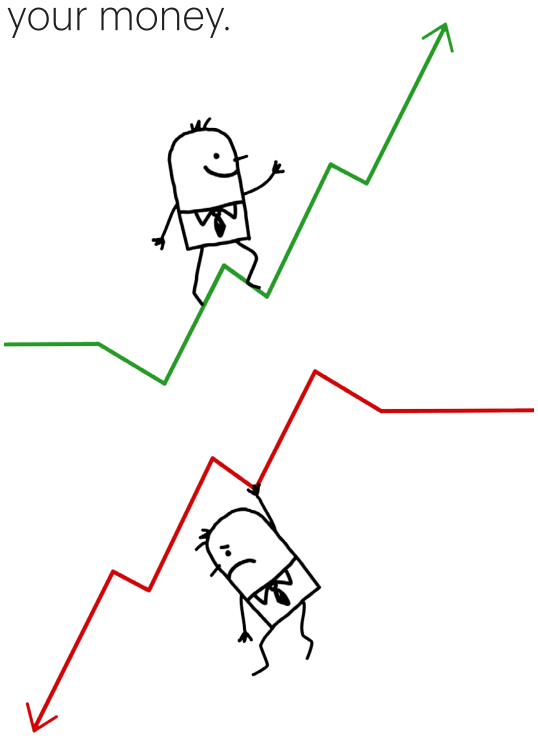
Investing

One big difference between saving and investing is that investing always involves risk. If the value of your investment goes up, you could earn a bit more than you would in a savings account. But, if the value of your investment goes down, you could lose some or even all of your money.



The greater the risk of a loss on an investment, the greater the potential return ("return" in this case, means the money you earn or get back from your investment). The lower the risk of loss, the lower the potential return. There are several different options available once you have savings that you want to invest.

We all know the meaning of the word risk. But what does that word mean when it comes to your money?

- Risk is the reason why banks charge more for credit card debt than on a normal bank loan. Explain.
- Under what circumstances might a high-risk investment be worthwhile?

Choosing an Investment

Later in life, when you do have some savings, you will probably want to earn more money than a savings account offers. Those earnings are called returns on investment.

Investments make money in three ways:

1. **INTEREST**
   Investments pay interest, just like savings accounts, GICs, and bonds. With these types of investments, you know exactly how much money you will earn on your investment.
2. **DIVIDENDS**
   Some stocks pay dividends. When a company makes a profit, it can share that profit with investors by paying them a dividend. The amount of the dividend depends on how well the company did that year and what type of stock you own.
3. **CAPITAL GAINS**
   If you sell an investment, a stock, bond, or mutual fund for more than you paid for it, you'll have a capital gain. That is your profit. If you sell it for less than you paid for it, you'll have a capital loss.

Let's look at some of these investments in more detail.

GUARANTEED INVESTMENT CERTIFICATE (GIC)

A guaranteed investment certificate (GIC) pays slightly higher interest than a savings account, but it also comes with some considerations. In return for that higher interest, your money is locked in for a set time. Think of it as a savings account that you can't touch. When you buy a GIC, you are agreeing to lend the financial institution your money for a set number of months or years (the term). The borrower (the financial institution) guarantees to pay back all the money you deposited at the end of the term, with interest. You don't earn a lot of interest on GICs, but they are one of the safest investments.

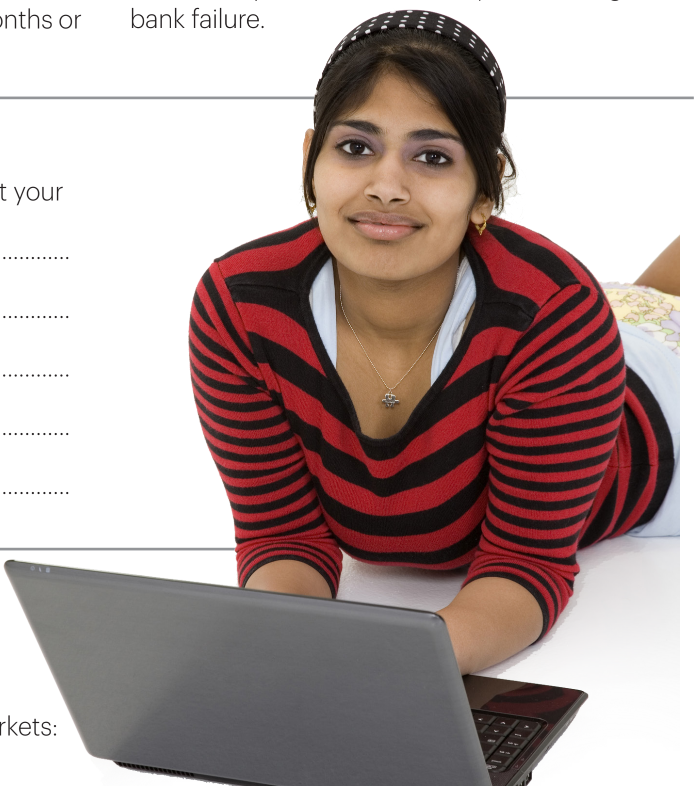
- The minimum amount you can invest is typically $500.
- Most GICs pay a fixed rate of interest for a set term, such as 6 months, 1 year, 2 years or up to 10 years. (For instance, they may pay .7% interest over 2 years.) The term ends on the maturity date.
- You don't pay any fees when you buy a GIC or when it matures and you get your money back.

Some GICs offer a variable interest rate—less in the first year, but more in later years. A GIC may pay interest only once a year or only offer simple interest at the end of the term. Others offer to compound interest. Some offer returns based on the performance of a benchmark such as a stock exchange index. In general, the longer the term, the higher the interest rate you will earn.

You need to know something about most GICs. Your money will, indeed, be locked in. With some GICs, if you need to get your money back sooner, you will have to pay a penalty. Other GICs—called cashable or redeemable GICs—allow you to get your money back at any time with no penalty, but they usually pay less interest.

Banks are like any business—they can go out of business. However, Canadian banks are quite safe; only three small banks have gone out of business in the last 100 years, and none in the last 60 years.

Your money in a bank or GIC is protected against bank failure.



DO SOME RESEARCH:

Look up Canada Deposit Insurance Corporation. What is this organization? How does it protect your savings and GICs? ....

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What does this insurance cover? What are the limits? ....

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Stocks (or Shares):

At some point, you may want to make investments that offer greater returns—and of course, these will come with greater risk. Stocks are one such option. Stocks, also called shares, are part-ownership that you can buy in a company. That share is a very tiny piece of ownership. Bombardier, the Canadian manufacturer of streetcars, railway equipment and airplanes, has issued 2.22 billion shares. That means more than 2 billion people own a tiny bit of Bombardier. Shares go up and down in value. When the company does well, investors' rewards will be greater; when the company isn't doing as well, investors won't make as much money—and they may even lose money.

STOCK MARKET

The stock market or stock exchange connects people who want to sell stock with those who want to buy stock. In the past, stockbrokers used to meet in a large market hall where they bought and sold shares, a process called trading. Today, all stock trades are done electronically. Investors buy and sell stocks in a way that any investor can see, under rules that apply to all users of that exchange. Companies listed on a recognized stock exchange must follow the rules set by that exchange. For instance, they must file appropriate information about the company's management team, and provide specific financial information about the company. Companies must also offer detailed financial information about the company to prospective customers. That's so you know exactly what kind of company you're buying into, when you purchase its stocks, and how likely they are to be successful and give you a high return on your investment.

Each stock exchange in Canada focuses on certain kinds of investments. Look up the main focus of each of these Canadian stock markets:

- Toronto Stock Exchange (TSX)
- TSX Venture Exchange
- Montreal Exchange
- Vancouver Stock Exchange

The buyers and sellers of shares set the value of individual shares. A seller offers to sell shares at a price, and a buyer offers to buy at a certain price. When they agree on the price, the shares sell. Here's how it works:

- People compete to buy the stock if they believe that its price will rise and they will make a profit.
- Sellers compete to find buyers for their stock at the highest possible price. There are usually several investors trying to buy and sell stock in the same company at the same time.

It's like a big computerized auction. Once a stock sells, the exchange posts the price so that everyone knows the latest price.

How much risk are you prepared to take?

Investing in stock can be risky. The stock market and individual company shares go up and down in value over time. Bombardier Class B shares sold for $2.68 in June of 2006. In the Spring of 2016, they went as low as 95 cents. On June 27, 2016, they sold for $1.81. No stock market investment is guaranteed. So, before you buy, you need to consider these points:

- What are the risks involved? While shares may go up in value one year, they may go down again the following year. Are you comfortable taking these risks?
- How does the investment work? Do you understand the investment well enough to explain it to someone else? If not, this may not be the best investment for you.
- What are your investment goals? Are you looking for income or growth, safety of your investment or a large return? Some investments are safer than others, but risk increases the potential for earnings.
- Does this investment offer the returns you want? When you start investing, it may take many years for your investments to grow. If investments do not do well, it may take years more for the investments to recover. As you get older, you may not have the time to wait for your investments to improve and grow.
- Do you needed quick access to your money? How quickly could you sell the investment if you suddenly needed cash?

TECH IT OUT!

CANADA SAVINGS BONDS:

An example of a safe bond investment is the Canada Savings Bond. You can check out the details with this QR code. Savings bonds are insured and can be cashed in at any time. Interest rates are set each year.