Money Secret: Using Compound Interest to Your Advantage

Savings Accounts
A deposit account held at a bank or a credit union. Earns a modest interest rate. Funds in a savings account are protected and usually can be withdrawn at any time. Savings account are students’ most frequently used savings tool because access is easy and earns a little bit of interest.

Money Market Accounts
A savings account that offers a competitive rate of interest in exchange for a higher-than-normal deposit. Many money market accounts place restrictions on the amount of transactions you can make in a month (such as five or less). You usually have to maintain a certain balance in the account to receive the higher rate of interest. Typically CD terms range from three months to five years with the longer terms generally yielding the highest interest rates. Many students do choose to open CDs since they have guaranteed earnings and short terms are available.

Certificate of Deposit
Essentially, a bond is a fancy IOU. Companies and governments issue bonds to fund their operations or to finance specific projects. When you buy a bond, you are loaning your money to the issuer - be it General Electric or the US Government - for a certain period of time. In return, you get interest on the loan, and you get the entire loan amount paid back either on a specific date (known as the bond’s maturity date) or at a future date of the issuer’s choice. The length of time to maturity is called the bond’s term.

Bonds
A stock represents a stake in a company. When you own a share of stock, you are a part owner in the company with a claim on every asset and every penny in earnings. There are two main types of stock: common and preferred. Common stock usually entitles the owner to vote at shareholders’ meetings and to receive dividends (payouts from the company). Preferred stock generally does not have voting rights, but has a higher claim on assets and earnings than the common shares. For example, owners of preferred stock receive dividends before common shareholders and have priority in the event that a company goes bankrupt.

Stocks
Diversification
A risk management technique that is simply "not putting all your eggs in one basket." The rationale is that holding many different kinds of investments will, on average, yield higher returns and pose a lower risk than having all your money in an individual investment.

Dollar Cost Averaging
Another technique to help soften the impact of fluctuations in the investment market. You invest a set amount of money on a regular basis over a long period of time—regardless of the price per share of the investment. In doing so, you purchase more shares when the price per share is down and fewer shares when the market is high. As a result, you will acquire most of the shares at a below-average cost per share.

Strategies

0.01%
Interest is compounded daily and paid monthly.

0.80%
Interest is compounded daily and paid monthly.

1.00%
Interest is compounded daily. Payment of interest on CDs is based on term.

1.30%
Government I Bonds
The interest is compounded semiannually. Can earn interest for up to 30 years. Corporate bonds are usually more.

Value will vary
The first way is when a stock you own appreciates in value - that is, when people who want to buy your shares are more willing to pay for it. The second way is when the company that owns the stock issues dividends - a payout that companies sometimes make to shareholders.

How Do Investments Grow?
Following are example interest rates from real student savings and investing tools. To find the best tools for yourself, visit bankrate.com.

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How $500 Grows in 1 Year

Savings
$500.05
Money Market Accounts
$504.01
Certificate of Deposit
$505.02
Bonds
$506.52

Where to Get These Tools

- Your Bank
- Your Credit Union
- A Financial Advisor
- Online (Fidelity, Vanguard, etc.)

Mutual Funds

0.01%
Interest is compounded daily and paid monthly.

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