

Lesson 2: Introduction to Investing

Part 2

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

- explain the concept of rebalancing
- explain dollar cost averaging

Lesson Summary:

This lesson discusses two techniques investors use to limit risk and increase reward. First, they *rebalance*, which means they adjust their investments based on how well the investments have performed, their investment goals, and their age.

Dollar cost averaging is the practice of investing the same amount of money in the stock market every month. For instance, you might decide that if the stock market soars to new heights, you will invest \$200, but if it crashes, you still invest \$200. By investing the same amount every month, you ensure that you buy fewer shares when prices are high and more shares when prices are low.

Dollar cost averaging takes the emotion out of investing, and that is the whole key. By relying on numbers like \$200 a month every month, instead of investing based on emotion, you're more likely to come out ahead in the long term.

Review Questions:

- The lesson mentioned that most people already have experience investing. If you have never invested before, how is this true?

Homework Assignment:

How important is dollar cost averaging? Look up the 52-week high and low of the following stocks: Google, Microsoft, McDonald's, and Coca-Cola. Write down a comparison of the highs and lows. Is there a huge difference?

Class Activity:

Do a quick review of dollar cost averaging as a class, assuming you invest \$200 a month a stock.

- In Month 1, \$10 / share, so you would buy _____ shares.
- In Month 2, \$50 /share, so you grab only ____ shares.
- In Month 3, \$100 / share, so you grab just ____ shares.

Even though the stock goes up, you are not trying to guess the highs and lows. Sure, it would be great if you could have bought all your shares in Month 1 and then sold them all in Month 2, but to do this consistently is very difficult.

Additional Information:

www.yahoo.com: Visit the Yahoo! Finance page for up-to-date information on finances around the world, as well as helpful articles and tools for your everyday life.

www.investopedia.com: This educational website will give you a lot of great information to help you better understand personal finance and the stock market.

www.magicformulainvesting.com: This site is a great start for students who are really interested in investing. It was created by Joel Greenblatt, author of the *New York Times* bestseller *The Little Book That Beats the Market*.

Fun Facts:

Your financial life is a bit like being healthy and fit: It's all about doing the same things over and over again.

Notes: _____

