

Building **Wealth**

In the Classroom

Lesson 5

Save and **Invest**—The Role of Financial Markets



Federal Reserve
Bank of Dallas



Instructional objectives

You will:

- Discuss the role of financial institutions and markets in saving and investing.
- Explain the benefits of saving and investing.
- Develop a strategy to save for an emergency fund.



The Role of Financial Markets

The financial system channels funds from people who save money to people, firms and governments that borrow money.

Markets

Markets consist of people and firms who buy and sell something.

Examples:

- eBay.
- StockX.
- Farmers market.

Financial markets

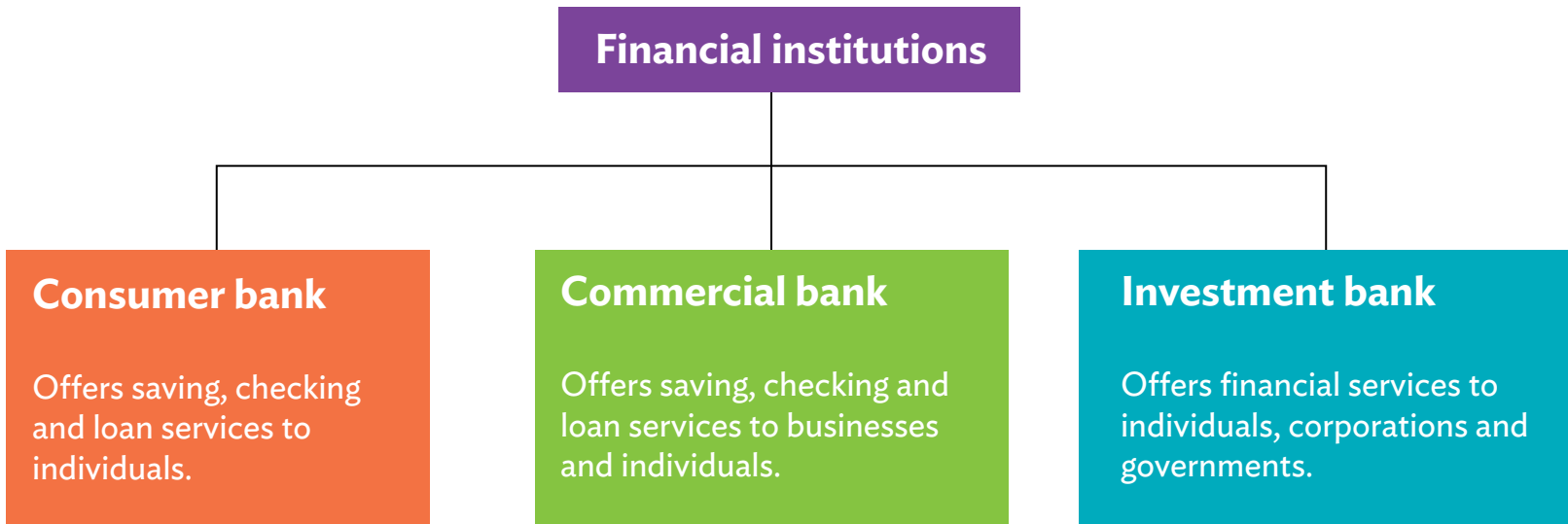


Financial markets are marketplaces that facilitate the buying and selling of securities such as stocks, bonds and currencies.

- Financial markets exist to match savers to investors.

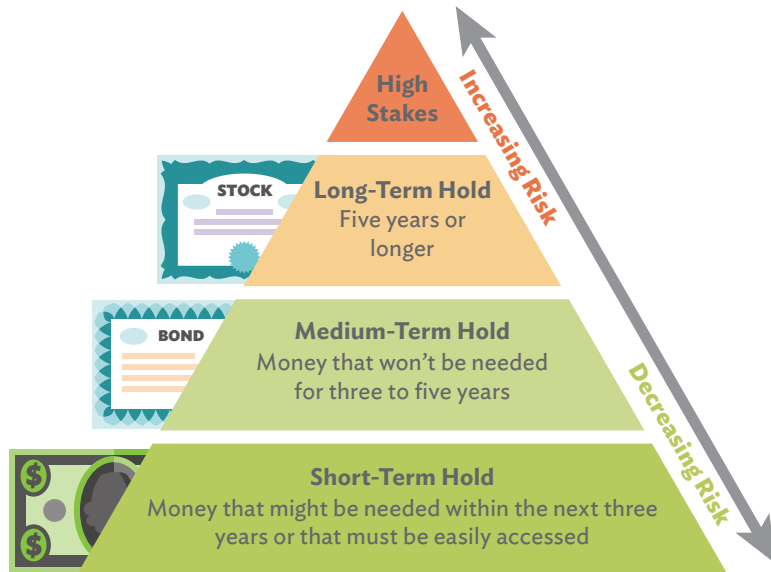
Financial institutions act as the intermediary between savers and investors who participate in financial markets.

Types of financial institutions



**When financial markets
match savers to investors,
who benefits?**

Saving vs. investing answers



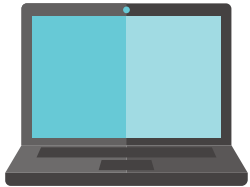
	Saving	Investing
Risk	No risk	Higher risk
Return	Low returns	Potential for higher returns
Access to cash	On-demand access without fees	High fees to convert investments
Time period	Short term	Long term



Savings

Building a strong foundation of goals, budgets, savings and emergency savings is critical before investing in long-term assets.

Savings



Examples of savings categories for **short-term** needs.

- Down payment for a car.
- Vacation.
- College.
- Computer.

Savings

Emergency savings is money set aside for unforeseen events such as:

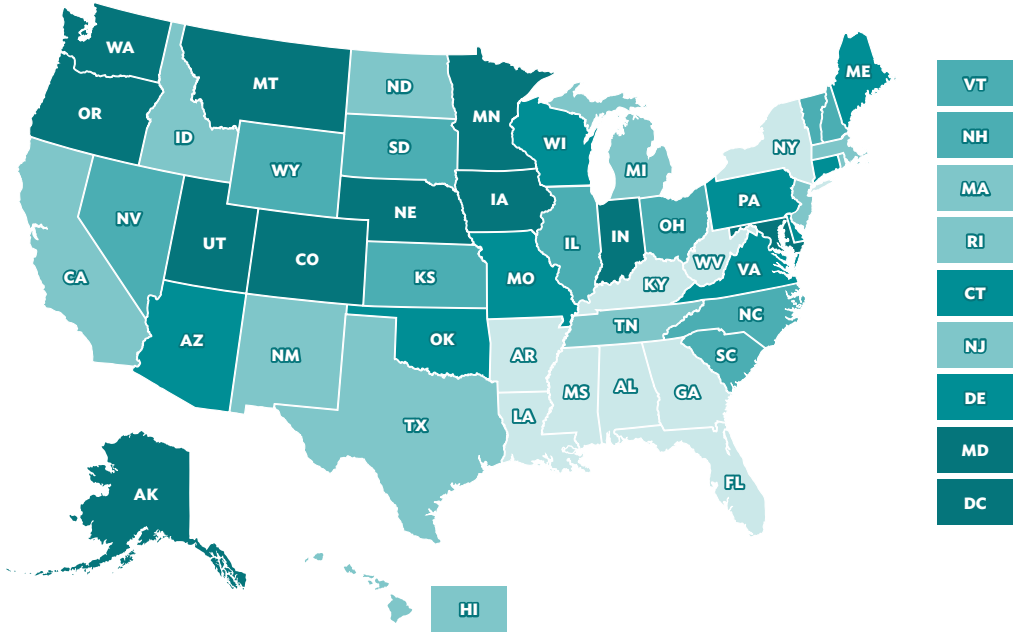
- Home and car repairs.
- Job loss.
- Emergency dental work.
- Natural disaster.
- Long-term illness.
- Emergency travel.



Realities of savings

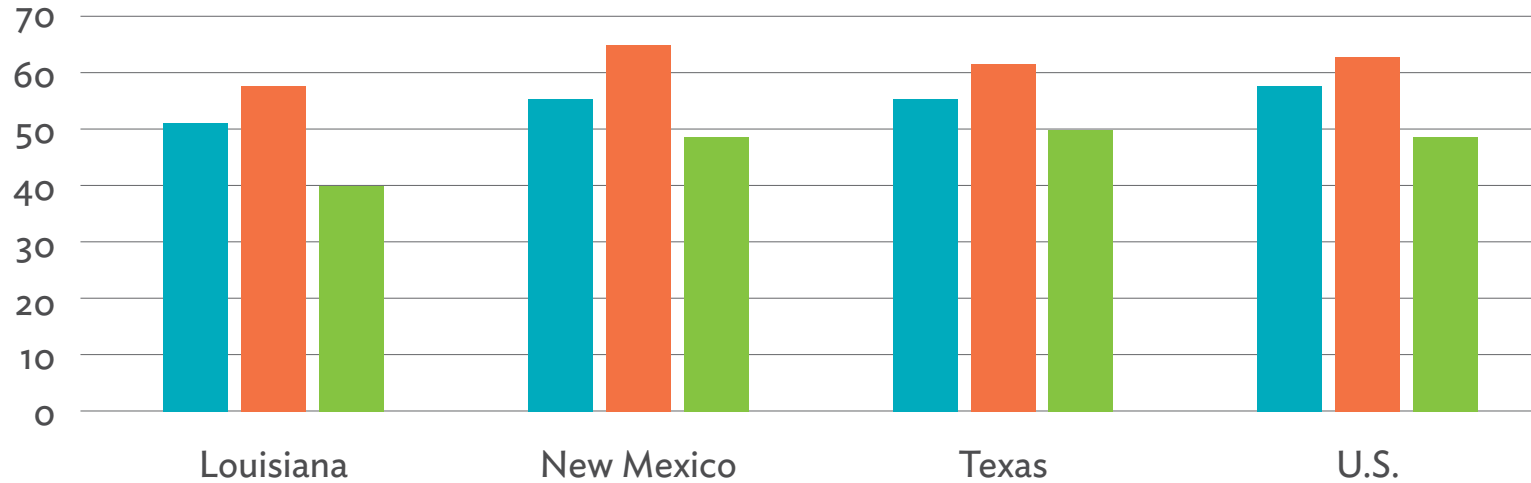
Households per state with emergency savings in 2017

- 40.5%–54.2%
- 54.2%–57.8%
- 57.8%–60.0%
- 60.0%–66.2%
- 66.2%–74.1%



Note: In 2017, only 57.8 percent of households in the U.S. had emergency savings.
 Source: Federal Deposit Insurance Corp.

Realities of savings



- Saved for emergencies, percent of households (%)
- Saved for emergencies by race, white (%)
- Saved for emergencies by race, households of color (%)

Emergency savings

Trey 17, Senior in High School

As you read, think about how you can help Trey develop a plan to save \$1,000. Use Handout 2 to record your answers.



Trey has a part-time job earning \$750 a month and has saved \$600 for college. The money is held in a checking account.



Trey would like to develop a plan to save an additional \$1,000 in the next eight months for emergencies before starting community college next year.

Monthly Emergency Savings Budget

Total Income	\$750
Expenses <i>*Assumes 20 school days in a month</i>	
Cellphone plan	\$62
Music streaming subscription	\$12
*Lunch 4x week (\$9.75 x 16)	\$156
Gas 2x month (\$28 x 2)	\$56
Car insurance	\$141
Entertainment (\$25 per week)	\$100
Gym membership	\$25
Clothing or shoes	\$150
Coffee 2x week (\$6 x 8)	\$48
Total expenses	\$750
Total income	\$750
Total expenses	\$750
Income-expenses=savings	\$0

Summarize learning objectives

The financial system is an important part of the overall economy. It helps to channel funds from people who save money to people, firms and governments that borrow money.

A ***financial market*** is a marketplace that facilitates the buying and selling of securities such as stocks and bonds.

Summarize learning objectives

Financial institutions act as the intermediary between savers and investors who participate in financial markets.

Emergency savings is money set aside for unforeseen events.

Diversification is the distribution of investments among several companies to lessen the risk of loss.

Sources

SLIDE

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scorecard.prosperitynow.org/data-by-issue#finance/outcome/saved-for-emergencies

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16 **Investor.gov**

investor.gov/introduction-investing/investing-basics/save-and-invest/diversify-your-investments

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Up Next: Lesson 6

Save and Invest—Bonds, Stocks and Mutual Funds



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For Consumers

I want to learn how to build wealth for myself and my family.

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For Community Leaders

I lead a group of adults interested in improving our personal finance skills.

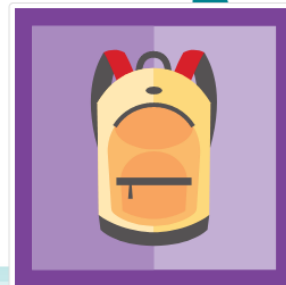
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For Teachers

I teach financial education to high school or college students.

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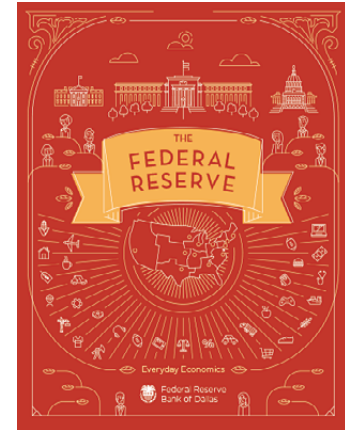
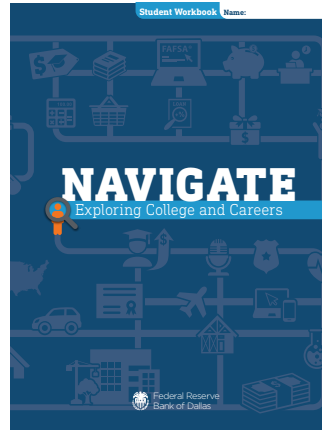
For Students

I am a student and want to learn how to create personal wealth and meet my financial goals.

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