

7) Investment 101

- Speak to an investment advisor before making any investment decisions.
- After you invest, you will receive statements showing details of your investments, profit and loss.
- Read your statements carefully and report any mistakes immediately.

7 a) Interest

The money you invest is called principal.

Simple interest: You have \$1,000 to invest for 2 years at 10% interest rate. You will earn \$200 in interest!

Calculation: \$ Amount x Interest Rate x Length of Time (in years) = Amount Earned (in interest)
 $\$1000 \times .10 \times 2 = \200

Simple interest – interest on principal.



Compound interest – interest on principal plus the interest it earns.

7 b) Making your Money Grow Faster!

Compounding interest makes your money grow faster.

Example: You have \$1,000 to invest for 2 years at 10% interest rate.

Calculation: $\$ \text{ Amount} \times (1 + \text{Interest Rate})^N = \text{Amount Earned (principal plus interest)}$ (N is the number of compounding years)

Example: $\$1000 \times (1 + .10)^2 = \$1,210$
Your \$1,000 investment earned you \$210 in interest!

Benefits of compounding interest:

- You earn interest on the principal plus on the interest already earned.
- Your money grows faster if you start at a young age and keep it invested for the long term.

If you deposit \$500 now at a 5% interest rate and deposit no more in your account after this deposit, in 30 years, it will end up being \$2,160!

Your Savings	Interest Rate	What you will have in...		
		2 years	10 years	30 years
\$500	5%	\$550	\$815	\$2,160
\$1,000	5%	\$1,100	\$1,280	\$4,320
\$2,000	5%	\$2,200	\$2,560	\$8,640

7 c) Investment Options

- Speak to an investment advisor for information about options.
- Ask questions if you don't understand.
- Don't get pressured into deciding right away. It's your money.

Guaranteed Investment Certificates (GICs)

- Offers a guaranteed interest rate.
- A term deposit for periods ranging from 30 days to 10 years.
- There are no fees to purchase this product.
- If you cash your GIC before its term is over, you may lose the interest.
- GICs can be purchased from your bank or credit union.
- GIC interest rates are negotiable.

Canada Savings Bonds

- Offers a guaranteed interest rate.
- They are a Government of Canada product.
- They are cashable anytime (no interest will be paid if cashed within the first three months of purchase).

- There are no fees to purchase.
- You can buy them at a bank or credit union.

Mutual Funds

- It is a collection of stocks and bonds where you pool your money with a number of other investors.
- Before investing in mutual funds, get advice from a financial advisor at your bank or credit union.
- Interest on mutual funds is not guaranteed.

Registered Education Savings Plan (RESP)

- Anyone can open a RESP account to save for the future education of a child.
- A child born after December 31st, 2003 may qualify for a bond of up to \$500.
- The government may match up to 20% of RESP contribution.
- When the child grows up, he/she can use the funds for post secondary education.
- Get advice from a financial advisor at your bank or credit union before opening a RESP account.

Registered Retirement Savings Plan (RRSP)

- This is a way to save for your retirement.
- When you invest in a RRSP, you may get a tax refund. For example, if your income tax rate is 15%, then every \$100 you invest in a RRSP will save you about \$15 in taxes.
- Check your Notice of Assessment to see how much you can invest in RRSPs.
- Get advice from a financial advisor at your bank or credit union before opening a RRSP account.

