Investing Basics
Merrill - DECA

2025

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Agenda

- ✓ Understanding Money Management
- ✓ Why we invest
- ✓ Understanding investment choices
- ✓ Key actions to consider

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Step one: Create a budget



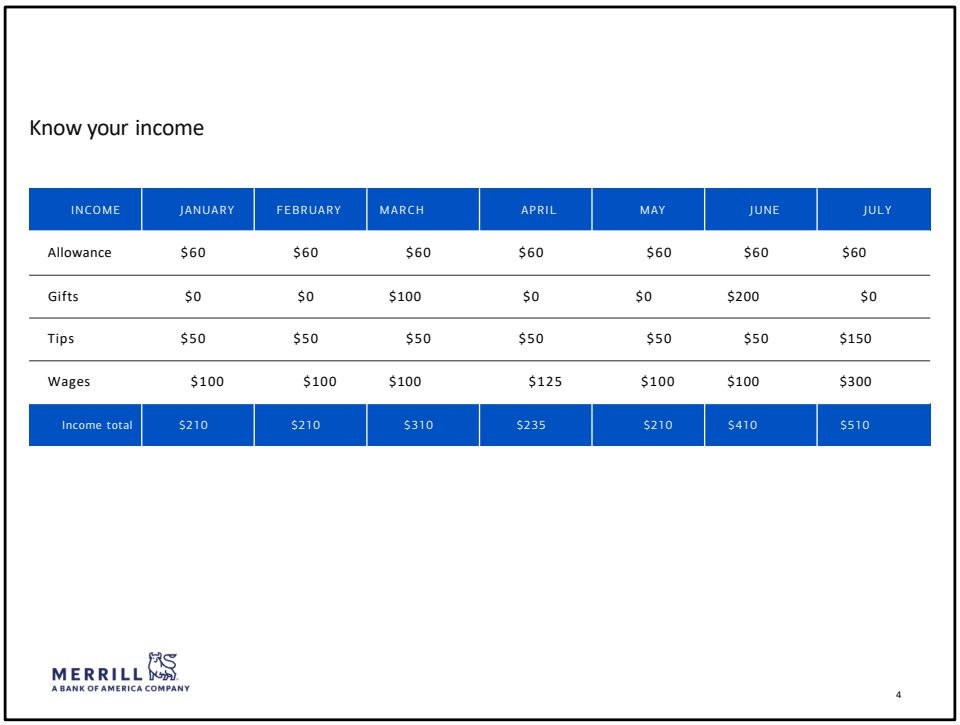
Source: Nerdwallet, 2023

3

Almost 75 percent of U.S. adults establish and maintain budgets, according to The Harris Poll in 2023.

Become part of that 75 percent. You might not think you bring in enough money now or have enough expenses to bother writing them all down, but chances are, you do. Even if your budget is simple, knowing your income and expenses is fundamental to your financial health, so get in the habit of keeping a budget—it's an important tool to use as a guide to better money management.

After recording your income and expenses for a month or two, you can use your budget to project what your financial picture will be for the few months or a year so that you can see where your money is going, plan for upcoming expenses, find money to put away for a short- or long-term goal and figure out if you have to bring in more money or cut your spending.



Do you know how much money you bring in every month? If you aren't aware of the total amount, you can't begin to manage it.

Here's a sample record of a student's income over a few months. Each line shows the various ways to receive income: allowance, gifts, wages or tips or money brought in providing a service, like landscaping or caring for children.

Be careful not to overestimate, and remember if you get a paycheck to subtract what you pay for Social Security and taxes. Your final take-home pay is called net income, and that is the number you should use.

Track your spending

EXPENSES	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY
Cell phone	$50	$50	$50	$50	$50	$50	$50
Entertainment	$80	$80	$80	$100	$80	$100	$100
Food (snacks)	$15	$15	$15	$15	$15	$15	$15
Food (dining out)	$30	$30	$30	$30	$30	$50	$50
Clothes	$0	$100	$0	$100	$0	$50	$0
Haircuts	$35	$0	$35	$0	$35	$0	$35
Expense total	**$210**	**$275**	**$210**	**$295**	**$210**	**$265**	**$250**

EXPENSES	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY
Income total	$210	$210	$310	$235	$210	$410	$510
Expense total	$210	$275	$210	$295	$210	$265	$250
Difference	$0	-$65	$100	-$60	$0	$145	$260

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5

surprising statistic: Teens spend the most amount of money on food, accounting for 24 percent of spending. Out of other categories like clothing, shoes, video games and electronics, do you know what you spend the most on?

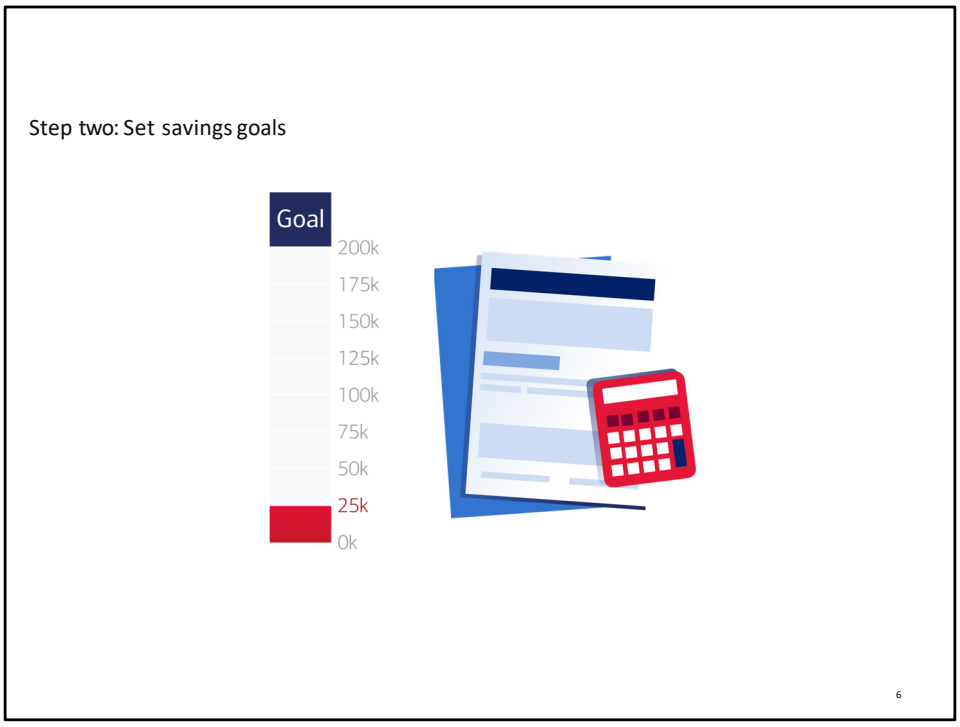
You might not realize how much you are spending on that trip to Starbucks every week, or you may not think you have enough expenses to bother writing them all down, but even if your expenses are simple, try recording everything you spend money on during the day to give you an idea of where your money goes.

Begin by listing all your fixed expenses. These are regular monthly bills such as rent or a car or phone payment. It's unlikely you'll be able to cut back on these, but knowing how much of your monthly income they take up can be helpful.

Next list all your variable expenses—those that may change from month to month like food and entertainment. This is an area where you might find opportunities to cut back.

Make sure to include "savings" as an item. We'll talk about that in a minute.

Finally, subtract your total expenses from your total income. In the example, there are two months when there was more money going out than coming in.

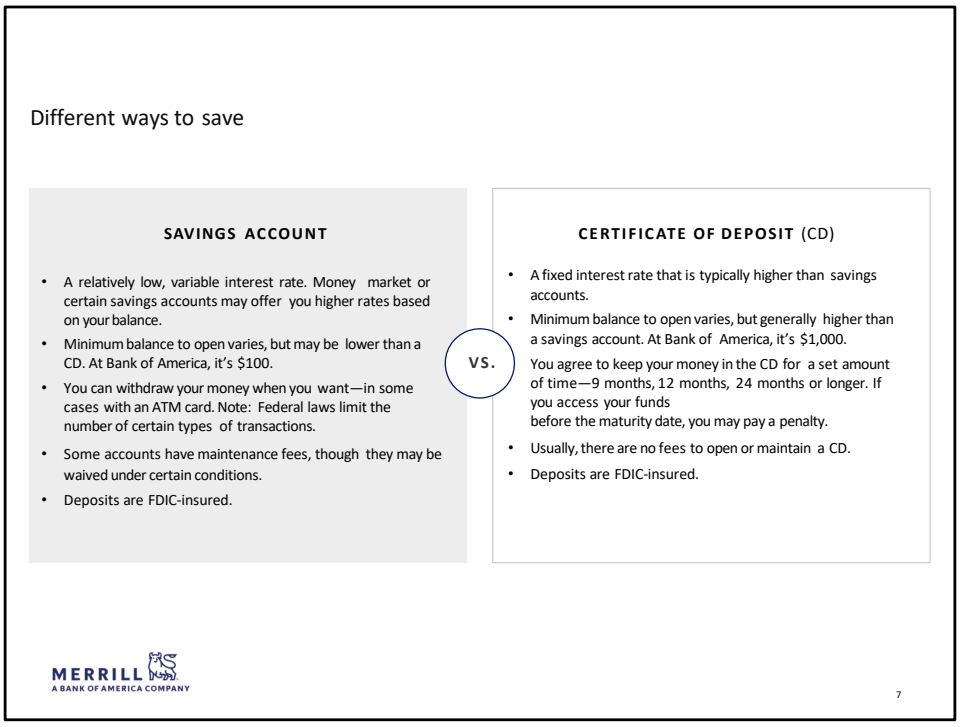


We all have goals, things we would like to have or experience in the future. You might have a short-term goal—something that takes less than a year to save for—like buying a new gaming console, cell phone or a special evening out. Or you have a mid-term goal, like taking a trip for spring break or making a down payment on a new car. You might even be thinking about a long-term goal, one in the distant future, like paying for college expenses, investing or buying your first home.

Another important reason to save is to prepare for an unexpected emergency, like a car repair or a job loss. Knowing you have money in the bank to cover expenses you did not prepare for can help you feel confident you can meet your monthly obligations.

With your budget in place you know how much extra money you have each month to put toward your financial goals (or how much you need to adjust). Check out the Bank of America goals tool.

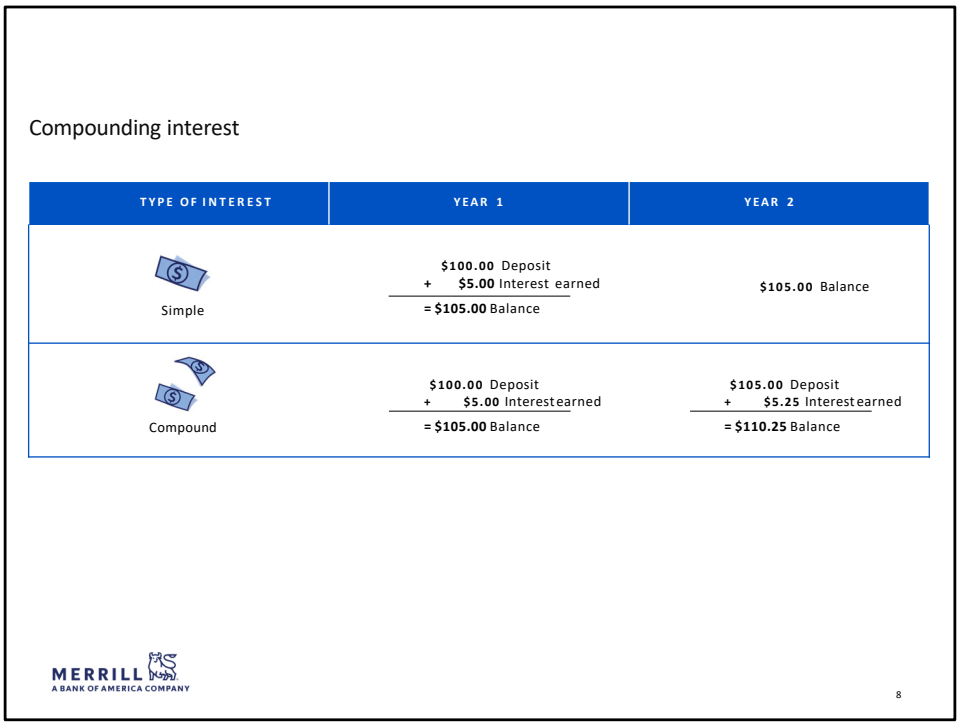
With a savings goal in mind, you can develop a savings plan. Those with a plan are more likely to spend less than they earn and to save the difference than those without a plan. Figure out what your goal costs, then what amount you can save for it each month, and determine the number of months you need to reach your goal. Make it realistic, attainable and measurable.



There are savings account options for setting aside money for short- and long-term goals. Savings accounts and certificates of deposit (CDs) both help keep your money safe while giving you the chance to earn interest, but they differ in important ways.

Savings account deposits are FDIC-insured. You can withdraw your money when you want— in some cases with an ATM card. Federal laws limit the number of certain types of transactions, and some accounts have maintenance fees, though they may be waived under certain conditions.

A certificate of deposit (CD) is also FDIC-insured but is less accessible. You agree to keep your money in the CD for a set amount of time—9 months, 12 months, 24 months or longer. If you access your funds before the maturity date, you pay a penalty. Usually, there are no fees to open or maintain a CD.



Earning interest is great. Earning compound interest is even better.

There are two kinds of interest: simple and compound. Simple interest is based on the amount of a deposit only, but compound interest is based on the deposit **plus earned interest**.

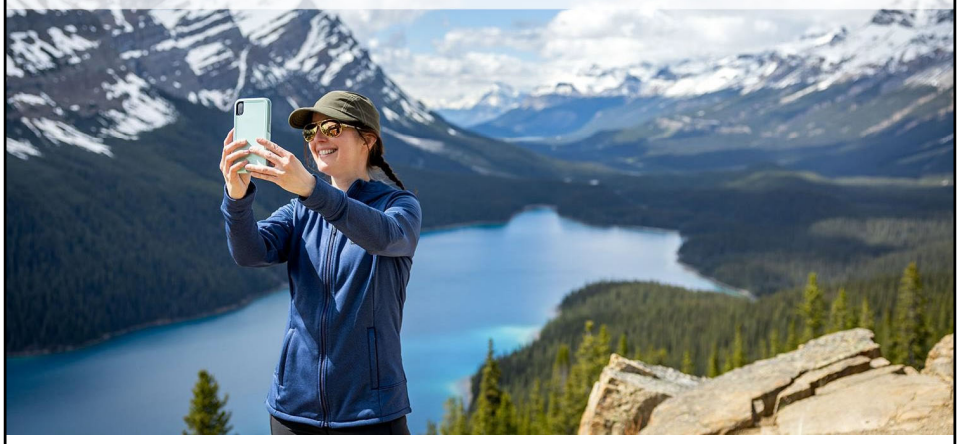
So compound interest is interest on your interest. It's a powerful way to increase your savings. The amount you receive in interest **grows each year** you keep money in the bank.

As an example, let's say a bank is offering 5 percent interest that compounds annually. All that means is if you deposit $100 in that account, then wait one year, you will have $105. (The $100 principal plus the 5 percent interest.) Now the next year your interest is calculated on your new balance, so you're not going to get just the 5 percent on your original
$100, you're going to get 5 percent on the $105. That's $5.25. That means you have $110.25 that will earn another 5 percent, and onward.

In practice, interest is normally compounded monthly or continually, not annually, which will yield even better results. There are formulas you can use to calculate compound interest— you can find them online—but they are complex. For our discussion, it's

easier to use examples

Beginner's guide to investing



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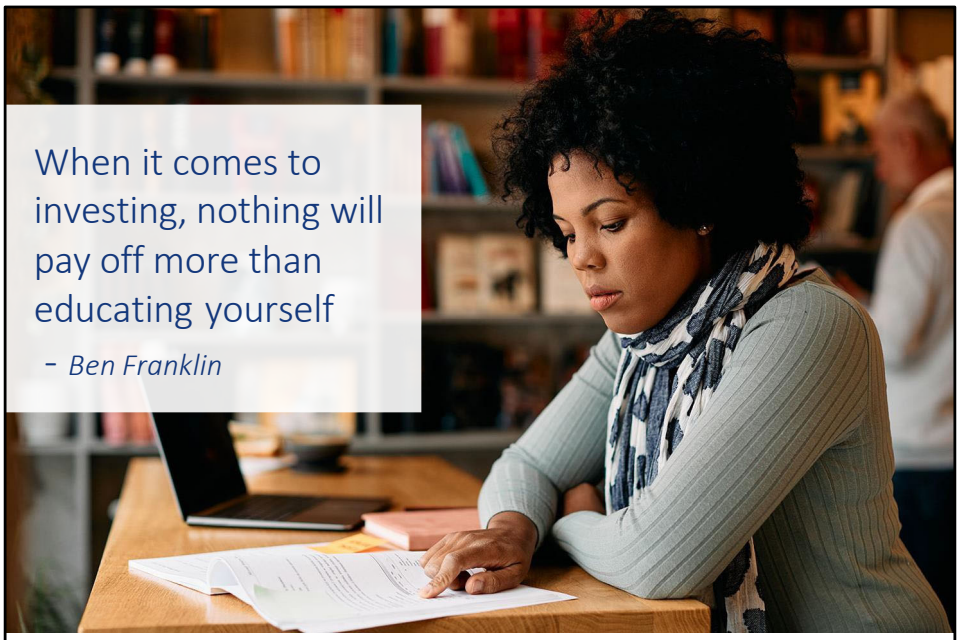

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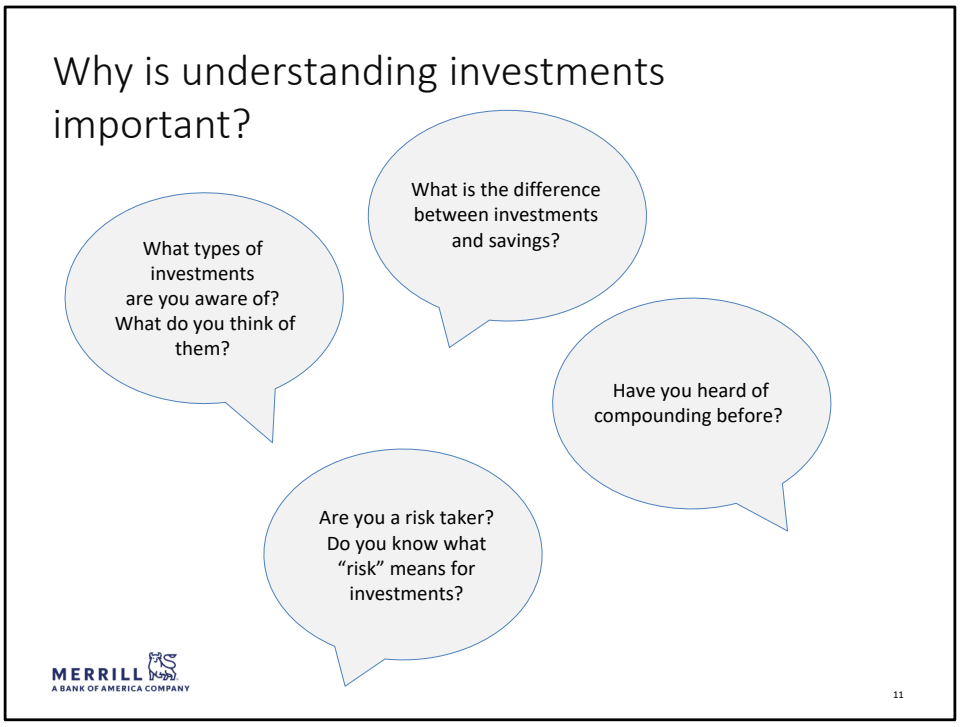
10

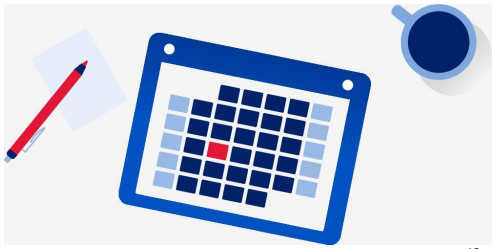


- Choose a question or two to discuss with the learner.
- Allow the learner to choose the question.
- When they answer the question, spend a minute or two in conversation. You might relay personal anecdotes or state things you've noticed in your work with other rising generation members.
- This is about gauging what is important to them and building a relationship.
- When the conversation comes to a natural stopping point, transition into the bulk of the session.

Two of the easiest ways to help your savings work for you—start saving early and invest!

Time can work for you

- **Compound interest** is interest calculated on savings, which also includes all of the accumulated interest from previous periods.
- Generating "**interest on interest**" is known as the power of compound interest.
- **Compounding for investments is similar, but differs slightly:**
  - Compounding can be a powerful investing approach that involves the potential to earn returns on both your original investment and on returns you received previously.
  - For compounding to work, any returns would need to be reinvested back into your account.



Source: Investopedia, 2022.

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12

- This slide introduces basic concepts needed to work through the invest category.
- Depending on the knowledge of the learner, you can breeze through these definitions or spend more time by asking questions for understanding.
- Walk through the text with the learner, and be sure they understand the different definitions.
- Accumulated interest on savings:

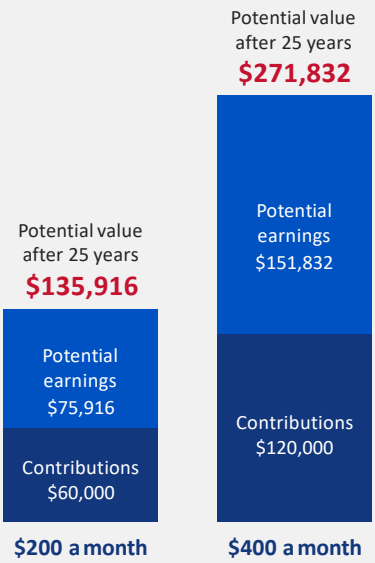
- Questions you might ask:
  - In what type of account do you currently store your savings?
  - Are you familiar with compounding in investments? What do you know?
  - What kind of savings account would be best for earning compound interest? Short-term or long-term? Why?

Photo ID: BA117630877

Consider contributing more

Compounding = Earning a return on the money you invest, ***and*** on the money you earn from your investments.

This hypothetical illustration assumes a salary of $60,000, contribution rates of 4% and 8%, with contributions made at the beginning of the month and a 6% annual effective rate of return. Hypothetical results are for illustrative purposes only and are not meant to represent the past or future performance of any specific investment vehicle. Investment return and principal value will fluctuate, and when redeemed the investments may be worth more or less than their original cost. Taxes are due upon withdrawal. If you take a withdrawal prior to age 59½, you may be subject to a 10% additional federal tax, unless an exception applies.



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13

Resources: Invest

Better Money Habits

Visit Bank of America's Better Money Habits™ website, BetterMoneyHabits.com for more resources.



Better Money Habits online resources:

- 3 ways to start investing (article)
- Gen Z: Know your money (article)
- 4 investment trends (article)
- The plain-language guide to investing (article)
- Stocks, bonds and more: The building blocks of investing (article)
- Investing: Why it's important and how to get started (article)

Additional investing resources:

- Wall Street Survivor (game)
- The Stock Market Game (game)
- Build Your Stax (game)
- Investopedia Simulator (game)
- Next Gen Personal Finance (various games)

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