Lesson 1: Introduction to Investing

Part 1

Student Guide Pages: 111-114

Lesson Objectives: By the end of this lesson, your students should be able to:

- identify the two most common types of investments
- explain the importance of diversification

Lesson Summary:

At the beginning of this course, we mentioned that you can either trade your time for money (aka working) or trade your money for money (aka investing).

Investing is the act of risking your resources in the hope that they will grow. The greater the risk you accept, the greater the reward you might receive. Investing is different than saving, in that *saving* is the act of putting your resources somewhere safe, to be used later.

Basically, all investments fall into one of two categories: *growth* or *income* investments. Growth investments tend to be riskier but offer a higher reward. They fluctuate more with the ups and downs of the economy, so they are the safest when bought with a long-term view. Income investments tend to be less risky; therefore, they pay a smaller reward but a more predictable return.

Combining these two types of investments builds a basic investment strategy that everyone should follow. When you are young, it's best to go heavy on the growth investments and light on the income investments. As you age, more money should go to income and less to growth. It is important to remember that even our income investments can let us down, so we still need to save.

While most investments fall into these two basic groups, smart investors own many different investments within these groups. *Diversification* is the act of spreading your money around to reduce risk. No one knows for sure which investments will do well tomorrow, so we create a safety net by buying a little of everything.

Review Questions:

- Can an investment be both income and growth?
  Answer: Yes! If you own real estate rental property, the value of the property will hopefully go up, while the tenant pays you an income in the form of monthly rent. As we will see, some stocks pay an income and go up in value.

- What is the relationship between risk and reward when it comes to investing?

  Answer: Investing always involves risk. *Risk* is the likelihood that you will lose your money. The only reason you should take more risk is that you might reap a higher reward. If anyone offers you a high-reward, no-risk investment, be careful; this may be a scam.

Homework Assignment:

Students should research the following investments, each for 10 minutes. Are they growth or income investments or both? Are they risky or safe? Is there a limit on the reward?

- Gold
- Stocks
- Bank accounts
- Your own business

Class Activity:

After homework is complete, discuss as a class the investments that were researched.

1. Gold

Answer: This is a growth investment. Gold is bought at one price and sold, hopefully, at a higher one. It pays no income, but there is no limit on the reward. Gold tends to be a risky investment.

2. Stocks

   Answer: We'll talk more about these in an upcoming lesson, but they are both growth and income investments. Stocks can grow in value and can also pay income in the form of a dividend. They tend to be on the riskier side, but because of this, there is no limit on the reward.

3. Bank accounts

   Answer: Even though we use bank accounts for savings, they still pay a bit of income in the form of interest, so they are income investments. Your money is insured by the government, so bank accounts are very safe.

4. Your own business

   Answer: This is both a growth and an income investment. Ideally, your business generates income for you, but hopefully, you can also sell it one day for a higher price. This tends to be a risky investment, but as we have seen with the success of Facebook and YouTube, there is no limit on what you can make.

Additional Information:

<u>www.FACScourse.com</u>: Under the Resources section, find an investment calculator to calculate your investment return.

<u>www.investopedia.com</u>: This site offers all sorts of resources for investors. It's a great place for help with the homework assignment!

Fun Facts:

Investors have been making costly mistakes for years by refusing to diversify. In 1637, the country of Holland was in a tulip craze, and investors clamored to buy the flower bulbs. Some *single* tulip bulbs sold for more than *10 times* the annual income of a skilled craftsman! A year later, the tulip market completely crashed, and many lost everything they had. Had some of these investors diversified, they would have been okay when the bottom fell out. Unfortunately, many people lost everything.
(www.investopedia.com)

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