MODULE 3 THE NEXT BIG THING

LESSON 3.1 INVESTING: STOCKS, BONDS & MUTUAL FUNDS

This lesson has students learning about stocks, bonds, and mutual funds. The concepts of risk and reward, and return on investment (ROI) are explored. The FIT Work has students reviewing vocabulary in the lesson.

MATERIALS & PREPARATION

- ☐ Notebook paper
- ☐ Investment Attributes sheet (page 3.6) one for each student
- ☐ FIT Work 3.1 sheet (page 3.8) one for each student

Slide Presentation 3.1

LEARNING GOALS

- Students define and categorize different investments such as stocks, bonds, mutual funds, real estate, collectibles, and precious metals.
- Students explore the different factors that impact risk and reward.
- Students decide investment strategies based on financial goals, age, and personal factors.

JUMP$TART PERSONAL FINANCIAL EDUCATION NATIONAL STANDARDS ALIGNMENT

- Financial Responsibility and Decision-Making
- Saving and Investing

DO THIS

1. Explain to students they will need to take notes on the information covered in the lesson. They will use the notes to complete another activity.

2. Ask students to define investing – what it is and its purpose. Define investing as purchasing a financial product or other item of value with an expectation of favorable future returns. The purpose of investing is to save money in order to improve financial well-being. Examples: individual stocks and bonds, mutual funds, real estate, collectibles, and precious metals.

3. Explain that all investments have a different rate of return. Define return on investment (ROI) as the rate of revenues received

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for every dollar invested in an item or activity. In finance, it is the ratio of money gained or lost on an investment relative to the amount of money invested. The higher the ROI - the better. A positive ROI is money gained and a negative ROI is money lost.

4. Define stocks as instruments that signify ownership in a corporation and represent claim on a share of a corporation's assets and profits. Stocks are typically riskier investments and long-term investments.

5. Define bonds as interest bearing certificates used as a way for government or business to raise money. Basically, the bondholder lends money to the issuer of the bonds for a set amount of time. When a bond is 'sold' back to the issuer, the interest earned is returned to the former bondholder. Bonds are typically low-risk investments and good for short-term investments.

6. Define mutual funds as open-ended investments that are professionally managed and consist of a variety of investment instruments; including stocks, bonds, options, commodities, and money market securities. The diversification of investments can reduce overall risk and volatility. Mutual funds are a long-term investment.

7. Define real estate as a piece of land and any buildings or structures on it. Real estate is a long-term investment. Examples: personal home, rental home, rental apartments, office space, and land.

8. Define collectibles as items which have value due to their rarity and desirability. Collectibles are a long-term investment. Examples: antiques, coins, cars, and art.

9. Define precious metals as natural metals that have value. Precious metals are a long-term investment. Examples: gold, silver, platinum, and palladium.

10. Tell students that most investments require a certain amount of money to purchase.

11. Ask students if any investments offer a guaranteed positive return on investment. Explain that investments do not offer a guaranteed positive return, although some investments are safer than others.

12. Explain how risk and return are directly related. The greater the risk that an investment may lose money, the greater its potential for

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providing a substantial return. By the same token, the smaller the risk an investment poses, the smaller the potential return it will provide. For example, bonds are typically not as risky as stocks. Therefore, one can usually get a greater return from stocks than bonds in a long-term investment.

13. Explain that there are certain factors that dictate the degree of risk an investor should take.

- Age – investors with more time to invest can tolerate the market going up and down.
- Risk tolerance – comfort level of the investor to deal with ups and downs.
- Investment goals – what the investor wants to achieve with the money and when.

14. Explain that investors should understand an investment's risks and potential rewards, and be comfortable with the risks. Generally, the higher the level of risk an investor is prepared to accept, the higher the potential return from the investment. On the other hand, a higher level of risk also increases the chance of incurring a loss in the short term, including the potential loss of some of the initial investment amount.

Share the five different investor profiles:

- Very Conservative – seeks to maintain the original value of the investments and is prepared to accept lower returns for lower risk.
- Conservative – seeks relatively stable returns and accepts some risk through a diversified portfolio.
- Moderate – seeks higher medium-term returns and accepts the possibility of negative returns over short periods.
- Aggressive – seeks high long-term returns and accepts the higher possibility of sustained negative returns over short periods.
- Very Aggressive – seeks to maximize long-term returns and accepts the possibility of greater volatility and short-term capital losses.

15. Review the different types of investments. List the investments on the presentation display. Guide students to list the following:

- Individual stocks
- Individual bonds
- Mutual funds
- Real estate
- Collectibles
- Precious metals

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16. Group students in teams of 2-3. Provide each student with the Investment Attributes sheet (page 3.6). Have students work together using their notes to complete the table. Provide a variety of resources and/or the Internet to further help students (see YesYouCanonline.info for a listing of recommended resources).

17. Go over the Investment Attributes sheet as a class. Answers on page 3.7. Discuss the answers and explore the attributes of the different types of investments. Explain to students that different investments should be used to obtain different types of goals. For example, a more conservative short-term investor might invest in bonds. Where as an aggressive, long-term investor might invest in mutual fund stocks.

18. Have students use the Investment Attributes sheet to determine which type of investments would be the best fit for the unique savings goals of each scenario below and discuss. Answers may vary.

- Uma will be retiring in five years. She needs a low-risk place to put her money that will earn interest. Where might she invest? Why? *Bonds would be a good place for her retirement monies. They are typically low-risk and still pay interest.*
- Skip will be retiring in 38 years. He has an emergency fund that could support him for nine months if something were to happen. Skip wants his money to work for him and he is not scared of market fluctuations. Where might he invest? Why? *Stocks and/or mutual funds would be a good place for his money. Historically, stocks and mutual funds have performed well over time and outperformed other investments.*
- Imogene needs to start an emergency fund. Where might she invest? Why? *A savings account in a bank would be a good option for her. It is a low-risk investment, easily accessible and it earns interest.*
- Anne is saving for a new car. She wants to buy the car in three years. Where might she invest? Why? *A savings account in a bank would be a good option for her. She would earn interest, and it is a low-risk investment.*

19. Have students place the Investment Attributes sheet in their PF Portfolio.

20. Review investment types, risk and reward, and return on investment.

21. Optional: Have a representative from an investment institution visit the classroom to present additional information on investments.

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FIT WORK

Optional: FIT Work 3.1 sheet (page 3.8). Students explore relevant vocabulary. The answer key is on page 3.9. Remind students they are responsible for keeping all FIT Work sheets in the PF Portfolio.

ASSESSMENT

- Observe and listen to discussions for logical thinking and mastery of content.
- Review Investment Notes.
- Review Investment Attributes for completion and mastery of content.
- Review FIT Work 3.1 sheet for completion and mastery of content.

PFP

- Investment Notes
- Investment Attributes (page 3.6)
- FIT Work 3.1 sheet (page 3.8)

INVESTMENT ATTRIBUTES

Name ______________________________

Date ______________________________

Identify the attributes (qualities) for different investments. Answer the questions for each type of investment.

	Piggy Bank	Savings Account	Individual Bonds	Mutual Funds	Individual Stocks	Real Estate	Collectibles	Precious Metals
Do you need a minimum amount of money to start/ buy it?								
Can you get your initial money back?								
Does it pay interest?								
Can someone steal it?								
Is it professionally managed?								
Is it easy to access the money?								
Best for Long-Term or Short-Term Goals?								

INVESTMENT ATTRIBUTES

Name ______________________________

Date ______________________________

Identify the attributes (qualities) for different investments. Answer the questions for each type of investment.

	Piggy Bank	Savings Account	Individual Bonds	Mutual Funds	Individual Stocks	Real Estate	Collectibles	Precious Metals
Do you need a minimum amount of money to start/ buy it?	No	Maybe	Yes	Yes	Yes	Yes	No	Yes
Can you get your initial money back?	Yes	Yes	Yes	Maybe	Maybe	Maybe	Maybe	Maybe
Does it pay interest?	No	Yes	Yes	Maybe	Maybe	No	No	No
Can someone steal it?	Yes	No	No	No	No	No	Yes	Maybe
Is it professionally managed?	No	Yes	Yes	Yes	No	No	No	No
Is it easy to access the money?	Yes	Yes	No	Yes	Yes	Maybe	Maybe	Maybe
Best for Long-Term or Short-Term Goals?	Short-Term	Short-Term	Short-Term	Long-Term	Long-Term	Long-Term	Long-Term	Long-Term

FIT Work 3.1

Name ____________________________

Date ____________________________

Define the following and use in a sentence:

Stock:

Bond:

Mutual Fund:

Risk and Reward:

Return on Investment:

Share:

Portfolio:

FIT Work 3.1

Name ___________________________

Date ___________________________

Define the following and use in a sentence:

Stock: An instrument that signifies an ownership position (called equity) in a corporation, and represents a claim on its proportional share in the corporation's assets and profits.

Bond: An interest bearing certificate used as a means for the government or business to raise money. The issuer (borrower) promises to repay the bondholder (creditor) the debt and a specified amount of interest at maturity.

Mutual Fund: An open-end investment that offers the investor the benefits of portfolio diversification (can reduce overall risk and volatility) and professional management. The shares are redeemable on demand at their net asset value. The fund invests the pooled assets into various investment vehicles including stocks, bonds, options, commodities, and money market securities.

Risk and Reward: Risk is a measure of the likelihood of loss or uncertainty of an investment's rate of return; reward is a satisfying result or benefit from an event/action (e.g., decision, investment).

Return on Investment: The rate of revenues received for every dollar invested in an item or activity. In business, it is a measurement of how effectively a company uses its capital to generate profit. In finance, it is the ratio of money gained or lost (realized or unrealized) on an investment relative to the amount of money invested. The higher the ROI - the better.

Share: A single unit of ownership in a corporation or mutual fund.

Portfolio: A collection of securities – such as stocks, bonds, mutual funds, and real estate – that an individual investor owns.