

LESSON 13: PERSONAL FINANCE

Focus Question: How can we ensure our own personal financial success?

Objectives

Students will be able to:

- Set short- and long-term personal financial goals.
- Demonstrate an understanding of the importance of the asset allocation process in investing.
- Compare and contrast major categories of investments.

Standards

NES: 2, 4, 7, 10, 11

ELA: 1,2,3

Time Frame

One day.

Materials/Instruction

Textbook chapter: Saving and Investing

Teaching Strategies

I. Review interview homework assignment from lesson 12

Have students interview five people, asking them this question: “Assume that I have just started my first full-time job. I come to you, asking for the following advice: ‘Suggest some of the steps I should take to best guarantee my long-term personal financial success.’” Among the five people you should interview are two people your own age, two people your parents age, and one who is a personal financial planner (most banks and brokerage firm have such a person on staff). As part of the introductory whole-class discussion about this assignment, have students explain their answers to the following:

- What were some of the answers you received in response to the interview question? (List the different responses on the board.)
- What conclusions can you draw from studying the list on the board?
- What questions does this list raise for discussion?

II. Financial Goals

Distribute Worksheet 13A, “Financial Goals.” Have students complete the exercise on the worksheet, then have them explain their answers to the following:

- What did you learn about setting and achieving financial goals from this worksheet?
- How are short- and long-term goals different? How necessary is it to set both short- and long-term goals?
- How did you go about prioritizing your goals? Why is this an important step?
- Why is goal-setting considered an essential step in investing effectively?

III. Asset Classes and Investment Categories

Divide the classes into two groups. Distribute Worksheet 13B, “Asset Classes,” to one group and Worksheet 13C, “Investment Categories,” to the other. Have each group complete the exercise on their worksheets.

- Ask the group that studied Worksheet 13B to explain their answers to the following:
 - What is the asset allocation process?
 - What are the most distinguishing features among the major asset classes (stocks, bonds, and cash) that you read about?
 - Why do financial professionals believe diversifying investments is so important?
 - In which major asset class would you advise a friend to invest most of his or her wealth?
- Ask the group that studied Worksheet 13C to explain their answers to the following:
 - What did you learn about the different categories of equities? What is the great difference between each of these kinds of stocks?
 - What did you learn about the different categories of bonds?
 - Which kinds of stocks and bonds would you invest in if you had the money to do so today?

Assessment:

Have the class put together a PowerPoint™ slide show entitled, “The Steps to Financial Independence.” Topics will include: Setting Goals, Classes of Assets, Asset Allocation, and Wise Investment Decisions. This presentation could be given as part of an assembly program or to individual classes.

Homework:

Read chapters for next lesson.

Complete worksheet 14A

Worksheet 13A

Financial Goals

Exercise. After reading the paragraph below, complete the sections labeled, "Financial Goals," "Short-Term Goals," "Long-Term Goals," and "Prioritizing Goals" for yourself. **Ignore the instructions about family members.** Complete the section labeled "Goal Worksheet," for the short-or long-term goal that you consider you consider to be your most important goal, the goal on which all others depend. **Ignore the part of this section labeled, "Who Will Do It?" (This section only applies to your personal goals).**

According to some estimates, less than five percent of the population has clearly defined goals. Yet setting financial goals is the first step to developing an effective spending plan. Without goals, you may be dissatisfied with where your life is going and how you are using your resources. Without goals, you may find whatever happens at any given moment will set you off in a new direction, without thought to where you will end up. When you set goals you are saying to yourself, "I have a future and I can control it." The goals you set will help you to decide where you are going, what you need to do to get there, and when you want to arrive.

(continued)

Financial Goals

List some things you want that will require financial resources. If you are setting financial goals for the family, each family member should write a list of wants requiring financial resources.

Things I Want That Require Money

| | | | |
|---|--|---|--|
| 1 | | 5 | |
| 2 | | 6 | |
| 3 | | 7 | |
| 4 | | 8 | |

Short Term Goals

Goals focus on *what*, what you need or what you want. Some goals you have listed can be achieved in two years or less. These goals are referred to as *short-term goals*.

From the list(s) you prepared, list the short-term goals. Be sure to combine the short-term goals of all family members.

Goals That Can Be Achieved in Two Years or Less

| | |
|--|--|
| | |
| | |
| | |
| | |

Long-term Goals

Long-term goals relate to what you want to accomplish in five or more years. Long-term goals usually require more resources for achievement. From your list(s) of wants, write down your long-term goals. Include the long-term goals of all family members.

Goals That Can Be Achieved in Five Years or More

| | |
|--|--|
| | |
| | |
| | |

Prioritizing Goals

Typically there will be more goals than there are resources available for reaching them. You must now prioritize the goals you have. Most financial planners agree that it is almost impossible to work toward more than two or three goals at once. If you have already identified what you think is important, reaching the goals in order of importance will be fairly easy to do.

Identify the goals in the order you want to reach them. To identify possible conflict, each family member should develop a list of short-term and long-term goals to work toward.

Individual Short- and Long-term Goals to Work Toward

| | Goals | Check the type of goal: | |
|---|-------|-------------------------|-----------|
| | | Short-term | Long-term |
| 1 | | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| 5 | | | |

Choose the goal you consider most important, then indicate below what needs to be done to achieve that goal. **Ignore the column with the heading, "Who Will Do It?"**

| Prioritizing Goals | | |
|------------------------|----------------------|----------------------|
| Goal: | <input type="text"/> | |
| Target Date: | <input type="text"/> | |
| Cost/Resources Needed: | <input type="text"/> | |
| What Needs to Be Done: | Who Will Do It: | By When (Date): |
| <input type="text"/> | <input type="text"/> | <input type="text"/> |
| <input type="text"/> | <input type="text"/> | <input type="text"/> |
| <input type="text"/> | <input type="text"/> | <input type="text"/> |

Worksheet 13B

Asset Classes

Making wise investment decisions is crucial to achieving one's financial goals. In order to make such decisions you will have to know something about the major asset classes. Read the information on this worksheet and complete the exercise below.

Investments that you choose from to make your asset allocation decisions consist of three major categories: stocks, bonds, and cash. These are often called the major asset classes.

Stocks. A major reason that companies sell shares of their stock to investors is to raise funds for running or expanding their businesses. Stocks are also called equities since they represent an ownership interest in the company. You can buy shares once you've opened a brokerage account, or you can sometimes buy them directly from the issuing company. You can also buy a stock mutual fund directly from a fund company. Stocks have historically averaged about a 11 to 12 percent yearly rate of return. Stocks have the most investment risk of the three major classes, and a higher average return over long periods than both bonds and cash.

Bonds. Companies, agencies and governments sell bonds to raise funds. Bonds are like an IOU: the issuer borrows money at an contractual interest rate and repays the value of the bond when it matures. Bonds are often called fixed-income securities since an investor knows how much coupon interest she will receive. You can buy a bond using a brokerage account, or you can buy a bond mutual fund directly from a fund company. Bonds have historically averaged about a 6 to 7 percent yearly rate of return. Within the asset class of bonds, the riskier bond categories return a higher yearly rate, on average, than the less-risky bond categories.

Cash. These include regular savings accounts and deposits. Cash investments, in general, are those that can be accessed easily (preferably with no fee) and have essentially no risk. These include Treasury bills, money market mutual funds, and certificates of deposit. Cash investments have historically averaged about a 3 to 4 percent rate of return.

Other asset classes. These include investments in real estate, private equity, futures and options, foreign currencies, and precious metals. All of these are far riskier than stocks, bonds, or cash. They also require a degree of understanding that is beyond the scope of this guide.

Adapted from <http://partners.financenter.com/businessweek/learn/guides/allocation/aaclasses.fcs>. Permission pending.

Exercise. Complete the chart below by writing two distinguishing features of each asset class on the worksheet above.

| Asset: | Distinguishing Features (list two for each) |
|------------------|--|
| 1) Stocks | 1. 2. |
| 2) Bonds | 1. 2. |
| 3) Cash | 1. 2. |

Worksheet 13C

Investment Categories

Within stocks and bonds, the major asset classes, there are different categories. Most of these categories appear below. After studying this worksheet, complete the exercise that follows.

STOCKS

Growth. Growth stocks are shares of companies that are expected to grow rapidly. These companies generate strong yearly growth in revenues and may not report or earn a profit for years. Even if they do earn a profit, these companies seldom pay dividends. Instead, they reinvest any profits into further growth of their core business. Also included in this category are funds that invest in aggressive growth stocks.

Income. Income stocks are shares of companies that pay dividends on a regular basis. Income stocks tend to have less volatility of returns than growth stocks.

Value. These are stocks of companies that professionals believe are cheaper than their intrinsic value. For this reason many investors believe that they are very good buys. Warren Buffett is a notorious value investor.

International. These are the stocks of foreign companies, headquartered outside of the U.S. Some do business around the world and others do business only in a particular country or region. Since stock markets often have a negative correlation, diversification is a benefit of investing in global or international stocks.

Sector. Stocks of companies that belong in the same industry are referred to as sector stocks. Examples of major sector stocks include those for companies in the following industries: biotechnology, media, financial services, retail, telecommunications, and pharmaceuticals.

BONDS

Government. These are bonds issued by governments or agencies that are backed by governments. Both U.S. and foreign governments issue bonds. Perhaps the most popular bonds in this category are U.S. Treasury Bonds. Government bonds are generally the safest of all debt securities.

Corporate. These are bonds issued by private U.S. and foreign companies. The returns on these bonds vary with the credit rating of each company.

International. Mutual funds that invest in the bonds of governments and companies outside of the U.S. Global bond funds can include investments in U.S. bonds, while *international* funds invest entirely in foreign bonds. Since bond markets are often correlated negatively, diversification is a benefit of investing in global and international funds.

Tax-exempt. In order to encourage investments, some government bonds are tax-exempt. Investing in these bonds allows investors to defer taxes for many years, usually after they retire and are in a lower tax bracket.

High-yield. Bonds that have a credit rating that is considered to be of a lower investment quality than top-rated bonds. In exchange for the higher risk that comes with the greater possibility of a bond default, high-yield funds offer a higher potential rate of return.

Adapted from <http://partners.financenter.com/businessweek/learn/guides/allocation/aacategories.fcs>. Permission pending.

Worksheet 13C, "Investment Categories" (continued)

Exercise. List two categories of stocks and two categories of bonds in which you would invest most of your money. Give the reasons for your choices in the space provided.

| Stock categories in which you would invest: | Reasons: |
|--|-----------------|
| 1. | |
| 2. | |
| Bond categories in which you would invest: | Reasons: |
| 1. | |
| 2. | |