

Personal Management - Requirement 4

Explain the following to your merit badge counselor:

(a) The differences between saving and investing, including reasons for using one over the other.

- Saving

- o Your money is stored in a bank and earns a small amount of interest each month.
- o Your money is insured by the federal government. You will not lose any of it.

- Investing

- o You purchase stocks and bonds.
- o Their value increases or decreases depending on the market.
- o You CAN lose money, so there is much more risk in investing.
- o If your investments do well, you will earn much more than you would in a savings account.

- Watch Video - The Different Between Saving, Investing, & Speculating -

<https://www.youtube.com/watch?v=blnbxbftme0>

(b) The concepts of return on investment and risk and how they are related.

- Return on Investment

- o The return on your investment is _____ **ratio** _____ of the amount of money you earned from an invested to the _____ **initial** _____ investment. A larger ROI represents a larger _____ **gain** _____. Normally an investment which averages a larger ROI also carries _____ **more** _____ risk.

(c) The concepts of simple interest and compound interest.

- Watch Video - Simple & Compound Interest for Teens -

<https://www.youtube.com/watch?v=laaAaMa6pXU>

(d) The concept of diversification in investing.

- Diversification is a technique that _____ **reduces** _____ risk by allocating investments across _____ **various** _____ financial instruments, industries, and other categories. This way if one category does _____ **poorly** _____, your overall portfolio can still earn a _____ **profit** _____ if the other investments do well.

(e) Why it is important to save and invest for retirement

- Watch Video - Why Save for Retirement? -

<https://www.youtube.com/watch?v=mA23AVPraN8>