FINANCIAL LITERACY

LESSON 11-26 ▲ INVESTMENT

**LEARNING GOALS/OUTCOMES**

* Learn the difference between saving and investing, compare risks and returns, and learn the basics of investing.
* Differentiate between saving and investing.
* Compare risks and returns for saving and investments.
* Describe how to buy and/or sell investments.

**MATERIALS NEEDED**

* **Student Handouts:**
* Saving and Investing Game (Answer Key included with this lesson)
* Investing Goals
* Journal Page
* **Access to dictionaries**

**CLASSROOM ACTIVITIES**

1. **Students experiment with saving and investing outcomes.** Ask students what they would do if they were given $1,000. Would they Save (put it in a bank and let it gather compound interest), Spend (go buy something they want), or Invest (put it into a Mutual Fund or buy shares in a company)? Ask students to vote with their feet and go stand in a corner of the room assigned to Save, Spend or Invest. Ask volunteers from each group to explain why they made the choice they did.

Divide your students into five groups, three of them from the students in the Invest corner. Assign each of the groups a scenario: Saving, Spending, Mutual Fund, Stock 1, or Stock 2. Distribute the *Saving and Investing Game* and give groups a few minutes to quickly calculate their year-end values for the scenario they have been given (students may need calculators, but the calculations are all quite straightforward). Use the Answer Key if needed to help students who get stuck.

After students have quickly calculated five years of gains (or losses) with their scenario, ask a person from each group to announce their total after five years. Project the table from the Answer Key or distribute the Answer Key for students to review. Survey the class to determine which of the five choices each student would make if they were investing so that they would have money for college or for retirement.
2. **Students differentiate between saving and investing.** Ask students to return to their desks. Share these dictionary definitions for “Saving” and “Investing:”
* **SAVING:** To lay up money as the result of economy or thrift; to preserve something from harm or loss.
* **INVESTING:** To put money to use in something offering potential profitable returns.

Explain to students that the key difference between the two uses of money is in the relative safety. To save money is to “preserve” it: it will be safe but it will not offer much in the way of returns. To invest money is to “use” it: it has the potential for much higher returns, but also the potential to become a loss. Discuss with the class when they might want to save money and when they might want to invest money.

1. **Students compare risks and returns for saving and investment.** Ask students why they think people are willing to tolerate the risk of investing. Students might say that the risk is offset by the potential for high returns. Explain that the possibility of earning high returns is the key reason for investing. Over a long time, someone who has invested money can expect to earn significantly more than someone who has just put that money in a savings account. That is why most people invest the money they are putting aside for retirement.

Ask each student to team with two other students. Tell them that they are an investment company that has $1,000 to invest. They have four choices for what to do with the money: Bank Savings (2.5%/year), Mutual Fund (variable returns via investments in many companies to reduce risk), Stock A (variable returns on a well-established business), or Stock B (variable returns on a new, high tech company). For the purpose of this game, they have to put all $1,000 in one of the choices. They can change what they invest in each year. The winning team will be the one that has the most money after five years.

Ask students to declare their investment to start the game. At the end of each year, tell them the return for that year on each investment. Allow them to change investments at the end of each year, or stay where they are. Have them keep a running total of their capital (the total amount they have invested/saved). Take them through this sequence of events.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Saving** | **Mutual Fund** | **Stock A** | **Stock B** |
| One | up 2.5% | up 5% | up 6% | no change |
| Two | up 2.5% | up 5% | up 8% | down 5% |
| Three | up 2.5% | no change | no change | no change |
| Four | up 2.5% | up 2% | down 5% | down 5% |
| Five | up 2.5% | up 5% | down 5% | up 400% |

1. **Students describe how to buy and/or sell investments.** Explain that there are many businesses, some of which are online, through which people can buy or sell stocks. But, before they do any investing, investors should discuss their goals with a financial advisor and plan an investment strategy that will meet their needs.

Tell students that most of them will not be an investor until they have a steady income. However, it is useful for them to understand some of the basics of investing to determine the value of investment in their lives. Distribute the *Investing Goals* and tell students that it is a simplified version of the questions they would be asked to answer to help them plan an investment strategy. Ask students to complete the handout as well as they can (their answers will be largely hypothetical at this point in their lives). Have them work individually at first, and then ask them to show their goals to another person.
2. **Students reflect on their preferred retirement.** Ask each student to use a *Journal Page* to answer the following questions:
* What do I hope to do when I retire?
* How much money will I need to save to live that life?
* What should I do so that I can achieve this goal?

**STUDENT PRODUCTS**

* **Completed *Investing Goals* Handout**
* **Completed *Journal Page*** on the retirement life they prefer and how to earn it

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LESSON 11-26 STUDENT HANDOUT

 SAVING AND INVESTING GAME

What will happen to your money over time?

* If you SPEND the money, you will have things, but your money will be gone.
* If you SAVE the money, you will have your money plus compound interest. It will be safe, but your money will grow slowly.
* If you INVEST the money, it may grow very quickly. But you could also lose money.

Using the scenario your advisor assigned to your group, calculate how much money you will have in years 1 through 5. Write the totals below

|  |
| --- |
| **OUR GROUP’S SCENARIO:****\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** |
| **START** | $1,000 |
| **Year 1** |  |
| **Year 2** |  |
| **Year 3** |  |
| **Year 4** |  |
| **Year 5** |  |

**GROUP SCENARIOS**

* **Savings:** You start with $1,000 and put that money in a savings account, where it earns 2.5% interest each year. Calculate how much money you have at the end of years 1 through 5 by multiplying by 2.5%. Don’t forget compound interest! (Hint: to get your Year 1 total: $1,000 x 1.025.)
* **Spending:** You start with $1,000 and spend all the money on a new bike. Your money is now gone and you have nothing left. (But you do have a bike!)
* **Mutual Fund:** You start with $1,000 and invest that money in a balanced mutual fund. In years 1, 3 and 5, you earn 9%, but in years 2 and 4 the market slips and you lose 5%.
* **Stock 1:** You invest your $1,000 in a hot technology company that is poised on a new product. During years 1, 2 and 3 you gain 8%; in year 4, with the release of the new product, your stock doubles in value; in year 5, with no new products on the horizon, your value falls by 5%.
* **Stock 2:** You invest in what you think will be a hot stock but it doesn’t do so well. In years 1, 2, 4 and 5 you lose 5% each year. In year 3, you gain 10%.

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LESSON 11-26 TEACHER HANDOUT

 SAVING AND INVESTING GAME ANSWER KEY

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **SAVINGS** Gain 2.5% each year | **SPENDING** Gone after first year | **MUTUAL FUND** 1, 3, 5 gain 9% 2, 4 lose 5% | **STOCK 1** 1, 2, 3 gain 8%4 gain 100%5 lose 5% | **STOCK 2** 1, 2 lose 5%3 gain 10%4, 5 lose 5% |
| **START** | **$1,000.00** | **$1,000.00** | **$1,000.00** | **$1,000.00** | **$1,000.00** |
| **Year 1** | $1,025.00 | $0.00 | $1,090.00 | $1,090.00 | $950.00 |
| **Year 2** | $1,050.63 | $0.00 | $1,035.50 | $1,188.10 | $902.50 |
| **Year 3** | $1,076.89 | $0.00 | $1,128.70 | $1,295.03 | $992.75 |
| **Year 4** | $1,103.81 | $0.00 | $1,072.26 | $2,590.06 | $943.11 |
| **Year 5** | $1,131.41 | $0.00 | $1,168.76 | $2,460.56 | $895.96 |

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LESSON 11-26 STUDENT HANDOUT

 INVESTING GOALS

Investing money can be very risky. Therefore, before you invest, you should think carefully about your goals and about how much you can afford to lose and how tolerant you are of risk. In addition, before you invest any money you should talk with a financial planner or advisor.

These are the types of questions you would be asked to plan an investment strategy. Answer them now, as if you were going to take half the money from your savings account and invest it.

What is your primary financial goal?

* Preserving what I have
* Having a regular income from my investments
* Saving for education (short-term)
* Saving for retirement (long-term)
* Long-term wealth accumulation

How soon do you need the money you are planning to invest?

* Within one year
* In five years
* In ten years
* Not for 40 years or more

What is your level of risk tolerance?

* Avoiding risk is much more important than pursuing high returns
* I want to preserve my principal (the money I have invested) but I will accept some risk
* I will accept moderate risk for the potential of higher returns
* I will accept above average risk for the potential of above average returns

If you had savings, would you invest now? In what?

Do you think investment will be part of your future financial planning?

What percentage of your future income will you invest?

If you were going to invest some money this year, what is your goal for that money?

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LESSON 11-26 STUDENT HANDOUT

 JOURNAL PAGE

**DATE:**

**Lesson 11-26 | *INVESTMENT***

***Q1:*** What do I hope to do when I retire?

***Q2:*** How much money will I need to save to live that life?

***Q3:*** What should I do so that I can achieve this goal?

***Answers:***