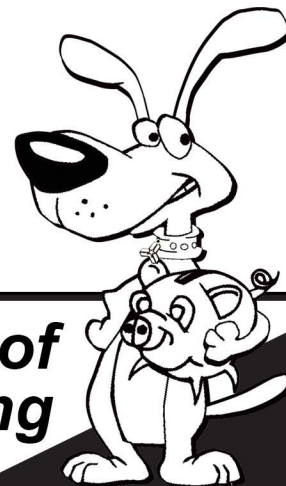


THE ECONOMY



The Why and How of Investing

Resources are scarce. If resources are only consumed, they will eventually be exhausted. Combining consumption with saving is a better tactic. It delays the point of exhaustion to a later time. What saving does not do is increase the quantity of resources.

Increasing the quantity of resources is possible because of the time value of money. The time value of money says that money is worth more now than in the future. The corollary is that it may be worth so much now that someone may be willing to pay extra for it. This extra payment in the financial industry is called interest and is what enables more resources to be produced and therefore wealth to be increased. The obvious examples of the time value of money are stocks, bonds, and loans.

As a principle, the time value of money applies to resources that are not money. Consider a gallon of milk. Even with a refrigerator the milk will eventually expire and consequently will no longer be available to be consumed. It is better, then, to consume the milk sooner rather than later.

Interest is what makes it worthwhile to forego spending money now. There is a similar phenomenon with non-financial resources, in which something may become more valuable in the future. A vintage Star Wars lunchbox may be worth thousands now in contrast to the original price of a few dollars. The rule of thumb for investing, then, is to acquire resources that can increase in value over time. This means that resources that lose value should be avoided as much as possible. Dinner at restaurant costs money and is quickly digested and lost while leaving only a good memory, if that. A house on the other hand may increase over time, depending on real estate developments.

Definition:

Invest – Using something (like money) for an even bigger return.

Suggestions:

1. Speak with your child about ways they invest their money into things that make them even more money.
2. If you have a younger child read the story of "The Little Red Hen" to your child to teach them a lesson on long term investments.
3. Introduce the concept of being an "investor" when your child completes a puzzle or an art project: "Wow, you really invested time and effort—and look at what you've done!"

