ask everyone to think of something they'd like to buy that costs about $300, and to write it in the box on the handout. If the kids draw a blank, offer ideas such as a new cell phone, a car stereo or prom expenses. Then read the three examples aloud and get participant reaction.

Although credit can be convenient, many consumers find themselves all too familiar with the negative side of credit. It's easy to get yourself into debt and difficult to get out. Being in debt means you owe more than you can pay. This can happen far too easily by overusing credit cards and other credit options.

The only right way to use credit is to pay off your entire balance each month before being charged interest or a fee. If you can't do that because you don't have the money, then you really cannot afford a credit card.

Note: If there is interest, discuss car loans, as cars—and how to finance them—are intriguing to a teen audience.

In some cases, with large purchases such as a car or a home, using credit may be the only way to make a critical purchase. But such transactions can be very complex, so be sure to fully research the car you want, whether it is more cost effective to buy new or used, which outlets can offer the best rate (bank, auto dealer, credit union, etc.), and compare the costs and benefits of buying a car. Compare delaying the purchase and saving up in the interim versus taking out a loan for the car.

Have them consider how they will make monthly loan payments, in addition to other car expenses such as required insurance and maintenance. Given the fact that age and credit history are important to getting a loan, teens will most likely need to have their parents complete a car loan transaction.

Handout 2: The True Cost of Buying on Credit

Learn to use credit wisely or it can cost you plenty.

Unfortunately, consumers can easily become enslaved to credit card companies all of their lives and never get out of debt. Studies by Nellie Mae found that young people are particularly at high risk and are often targeted by credit card companies that offer unfavorable terms such as high interest rates and fees. Here are three examples of why credit can be risky and how long it can take to pay off even relatively small amounts.

Think of a product you want that costs $300 and write it in the box below.

1. Let's say you decide to charge it and you buy that $300 item with a credit card.

If the credit card company charges you 18% interest on an annual percentage rate (APR) and you make payments of $15 each month:

Q: How long will it take you to pay off the balance in full?

A: It will take 24 months (or two years) to pay off the balance in full.

Q: How much will you actually wind up paying for the $300 item?

A: You'll pay $354 total. That's $54 more than if you had paid cash or paid off this credit card purchase in full and on time, before interest was charged.

2. Now let's say you have a beginning balance of $1,000 on your credit card.

The credit card company charges an interest rate of 18% APR and requires you to send a minimum payment of at least $15 each month:

Q: If you do not charge any more on that credit card and send in no more than the minimum payment requested by the credit card company, how long will it take to pay off the balance in full?

A: It will take more than 15 years to pay off the balance in full, and you'll spend $1,830 on interest alone. However, if you pay $200 per month and don't charge any more on your credit card, you will have the balance paid off in 6 months.

3. Let's increase the beginning balance to $5,000.

If you pay $15 per month, you'll never pay off the credit card. The interest on the first month alone would be $69 and it would increase each month. Now, if you pay $200 per month, it will take 2½ years to pay off the debt and you'll pay an additional $1,184 in interest.

Examples provided by the Schwab Center for Financial Research.

Establishing Your Credit History

In addition to securing credit, it's important to use credit wisely and establish a good credit history—because it not only affects your current finances, it can affect your future for years to come.

Just like your school report card can affect your ability to get accepted into college, your credit report can have a big impact on your future. Your credit history can affect your ability to buy a car or home, rent an apartment, get a loan or even get a job.

If you have a bad credit report, you may be offered credit but at a higher interest rate than someone with a good credit history—which means you will pay more for the privilege.

National credit agencies keep track of how often you pay your bills late, whether you bounce checks, how much money you have borrowed and how often you apply for credit. So do your best to have a good credit report.

Saving and Investing

We've talked about setting goals and spending wisely to reach them. Now let's talk about how you can make your hard-earned money work harder for you.

You can make your money work for you by developing the habit of saving early in life. It's never too early or too late to start saving. The only mistake is not starting to save at all.

Start by paying yourself first.

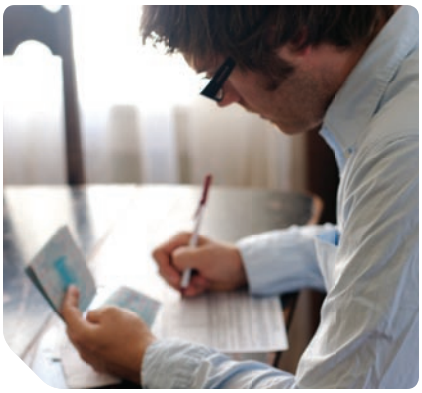
People who are financially savvy know that the first payment to be paid from each paycheck is the one to themselves. Setting aside a certain amount of money for savings each month is more important than buying things you may want now. Saving 10% of your paycheck is generally a good guideline.

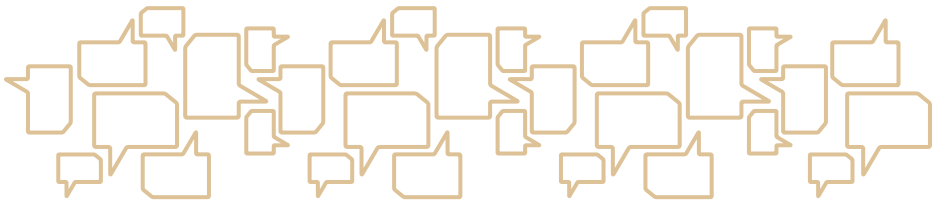
One of the best reasons for opening a savings account is that the bank pays you interest to keep your money there. Just as interest works against you when you are in extended credit, it works in your favor when you save or invest money.

The amount of interest you are paid is figured by multiplying the interest rate by the total in your savings account. When you earn compound interest, it's just another way of saying that your interest is earning interest, too. You are not just earning interest on the original amount you put into savings.

Interest may be multiplied or "compounded" daily, monthly, quarterly or annually. The more often it is compounded, the faster your money grows.

Give the example of the Two Magic Pennies (Handout 3).





Compound Interest

Ask students to look at Handout 3—Two Magic Pennies.

Tell them:

- Imagine you have two magic pennies, and every day they multiply by two.
- Guess how much money you would have in 31 days if the magic pennies doubled every day?

Before asking them to look at Handout 3-B, ask for a show of hands in answer to the following prompts:

- How many of you guess that you'd have more than $1,000 at the end of the month?
- Keep your hands up if you guess you'd have more than $10,000.
- How many guess it would add up to more than $100,000 after 31 days of doubling?
- How many of you guess that those magic pennies would stack up to more than $10 million after 31 days of doubling?

Ask students to look at the second page of Handout 3.

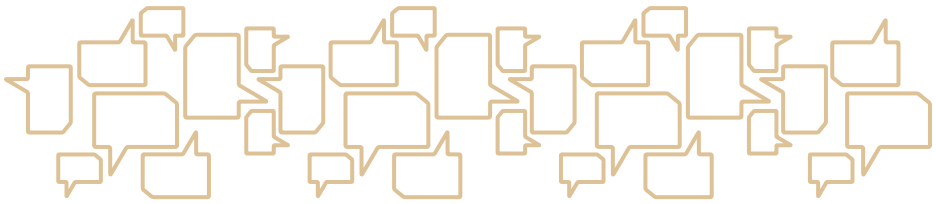
- Wow! After doubling every day, by day 31, the magic pennies added up to twenty-one million, four hundred seventy-four thousand, eight hundred thirty-six dollars ($21,474,836)!
- While there are no magic pennies—and this example of 100% daily interest would never happen in the real world—anyone can benefit from the power of compounding.
- This hypothetical example shows you that the power of compounding can help make your money work hard for you.

Handout 3: Two Magic Pennies (The Power of Compounding)

What if you had two magic pennies and every day they multiplied by two?

Day 1	$0.02
Day 2	$0.04
Day 3	$0.08
Day 4	$0.16
Day 5	$0.32
Day 6	$0.64
Day 7	$1.28

Day 20	$10,486
Day 28	$2,684,355
Day 29	$5,368,709
Day 30	$10,737,418
Day 31	$21,474,836



Compound Interest

Now let's take a more realistic look at how compound interest can help put your money to work for you in a savings account.

Materials needed: Handouts 4-A and 4-B
Estimated time: 5 minutes

Pass out the Calculating Compound Interest handout.
By taking advantage of compound interest, you can end up with significantly more than your original savings and be on your way to realizing your long-term financial goals. It's one reason putting your money in a savings account is better than keeping it "under your mattress."

Let's say that your uncle has just given you $1,000 as a gift. You decide to put it into a savings account that hypothetically earns 5% interest annually. And you are dedicated to keeping every cent in the account for the next 10 years.

Year 1: (Initial balance $1,000)
$1,000 x .05 = $1,050.00

Q: How much is 5% of $1,000?

A: $50. Divide 5 by 100 since "percent" means "per 100," and then multiply that number by 1,000.

So if you earned $50 in interest a year for 10 years, you would have an extra $500, right? That's true if you were only paid "simple interest" on the initial $1,000 each year.

But with "compound interest," you earn interest on the whole amount in your account, not just the initial savings. That means your interest earns interest, too!

Year 2: (Initial balance $1,000 + $50 interest = $1,050)
$1,050 x .05 = $1,102.50

Now let's skip ahead and look at the answer sheet to see how the interest adds up each year. You can calculate the interest on your own later if you like.

Ask: Can you see how the power of compounding works to put your money to work for you? Were there any surprises?
If an extra $628.87 doesn't seem like all that much to you, consider the fact that you didn't have to do anything to earn that money except leave your original amount in savings and not touch it for 10 years. Your money was working for you!

Think about how, if you had added to your original savings amount over those 10 years, that amount would have compounded, too.

Handout 4-A: Calculating Compound Interest

By taking advantage of compound interest, you can end up with significantly more than your original savings and be on your way to realizing your long-term financial goals. It's one reason a savings account is better than keeping it "under your mattress."

Hypothetical Situation:

Let's say that a relative has just given you $1,000 as a gift. You decide to put it in a savings account that earns 5% interest annually. And you are dedicated to keeping every cent in the account for the next 10 years.

With compound interest, you earn interest on the whole amount in your account, not just on the initial savings. That means your interest earns interest, too!

Calculate the interest for each year and fill in the blanks.

Year 1: Your initial balance of $1,000.00 + ($1,000.00 x .05) = $1,050.00

Year 2: Beginning balance of $1,050.00 + ($1,050.00 x .05) = $1,102.50

Year 3: Beginning balance $_____ + ($_____ x .05) = $_____

Year 4: Beginning balance $_____ + ($_____ x .05) = $_____

Year 5: Beginning balance $_____ + ($_____ x .05) = $_____

Year 6: Beginning balance $_____ + ($_____ x .05) = $_____

Year 7: Beginning balance $_____ + ($_____ x .05) = $_____

Year 8: Beginning balance $_____ + ($_____ x .05) = $_____

Year 9: Beginning balance $_____ + ($_____ x .05) = $_____

Year 10: Beginning balance $_____ + ($_____ x .05) = $_____

Handout 4-B: Answers for Calculating Compound Interest

Hypothetical Situation:

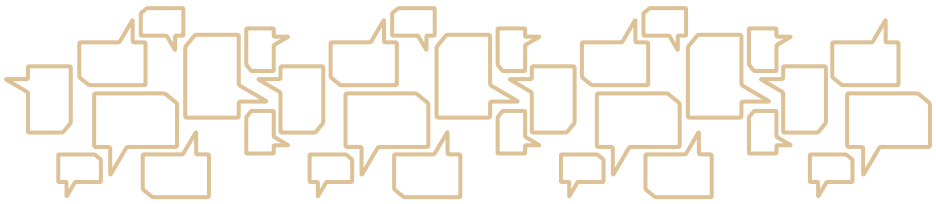
Let's say that a relative has just given you $1,000 as a gift. You decide to put it in a savings account that earns 5% interest annually. And you are dedicated to keeping every cent in the account for the next 10 years.

With compound interest, you earn interest on the whole amount in your account, not just the initial savings. That means your interest earns interest, too!

Calculate the interest for each year and fill in the blanks.

Year 1: Your initial balance	$1,000.00	+ ($1,000.00 x .05)	= **$1,050.00**
Year 2: Beginning balance	$1,050.00	+ ($1,050.00 x .05)	= **$1,102.50**
Year 3: Beginning balance	$1,102.50	+ ($1,102.50 x .05)	= **$1,157.62**
Year 4: Beginning balance	$1,157.62	+ ($1,157.62 x .05)	= **$1,215.50**
Year 5: Beginning balance	$1,215.50	+ ($1,215.50 x .05)	= **$1,276.27**
Year 6: Beginning balance	$1,276.27	+ ($1,276.27 x .05)	= **$1,340.08**
Year 7: Beginning balance	$1,340.08	+ ($1,340.08 x .05)	= **$1,407.08**
Year 8: Beginning balance	$1,407.08	+ ($1,407.08 x .05)	= **$1,477.43**
Year 9: Beginning balance	$1,477.43	+ ($1,477.43 x .05)	= **$1,551.30**
Year 10: Beginning balance	$1,551.30	+ ($1,551.30 x .05)	= **$1,628.87**

After 10 years, you would have an extra $628.87 by letting your money work for you.



Basic Investing Concepts

As your savings grow and you gain more financial independence, you will want to move past a basic savings account and discover the world of investing and its potential for greater rewards.

Ask: What's the difference between saving and investing?

- While investments are riskier than savings, they can also offer greater opportunity for rewards.
- The risk is that you could lose part or all of your original investment, and the reward is that if your investment does well, you stand to gain more than you would in a savings account.
- One important difference between saving and investing is that investing is for the long term, meaning you don't expect to need the money you invest for at least five to 10 years or longer.
- Another difference between saving and investing in terms of safety is that bank account savings are federally insured up to certain dollar limits, and investments are not.

In the last handout, you learned about the power of compounding in relation to savings. Now let's look at an investing example and the impact that time and a higher rate of return can have on your money. This is especially true for young people—who may have less money than older adults but who have more years to make that money work for them.

While looking at Handout 5, explain the following:

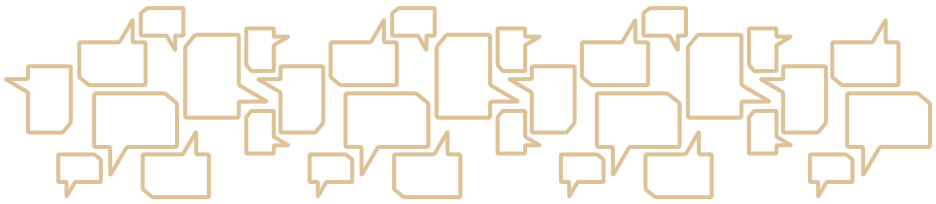
- Assume you're 15 years old and you've saved $1,000 that you want to invest before your 16th birthday.
- Your parents invest the money in a custodial account for you, and together you choose how that money will be invested (in stocks, mutual funds, etc.).
- Your total investments grow by a hypothetical 9% each year and you continue to set aside $1,000 each year for 10 years, but at age 25 you decide to stop.

Meanwhile, your friends invest nothing until they are age 25. At 25, they begin to invest $1,000 every year and, like you, they earn 9% on the money they invest. At age 50, you have a reunion and compare notes. Who has the most money—you or your friends?

Handout 5: The Impact of Time on the Value of Money

Starting Early		Starting Later		A Lifetime of Investing	
Age	Invested	Age	Invested	Age	Invested
16	$1,000			16	$1,000
17	$1,000			17	$1,000
18	$1,000			18	$1,000
19	$1,000			19	$1,000
20	$1,000			20	$1,000
21	$1,000			21	$1,000
22	$1,000			22	$1,000
23	$1,000			23	$1,000
24	$1,000			24	$1,000
25	$1,000			25	$1,000
		26	$1,000	26	$1,000
		27	$1,000	27	$1,000
		28	$1,000	28	$1,000
		29	$1,000	29	$1,000
		30	$1,000	30	$1,000
		31	$1,000	31	$1,000
		32	$1,000	32	$1,000
		33	$1,000	33	$1,000
		34	$1,000	34	$1,000
		35	$1,000	35	$1,000
		36	$1,000	36	$1,000
		37	$1,000	37	$1,000
		38	$1,000	38	$1,000
		39	$1,000	39	$1,000
		40	$1,000	40	$1,000
		41	$1,000	41	$1,000
		42	$1,000	42	$1,000
		43	$1,000	43	$1,000
		44	$1,000	44	$1,000
		45	$1,000	45	$1,000
		46	$1,000	46	$1,000
		47	$1,000	47	$1,000
		48	$1,000	48	$1,000
		49	$1,000	49	$1,000
		50	$1,000	50	$1,000
Total invested: $10,000 Amount available by age 50: $131,010		**Total invested: $25,000 Amount available by age 50: $84,701**		**Total invested: $35,000 Amount available by age 50: $215,711**	

Source: Adapted with permission from National Endowment for Financial Education. These investing examples assume a consistent annual 9% rate of return with $1,000 contributions made at the beginning of each year. The amounts shown for investment growth and final results do not consider any transaction costs, fees or taxes. This hypothetical example of compounding growth is for illustrative purposes only and is in no way to be considered indicative of any guaranteed performance an investor can expect to achieve. Making regular investments does not assure profits and does not protect against losses in declining markets.



Investing in Stocks, Bonds and Mutual Funds

Before anyone starts investing, it's advisable to build up an emergency fund to be able to take the risks associated with investing.

Ask: What's an emergency fund?

Once you are living on your own, a true emergency fund is money you put away that can cover at least three to six months of your everyday living expenses if you should lose your job or ability to work full-time due to a serious illness or injury.

Even if you are not yet living on your own, it's not too soon to gain an understanding of basic investing concepts. All of us need to know about investing money to help secure our long-term financial future. Many people start investing through an employer-sponsored retirement account, such as a 401(k). A 401(k) plan enables you to have money automatically deducted from your paycheck. This money is tax-deferred and you can invest for your future.

As we just showed, the sooner you start investing, the longer your money has to work for you—so it's important to learn about the basics of investing now.

You may be asking yourself, "But what would I invest in?" Every investment choice offers advantages and disadvantages. For example, a savings account is safe, but it offers the smallest amount of return (the amount paid to you through interest). As you become more willing to take greater risks with your money, you will have an opportunity to earn higher returns than you would with savings. Most successful investors strive to balance risk with reward. Before we talk about what kinds of things you can invest your money in, let's consider your overall investing strategy.

Not just one investment strategy works for everyone, and there's no trick to get rich quick.

However, there are commonsense investing approaches to help to reach your financial dreams. The most important one is the time-tested strategy called diversification.

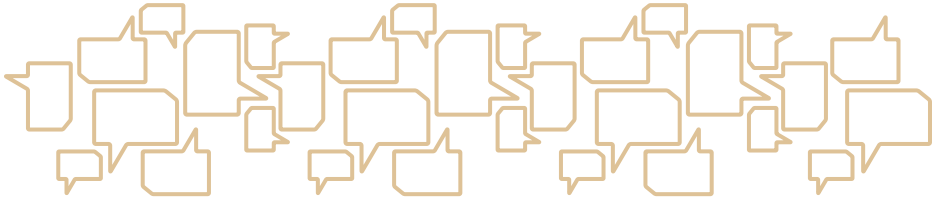
Ask: What's another way to describe diversification?

Possible answer:

Don't put all of your eggs in one basket.

It's smart to invest in a variety of things—or to diversify—because you can't always pick one individual investment that will do well. With proper diversification, if one investment loses some value, your other investments may do well. This commonsense rule helps to protect you against loss and increases the chances of your investments making money. But remember that diversification does not eliminate the risk of market losses.

Investing is a great way to make your money work harder for you. Use common sense, and do a little research before you invest, and you'll be on your way. Research, planning and preparedness are the tools for successful investing. Start small and learn from your mistakes as well as your successes.



Now, can you help name some of the most common types of investments? When you hear people talk about investing, what are they investing in?

Possible answers:
Stocks, bonds, mutual funds, certificates of deposit, real estate, art, gold, U.S. government bonds, index funds.

People invest in lots of different things in lots of ways. They are looking for items that they hope will increase in value over time. One of the basic goals of investing is to buy something at a low price and sell it for more than you paid—pocketing the difference. Let's focus on stock market investments: stocks, bonds and mutual funds.

What are stocks?

When you buy stock in a corporation, you buy a certain number of its shares—and each share represents a part of the corporation. In other words, you are a part owner of that corporation.

A company sells its stock to raise money. But it does not promise to pay you back, which is where the risk comes in. If the company makes a profit, it might share that with you by paying you a dividend. That's one way to make money with stocks. The other way is to sell stock for a price that's higher than you paid.

But if the price of the stock goes down, you risk losing money. Research shows that historically, stocks have done better over time than all other kinds of investments.* However, past performance is no indication of future results.

Stocks are best for investors who don't plan to touch their investment for a long time. You will pay a commission when you buy or sell stock. One rule of thumb when investing in stocks is to remember to diversify—don't focus on only one stock or industry. And one of the easiest ways to help you diversity is to invest in an index fund or other type of mutual fund, which I will tell you about in just a minute.

What are bonds?

When you buy bonds as an investment, you are basically lending the amount you pay to the bond issuer, which is either a company or a government. The government issuing the bonds can be a municipality, a city, a state or even the U.S. federal government. For example, you've probably heard of bonds issued by cities or states to raise money for education (school bonds), construction or many other efforts in the community that cost money.

The borrower (who is called the bond issuer) promises to pay you back by a certain date and pay you a specific rate of interest as part of the payments. Government bonds are typically a very low-risk investment and the returns are generally low as well.

What are savings bonds?

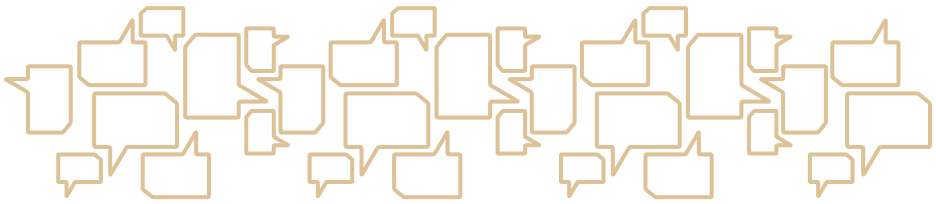
Because the U.S. government backs them, these bonds are considered some of the safest investments around.

U.S. government Series EE Savings Bonds and I Bonds work differently from other types of bonds. Their values don't vary according to market conditions, so they are never worth less than you paid for them. You may be able to cash them in any time past 12 months after the date you bought them. But if you redeem them in fewer than five years, you'll lose the last three months of interest. Until the maturity date, the longer you hold them, the more money you'll make.

What are mutual funds?

Mutual funds are collections of stocks or bonds (or a combination of the two) that are funded by a large pool of investors. They can offer diversification with a specific investment goal in mind. But you still need to do your homework and choose funds carefully since performance varies from fund to fund. And remember that diversification does not eliminate the risk of market losses.

*Source: Stocks, Bonds, Bills & Inflation, 2005 Yearbook, Ibbotson Associates, Inc.



A minimal $1,000 investment in a stock mutual fund, for example, can buy you stock ownership in all the companies owned by the fund (which are often in the hundreds). If you invest in a no-load fund, there is no sales charge. Otherwise, be prepared to pay a fee to invest and/or pay ongoing expense fees.

A mutual fund prospectus is a legal document that explains the offer and other information including investment objectives, risks, charges and expenses that can help investors decide whether the investment is suitable for them. Investors should read the prospectus carefully before investing. An investment in a mutual fund may fluctuate with market conditions and entails the risk of loss of principal (the original investment).

Index mutual funds can be a good choice for young, first-time investors, as well as experienced investors. These funds aim to mirror overall market returns and are measured by a specific index, such as the Standard & Poor's 500 Index (S&P 500®), which tracks 500 of the country's most widely traded stocks. For example, an S&P index fund invests in the 500 or so stocks included in the S&P 500. This means when you buy shares in that fund, you are buying a little bit of each of the 500 companies, which helps you to diversify. Index funds generally have very low fees. The indices themselves are unmanaged; do not incur management fees, costs and expenses; and cannot be invested in directly.

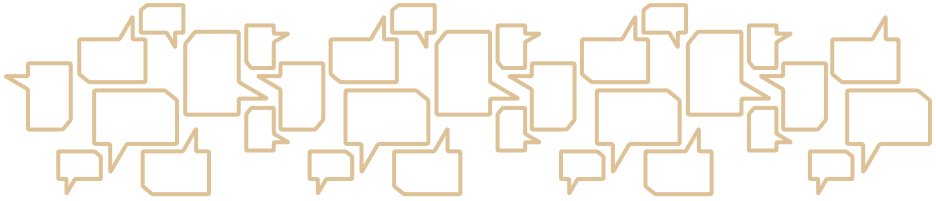
Optional: Show and Tell.
Use the business section of today's newspaper and turn to the stock pages.

Ask someone to name a company and then look it up for the group. Use this opportunity to provide a general overview, but don't delve into details like price-to-earnings ratios, etc.

For example:
Look up a company that appeals to kids (such as a popular fast-food restaurant, beverage company, technology company or apparel maker).

Tell them how the daily stock reports provide information about the price the shares sold for at the end of the previous business day, what the highest and lowest prices for that stock were in the last year and other helpful information.

Investors use this information to help them make decisions about whether to buy or sell shares of stock, mutual funds and bonds. In addition to reading newspapers, you can also get some of this information browsing Internet sites, on the radio and from television business reports.



Recap Key Points About Saving and Investing

Activity: Investment Word Match Game
(Allow about 5 minutes.)

Materials needed:
Handouts 6-A and 6-B–Investment Word Match Game

Pass out handouts.
Ask participants to match each term in column A with its definition in column B. They can draw arrows from each term to the correct definition, or they can put the letter of the answer in column B, next to the word in column A.

Pass out the answer key.
Provide the correct answers and let them check their own work:

1. E

2. D

3. A

4. B

5. C

6. F

Handout 6-A: Investment Word Match Game

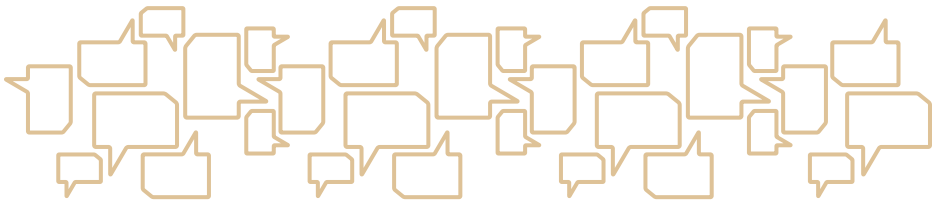
Match each term in column A with its definition in column B.

You may either draw arrows to connect the term with the correct definition, or write the letter of the answer in column B, next to the word in column A.

Column A	Column B
1. Interest	**A.** Represents ownership in a company.
2. Compound interest	**B.** Pools money from several investors and uses the money to buy various types of investments.
3. Stock	**C.** The act of putting aside some of today's income for tomorrow's needs and wants.
4. Mutual fund	**D.** The interest that you earn also earns interest.
5. Saving	**E.** What you earn when you keep money in a savings account.
6. Bonds	**F.** Loans issued to the government or a corporation.

Handout 6-B: Answers to Investment Word Match Game

Answers	Completed Sentences
1. E	**Interest** is what you earn when you keep money in a savings account.
2. D	**Compound interest** means the interest that you earn also earns interest.
3. A	A **stock** represents ownership in a company.
4. B	A **mutual fund** pools money from several investors and uses the money to buy various types of investments.
5. C	**Saving** is the act of putting aside some of today's income for tomorrow's needs and wants.
6. F	**Bonds** are loans issued to the government or a corporation.



Recap Key Points of Today's Session

Distribute Handout 7: Recap of Key Points

"Now let's work as a group to summarize the main points of today's workshop. I'll read the sentence aloud and ask you to volunteer to tell us what should go in the blanks."

Write the correct answers to fill in the blanks on your worksheet as you go. This will be a good reminder of what we talked about today. And you can share it with your friends or family if you like.

- Personal **goal** setting is the first step in managing your money.
- One of the keys to creating a realistic budget is being able to distinguish items you really **need** from those you **want**.
- The only right way to use credit is to **pay off your entire balance** each month before being charged interest or a fee. Otherwise, you cannot really afford credit.
- Start saving and investing as soon as you can. You're young and the power of **compound** interest will help you build a strong financial portfolio.
- Pay **yourself** first. Save some money from each paycheck, your allowance or gift of money you receive—before you spend it—and you'll be able to work toward your long-term goals.
- Unlike emergency funds or short-term savings, investing is for the **long** term. That means you should plan to invest money that you won't need for at least five to 10 years or more.
- Diversify, diversify, **diversify**. When you invest, look for a variety of investment vehicles to help you ride out the ups and downs of the market. You'll want to consider popular stock market investments such as stocks, bonds and mutual funds including index funds.

Handout 7: Recap of Schwab MoneyWise™ Workshop

This is a summary of the key points we talked about today.

We'll fill in the blanks together as a group to complete the statements below:

- Personal _____ setting is the first step in managing your money.

- One of the keys to creating a realistic budget is being able to distinguish items you really _____ from those you _____.

- The only right way to use credit is to _____ _____ each month before being charged interest or a fee. Otherwise, you cannot really afford credit.

- Start saving and investing as soon as you can. You're young and the power of _____ interest will help you build a strong financial portfolio.

- Pay _____ first. Save some money from each paycheck, your allowance or gift of money you receive—before you spend it—and you'll be able to work toward your long-term goals.

- Unlike emergency funds or short-term savings, investing is for the _____ term. That means you should plan to invest money that you won't need for at least five to 10 years or more.

- Diversify, diversify, _____. When you invest, look for a variety of investment vehicles to help you ride out the ups and downs of the market. You'll want to consider popular stock market investments such as stocks, bonds and mutual funds including index funds.

Next Steps: Sentence Starters

Activity: Next Steps/Complete the Sentences for My Next Steps

Materials needed:
Handout: My Next Steps
Estimated Time: 5 minutes

Invite them to take the next step and put some of what they learned today into action.

Ask participants to finish the sentences by filling in the blanks based on their own experience from today's workshop. Then, if they want to, they can share one of their answers with the person next to them.

You can then ask for volunteers to share one of their answers with the group.

Handout 8: My Next Steps

One thing I learned today that I can put into action within the next few weeks is to:

_____

_____

_____

_____

_____

Before this workshop, when I thought about managing my money, I thought or felt:

_____

_____

_____

_____

_____

And now I think:

_____

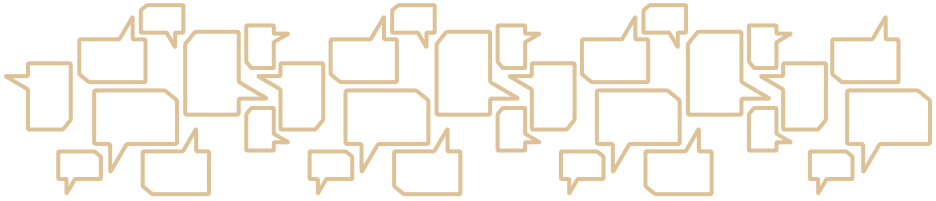
_____

_____

_____

_____

Talk with your parents or guardians about money and what you learned today. For more resources, visit SchwabMoneyWise.com.



Conclusion

Thank you for participating in this Schwab MoneyWise™ Workshop for Teens and Young Adults.

I hope it gave you some good ideas and solid money-management tools you can use now and in the future to help you plan for the life you want.