Case Study LessonTeacher Plan

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Case Study Objectives

- ➢ Define investing and describe these investment vehicles: stocks, mutual funds, and bonds;
- ➢ Compare the risks and rewards of diversifying your investments.

Materials

- ➢ Class set of Where Money Can Grow case study
- ➢ CHALLENGE: Class set of Investment Vehicle Jigsaw, group sets of articles on STOCKS, BONDS, and MUTUAL FUNDS
- ➢ Optional: computer access for optional videos and articles within each article
  STOCKS: Nerdwallet.com , FitMoney Video
  BONDS: theMint.org, FitMoney Video
  MUTUAL FUNDS: theMint.org, FitMoney Video

Jump$tart Standards Alignment click here

Key Terms

- ➢ Invest
- ➢ Investor
- ➢ Reward
- ➢ Risk
- ➢ Diversification
- ➢ Investment Vehicle

CASE STUDY (40 MIN)

- **Situation/Case Study**: (10 min) Activate student knowledge by reading over and discussing INVESTMENT TERMS TO KNOW in the Where Money Can Grow case study. Have students read the case study as a class or individually. Explain that students will now answer some questions and then dive deeper in their groups into investment vehicle types. (Possibly assign students into groups for the CHALLENGE section now)

- **Questions**: (5 min) Have students answer the case study questions and, as time permits, begin the challenge.

- **Challenge (can include Presentation & Share):** (20 min) Have students sit in groups of 3 or 6 and assign 1-2 students in each group one investment vehicle: stocks, bonds or mutual funds. Next, tell them they will have 10 minutes to research their investment type by reading the article and potentially watching optional videos and reading additional articles provided. They must become experts on their assigned investment and answer the questions in their jigsaw piece. Then each student/student pair will present their answers. When the student/student pair is not presenting, they answer the questions in the jigsaw piece for the other investment vehicle being presented.

- **Reflection (Closing/Synthesis/Feedback)**: (5 min) After the presentations, have students answer, individually or as a class, the reflection questions in the case study.

Assessment

- ➢ Evaluate accuracy and completeness of student answers to the questions and challenge using the Teacher Answer Key

Extensions/Connections

- ➢ Share the Family Conversation Guide for this lesson

Where Money Can Grow

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INVESTING TERMS TO KNOW

- **Invest**: To put your money (or time) into something with the expectation that you will make a profit
- **Investor**: a person who invests
- **Reward**: money gained from an investment
- **Risk:** The possibility that something unexpected may happen, causing an investor to lose money
- **Diversification**: Spreading your investments across different investment types to reduce risk
- **Investment vehicle:** a product where investors put their money with the goal of making more money

Investing Basics

Financially responsible people save for different goals in their lives. Saving allows them to afford everyday and big items like a house or college. Once people earn and save enough money to have an emergency fund and routinely save for their future, they should think about INVESTING. When people invest, they are hoping to see their money grow faster than in a savings account. BUT there is more risk involved: *they could lose some or all of their money*. There are many different types of investment vehicles including stocks, bonds, and mutual funds (a collection of stocks and/or bonds). Each vehicle has a different level of risk and reward, so smart investors do their research before investing.

The money you invest in stocks and bonds is not insured. That is one reason why they are risky. Other risks are that bad news about the company or the larger world can affect investment price. If you are looking to set aside money for a short-term goal, it's best to avoid risky investments, because you will be in trouble if you need your money and it's gone down in value! If you have a long-term goal, however, you can probably handle more risk, because your investments have more time to ride out the ups and downs.

It's usually smart to divide your money across different investments so if one drops in value, there is a good chance another will go up or at least not lose money. This is called diversification. Spreading your money across different investments lowers your risk overall, but it also typically reduces your return potential.

QUESTIONS:

1. Why do you think you must SAVE before you invest?
2. What is the purpose of investing?
3. What makes investing risky?
4. Is it better to leave your money in your investment for a long time or a short time and why?
5. What is diversification?

CHALLENGE: You will be organized into three research teams. Once you are assigned to: stocks, bonds or mutual funds, read your article and the related questions on Investment Vehicle Jigsaw Page. Be prepared to present your answers. While others are presenting, answer the questions in the jigsaw piece that relates to their presentation.

Reflection Questions:

How are bonds different than stocks?

Which is the riskiest form of investment?

a) Stocks
b) Mutual funds
c) Bonds
d) They all have the same amount of risk

If you do not like a lot of risk (low risk tolerance), which investment(s) would be best for you and why?

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Challenge: Investment Vehicle Jigsaw

Directions: Circle the group you are in. Your job is to research this investment vehicle and answer the following questions about that investment vehicle. When you are finished, you will share your findings with your classmates. You will then answer the questions about the other two investment vehicles based on your classmates' presentations.

STOCKS

What is a stock?

How do you make money from stocks?

What is the relationship between stock risk and reward?

BONDS

What is a bond?

What are the two main types of bonds?

How do you make money from a bond?

What is the relationship between bond risk and reward?

Mutual Funds

What is a mutual fund?

What is the relationship between mutual fund risk and reward?

How does diversification apply to mutual funds?

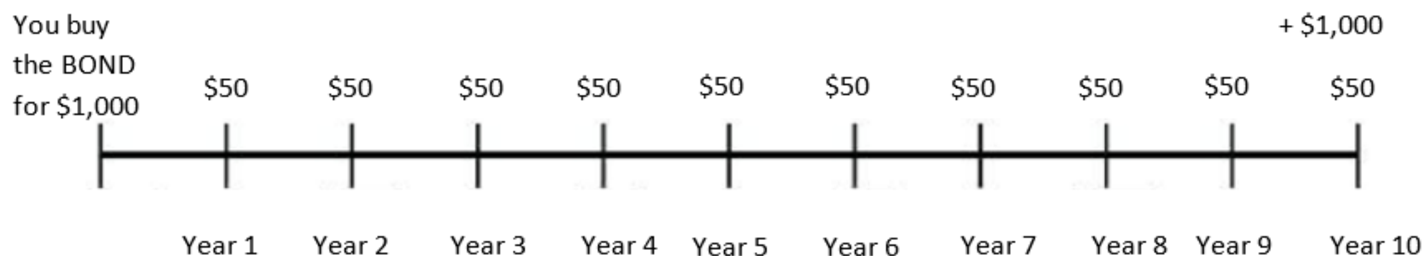
Challenge: Investment Vehicle Jigsaw

BONDS

A bond is a loan that a company or government promises to pay back to an investor (you) after a certain amount of time, and with periodic interest payments along the way (how you make money).

To the right is an example of a bond. "Face Value" means the investor (you) LOANED $1,000 to the company or government. The "maturity" means that in 10 years the company or government promises to pay you back the original $1,000. The "Coupon Rate" is the interest that you will earn on the loan periodically (each year in this case) for the next 10 years.

Below is a timeline showing how the investor (you) will earn interest of $50 yearly in this case, because 5% of 1,000 = $50. When the bond "matures" (comes to the end of the loan term: 10 years), the company or government pays back the investor the original amount. The interest earned along the way is how the investor (you) makes money by investing in a bond.



(With each yearly interest payment AND the initial $1,000, you now have $1,500. You made $500 from your investment over 10 years.)

Risk vs Reward In general, bonds are less risky than stocks and offer less reward. When a company issues bonds, it's obligated to make regular interest payments to the investor and repay the principal amount. Stocks have no guarantee of repayment. Sometimes companies break their promises to investors and miss interest or principal payments, but that's considered rare. U.S. government bonds are least risky and have lower interest rates than many other types of bonds (the government should be able to pay you back). Startup companies and foreign bonds are examples of riskier bonds since there is more uncertainty around the borrower repaying you.

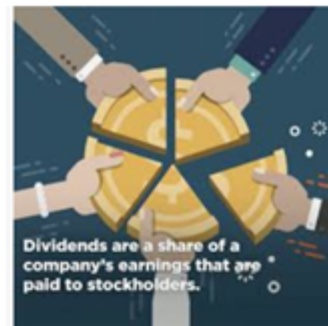
Optional: To learn more about bonds go to these resources:

- This article from theMint.org, Tips for Teens: Investing: U.S. Bonds.
- Watch this short FitMoney video on bonds.

Challenge: Investment Vehicle Jigsaw

STOCKS

When a company needs to raise money, they may offer stock to investors. A **stock** represents part ownership in a company. So, when an investor (you) buys stock, you become part owner in that company, also known as a **shareholder**. Stockholders can make money two ways - from dividends and selling your shares for more than you paid for them.



Dividends represent money earned by companies that is paid to shareholders. Companies that pay dividends typically do so each quarter (four times a year). Dividends are often paid to shareholders as a sign that a company is doing well or to encourage investors to buy the stock. If a company is not making profits, then the dividends may be lower or not paid at all. Some companies choose not to pay dividends if they need the money to grow.

You can **buy and sell your stocks** on the stock market at any time. If you sell at a price that is higher than your purchase price, you will earn money. You lose money if you sell when the price of stock is lower than what you originally paid. Investors like to "buy low and sell high," but this is often hard to do because so many factors influence stock prices.

Risk vs. Reward: Stocks are generally considered risky investments. When you buy a stock, the company does not guarantee that the stock price will rise. There is no contract between you and the company to protect you from losing your money, and companies are not required to pay dividends. Stock prices tend to move up and down more than bonds making them riskier investments. Many factors affect stock prices including how well a company is doing, world events, natural disasters, and more. As a result, it's very difficult to predict stock prices accurately. When a company like Apple has a new product that does better than expected, it's stock price can go up a lot. When oil prices rise faster than expected, stocks like Southwest Airlines can drop since gas costs rise. Typically, the best way to earn money from stocks is to invest early and stay invested for a long period of time. Don't try to "time the market" by buying and selling everyday, week or month because stocks are unpredictable.

Optional: To learn more about stocks go to these resources:
- This article from Nerdwallet.com, What is a Stock?
- Watch this short FitMoney video on stocks.

Challenge: Investment Vehicle Jigsaw

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MUTUAL FUNDS

A mutual fund combines money from many investors to buy different types of investments. Mutual funds often invest in stocks, bonds, and money markets. The collection of different investments is called a portfolio and a professional, called a fund manager, manages the portfolio. The mutual fund manager buys and sells the fund's investments and passes along the gains and losses to investors plus any dividend or interest payments. This is how the investor makes money.

Why do people invest in mutual funds? The most important reasons people buy mutual funds are:

1. Most investors don't have the skills or time to pick stocks and bonds. Mutual fund managers pick the investments, and investors are charged a small fee for the fund manager's expertise.
2. Mutual funds are less risky than individual stocks or bonds, because you spread your money across different investments (diversification). This means if one or two stocks drop in value, your losses are less because other stocks in the fund may do well enough to make up for some of those losses. The same applies for money invested in bonds. By not putting all your eggs in one basket, you reduce the risk of losing money.
3. Mutual funds help keep down costs for small investors. The fees managers pay to buy and sell the fund investments can be spread among many investors which reduces costs for everyone.
4. Investors need less money to invest in a mutual fund than other types of investments. With a few thousand dollars, investors have access to many different investments in a mutual fund, which otherwise might not be possible.

Optional: To learn more about mutual funds go to these resources:

- This article from theMint, Tips for Teens: Investing: Mutual Funds,
- This article from Investopedia, Mutual Funds: What Are They?
- Watch this short FitMoney video on mutual funds.

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Answer Key: Where Money Can Grow

Where Money Can Grow Case Study Questions

1. Why do you think you must SAVE before you invest?
I think you must SAVE before you invest, because when you invest you could lose money, and it is important to save for emergencies and other short-term goals (like a car or bike). If you don't save, you risk going into debt.

2. What is the purpose of investing?
The purpose of investing is to put your money into something with the expectation of making a profit.

3. What makes investing risky?
Investing is risky, because you could lose some or all of your money. Investments are not insured and factors such as bad news or world events can make stock prices drop.

4. Is it better to leave your money in your investment for a long time or a short time and why?
It is better to invest for a long time so that your investments have more time to ride out the ups and downs.

5. What is diversification?
Diversification is when an investor spreads their money across many different investments so there is less risk of losing their money if one investment does not go well.

Challenge: Investment Vehicle Jigsaw

Stocks	Bonds	Mutual Funds
What is a stock? *A stock is part ownership in a company that a person can buy.* How do you make money from stocks? *You can make money if the company pays dividends (periodic payments to the investor) or if you sell a stock for more than you paid for it.* What is the relationship between stock risk and reward? *Stocks are risky investments, because their prices move up and down a lot. There is greater reward potential as a result.*	What is a bond? *A bond is a loan to a company or government, and they promise to pay you back in full plus interest.* What are the two main bond types? *Company or government.* How do you make money from bonds? *Bond issuers promise to pay interest.* What is the relationship between bond risk and reward? *Bonds promise to repay your principal and pay interest so risk is generally low, but rewards are limited too.*	What is a mutual fund? *A mutual fund gathers money from many investors and invests in many different investments.* What is the relationship between mutual fund risk and reward? *Exposure to different kinds of investments lowers your risk of one investment causing big losses and the potential to make a lot of money from any single investment too.* How does diversification relate to mutual funds? *Mutual funds are an example of diversification of different investments with different kinds of risk and reward potential.*

Reflection Questions:

1. How are bonds different from stocks? *Bonds are different from stocks because bonds are loans that are paid interest and stocks represent part ownership in a company.*
2. Which is the riskiest form of investment we discussed today? A. *Stocks*
3. If you prefer to avoid risk (low risk tolerance), which investment(s) would be best for you and why? *If you don't like a lot of risk then you should invest in bonds or a mutual fund. Bonds and mutual funds are less risky than stocks.*