

# The Five Stages of Saving and Investing

- **Step One: Put-and-take Account:**

This is the first savings you should establish when you begin making money. For most people, their put-and-take account is a checking account. This holds the money that you're going to need immediately (or soon) plus a little padding for emergencies. You take money out of this account for car payments, clothes, etc. Experts recommend that you set aside three to six months' net pay in this fund. So if you're making \$50 a week working at the movie theatre, your goal for the put-and-take account should be \$600 to \$1,200. The first stage is very low-risk; that's a good thing, because you don't want to gamble with the money you're counting on to pay the electric bill!



- **Step Two: Beginning to Invest:**

After you're established a stable put-and-take account (meaning that you're NOT running out of money in your checking account each pay period), you can move on to beginning investments. These first investments should be low-risk things that you're not very likely to lose money on. This also means that you're probably going to be earning a lower rate of return on these investments, but it's worth it at this stage. Beginning investments are usually in things like bonds or mutual funds. Most people begin this stage in their 20's or 30's when their budgets and spending are stable and they begin to have excess cash. The benefit of starting this stage earlier is your money will have more time to earn more money for you! If you are 17 and have your put and take account under control, you can get a head start on the next stages- you are already ahead of other investors!

- **Step Three: Systematic Investing:**

When you have your beginning investments under your belt, you can move on to investing on a REGULAR and PLANNED basis. For most people, this is a commitment to invest a set dollar amount every pay period, usually in stocks, mutual funds, or annuities. Goals for this stage are long-range; you're going to see the best return from this kind of investment if you continue with it for 20+ years. Typically, people enter this stage in their 30's and 40's, when their earning potential is the highest. Here again, your age is your best asset. The 17 year old who has a stable put and take account and who starts beginning investing early might be ready to jump into systematic investing at 20 years old!

- **Step Four: Strategic Investing:**

The fourth stage should only come after you've set up a stable put-and-take account, dabbled in safe beginning investments, and established a systematic investing plan. When you have extra money above and beyond those, you can begin strategic investing, which is managing your portfolio (your collection of assets) with an eye on balancing out losses and gains in different commodities. The key here is diversification making sure you're not keeping all your eggs in one basket. Since stocks and bonds often respond oppositely to market conditions, lots of people invest in both to balance out potential losses. Goals in this stage are medium-term: five to 10 years.

- **Step Five: Speculative Investing:**

The fifth and final step is speculative investing. Some people never get to this step, and that's okay. Speculative investing involves the highest risk of all of the other steps, but it's also the stage at which you stand to gain the most amount of money. (You've probably noticed the relationship between risk and potential return in the world of economics the greater the risk you take, the greater your potential return.) When people enter the speculative, high-risk stage, they invest in things like penny stocks or collectibles.