

Financial Literacy in Action

Getting Started

Financial Literacy in Action is a series of project-based learning activities for high school students using the Internet



Activity #1: Investing

To learn more about this project go to the next pages.

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Introduction

Imagine this article appeared in your local newspaper.



Need Big Money? Try Investing

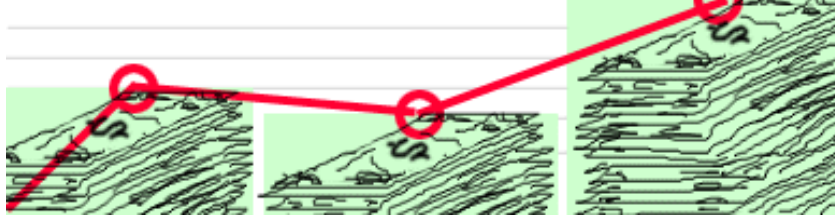
Think about something you might want to do in the future that costs a lot of money, like going to college, buying a car, purchasing a house, or maybe starting your own business. How will you be able to afford it? Some people believe that successful investing is the answer.

How much do you know about investing? To most

American teenagers, investing is a mystery. Very few schools teach about it. Most teens don't talk to each other about it. Many parents shrug their shoulders when asked about it. More than a few people believe that investing is just another form of gambling. How knowledgeable are you about investing?

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Objectives



After completing this project you will be able to:

- Discuss the importance of setting personal financial goals before investing
- Explain the role of risk tolerance in the investing process
- Compare and contrast the basic features of stocks, bonds, mutual funds, and cash-equivalent investments
- Demonstrate an understanding of asset allocation

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Projects



Based on what you learn about investing in this activity, you will have the choice of completing one of the three types of projects below.

Project 1

Give a PowerPoint presentation >

Project 2

Write a magazine article >

Project 3

Create a video >

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More Information about Investing



To get more information about investing go to these sites:

- <http://www.thestreet.com/basics>
Users of this comprehensive website about investing will find a glossary of investment terms, a description of distinguishing features of stocks, bonds, mutual funds, futures and options, and a discussion of the advantages and disadvantages of these financial instruments for individual investors. Other sections on this site deal with taxes, financial planning, and investment professionals.
- <http://money.cnn.com/pf/101>
Created by the editors at Money Magazine, Money 101 consists of 23 lessons intended to teach how to be a more prudent investor, saver, borrower, and spender. Among the topics for lessons are: "Setting Priorities," "Basics of Investing," "Saving for College," and "401(k)s." Each lesson consists of informational material, calculators, quizzes, and a library of supplemental data for those who want to dig deeper.
- http://biz.yahoo.com/edu/ed_begin.html
"Beginning Investing," created by Yahoo!, divides information into four areas: "Overview," "Types of Investments," "Basic Investment Concepts," and "Strategies and Investment Tips." Each section has brief articles from diverse sources, such as WorldlyInvestor.com, Investorama.com, and Smartmoney.com, dealing with topics like "Asset Allocation," "Risk and Return," and "Choosing a Financial Advisor." Other features include a finance glossary and a list of related websites.
- <http://www.nyse.com>
The New York Stock Exchange (NYSE) site explains how the exchange was created and how it operates today. Visitors take a virtual tour of the NYSE's trading floor to learn about how stocks are traded there.

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Project 1: Give a PowerPoint Presentation



Give a ten-minute presentation using PowerPoint slides, titled "What You Should Know About Investing for a College Education." Among the topics you should address are: 1) setting goals; 2) tolerance for risk; 3) asset classes: stocks, bonds, mutual funds, and cash; 4) asset allocation; and 5) special investments for college.

To prepare for your project, you'll need to access the five tutorials and "More Information About Investing" below. Follow the directions that come with the tutorials. After completing this preparation, you'll be ready to put together your presentation.

Tutorials:

- Setting Goals 9
- Tolerance for Risk 10
- Asset Classes: Stocks, Bonds, Mutual Funds, Cash 11
- Asset Allocation 12
- Special Investments For College 13

More Information About Investing 5

Investing - Project 1: Give a
PowerPoint Presentation

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Project 2: Write a Magazine Article



Write a magazine article of at least five pages, with illustrations, titled, "What You Should Know About Investing for a College Education." Among the topics you should discuss are: 1) setting goals; 2) tolerance for risk; 3) asset classes: stocks, bonds, mutual funds, and cash; 4) asset allocation; and 5) special investments for college.

To prepare for your project, you'll need to access the five tutorials and "More Information About Investing" below. Follow the directions that come with the tutorials. After completing this preparation, you'll have enough information to write your magazine article.

Tutorials:

- Setting Goals 9
- Tolerance for Risk 10
- Asset Classes: Stocks, Bonds, Mutual Funds, Cash 11
- Asset Allocation 12
- Special Investments For College 13

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Investing - Project 2: Write a
Magazine Article

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Project 3: Create a Video



Create a video of at least ten minutes titled, "What You Should Know About Investing for a College Education," that includes charts and other illustrations. Among the topics you should discuss are: 1) setting goals; 2) tolerance for risk; 3) asset classes: stocks, bonds, mutual funds, and cash; 4) asset allocation; and 5) special investments for college.

To prepare for your project, you'll need to access the five tutorials and "More Information About Investing" below. Follow the directions that come with the tutorials. After completing this preparation, you'll have enough information to create your video.

Tutorials:

- Setting Goals 9
- Tolerance for Risk 10
- Asset Classes: Stocks, Bonds, Mutual Funds, Cash 11
- Asset Allocation 12
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Investing - Project 3: Create a Video

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Tutorial: Setting Goals



Access <http://www.utextension.utk.edu/publications/pbfiles/pb1454.pdf>. Complete the following sections: "Financial Goals," "Short- Term Goals," "Long-Term Goals," and "Prioritizing Goals." Then fill in the "Goal Worksheet," identifying as many goals as you feel are necessary. Based on what you read and wrote, answer the following questions:

- What did you learn about setting and achieving financial goals from this reading?
- How would you prioritize your goals?
- According to the author of the accompanying material, how are goals and values related?
- Why is goal-setting considered an essential step in investing effectively?

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Tutorial: Tolerance for Risk



Access <http://www.rce.rutgers.edu/money/riskquiz/default.asp>. Take the short quiz. After completing the quiz, answer the following questions:

- What is "risk tolerance?"
- Why should investors know their risk tolerance before investing?
- How would you rate your risk tolerance: high, moderate, or low?
- To what extent did the quiz accurately measure your risk tolerance?

Explain the importance of the following considerations to a potential investor's risk tolerance:

- Need for ready cash in the event of an unexpected major expense
- Time frame for accumulating money before it will be needed
- Tax treatment of profits or losses from investments
- Investor's ability to absorb losses

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Tutorial: Asset Classes: Stocks, Bonds, Mutual Funds and Cash Equivalent Investments

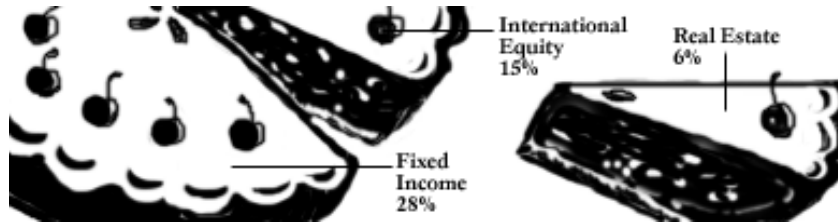


Access <http://www.copera.org/pera/tools/financialed/assetclasses.stm>. Click on the following links: "Cash Equivalents," "Fixed Income," and "Growth Investments" and read the information on these pages. After completing the readings, answer the following questions:

- What are the basic features of cash equivalent investments?
- In your opinion, what is the greatest advantage and greatest disadvantage of cash equivalent investments?
- Discuss one important difference between short-term, intermediate-term, and long-term bonds? How do individual bonds differ from bond funds?
- What is the greatest advantage of investing in bonds and bond funds?
- How do stocks differ from cash equivalent and fixed-income investments? Why are stocks called growth investments?
- What are the similarities and differences between the following types of growth investments: big cap, mid cap, and small cap stocks and stock mutual funds?
- What is the greatest advantage and greatest disadvantage of investing in stocks?
- If you were investing at the present time, would you put most of your money in cash equivalents, bonds (or bond mutual funds), or stocks (or stock mutual funds)?

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Tutorial: Asset Allocation



Access <http://www.copera.org/pera/tools/financialed/assetallocation.stm>

Answer the following questions:

- In your own words, how would you describe asset allocation?
- How does asset allocation reduce an investor's risk?
- What are the similarities and difference between the following four asset allocation concepts: "Age Test," "Spread Assets Evenly," "Balanced Fund," and "Life Cycle?"
- If you had money to invest now, which of the four ways to allocate assets would you use?
- Why does the reading suggest adjusting your asset allocation "annually at minimum," "whenever your financial or life situation changes," and "when you're within five years or less or a major life event?"
- To what extent do you agree with this statement: "Asset allocation is an essential component in any wise investor's strategy?"

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Tutorial: Special Investments for College



Access <http://www.newyorkfed.org/education/invest/payingforcollege.html> Read "Investing for a College Education."

Explain your answers to the following questions:

- What are three important facts that you learned about funding a college education from this website?
- How do the following compare as investments for college: growth stocks or growth stock funds, zero-coupon bonds or bond funds, 529 college savings plans, U.S. savings bonds, and Coverdell Education Savings Accounts?
- What are the advantages and disadvantages of using each of these investments in the question immediately above as a means for financing a college education?
- What is the most important advice that you would give someone who is investing for a college education?

Go to the college adviser in your school to learn about any additional investments that could be used to pay for tuition or other expenses.

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Investing for a College Education



Most economists expect college tuition and related costs to grow much faster than the overall cost of living. Some investment counselors are advising their clients that they will have to save \$2,000 - \$4,000 per year from the child's birth to afford a moderately priced college.

Among the most popular products that investors are using to finance a college education are:

Growth stock or growth stock funds

These investments are made in companies that generally pay low or no dividends. These investments can generate sizeable returns, but are very volatile.

Zero coupon bonds or bond funds

Zero coupon Treasury bonds are backed by the U.S. Treasury and are less risky investments than stocks. Zero coupon bonds cost less than their face value. They do not pay interest during the life of the bond. When the bond matures (at the time the child is ready for college) the investor collects the face value of the bond.

529 plans (check specific guidelines for your state)

Allows investors in many states to put after-tax contributions into an investment plan run by a team of directors. Typically, funds are invested in a combination of stocks, bonds, mutual funds, and CDs. Earnings in many states are tax-free as long as the money is kept in the plan or used for educational purposes.

U.S. savings bonds

Issued by the U.S. government, these bonds pay a low interest rate based on the interest paid on five-year U.S. Treasury notes. Such investments are tax-free if they are cashed in the year tuition is paid.

Coverdell Education Savings Account

Families may deposit up to \$2,000 a year in this form of tax-free college account. Unlike 529 accounts, the Coverdell's tax-free status will extend beyond the year 2011. Another distinction of a Coverdell, compared with the 529, is that the individual makes the choice of investments, not the directors of the plan.

Investing for a College Education