# Introduction

## Saving and Investing

Have your parents ever told you that money doesn't grow on trees? This is good advice as far as it goes. Money most definitely doesn't grow on trees, but it can grow. It grows when you save and invest wisely. If you want to be wealthy, start by saving and investing regularly. Begin saving now and save as much as you can afford. Pay yourself first by putting money into a savings account, money market fund, or some other investment instrument every time you are paid. Because of the power of **compounding,** your money will grow big time.

Compounding means that you earn interest on the interest earned in previous years. For example, if you save $2,000 and earn 8 percent in annual interest, you will have $2,160 at the end of the first year. You will have earned $160 in interest. The second year, however, you will earn more than $160 in interest because you will earn 8 percent of $2,160, not $2,000. This will come to $172.80 in interest, or $12.80 more than the first year.

So you earned $12.80 more the second year. Big deal. How much difference does this compounding make? If you save $2,000 a year at 8 percent annual interest from age 22 to age 65, you will have saved $86,000 over 43 years. How much money would you have at age 65? You would have a total of $713,899, or $627,899 more than you saved. Think of compound interest as the fertilizer that makes money grow. (Example from Dwight Lee and Richard McKenzie, *Getting Rich in America*.)

Of course, with a higher rate of return, money grows even faster. An 8 percent annual rate of return may not be as difficult to achieve as you might think. The value of stocks has increased more than that, on average, over the last 60 years.

But the people competing for your savings will not pay you a high interest rate out of kindness. Saving and investing will not only enrich you; your investment dollars also help businesses and the economy grow. That's why banks, savings and loan associations, credit unions, governments, and companies pay you for the use of your money. They hope to gain by using your savings.

Some of these people competing for your savings will be taking more risks than others. They pay more to get you to take more risk. Risk is the chance that you might not get your money back. The higher the risk, the higher the potential reward. You might want to take some high risks with some of the savings, but not with all of it. That is why you need to **diversify** your investments. Diversification means that you should not put all your eggs in one basket–that is, not all your savings in one investment instrument. Although diversification will not guarantee that your investment will not lose money, it should decrease the chance of that happening.

Money can work for you, but you will have to work to make it grow as much as possible, consistent with the risks you are willing to take. Investigate before you invest. There are millions of places to invest, from very safe insured savings accounts to speculative stocks, commodity futures, and collectibles. A successful investor learns a lot before making investment choices. The lessons that follow will get you started, but you will never be able to stop learning if you want to invest successfully over your lifetime. There is a pot of gold at the end of the rainbow, but getting there takes hard work.

 